

**MINUTES OF THE MEETING
OF THE
ASSEMBLY COMMITTEE ON WAYS AND MEANS
AND THE
SENATE COMMITTEE ON FINANCE
JOINT SUBCOMMITTEE ON PUBLIC SAFETY/NATURAL
RESOURCES/TRANSPORTATION**

**Seventy-Second Session
February 25, 2005**

The Assembly Committee on Ways and Means and the Senate Committee on Finance, Joint Subcommittee on Public Safety/Natural Resources/Transportation was called to order at 8:06 a.m., on Friday, February 25, 2005. Senator Dean Rhoads presided in Room 2134 of the Legislative Building, Carson City, Nevada. [Exhibit A](#) is the Agenda. All exhibits are available and on file at the Research Library of the Legislative Counsel Bureau.

ASSEMBLY COMMITTEE MEMBERS PRESENT:

Ms. Kathy McClain, Chairwoman
Mr. Mo Denis
Mrs. Heidi S. Gansert
Mr. Joseph M. Hogan
Mrs. Ellen Koivisto
Ms. Valerie Weber

SENATE COMMITTEE MEMBERS PRESENT:

Senator Dean A. Rhoads, Chairman
Senator Bob Beers
Senator Dina Titus

STAFF MEMBERS PRESENT:

Mark Stevens, Assembly Fiscal Analyst
Bob Guernsey, Principal Deputy Fiscal Analyst
Mike Chapman, Program Analyst
Jeff Ferguson, Program Analyst
Joyce Garrett, Program Analyst
Susan Cherpeski, Committee Secretary
Connie Davis, Committee Secretary

Senator Rhoads said the Subcommittee would take the items on the agenda out of order and hear the budgets of the Colorado River Commission first.

George M. Cann, Executive Director, Colorado River Commission (CRC), introduced Douglas Beatty, Administrative Services Officer, Colorado River Commission, and said he would provide a brief statement regarding the Colorado River Commission and then he would answer any questions from the Subcommittee.

Senator Rhoads commented that the CRC had been formed in 1935, which made it one of the oldest commissions in the state. Mr. Cann added that the Commission had been "around in one form or another since Hoover Dam."

Mr. Cann explained that the CRC had been formed in the 1930s to deal with issues surrounding the Colorado River. Each state that wanted to share in water or power from the river decided to create an organization to ensure the state received the original allocation and then was able to defend and protect its share from the other states. Thus, Nevada created the CRC, which had existed in various forms since that time. The mission of the CRC was to protect the 300,000 acre-feet of Colorado River water allocated to Nevada and the approximately 450 mega-watts of federal hydropower provided by various projects, such as Hoover, Parker, Davis, and Glen Canyon dams.

Senator Rhoads asked if any of the power allocated to Nevada was exported to another state. Mr. Cann explained that the power allocated to Nevada stayed in Nevada and was allocated to 12 customers in southern Nevada, including rural cooperatives, Nevada power companies, the Southern Nevada Water Authority (SNWA), and the Basic Management Incorporated (BMI) Complex in Henderson, which had received an allocation since World War II. He said that it was the most inexpensive power source that any of the southern Nevada communities had and was a stable resource with long-term contracts. Mr. Cann said the Commission worked vigorously to protect and defend that power source as it was necessary to form part of the low-cost energy resource and provide for a developing community.

Mr. Cann said the CRC accomplished their duties regarding the Colorado River in a number of ways. With the 300,000 acre-feet that had been allocated to the state since the 1920s, the CRC had worked cooperatively with the federal government, the U.S. Department of the Interior, the Bureau of Reclamation, and the other states to manage the river system, which was owned by the federal government. He claimed that the CRC worked very hard to protect the state's allocation and to extend that resource through working with the Southern Nevada Water Authority to provide for the Arizona water bank and the interim surplus guidelines.

Mr. Cann commented that in the eight years he had worked at the Commission, he had seen remarkable cooperation in contrast to what had happened previously, particularly since the drought necessitated cooperation. It was difficult to fight over allocations of water when there was not a lot of water in the system.

Mr. Cann said the CRC discharged their duties with regard to hydropower by contracting with the federal government, which owned the hydropower of the Western Area Power Administration. The state acquired power under long-term contracts, and in turn the CRC marketed that power to the rural cooperatives, the aforementioned power companies, the BMI, and the SNWA. He said the CRC worked hard to ensure the reliability of the power, to contain the cost, to protect Nevada's assets, and to increase the power requirements if there was excess capacity available.

Mr. Cann explained there was an Endangered Species Act issue regarding the Colorado River. There were a number of threatened or endangered species along the lower Colorado River, and the biological opinion that covered existing operations would expire in May 2005. He pointed out that there was also a program that was included in the CRC Research and Development budget called the Lower Colorado River Multi-Species Conservation Program, which was designed to provide a 50-year insurance program. The three lower basin states of Arizona, California, and Nevada, along with the federal government and other various entities, cost-shared the \$626 million program, and in return received

50 years of certainty to afford the continued operation of the water delivery system, the continued production, acquisition, and delivery of federal hydropower, and future deliveries of water, future water transfers, future water activities, and future power contracts. Mr. Cann indicated that those activities helped protect the Colorado River assets given to Nevada.

COLORADO RIVER COMMISSION

COLORADO RIVER COMMISSION (296-4490) – BUDGET PAGE CRC-1

Douglas Beatty, Administrative Services Officer, CRC, presented Budget Account (BA) 296-4490 and said that budget account housed the CRC's administrative and personnel costs. The first Decision Unit, E-250, was a request for 10 new positions.

Senator Rhoads questioned why the 10 new positions were needed. Mr. Beatty explained that the 10 positions would be primarily involved in power issues for the SNWA. The positions would provide additional expertise in the Commission for support of the SNWA's power loads, which continued to increase.

Mr. Cann interjected that one of the challenges caused by the drought was that Hoover Dam was losing approximately 15 percent of its production capacity as the water receded, which meant less hydropower was available even as the demand continued to grow. As there was not enough hydropower, which was very inexpensive, the state needed to find other, more expensive resources that were reliable and deliverable.

Senator Rhoads asked what percentage of the power supplied to Las Vegas was produced by Hoover Dam. Mr. Cann explained that the Nevada Power Company's allocation of the power from Hoover Dam, although it was the largest of all the allocations, was only 4 percent of the total resource for Las Vegas. It was approximately 235 mega-watts of a 5,000 mega-watt system.

Senator Rhoads asked if the remaining 96 percent was imported from other states. Mr. Cann clarified that he was referring to Nevada Power Company's service area. Each utility received a different percentage—Lincoln County received over 90 percent of its power from Hoover Dam, Overton received approximately 50 percent, and so on.

Mr. Beatty continued his presentation and said the majority of the 10 positions would be funded and supported by the SNWA as they had been developed in conjunction with the SNWA. Those positions included a power planner, a power accountant, and others that would add expertise and provide more depth as the SNWA built additional facilities and needed more power.

In response to Senator Rhoads' inquiry regarding the 10 positions, Mr. Beatty indicated that the positions were being requested and were not currently in existence.

Senator Rhoads asked if the creation of the positions could be deferred to the second year of the biennium. Mr. Cann indicated that the Commission would be discussing that possibility with Legislative Counsel Bureau (LCB) Fiscal staff to determine if any of the positions could or should be deferred.

Assemblyman Denis requested additional information on the network administrator position recommended in E-250. Mr. Beatty said there previously

had been a network administrator in the office to help with the computer system, but some of the staff had been co-located with staff of SNWA to improve service. The network administrator was then transferred to support that unit, and a new network administrator was needed to run the network at the CRC.

Mr. Denis inquired about the duties of the network administrator, and Mr. Beatty explained that the position would do "a little bit of everything." The position would set up the computers and maintain the network. He added that the network administrator had been transferred because there had been no other technical support in that unit.

Assemblywoman McClain mentioned Senate Bill 211 of the 71st Legislative Session and asked that Mr. Cann explain the impact of that bill on the CRC. She also requested that he comment on the eight positions given to the CRC in the 2003 Legislative Session, four of which remained unfilled.

Mr. Cann explained that prior to the 2001 Legislative Session, the Colorado River Commission statute had said the CRC could provide electricity to any entity deemed to be in the public interest, which was a very broad statement. In 2001, the CRC had been interested in discussing additional service opportunities. The CRC had been serving the SNWA, which was the entity that provided wholesale water delivery to the communities in Las Vegas, and the CRC had been serving the SNWA with electricity since 1998.

S.B. 211 of the 71st Legislative Session provided that the CRC could serve member agencies of the water authority, which included Henderson, Boulder City, and the Las Vegas Valley Water District, for their water and waste water needs only. Because the water in Las Vegas was an integrated water system, which meant the water was taken from Lake Mead, delivered into the valley, and then delivered to homes, businesses, and industries, integrating the electricity supply made sense.

