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

Seventy-Third Session
March 31, 2005

The Assembly Committee on Ways and Means and the Senate Committee on Finance, Joint Subcommittee on General Government, was called to order at 8:02 a.m., on Thursday, March 31, 2005. Chairwoman Kathy A. McClain 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. Morse Arberry Jr.
Mr. Lynn Hettrick
Mr. Joseph M. Hogan
Mrs. Ellen Koivisto
Mr. Bob Seale

SENATE COMMITTEE MEMBERS PRESENT:

Senator Bob Beers, Chairman
Senator Bob Coffin
Senator Dean A. Rhoads

STAFF MEMBERS PRESENT:

Mark Stevens, Assembly Fiscal Analyst
Gary Ghiggeri, Senate Fiscal Analyst
Bob Guernsey, Principal Deputy Fiscal Analyst
Anne Bowen, Committee Secretary
Lila Clark, Committee Secretary

PUBLIC UTILITIES COMMISSION OF NEVADA
PUBLIC UTILITIES COMMISSION (224-3920) – BUDGET PAGE – PUC-1

Don Soderberg, Chairman, Public Utilities Commission (PUC), identified himself for the record, and introduced Crystal Jackson, Commission Secretary, PUC, and Jeff D'Amario, Systems Operations Manager, PUC. Mr. Soderberg informed the Subcommittee that Mr. D'Amario was present to assist with a major part of the budget presentation that dealt with the electronic filing system.

Crystal Jackson, Commission Secretary, presented an overview of Budget Account 3920.

Ms. Jackson addressed the PUC's budget request, which was built around the annual regulatory assessment set at 2.6 mills for both years of the biennium. If the Commission's budget was approved with the assessment set at 2.6 mills, the reserve balance was estimated to become $2.6 million by the end of FY2006; an optimum reserve level for an agency the size of the PUC.

Ms. Jackson said in the area of Information Services the Commission had submitted a revised computer replacement schedule based on a three-year replacement cycle. In FY2006 the agency would be replacing 33 computers, and in FY2007 the agency would be replacing 44 computers. That schedule ensured that each of the PUC's divisions were within the same operating application, according to Ms. Jackson.

In the area of unclassified salary adjustments the budget requests included 11 targeted positions to remedy internal inequities, to align salaries with classified and unclassified positions in other state agencies, and to attract and retain employees.

In the area of the gas pipeline safety program, and to fully implement new state and federal requirements, the PUC was requesting an additional three full-time gas pipeline engineers; two engineers in FY2006, and one engineer in FY2007. Ms. Jackson said those costs were approximately $444,000 over the course of the biennium, with 50 percent of those costs reimbursable through a federal gas pipeline grant. The Office of Pipeline Safety had recommended that the Commission add new gas pipeline engineers, essentially to manage the growth in construction and the new federal inspections responsibilities.

In addition, the Commission adopted new "One-Call" or "Call Before You Dig" regulations in August 2004. Ms. Jackson said current staffing resources were not adequate to complete the inspections mandated by the federal program. Given the hundreds of miles of new main and service pipe associated with the growth in the state, three new gas pipeline engineers were needed to sustain the quality and coverage of the pipeline safety program and to continue to qualify for available federal funding.

Ms. Jackson stated that the PUC was also requesting an electronic filings and records management system. The system would essentially implement new technologies that would enable the elimination of the boundaries that limited access to information, but would also support the boundaries where limited access to information was necessary. The cost of the project was estimated to be approximately $1.3 million over the biennium, according to Ms. Jackson. Funding was available in the PUC's reserve account.

Chairwoman McClain asked how the recent changes in federal regulations and the newly implemented "Call Before You Dig" program had driven the need for three new employees, doubling the staff. Ms. Jackson replied that the gas pipeline engineers were responsible for incident investigations, operation and maintenance audits, maintenance and backbone facility construction inspections, new system expansion construction, and the "Call Before You Dig" regulations. Ms. Jackson said it basically came down to field hours, and currently with existing resources the agency was limited to approximately 360 field hours annually. By the end of FY2006 the agency would have reached 800 required field hours and that goal could only be reached by employing additional engineers.

Mr. Soderberg commented that one of the reasons the PUC was requesting the additional employees in the present legislative session was because the federal regulations had been in flux during the last session. During the last legislative session the agency had not been sure exactly what was needed, although it was clear with the growth of the state that the agency would need more employees.

Chairwoman McClain asked how the electronic filing and records management system would help the PUC with utility filings. Ms. Jackson replied that the core business process revolved around filings. Currently, the PUC used a manual paper process. When a utility filed something with the PUC they physically drove the paperwork to the PUC office and the PUC made a file manually. The new requested system would allow for those filings to be handled electronically, over the Internet, and managed electronically. The PUC would have information available 24 hours per day, 7 days per week, not just during their business hours.

Chairwoman McClain asked how many filings per year the PUC handled. Ms. Jackson replied that the PUC normally received between 30 and 40 filings per month.