Mr. Cann said that S.B. 211 of the 71st Legislative Session had given the CRC the ability to serve other entities, if the entities agreed. The CRC was serving additional loads of the SNWA under that law, as well as loads that were served by the Nevada Power Company, and the CRC paid a distribution and transmission fee to use those lines. He expected the CRC would serve new loads in the future when other entities chose to be served by the Colorado River Commission.

Mr. Cann referred to Ms. McClain's question on positions and said there were a few natural resource specialists and technicians, which were unclassified positions, which had been approved in the previous legislative session. Those positions had been requested as the CRC had attempted to anticipate the timing of issues that would require the skills of natural resource specialists. He pointed out that it had been believed the Lower Colorado River Multi-Species Conservation Program would start earlier than had been the case and those positions would have needed to be filled. However, the program would not officially start until May 2005, and the CRC was beginning to work to fill those positions.

Mr. Cann emphasized that the unfilled positions were a result of timing rather than lack of need. He added that the additional positions were an attempt to look at what might be needed based on the integration of the resource procurement function of the CRC. He said that several of the positions were

designed to enhance the CRC's ability to manage risk and to manage the load forecasting. Mr. Cann predicted that the loads would continue to grow, the CRC needed to be able to identify credit and risk issues, and the added positions would give the CRC the necessary expertise. He added that some of the positions might be able to be deferred to the second year of the biennium, as the functions they would provide might not be needed immediately.

Mr. Beatty added that the CRC served a fairly small number of customers and there was daily interaction with those customers, particularly the SNWA. In addition to that interaction, there was at least one meeting per month with the rest of the power customers, and when the CRC wanted to add positions, the customers reviewed those requests. As the requests were reviewed and approved, the customers were aware of how the positions would be funded and which customers would be charged to fund the positions. The positions were filled once the customer and the CRC agreed the position was needed because the customer did not want to pay for a position that did not provide a valuable service. Mr. Beatty emphasized that, before any position was filled, the customer had to agree because the customer was going to be billed for that position.

Mr. Beatty directed the attention of the Subcommittee to the next Decision Unit, E-350, and said it was a typical budget enhancement that was requested every biennium. He said the request related to ongoing activities on the Colorado River that could become issues, such as additional water procurement from the Arizona water bank project and desalinization projects in California.

Mr. Beatty indicated that there might be changes necessitated by the federal budget since the federal government had proposed power administrations being sold or hydropower being raised to market levels. If those proposals moved forward, the CRC would fight those efforts, which would necessitate increased funding for additional travel and additional man-hours.

Senator Rhoads asked Mr. Cann to explain a payment of \$996,145 to the Federal Energy Regulatory Commission (FERC) to settle an investigation for price manipulation in western markets.

Mr. Cann said that in 2003, the CRC had been part of a group of approximately 2 dozen entities that had had electrical contracts to sell energy into California, and they had been under a "show cause" order by the FERC. He explained that the CRC purchased power for the SNWA in blocks. The SNWA was able to reduce the costs of pumping and reduce costs to consumers by pumping at night when energy costs were lower. While the entity would pump only at night or during specific hours to save on electricity costs, the power had been purchased in a block for a full day and there was excess energy. That electricity could not be stored, but had to be used by the SNWA or sold to another entity, which was why the CRC decided to sell energy in California.

During 2000 and 2001, California was in the midst of an energy crisis, and California was willing to pay a higher price for the excess energy than any other entity. Mr. Cann said it made sense to sell that excess power to California at that high price, which would then reduce the net cost for delivery of energy to the SNWA and would benefit SNWA's customers in Nevada.

Approximately three years later, an investigation into the California energy market began in an attempt to determine what had led to the high prices. Mr. Cann noted that the investigation was still underway, but a number of the

parties, like the CRC, who had been under the "show cause" agreement and had sold energy to California, had been required to provide information to the FERC. The CRC had worked with FERC staff and had gone through a number of discovery processes.

In August of 2004, after reviewing the data and the cost of continued litigation, the CRC made a business decision to settle. Mr. Cann asserted that the settlement had been in the CRC's and the public's best interest to prevent further regulatory action. He emphasized that the settlement was not a fine or a penalty, and there was no admission of guilt attached to the settlement; it was merely a "prudent business decision."

Mr. Cann offered to provide a copy of the settlement to the Subcommittee. He reiterated that it was a cost-effective decision to enter into an uncontested settlement with the FERC.

Senator Rhoads asked where the money from the settlement went, and Mr. Cann explained that the money was placed into a fund, and there was litigation happening to determine if the monies paid into the fund would be used to refund the California entities that were harmed by the high prices.

Senator Rhoads commented that in settling, the CRC had essentially given California \$1 million. Mr. Cann pointed out that the money had been paid to the FERC, and the FERC would decide how to distribute it. He noted that there were parties in addition to the California interests.

Senator Rhoads requested clarification of California's role in the settlements, and Mr. Cann explained that California believed it was a victim of price manipulation and was entitled to receipt of the funds. He added that the various entities would be filing with the FERC and fighting over the money in the fund. He repeated that the settlement had been a business decision to pay a settlement rather than incur the cost of additional legal fees.

Mr. Beatty remarked that the CRC had been "dragged" into the situation because, in order to sell energy in California, the CRC had had to partner with various firms, including Enron.

Mr. Cann offered further explanation and said that to sell energy in California, there were requirements to be licensed. The CRC had not met those requirements, so the CRC, and other entities in a similar situation, had contracted with firms, including Enron, to meet the licensing requirements. He reiterated that he would be happy to provide the Subcommittee with a copy of the settlement agreement. Senator Rhoads indicated that the Subcommittee would like that information.

Assemblyman Hogan asked if there was any additional litigation pending. Mr. Cann indicated that the litigation issues surrounding the CRC were finished. The FERC settlement ended any and all cases revolving around the western electricity crisis and the CRC. There had been other litigation that was filed with the Nevada Power Company concerning additional issues of the California crisis. Those issues had been resolved by the signing of a cooperative accord between the CRC, the SNWA, and the Nevada Power Company, effectively ending all disputes. He noted that the legal documents were being completed, but the disputes and the litigation were over.

Mr. Hogan asked if there had been a price associated with signing the accord. Mr. Cann said there was not and explained that signing the accord meant the parties had agreed to a set of principles that would “put the fights behind [them] and let the loving begin.”

Mr. Cann said the first agreement of the accord was that the parties agreed to communicate as it was better to have a dialogue among the parties to address issues before going to court. The parties also signed a number of agreements which would provide a “win-win financial benefit” for all the organizations. He said the organizations’ jobs were to work for the benefit of their communities, and they had signed an agreement where the roles and responsibilities with respect to the Silverhawk Power Plant, which the SNWA had purchased, had been exchanged with the Nevada Power Company. The Nevada Power Company would manage the output of the Silverhawk Power Plant, and in exchange the Nevada Power Company had agreed to provide 75 mega-watts of energy to support pumps, which would help the SNWA. He said a scheduling and balancing agreement would be signed with Nevada Power Company, which managed all the loads and resources that supplied energy to the Las Vegas valley, and the Nevada Power Company had agreed to take on the responsibility of matching the CRC’s loads and resources, thereby decreasing the CRC’s cost and increasing efficiency.

Mr. Cann asserted that the agreement provided benefits to the community beyond those provided without the agreement. He indicated that he had provided a copy of the accord to the LCB Fiscal staff.

Mr. Beatty indicated he was finished with his presentation of BA 296-4490 and would answer any questions.

Senator Rhoads requested information on a study regarding power transmission concerns. Mr. Cann apologized that he did not have that information with him, but he offered to supply it to the Subcommittee at a later time.

COLORADO RIVER COMMISSION
FORT MOHAVE DEVELOPMENT FUND (296-4496)—BUDGET PAGE CRC-8

Mr. Beatty presented BA 296-4496 and said it was the fund that accommodated the land in Laughlin for which the CRC was responsible. He explained that when the budget information was being compiled, the CRC had received information on selling approximately 110 acres near the river in Laughlin. Because of the interest in the land, the CRC had anticipated a land sale for approximately \$5 million during the upcoming biennium.

Senator Rhoads remarked that the CRC had been selling land since 1960. He asked how much land was left. Mr. Beatty said there were approximately 9,000 acres left.

Mr. Beatty said the CRC had accepted a bid for the 110 acres at its last meeting. The land appeared to be of interest to a number of parties, and the minimum bid had been \$13 million. The land had sold for \$13 million, but as that had occurred after the budget had been constructed, the budget estimate had been \$5 million. Mr. Beatty said the CRC would work with the LCB Fiscal staff to address that increase so that the CRC would receive the full \$13 million.

Senator Rhoads commented that Congressman Jim Gibbons had addressed the Nevada Legislature on February 24, 2005, and had indicated that instead of 86 percent of the land being owned by the federal government, that number had increased to 92 percent. Senator Rhoads added that in 1960, the U.S. Congress had passed an act allocating 15,000 acres to be sold by the CRC, and with the demand for land in Clark County and other parts of Nevada, it was something that needed to be examined. He noted that approximately 98 percent of Lincoln County was owned by the federal government and the percentage of federal land in the rural counties was in the high 80s and 90s.

Mr. Cann agreed that the amount of federal land was an issue. He said that when the CRC received the development proposal for the 110 acres, the Commission had examined the proposal, discussed the proposal with the City of Laughlin, and decided that the state of Nevada needed to be more than "passive landowners" in Laughlin. A subcommittee had been established, chaired by CRC Vice Chairman Jay Bingham, who had traveled to Laughlin and met with the community to examine development needs. Mr. Cann pointed out that the 110-acre sale would be the first sale in quite some time, and the Laughlin community was excited about the development opportunity.

Mr. Cann explained that the CRC's statute required the CRC to take into account the bid as well as the plans for development, and a balance had to be struck between the amount of money being offered and the need for development. He said the CRC was happy the land had sold and that the value of the land had increased from approximately \$4 million to \$13 million.

Assemblywoman McClain questioned proposed capital programs that would be funded through the land sale. Mr. Beatty explained that the money from the land sale would be placed into the Fort Mohave budget account to be used by Clark County for infrastructure needs in Laughlin, pursuant to legislation passed many years earlier. The county made a "wish list" of capital programs and prioritized the list to address the most pressing needs first, as there was simply not enough money to fund every project. Mr. Beatty commented that the county had used the money judiciously in the past as matching funds for grants from the federal government. He said that Clark County compiled the "wish list," Laughlin recommended which projects should be funded, Clark County approved those projects, the CRC reviewed the projects, and then submitted them as part of the budget. The Legislature could then see how the county anticipated using the money, and the money could only be used on projects that were on the list and had been approved by the Legislature. Mr. Beatty noted that the money from the sale would probably be used to partially fund 2 or 3 of the projects on the list.

Ms. McClain asked where the Colorado River bridge design was on the priority list. Mr. Beatty said the county determined the priority of projects and he did not have that information.

Mr. Cann pointed out that funds had been contributed to help Laughlin build a community pool, a government center, and other projects. Mr. Beatty added that priorities changed as time went on and the county had the ability to choose any of the projects that were on the approved list.

Mr. Denis requested detail regarding Decision Unit E-720 and asked for a "network map." Mr. Beatty said that the CRC had submitted the requests to the Department of Information Technology and those requested had been

approved. He indicated that he would provide the same information to Mr. Denis.

Mr. Denis pointed out that there were no state General Funds in the CRC budget. Mr. Beatty said that was correct, the CRC funding came from power and water sales.

Mr. Cann explained that the CRC's funding came from power customers, through an administrative surcharge in their power bills, and then from billings to the water authority and water users. He emphasized that there were no state funds in the budget. He said the budget review process started with the CRC's customers and then moved through the Commission, to public meetings, to The Executive Budget, and finally to the Legislature.

Senator Titus commented that she had spoken with Mr. Cann earlier and had discussed bill draft proposals concerning water. She requested that Mr. Cann explain to the Subcommittee what he had explained to her regarding the Colorado River Commission, interbasin water transfers, and how the water issues were connected.

Mr. Cann said the Colorado River system involved negotiations and relationships among the seven states and the federal government. One of the most important things that the CRC had worked on throughout the years was working cooperatively with the other states, while at the same time viewing them as potential adversaries in water issues, as each state looked to its best interests with regard to the Colorado River. He explained that water resource issues in Nevada were similar to the issues California faced a few years earlier. At that time, California was taking 5.2 million acre-feet of water from the Colorado River, but California's allocation was actually 4.4 million acre-feet. California was aware that some of that water actually belonged to Nevada and Arizona, but there was a surplus and it was not a problem. However, the surplus no longer existed due not only to the drought, but also to the population growth.

Mr. Cann pointed out that without surplus water, California needed a way to decrease the amount of water taken from 5.2 million acre-feet to 4.4 million acre-feet and maintain the state's resource within the allocation. California had approached the other states and made an agreement to develop alternatives and demonstrate that California could live within the 4.4 million acre-feet allocation, and the other states would allow California some time to make that transition. Mr. Cann said that California had been successful in demonstrating the 4.4 acre-feet million allocation would be sufficient, so interim surplus guidelines had been created, and those guidelines had been working. California was staying within its allocated amount.

Mr. Cann explained that the drought in Nevada had shown the state how difficult it was to rely on Lake Mead for 90 percent of the water supply for Las Vegas, even with help from other states. He noted that Nevada had received help from Arizona and the Arizona water bank, which was a firm water supply, and there had been help from the California water bank as well. He said that more cooperation was needed from the other states to help during the interim as Nevada moved toward becoming less reliant on the Colorado River.

Mr. Cann said the goal of the CRC in regard to the Colorado River was to diversify and to demonstrate that Nevada had a plan to provide for additional water supplies. He acknowledged that Nevada would always be dependent on

the Colorado River for a large portion of the state's water resource, but with the population growth and other factors, it was important for the state to demonstrate it would be able to "take care of its own." He said that demonstrating Nevada was diversifying would help the relationship between the states.

Assemblyman Hogan referred to the earlier discussion of land sales and questioned the bidding process, how many bids had been received, and if there were any other ongoing land sale activities.

Mr. Cann said the CRC was required to hold public meetings and make the process as open as possible. He said that Requests for Proposals (RFP) had been published in approximately 24 newspapers and posted on the CRC website. There had been open meetings in Laughlin, and the public in Las Vegas and in Laughlin had been given the opportunity to comment. Mr. Cann offered to provide a report of the Commission's activities regarding the land sale.

Mr. Cann added that while there had been a lot of interest generated by the RFP process, in the end only one proposal was received from Riverside Developments in the amount of \$13 million and that proposal was accepted. He emphasized that the entire process had been open to the public and that all interested parties had been given an opportunity to bid on the land.

Mr. Cann said there were no ongoing land sale efforts. The CRC had approximately 9,000 acres south of the Laughlin development, but as of yet no one had expressed an interest in developing that land. There was no other property along the river under development, although the CRC had property that was part of a conservation effort.

Mr. Denis noted that the CRC had not provided performance indicators to the LCB Fiscal staff. Mr. Cann explained that the CRC had used performance indicators in the past and some were effective, such as the comparisons of energy prices for the water authority to the market prices, but those performance indicators had not been updated. Other performance indicators used in the past related to the development of the CRC's programs, which were in place. He noted that the CRC had been "upgrading [its] efforts" in energy procurement and the conservation program, which would be implemented in the next few months. Once the programs were implemented, there would be more concrete performance indicators, rather than indicators measuring proposals. Mr. Cann added that the CRC was working on updating the performance indicators to reflect the Commission's current activities.

Senator Rhoads asked Mr. Cann what percentage of water should come from the rural counties of Nevada. Mr. Cann said he did not have a specific answer. The CRC hoped to diversify the water resource enough to have a 60 to 70 percent reliance on the Colorado River rather than the 90 percent currently, but he did not know what that could mean for the rural counties, as that was not his area of expertise.

Mr. Denis added that he would like to see performance indicators, and Mr. Cann agreed to update those and give them to the LCB staff.

COLORADO RIVER COMMISSION

CRC RESEARCH AND DEVELOPMENT (296-4497)—BUDGET PAGE CRC-10

Mr. Beatty explained that the research and development budget was currently being used for one program—the Lower Colorado River Multi-Species Conservation Program (LCRMSCP). The LCRMSCP was a multi-state conservation program formed to address issues with endangered and potentially endangered species on the lower Colorado River. The program had been in place for several years and had been in the planning stages for a long time, but would be implemented in the next few months.

Mr. Beatty indicated that he had provided the LCB staff with information related to the program, including the implementation of actual conservation measures and a funding mechanism agreed to by all the states and all the parties. The agreement was not finalized, but the LCB staff had received a copy of the funding agreement in draft form. He noted that the first cash installment from the CRC's power and water users would be due October 1, 2005.

Mr. Cann added that the program was designed as an insurance policy to provide protection for water and power users of the Colorado River, so it made sense for the water and power users to provide the funding for the program. He indicated that he had letters from the CRC's customers expressing their intent to sign contracts, which would provide for their payment to continue. He pointed out that the SNWA had been a partner in the process since the beginning and felt it was an excellent bargain to get the needed Endangered Species Act protection so the CRC could continue to provide water and power.

COLORADO RIVER COMMISSION

POWER DELIVERY SYSTEM (502-4501)—BUDGET PAGE CRC-12

Mr. Beatty explained that the power delivery project fund housed all the costs related to electric power endeavors for the Southern Nevada Water Authority (SNWA). SNWA had diversified its portfolio by purchasing 25 percent of a gas-fired generating plant, the Silverhawk Power Plant, in Apex, Nevada, in order to diversify its portfolio. The CRC would be billing the SNWA for the costs of running the plant and then would pay the third-party operator, Pinnacle West, for scheduling power, sales, and purchases related to the plant, and for receipt of all related revenues.

Senator Beers commented that he had heard that the Apex plant was not generating as much power and was not as profitable as anticipated. Mr. Beatty indicated that he had recently toured the plant with a Legislative Audit group and he had discovered that the plant was "running full bore." He explained that the output was dependent on gas prices and because Pinnacle West had procured a good price, the plant was able to operate at full capacity. He opined that Pinnacle West was not necessarily planning to run the plant long-term so the gas contracts were not long-term, which meant there was fluctuation in the output and the profitability of the plan.

Mr. Beatty added that in general those types of plants were not as profitable as originally anticipated, but SNWA's interest was less in profit and more in reliability and diversification of its portfolio.

Senator Titus requested information on renewable energy projects. Mr. Beatty said that Decision Unit E-351 concerned funding for renewable energy projects.

The CRC was in the completion stage of a program with small hydro units. The program had been studied and had been in the design phase and was now entering the construction phase, but would not be implemented until the beginning of 2006 because the water system had to be shut down in order to put the hydro units in place.

Mr. Beatty explained that the CRC had studied a number of rate-of-flow control stations. Water was pumped into reservoirs at high elevations, then the water was "gravity-fed" to a lower elevation where it was needed. However, the water would move too quickly so there were valves at the control station that opened and closed to restrict the flow of water.

Mr. Beatty said that the valves could be removed and replaced with small hydro units; the spin of the hydro units slowed the water down while at the same time generating electricity. He added that there were not many places where the hydro units could be used, but the program would be implemented because "every little bit helps." He indicated that he had supplied the LCB Fiscal staff with information on other potential projects involving solar and geothermal units. The CRC was examining the possibility of purchasing long-term contracts with entities that were already using other sources of power in order to diversify SNWA's portfolio.

Senator Rhoads remarked that he had been raised near the Canadian border in northeastern Washington, approximately 60 miles from the Grand Coulee Dam on the Columbia River. The dams generated hydropower, which was the cheapest, cleanest fuel available, and he was surprised that there was not more emphasis on developing more hydropower projects on the rivers.

Mr. Cann agreed that the lack of interest in hydropower was an issue, particularly since in much legislation hydropower was not considered a renewable resource when it clearly was, although not as renewable during a drought year. He added that he would like to see an emphasis placed on hydropower as a renewable resource. It was difficult to build dams; as a result, there were not many new storage projects. Mr. Cann noted that there had been recommendations to remove dams, and he opined that it was important to protect the dams already in existence.

Mr. Cann expressed the belief that more storage was needed, in addition to the energy generated, because of drought situations. He said that as hydropower users, the CRC advocated not only finding additional hydropower resources, but also ensuring the resources were renewable.

Mr. Beatty interjected that he had been surprised to discover that the definition of renewable resource was quite narrow and the use of the small hydro units was not included. He said it was important to balance environmental concerns over building dams with the need for water and power.

Senator Beers asked if Parker Dam in Arizona generated electricity and if it was part of the portfolio. Mr. Cann indicated that the hydropower portfolio included Hoover, Parker, Davis, and Glen Canyon Dams. Nevada was actually the largest consumer of power from the Parker and Davis Dams, known as the integrated Parker-Davis Project. Nevada received approximately 25 percent of the output from the Parker-Davis Project. He noted that the output had decreased because of the heavy rains in Arizona over the last month, which meant water had to be stored behind the dams. As soon as the rains stopped, the water would be released, which would increase the output.

COLORADO RIVER COMMISSION
POWER MARKETING FUND (505-4502) – BUDGET PAGE CRC-16

Mr. Beatty explained that Budget Account 505-4502 was used to handle the hydropower resource and all supplemental purchases for hydropower customers other than SNWA.

Senator Rhoads asked Mr. Beatty to elaborate on the reason for increasing the reserve from \$8.3 million in FY2003-04 to \$12.85 million in FY2006-07. Mr. Beatty explained that the reserve was related to the “month-to-month lag” in billings. The amount in the reserve was an estimate of the monthly billings as well as the “true up” of the previous month. The amount in the reserve reflected one month’s activities, and the cost of power was increasing, leading to an increase in the reserve. He noted that the CRC did not track the reserve since it was a function of what was paid for power each month. The funds in the reserve were not held for a specific purpose; rather, the funds flowed from month to month. He stressed that the increased amount in the reserve was due to the drought increasing the cost of power.

In response to Senator Rhoads’ question concerning the percentage of hydropower sold by the CRC, Mr. Beatty explained that the total percentage over all the budget accounts was less than 50 percent. In BA 505-4502, hydropower sales were approximately 80 percent, while in BA 505-4501 the percentage was much lower.

Senator Rhoads commented that currently hydropower was the cheapest resource, followed by coal, and then natural gas. Mr. Cann agreed that hydropower was by far the least expensive of the three, coal typically was second, while natural gas was third, depending on price fluctuations. He noted that hydropower and coal were the most “dispatchable and economic” resource.

Senator Rhoads questioned the cost of alternative resources such as geothermal and wind energy, and Mr. Cann said there were many variables associated with those resources, such as location and weather conditions, so he was uncertain as to where the cost of those resources would fall on the price spectrum.

Senator Rhoads commented that geothermal and wind energy were not catching on as quickly as anticipated. Mr. Beatty agreed and explained that the renewable programs were very expensive and many companies simply could not afford them.

Assemblywoman McClain asked about the cost of solar energy, and Mr. Beatty said while the technology had improved, the capital cost in setting up the equipment to absorb the sun’s rays was extremely expensive.

Mr. Cann interjected that there were a few solar projects in southern Nevada; the Las Vegas Well and Water District had a small solar project. He stressed that the technology was improving.

Mr. Beatty added that when he had begun his career at the CRC, the cost of desalinization had been so high that no one invested in desalinization programs; however, as the technology had improved, the cost had decreased. At the same time, the cost of other resources had increased. He opined that when those costs become comparable, there would be a big push for development. The situation with other renewable programs was similar.

Mr. Cann commented that he had started his career in the field of renewable energy, and he had learned to have patience. Technology developed over time and projects were started in areas where there was an interest in the long-term result rather than the short-term result. The renewable energy industry had been volatile with many highs and lows, but the technology would continue to improve and the costs would become more affordable. Mr. Cann noted that none of those resource projects was "environmentally benign." There was a trade-off and it was a matter of weighing the trade-offs to determine which direction to take in developing new resources.

DEPARTMENT OF CONSERVATION AND NATURAL RESOURCES
CNR ADMINISTRATION (101-4150)—BUDGET PAGE DCNR-1

Allen Biaggi, Director, Department of Conservation and Natural Resources (DCNR), introduced Rex Reed, Administrative Services Officer IV, and presented Budget Account 101-4150. He made the following statement ([Exhibit B](#)):

The purpose of the office is to provide policy, technical, budgetary and supervisory support to the Department and the divisions contained within it.

This budget account contains 13 FTEs, most of which provide personnel and fiscal services to the divisions within the Department, with the exception of the Division of Forestry and the Division of Environmental Protection, which have their own personnel and budgetary support. The total budget for FY06 is \$1,058,873 and \$1,048,856 for FY07. The DCNR Administration budget account is funded from a cost allocation on the divisions it serves as well as General Fund revenues.

I have provided you with two handouts this morning. The first is a summary of the budget account ([Exhibit B](#)), and as I go through it, feel free to follow along with me. The second is a document ([Exhibit C](#)) entitled "Perspectives: A Biennial Report of 2002-2004," and it provides an overview of the accomplishments of the Department for the last biennium and some of the challenges and goals we have in the upcoming biennium.

I'd like to touch on a few budget highlights in this budget account. The first is replacement equipment, which is requested in E-710. The bulk of that is computer equipment replacement and that was per the Department of Information Technology (DoIT) schedule of 25 percent. There is also some minor equipment for the move that we will be making in June of this year.

As I mentioned in my first budget presentation, the Department in Carson City is consolidating to a new office complex building located on Stewart Street north of the Nevada Department of Transportation (NDOT) building. We are anticipating that we will be in that building in the middle of June, and that will consolidate us from the eight locations, which are located in Carson City now, into one centralized location, which will be a great step for the agency.

E-901 transfers the Winnemucca facility from this budget account to Budget Account 4173 in State Lands. These costs are primarily deferred maintenance costs associated with that facility.

One position, which is currently classified, is proposed to be moved into unclassified service. This is my executive secretary, and that is the only position in this particular budget account that is making that move, but there are many positions from within the divisions.

There are three supplemental appropriations to the FY2005 budget contained in Assembly Bill 94. There will be a hearing before the Assembly Committee on Ways and Means at 8:00 a.m. on Monday, February 28. The supplement appropriations include terminal leave costs for two employees who left the director's office, totaling \$42,460; \$36,532 in tort insurance premiums for conservation districts; and \$14,980 to bring a joint funding agreement with the U.S. Geological Survey up to date.

Finally, Assembly Bill 106 contains funding for three items for the Department. The first is \$462,077 for the high-density file system for the new building. One of the things that this building was designed around was to house employees and not to house a great deal of files over a wide area of the building. Consequently, the architects of the building designed the building for high-density file systems. As we all know, buildings throughout Nevada, and throughout the country, are suffering significant cost overruns due to increased costs associated with steel and concrete. As a result, for the actual building of the structure something had to give; unfortunately, that was the high-density filing system. What this then does, is provide money for us to purchase those high-density filing systems and put them in the new building.

The second cost is \$150,000 for the litigation fund for Walker Lake and for the Walker River system. We are currently in a mediation process with multiple parties in an attempt to resolve the differences concerning Walker Lake and the Walker River system. In the event that during the biennium that mediation process fails, this will provide us the necessary resources to proceed to litigation.

Third, there is \$250,000 to replenish the Division of Water Resources' channel clearance account. This money provides grants to local governments, local communities, to provide channel clearance activities on navigable streams and waterways within the State of Nevada.

Senator Rhoads requested information regarding Question 1, the \$200 million conservation bond program. He asked if property taxes would need to be increased to support the sale of additional bonds.

Mr. Biaggi explained that in 2002 the voters had approved Question 1 (Q1), which provided for \$200 million in general obligation bonds for a wide variety of natural resource-related projects, including protection of water quality, protection of wetlands, increased recreational opportunities, and other natural resource activities. The first stage of the bond sales program had taken place, and approximately \$90 million of the Q1 dollars had been allocated. Of that \$90 million, \$84 million had gone to projects that were already underway. He

emphasized that the money was used for a wide variety of projects from trails at Lake Tahoe to wetlands protection in southern Nevada. He pointed out that the money was not just for the DCNR, there was also money allocated to other state agencies and local governments, primarily in Washoe and Clark Counties. He said the DCNR had begun the second stage and additional bonds were being sold. The DCNR was completing an evaluation of the next round of projects to be funded by the bonds.

Mr. Biaggi added that as the funds were from general obligation bonds, he did not think there would be an impact on property taxes and sales.

Ms. McClain asked if Mr. Biaggi knew how much money would be raised through bond sales during the second stage of the program. Rex Reed, Administrative Services Officer IV, DCNR, responded to the question and said approximately \$11 million would be raised.

Senator Rhoads requested details on the Winnemucca facility and the deferred maintenance. Mr. Biaggi explained that the Winnemucca facility had been acquired from the Bureau of Land Management (BLM) several years previously, and for purposes of expediency, had been placed in BA 101-4150. The Division of State Lands was the appropriate division in which to hold the property.

Mr. Biaggi said the facility needed maintenance and the proposed maintenance projects had been placed into three groups. The first group consisted of projects that were fairly critical to the operation of the facility: roof and floor repairs, for example. Those projects would be funded with the first year request. The other types of maintenance projects were not as critical and were requested for the second year of the biennium. He pointed out that the DCNR had modified the request and reduced the amount by \$269,080 through the elimination of projects that did not need to be completed during the biennium.

Senator Rhoads asked if the information on the modification had been provided to the LCB Fiscal staff. Mr. Biaggi indicated that the modification had been made very recently, and he was working with LCB staff to make the changes to the budget. Senator Rhoads remarked that the LCB staff needed that information and asked that Mr. Biaggi provide that as soon as possible.

Assemblyman Denis asked about the videoconferencing project and asked if a technology improvement request had been completed. He noted that ongoing operating costs had not been included.

Mr. Biaggi explained that the videoconferencing project was an issue that had arisen late in the budgeting process. The videoconferencing system would be used by various agencies within the building and would be placed into a second-floor conference room that was operated by the Division of Water Resources. The cost for a manually operated system was estimated at \$55,000 and because that was under the \$100,000 limit, a technology improvement request had not been required. He added that the cost for the system was contained within the Technology Improvements Account in the Administration Budget.

Mr. Denis requested that information and reiterated his question regarding ongoing costs. Mr. Biaggi said the ongoing costs were not included since the building had multiple T1 lines, so the costs would be paid by the various divisions.

Mr. Denis asked if the various divisions using the system would cost-share. Mr. Biaggi said that had not yet been determined, but the Department did have a cost allocation formula that could be used to distribute the costs.

Mr. Denis asked who would run the system. Mr. Biaggi said that each division had information systems specialists, and those specialists would be trained to assist in the operation of the system.

Mr. Denis cautioned that as the system was utilized, the information systems specialists would become "videoconferencing specialists" and would not have time to perform other functions. Mr. Biaggi said he appreciated that concern and said those issues were being discussed, and he was trying to balance the trade-offs between an automatic, but more expensive system, and the proposed manual system.

Mr. Denis requested a technology plan for the DCNR detailing network and technology needs. He also requested performance indicators. Mr. Biaggi indicated that he would provide the technology map and added that moving into a new building provided an exciting new opportunity to integrate all the divisions within the Department. Mr. Reed added that he had questioned the lack of performance indicators and had been told that the Legislature had not required performance indicators because BA 101-4150 did not have any specific programs so outcomes of programs could not be measured. Tasks such as purchasing, accounting, building the budget, and so on were performed under BA 101-4150 so there were not any outcomes to be used to construct performance indicators.

Ms. McClain pointed out that the Department of Business and Industry and the Public Employees' Benefits Program (PEBP) would be temporarily located in the same building as DCNR, and both agencies had requested videoconferencing equipment in their budgets. She asked if there was a way to share one system rather than installing three separate systems within the same building.

Mr. Biaggi said there were several large conference rooms and hearing rooms within the building complex. There was one very large room that the PEBP would be using on the first floor for videoconferencing. The Division of Water Resources was located on the second floor, and that was the room that would be equipped with the videoconferencing system to be used by the DCNR. He indicated that the possibility of using only one room had been discussed, but the PEBP used the videoconferencing system often and was concerned there would be scheduling conflicts between the PEBP and other agencies.

Ms. McClain asked where the videoconference room for the Department of Business and Industry would be located. Mr. Biaggi said he did not know, but he added that the DCNR also had a portable system which would be used in some of the upper floors in very small conference rooms. The portable system was a very inexpensive system to use, but was not adequate for hearings or large meetings. With that portable system, there might be as many as four videoconferencing systems within the building. Mr. Biaggi asserted that videoconferencing was a cost-effective way to hold meetings because it eliminated the need for travel costs.

Ms. McClain agreed and asked if the DCNR had been included in the personnel study regarding classified and unclassified positions. Mr. Biaggi said he believed that the DCNR had been included as he had supplied information for the study, but he did not have specific details.

Mr. Biaggi introduced Leo M. Drozdoff, P.E., Administrator, Nevada Division of Environmental Protection (NDEP), and indicated that Mr. Drozdoff would be presenting the remaining budgets on the agenda.

Senator Rhoads noted that the budget accounts were funded through fees and federal funds.

DEPARTMENT OF CONSERVATION AND NATURAL RESOURCES
ENVIRONMENTAL PROTECTION ADMINISTRATION (101-3173)—BUDGET
PAGE DCNR-63

Mr. Drozdoff introduced Jolaine A. Johnson, P.E., Deputy Administrator, NDEP, and Tom Porta, P.E., Deputy Administrator, NDEP, and said they had program oversight responsibilities. He indicated that he had provided a copy of his comments for the Subcommittee ([Exhibit D](#)) and proceeded to read the following into the record:

The mission of the Division of Environmental Protection is “To preserve and enhance the environment of the state in order to protect public health, sustain healthy ecosystems, and contribute to a vibrant economy.” The Division consists of an Office of Administration and nine bureaus, encompassing air, water, hazardous waste, corrective actions, and mining programs. We have offices located in Carson City, Las Vegas, and we are setting up an office in Pahrump. Including transfers, NDEP has 235 FTEs.

Major changes to our budget include the addition of a Drinking Water Bureau with the transfer of staff and programs from the Health Division; internally our federal facilities’ staff and programs are being moved to Budget Account 101-3187 for cash-flow reasons; five staff positions are being moved internally out of Budget Account 746-3211 and into Budget Account 101-3186, which is the Clean Water and Drinking Water SRF (State Revolving Loan Fund) program coordination; and three Information Technology (IT) staff are being moved to Budget Account 101-3173 so that we have a consolidation of all our IT staff under one budget account. The Division is requesting a total of six new positions; three will be in the Bureau of Water Pollution Control, two in the Bureau of Corrective Actions, and one in our Mining Bureau.

Mr. Drozdoff indicated that he would provide highlights from each budget account and then take questions. He noted that his presentation would follow the organization of the NDEP, and items on the agenda might be taken out of order.

Mr. Drozdoff said that Budget Account (BA) 101-3173 was the administration budget and included the Bureau of Environmental and Information Planning as well as the Office of Fiscal and Personnel Management. The Bureau of Environmental and Information Planning handled technology needs as well as public information and the media. The Office of Fiscal and Personnel Management handled day-to-day accounting for the Division as well as personnel processing related issues. Two existing IT positions from BA 101-3198 and one position from BA 101-3187 were being moved into the administration budget.

Mr. Drozdoff outlined the following highlights in BA 101-3173 ([Exhibit D](#)):

- Total budget—\$4.4 million, 26.0 FTEs funded through indirect costs from other bureaus
- M-100—inflation adjustment
- M-150—adjustments to base for rent, miscellaneous expenses, and removal of one-time expenses
- M-300—salary and fringe adjustments, insurance, workers compensations, et cetera
- M-304—2 percent cost of living adjustment for classified employees
- M-305—2 percent cost of living adjustment for non-classified employees
- E-275—training for IT staff
- E-350—increase for litigation costs and administrative travel
- E-351—indirect cost (IDC) increases
- E-352—IDC increases
- E-710—DoIT-approved replacement equipment primarily for desktop computers, servers, and printers
- E-720—contingency telephone and data lines anticipated for new building
- E-805—IT position re-classification, already approved by personnel and budget office, item should be deleted from budget request
- E-811—reclassification of Public Information Officer to an unclassified position
- E-901—transfer of two existing IT positions from BA 101-3198
- E-903—transfer of one existing IT position from BA 101-3187

Mr. Drozdoff noted that Decision Units M-100, M-300, M-304, and M-305 were similar in all budget accounts.

DEPARTMENT OF CONSERVATION AND NATURAL RESOURCES
DEP AIR QUALITY (101-3185)—BUDGET PAGE DCNR-73

Mr. Drozdoff said that BA 101-3185 included the Bureau of Air Pollution Control and the Bureau of Air Quality Planning. The Bureau of Air Pollution Control was responsible for permitting and compliance of regulated sources. The Bureau of Air Quality Planning monitored air quality and developed control programs to ensure compliance with standards. He noted that most air quality programs and responsibilities had been delegated to Clark and Washoe counties. He outlined the following highlights of BA 101-3185 ([Exhibit D](#)):

- Total budget—\$4.9 million, 42.0 FTEs
- M-150—adjustments to base for travel, rent, and removal of one-time expenses
- E-350—purchasing protective gear and monitoring equipment repair
- E-351—additional air quality monitoring in the Pahrump Valley and other air quality analyses
- E-352—authority to increase the reserve to 4 percent
- E-525—costs associated with office relocation
- E-710—DoIT-approved replacement equipment primarily for desktop computer, prints, and monitoring equipment
- E-720—cost of new odor analyzer

DEPARTMENT OF CONSERVATION AND NATURAL RESOURCES
DEP WATER POLLUTION CONTROL (101-3186) – BUDGET PAGE DCNR-80

Mr. Drozdoff explained that the Bureau of Water Pollution Control was administered through BA 101-3186. The Bureau was responsible for permitting and compliance of discharges to both ground water and surface water. Five positions currently in Budget Account 101-3211 would be moved into BA 101-3186 and three new positions were requested. Highlights of the budget included ([Exhibit D](#)):

- Total budget – \$9.5 million, 30.0 FTEs
- M-150 – adjustments to base for travel, rent, and removal of one-time expenses
- E-350 – new Administrative Assistant III position needed because of increased demand in clerical work
- E-351 – new Environmental Scientist III position for permitting and inspections in the underground injection control program
- E-352 – new Administrative Assistant II position in Las Vegas needed because of increased demand in clerical work
- E-710 – DoIT-approved replacement equipment primarily for desktop computers, printers, monitoring equipment, and a vehicle
- E-720 – new effluent and flow meters and other sampling equipment
- E-900 – transfer of Drinking Water State Revolving Fund (DWSRF) positions from BA 746-3211
- E-902 – transfer of DWSRF M-150 adjustments and administrative funds that had been set aside
- E-904 – transfer of DWSRF M-588 for additional contract authority for technical assistance for small water systems
- E-905 – transfer of DWSRF E-350 for new contract authority for technical assistance on new drinking water requirements for small water systems
- E-906 – transfer of DWSRF new equipment and computer
- E-907 – transfer of DWSRF replacement computers

Mr. Drozdoff pointed out that the three new positions requested would be funded through fees. He added that the E-900 decision units were associated with the transfer from BA 746-3211 to BA 101-3186.

DEPARTMENT OF CONSERVATION AND NATURAL RESOURCES
DEP WASTE MGMT AND FEDERAL FACILITIES (101-3187) – BUDGET PAGE DCNR-109

Mr. Drozdoff explained that the Bureau of Corrective Action and the Bureau of Waste Management were administered through BA 101-3187. The Corrective Actions Bureau was responsible for the regulation of underground storage tanks, consultant certification, Superfund, and other remedial action programs. The Bureau of Waste Management regulated hazardous waste and solid waste, and implemented a chemical accident prevention program. As mentioned previously, all federal facility programs were being transferred into BA 101-3187 from BA 101-3198 for cash-flow reasons. He added that two new positions were being requested in the Bureau of Corrective Actions.

Mr. Drozdoff said that the Bureau of Corrective Actions utilized a number of contracts to carry out its mission. Highlights of the budget included ([Exhibit D](#)):

- Total budget – \$14.2 million, 55.0 FTEs

- M-596—additional authority for landfill investigation contract and laboratory analysis contract
- E-350—additional authority for contracts on environmental response, brownfields, cleanup, and chemical investigation experts
- E-351—new Environmental Scientist IV in Las Vegas for coordinating cleanup efforts among federal, state, and local agencies, funded through the Hazardous Waste Management Fund
- E-352—new Environmental Scientist III in Carson City for an emergency on-scene coordinator for hazardous material incidents, funded through the Petroleum Trust Fund

Mr. Drozdoff added that the other main issue in the budget was a transfer of 14 FTEs into various budget accounts, and he indicated that those transfers were outlined in E-902 and E-903.

DEPARTMENT OF CONSERVATION AND NATURAL RESOURCES

DEP MINING REGULATION/RECLAMATION (101-3188)—BUDGET PAGE DCNR-132

Mr. Drozdoff said that BA 101-3188 was the Division's Bureau of Mining Regulation and Reclamation. The Bureau was responsible for permitting and compliance of active mines as well as compliance with reclamation requirements for closed mines. One new position was requested for the reclamation branch ([Exhibit D](#)).

DEPARTMENT OF CONSERVATION AND NATURAL RESOURCES

DEP WATER QUALITY PLANNING (101-3193)—BUDGET PAGE DCNR-91

Mr. Drozdoff explained that BA 101-3193 was the Water Quality Planning Bureau, which was responsible for revising water quality standards, monitoring surface waters, and implementing the nonpoint source pollution control program ([Exhibit D](#)).

DEPARTMENT OF CONSERVATION AND NATURAL RESOURCES

SAFE DRINKING WATER REGULATORY PROGRAM (101-3197)—BUDGET PAGE DCNR-97

Mr. Drozdoff said that BA 101-3197 was the drinking water program and contained the most significant changes within the Division. The budget account contained the final transfer of the Safe Drinking Water programs from the Health Division to the NDEP. During the last legislative session, the State Revolving Loan Fund and the laboratory certification programs were moved to the NDEP in order to place all drinking water programs under one division to improve consistency and program coordination. Budget Account 101-3197 was being created to bring the new drinking water program under the purview of the NDEP; the changes should be consistent with the Health Division's budget. He added that the total budget was \$2.5 million and contained the funding for 17.5 FTEs ([Exhibit D](#)).

Assemblyman Denis referred to BA 101-3173 and asked if that budget account had performance indicators. Mr. Drozdoff explained that BA 101-3173 was an internal budget account, primarily dealing with accounting functions, so performance indicators were not necessary; however, he expressed a willingness to work with LCB staff to provide the Subcommittee with information.

Mr. Denis requested a breakdown of the technology requests contained within the various NDEP budget accounts. Mr. Drozdoff agreed to provide that information.

Assemblywoman McClain requested a breakdown of the positions that had been affected by the classified and unclassified study. Mr. Drozdoff said only one position had been affected and that was the public information officer, although technical changes might need to be made to two other positions. He said the NDEP had been advised that the plan had been to make the two deputy director positions unclassified, but that had not happened. Ms. McClain commented that other agencies had more positions that were being reclassified, and she wondered why the NDEP had so few.

Mr. Biaggi interjected that the Department of Conservation and Natural Resources had participated in the personnel study, and for the sake of consistency throughout the Department, it was requested that the positions of administrator and deputy administrator be designated as unclassified. He noted that the NDEP was the only division where an apparent oversight had left the deputy administrators designated as classified. The DCNR budget staff had been working with the LCB staff to make that technical revision to the budget and ensure consistency throughout the DCNR.

Ms. McClain asked if that budget amendment would be proposed through the Governor's Budget Division. Mr. Biaggi emphasized that it was a technical revision, and his staff was working with the Budget Division and LCB staff to resolve the issue. Ms. McClain encouraged Mr. Biaggi to submit that revision as soon as possible.

Mr. Denis noted that several information technology (IT) positions were being consolidated and requested that he be provided with a more comprehensive outline of the NDEP's plan for their IT needs. Mr. Drozdoff agreed to provide that information.

DEPARTMENT OF CONSERVATION AND NATURAL RESOURCES
BUREAU-FEDERAL FACILITIES (101-3198)—BUDGET PAGE DCNR-123

Mr. Drozdoff explained that BA 101-3198 was the budget for the Bureau of Federal Facilities, which had been administered through BA 101-3198, but was being transferred to BA 101-3187. The main reason for the transfer was to prevent cash shortfalls resulting from delayed reimbursements from the federal government. The Bureau was responsible for regulatory oversight of programs funded by the U.S. Department of Energy (DOE) and the U.S. Department of Defense (DOD). In the past, there had been "lag time" between the submission of a bill to the DOE and the payment of the bill. He noted that all DOE staff would be located in Las Vegas and all DOD staff would be located in Carson City ([Exhibit D](#)).

DEPARTMENT OF CONSERVATION AND NATURAL RESOURCES
SAFE WATER DRINKING ACT (746-3211)—BUDGET PAGE DCNR-101

Mr. Drozdoff said that BA 746-3211 contained the Safe Drinking Water State Revolving Loan Fund program. The five FTEs currently in the budget account would be transferred to BA 101-3186 to allow for better coordination of the Safe Drinking Water State Revolving Loan Fund and the Clean Water State Revolving Fund. As a result of the transfer, only State Revolving Loan Funds would remain in BA 746-3211. He noted that the State Revolving Loan Fund

(SRF) program funded loans at or below market rates to public water systems for projects ([Exhibit D](#)).

Mr. Drozdoff noted that the NDEP also contained Budget Account 101-4149, which was the funding for the State Environmental Commission. The budget account did not contain any FTEs, but allowed for members of the State Environmental Commission to travel to hearings. The Commission was an eleven-member panel that met approximately six times per year.

DEPARTMENT OF CONSERVATION AND NATURAL RESOURCES

**WATER PLANNING CAP IMPROVEMENT (101-4155)—BUDGET PAGE
DCNR-138**

Mr. Drozdoff said that the Water Capital Improvement grants program was administered through Budget Account 101-4155. The program was established by the Legislature in 1991 to provide grants funds for water treatment projects. The program had been administered through the NDEP since 2000 and had a budget of \$224,000 with two FTEs ([Exhibit D](#)). He indicated that his presentation of the NDEP budget accounts was complete and said he would be happy to answer questions regarding any of the budget accounts.

Senator Rhoads noted that the reserve balance in BA 101-3173 was approximately \$1 million in each year of the biennium and he questioned the need for such a large reserve.

Mr. Drozdoff explained that BA 101-3173 was funded through indirect cost (IDC), and over the years, costs such as rent, the telephone systems, and other items had been funded through the budget account. Those items had been funded in that manner to decrease paperwork; however, there had been cash flow issues because the IDC was funded from revenue from other bureaus and that money came in slowly. He said that over the past two years, the NDEP had to make special assessments to the bureaus to return the money to the budget accounts. The NDEP was proposing the removal of those items such as the rent and telephone systems from the budget account. The amount in the reserve was a result of the budgeting process. He said he would like to allow the budget account to stabilize and allow the budgeting process to “work through.” He emphasized that the budget account was IDC-funded and once everything was processed through the account, if the reserve was too high, the money could be returned to the other budget accounts that funded it, or the IDC rate could be adjusted the following year.

Senator Rhoads remarked that there had been mistakes and omissions in the IDC program. Mr. Drozdoff acknowledged that there had been difficulties and said he was working with LCB staff to correct those issues.

Assemblywoman Gansert referred to Mr. Drozdoff’s earlier remarks concerning the Clean Water State Revolving Loan Fund and asked if the Truckee Meadows Water Authority (TMWA) had requested any funding through that program. Mr. Drozdoff indicated that the TMWA was on the priority list, but the priority list was a statewide list and he was uncertain as to where TMWA had been placed.

Mrs. Gansert asked if the list was a result of the limited amount of funds. Mr. Drozdoff indicated that was correct and added that the SRF monies usually went to rural projects because the rural areas had a more difficult time because they had less bonding capacity.

Mr. Denis requested additional detail on Decision Unit E-710 in BA 101-3173. He noted that the NDEP was requesting \$241,348 for replacement equipment, which was approximately \$8,300 per FTE. Mr. Drozdoff said that a significant amount of that request would be used for servers, in addition to the replacement of desktop computers and printers. He noted that the NDEP had used the 20 percent replacement rate as recommended by the Department of Information Technology (DoIT). Mr. Drozdoff offered to provide additional information to the Subcommittee.

Senator Rhoads pointed out that the legal costs requested in E-350 seemed high and requested elaboration. Mr. Drozdoff agreed that the request for \$213,626 seemed high, but it was the NDEP's best estimate as there had been a significant increase in the number of appeals, particularly in mining programs. That was the estimated cost of preparing for those appeals.

Senator Rhoads directed attention to Budget Account 101-3185 and asked why an office was being opened in Pahrump when there was not an office in Reno or in any of the other rural communities.

Mr. Drozdoff explained that the NDEP had been working with Nye County on air quality issues, which was why Pahrump had been chosen. He said that the Pahrump Valley had been designated non-attainment due to the fugitive dust problem. The NDEP had been working with Nye County and with the federal Environmental Protection Agency (EPA) to devise a plan to bring the area back into attainment. Part of that plan required the presence of the NDEP in the area to work with Nye County local officials. The NDEP employee would be housed in the Nye County complex in Pahrump. He emphasized that the choice of Pahrump was due to air quality issues.

In response to Senator Rhoads' question regarding nonattainment, Mr. Drozdoff said it was a serious issue, but staff from the EPA, the NDEP, and Nye County were working to find a flexible approach to deal with those air quality issues.

Ms. McClain inquired as to the reason for the poor air quality, and Mr. Drozdoff indicated that it was a fugitive dust problem due to construction and other factors.

Ms. McClain asked Mr. Drozdoff to comment on the increase in the reserve and the reasoning behind the request. Mr. Drozdoff said the NDEP had felt a 4 percent reserve of revenues was appropriate. He noted that the original budget had not included cost-of-living increases, and when those increases had been factored in, the budget reserve had dropped so in the current budget request it had been raised to the 4 percent level.

Ms. McClain asked if the account was funded through license fees, and Mr. Drozdoff explained that the majority of the funding came from federal grants, but there were some fee revenues in the account as well.

Ms. McClain noted that the NDEP received fees from the Mohave Generating Plant, which was scheduled to close, and she asked if that closure would affect the budget. Mr. Drozdoff pointed out that the Mohave Generating Plant had two units: one of which would close at the end of calendar year 2005 and the other would close in the middle of 2006. The plant was required to maintain permits until it was completely closed; thus, the budget account would not be affected in the current biennium. He indicated that the NDEP was currently

examining budget shortfalls and the existing fee infrastructure to address that issue in the future.

Assemblyman Hogan asked if the NDEP had a general policy with respect to counties and local jurisdictions sharing in the costs of situations such as the air quality problems faced by Nye County and Pahrump. He asked if the NDEP anticipated any budgetary effects from reductions in federal funding.

Mr. Drozdoff, in response to the first question, said he did not know if there was an agency policy, but there had been a Memorandum of Understanding with Nye County in regard to Pahrump. He hoped that it would not be necessary to formulate a policy, but if similar situations arose, a policy would be developed. He emphasized that the Memorandum of Understanding with Nye County was all that was necessary currently.

Regarding possible reductions in federal funding, Mr. Drozdoff said he was aware of some programs that might be affected, particularly the Clean Water SRF, which funded wastewater projects. The funding projections showed a 30 percent reduction, which meant there would be less funding available for loans.

Ms. McClain asked if Nye County was contributing funding to address the air quality issue, and Mr. Drozdoff indicated that the county was contributing and funding staff.

Ms. McClain asked if Nye County was changing requirements for development and construction to alleviate the dust problem. Mr. Drozdoff said the county had adopted a number of local codes, as required by the funding agreement with the NDEP and the EPA.

Senator Rhoads referred to Budget Account 101-3186, Water Pollution Control, and asked Mr. Drozdoff to elaborate on the transfer of the set-aside components of the State Drinking Water SRF into the Water Pollution Control account.

Mr. Drozdoff explained that the State Drinking Water SRF had been in BA 746-3211, but many of the components of the program were being shared with the Clean Water SRF program, so the transfer seemed administratively expedient.

Senator Rhoads requested justification of the request for three new positions in BA 101-3186. Mr. Drozdoff indicated that the three positions were an Environmental Scientist III, an Administrative Assistant II, and an Administrative Assistant III.

Mr. Drozdoff said the Environmental Scientist III would be located in Carson City in the Underground Injection Control (UIC) program. The number of active UIC permits had increased from 70 in 1994 when the program was adopted to approximately 300 at the present time, which was approximately a 400 percent increase. The new position would write permits, review quarterly reports, which had increased with the number of new permits received, and track compliance and enforcement activities.

Mr. Drozdoff explained that the Administrative Assistant II would be located in Las Vegas. The Las Vegas office currently consisted of three employees without administrative support, despite rapid increases in subdivision reviews and storm water issues. He noted that in 1998, there had been

243 subdivisions and 31 inspections had been performed. At the end of 2004, staff had reviewed 383 subdivisions and had performed 176 inspections. Professional staff had been added over the years, but clerical support was needed.

Mr. Drozdoff said the Administrative Assistant III would be located in Carson City and was needed due to a rapid increase in permitting activities, specifically in the storm water permit program. He noted that the storm water permit program was very intensive because there were several thousand requests for permits. Unlike other permits which lasted for five years, those permits were specific to construction projects and the permits might only last for a few months. The applicants would file their notice of intent, pay the \$200 permit fee, complete the work, and then new applicants would need to be processed. The volume of applications made the need of an additional position imperative.

Senator Rhoads asked Mr. Drozdoff to discuss Budget Account 101-3197, the Safe Drinking Water Regulatory Program. Mr. Drozdoff explained that program was being transferred from the state Health Division.

Senator Rhoads asked if the account was federally funded, and Mr. Drozdoff indicated that the account primarily was federally funded, but there was also fee revenue and a small portion of General Fund monies in the account. Senator Rhoads noted that the General Fund amount referred to was \$180,000.

Ms. McClain asked if the amount of General Fund monies in the account was the same as it had been when the program had been administered through the Health Division. Mr. Drozdoff said it was a "straight transfer" and was funded the same way it had been previously.

Ms. McClain asked if the General Fund portion was necessary, and Mr. Drozdoff opined that the funding was necessary as it was used as a match to secure various federal grants.

Mr. Denis questioned a vehicle replacement request in Budget Account 101-3193. Tom Porta, P.E., Deputy Administrator, Division of Environmental Protection, responded and said the vehicle replacement was requested in Decision Unit E-710. He explained that only one vehicle replacement was requested in FY2007. The vehicle was used for water quality sampling throughout the state, which meant the vehicle traveled approximately 100,000 miles per year. Once the mileage on the vehicle approached 300,000, maintenance became a problem and the vehicle was typically replaced. Mr. Porta indicated that the vehicle was usually replaced every biennium.

Senator Rhoads directed attention to Budget Account 101-3187, Waste Management and Federal Facilities. He asked if there were federal programs that could cover some of the costs in the budget account. Mr. Drozdoff remarked that there had been increases in grants for the brownfields program as well as in environmental response programs.

Senator Rhoads requested an explanation of the need for \$55,548 in standby pay and \$77,784 in microfilming service over the biennium. Mr. Drozdoff explained that within the Division of Environmental Protection (NDEP), there were a number of people throughout the programs that were paid to be on standby to answer the telephone in case of a spill. He noted that the majority of spills occurred outside of office hours or over the weekend.

Senator Rhoads questioned the number of spills, and Mr. Drozdoff explained that the number of spills did not seem to be increasing or decreasing. He said that education and awareness of environmental responsibilities lessened the number of spills, while the increase in the volume of activity caused the number of spills to increase, which meant the number of spills was, at best, "leveling off."

Senator Rhoads asked if the NDEP had been involved in the Newmont Mine road slide near Carlin. Mr. Drozdoff said that the NDEP's Bureau of Mining was investigating the incident.

Senator Titus praised the brownfields program and asked for additional information regarding federal grants. Mr. Drozdoff pointed out that the program was fairly new and was just beginning to "take hold." He said that Nevada had programs in Hawthorne and Reno funded either directly or indirectly through the EPA. The city of Las Vegas had received a direct brownfields grant from the EPA, and the NDEP was working with the city on that project.

Mr. Drozdoff said that the federal government had allocated money to the state, but had not yet provided specific guidelines or directed the state to work on specific projects; however, based on the work the state had done, there had been indications that the state would receive approximately \$200,000 more in federal funds. He noted that the \$200,000 had been included in the budget, but the DCNR was uncertain as to how the money would have to be used.

Senator Titus pointed out that the success of the state's programs had led to the increase in federal funding. She mentioned that she had heard a rumor regarding the U.S. ecology facility receiving materials from chemical weapons, and asked if the agency had any additional information.

Jolaine A. Johnson, P.E., Deputy Administrator, Division of Environmental Protection, said there had been discussion with the ecology facility in Beatty, Nevada, and the facility was in the process of bidding on a project for receiving and disposing of precursor chemicals initially used by the U.S. Department of Defense to create chemical weapons. Ms. Johnson said the project was still in the bidding stage, but the facility was on a shortlist of three different companies. She said the NDEP was watching the situation very carefully.

Senator Titus asked if new regulations would need to be written to address new types of hazardous waste. Ms. Johnson said that the NDEP would have oversight of the permit allowing the U.S. ecology facility to accept hazardous waste. She said the facility was evaluating whether the current Resource Conservation and Recovery Act (RCRA) regulations or the hazardous waste permit would need to be modified. If modification was needed, the facility would have to follow the stringent technical process for approval that was already established.

Senator Titus asked if the fees in place were adequate. Ms. Johnson indicated that the fees would generate enough revenue. In response to Senator Titus's question, Ms. Johnson explained that while the chemicals might be different, they would still fall under the broad categories of hazardous waste addressed in the permits. Senator Titus encouraged the NDEP to remain vigilant.

Ms. McClain noted that the Bureau of Federal Facilities had been transferred to Budget Account 101-3198 in 2003, but the NDEP was now requesting that the Bureau be returned to Budget Account 101-3187. Mr. Drozdoff indicated that

was correct and explained that the NDEP tried to match bureaus with budget accounts to avoid "paperwork nightmares." In 2003, the Bureau of Federal Facilities, which handled U.S. Department of Energy activities, was deemed to be of sufficient size to warrant a separate budget account. Unfortunately, there had been cash flow issues as it was difficult to collect the money owed to the NDEP from the DOE. Mr. Drozdoff explained that the Bureau submitted invoices to the DOE and then waited for payment, which could take several months and create a cash flow problem. The Bureau was being moved back into BA 101-3187 to avoid those problems.

Mr. Hogan asked which locations would be involved in the permit process for the chemical cleanup. Ms. Johnson said the U.S. ecology facility was located in Beatty, Nevada, and the materials would be coming from a plant in Kentucky. She said she would provide additional information on the project to the Subcommittee.

Senator Rhoads referred to Budget Account 101-3188, Mining Regulation/Reclamation, and noted there was a new position request. Mr. Drozdoff explained that the new position would be in the Reclamation Branch of the Bureau of Mining. He said that over the past five years, the overall reclamation workload had increased by 25 percent. Currently there were three staff positions and 254 projects, compared to 192 projects in FY2000. Additionally, the Bureau's regulations had been modified in July of 2000 to include bonding for process fluid stabilization, which essentially meant chemical stabilization. The additional position was being requested because of the 25 percent workload increase and the increase in the scope of duties necessitated by the changes in the regulations.

Senator Rhoads thanked Mr. Drozdoff for his presentation of the budgets and indicated that the items on the agenda had been covered. He adjourned the meeting at 10:25 a.m.

RESPECTFULLY SUBMITTED:

Susan Cherpeski
Committee Attaché

APPROVED BY:

Assemblywoman Kathy McClain, Chairwoman

DATE: _____

Senator Dean A. Rhoads, Chairman

DATE: _____

<u>EXHIBITS</u>				
Committee Name: <u>Jt. Sub. On Natural Resources</u>				
Date: <u>Feb. 25, 2005</u> Time of Meeting: <u>8:00 a.m.</u>				
Bill #	Exhibit ID	Witness	Dept.	Description
	A			Agenda
	B	Allen Biaggi	DCNR	Written Testimony (3 pages)
	C	Allen Biaggi	DCNR	Biennial Report (70 page booklet)
	D	Leo Drozdoff	DCNR	Written Testimony (9 pages)