Chairwoman McClain asked about the new electronic system. She noted the first year the PUC would be setting up the records management application they would also be developing the requirements for the other system. Ms. Jackson replied that the electronic filing system was essentially divided into two segments. The first segment was the records management application, which would allow the PUC to manage the records electronically once they were received. Segment two was the application redesign and development which integrated the eight existing databases into one large database.

Chairwoman McClain asked if the PUC had worked with the Department of Information Technology (DoIT) to develop the costs for the system. Ms. Jackson replied DoIT had worked with the PUC throughout the planning stages of the entire project, including costs.

Chairwoman McClain said that she understood in the first year the PUC would be building the infrastructure for the Records Management Application (RMA), but only developing the requirements for the Application Redesign and Development (ARD), and wondered how the PUC had arrived at the cost for the ARD. Ms. Jackson replied that segment 1 entailed 40 weeks, and segment 2 entailed 30 weeks. That time line had been compiled from information received from the vendors and from working with DoIT. Some of the events that would happen in the course of those two segments would overlap, according to Ms. Jackson.

Assemblyman Seale asked if moving from a manual system to a more efficient electronic system would generate any savings in labor costs. Ms. Jackson replied that there would certainly be administrative efficiencies, but the PUC was not anticipating any immediate cost savings. Because the paper was submitted by utilities when they made the filing, employees of the PUC would probably be printing hard copies for quite a while. Ms. Jackson said as people became more familiar with the system they were hoping to see cost savings.

Chairwoman McClain commented that the PUC would not be saving any trees in the immediate future.

Chairwoman McClain inquired as to why the PUC was not following the four-year replacement schedule recommended by DoIT, and instead wanted computers replaced every three years. She also wanted to know why the PUC was requesting to purchase computers that cost $1,500 per computer, when the standard price was $1,232. Ms. Jackson replied that the PUC was requesting a three-year replacement cycle to ensure that all divisions would be on the same application. Ms. Jackson said she realized the schedule appeared to be somewhat accelerated, but it would stabilize after the next biennium. If the replacement schedule was accepted the PUC would be replacing 20 desktop computers in FY2006 and 31 desktop computers FY2007. Ms. Jackson noted that when the PUC submitted their request to DoIT for increased memory capacity on the desktop computers, the request had been granted and the $1,500 cost was approved. Because $1,200 was the standard cost in the Nevada Executive Budget System (NEBS), it would not allow for the $1,500 cost for the desktop computers the PUC had requested.

Senator Beers asked what criteria had been used to request the extra gigabyte of memory, since the new application had not yet been defined.

Jeff D'Amario, Systems Operations Manager, Public Utilities Commission, replied that it had been "experience with the computers" the PUC had had over the years. The PUC currently had computers with 512 megabytes of RAM and while not everyone had problems every day, there had been problems with running all the applications employees wanted at the same time.

Senator Beers requested documentation regarding the applications and Mr. D'Amario replied that he would provide the documentation.

Senator Beers commented that across the entire agency there had to be people who were clerks, as not everyone was a utility analyst running complex rate models. He said it appeared to be "tremendous overkill" and it was money coming out of the pockets of every Nevadan. Mr. D'Amario replied that while what Senator Beers had said was true, there had been no way to account for two different types of desktop computers in the budget.

Senator Beers requested a detailed schedule of what the PUC anticipated needing and said he believed it could be made to work with the enhancement units.

Senator Beers questioned the PUC's plan to get every computer on the same replacement schedule. Mr. D'Amario replied the replacement schedule would be for each division. Senator Beers asked how many divisions the PUC had. Mr. D'Amario replied the PUC had eight divisions.

Senator Beers requested a list of which specific workstations were anticipated to be power users and which specific workstations were for non-power users, in order to properly determine which would be on a three-year replacement schedule and which would be on a four-year replacement schedule.

Senator Beers commented that the PUC had requested $49,236 for telephone equipment in FY2005-06. Since the PUC had entered into an agreement with DoIT, whereby the cost of telephone equipment would be included in the monthly telephone charges, Senator Beers asked if those funds would be removed from the budget. Mr. D'Amario replied that was correct.

Chairwoman McClain inquired about Decision Unit E-720, which recommended new equipment, including a server, network storage devices, scanners, and monitor; she wondered if that equipment would be used for the new system. Mr. D'Amario responded that part of the equipment was an infrastructure upgrade needed for security reasons to better manage the PCs, better manage the passwords, and align with the rest of the State. Whether the planned project was approved or not, the PUC still needed to integrate the Access databases, remove the databases from Access and place them on the Sequel Server because the databases were beginning to crash. Mr. D'Amario said the present scanners would support the project, but the high speed scanners the PUC wanted to purchase would save a lot of working time.

Chairwoman McClain asked if the items contained in Decision Unit E-720 would be needed even if the PUC did not implement the new system. Mr. D'Amario replied that they would.

Senator Rhoads asked if the Universal Energy Charge was working. Mr. Soderberg replied that it was difficult to tell because the PUC was basically the collection agency and the charge was passed on to the Welfare Division and the Housing Division. Mr. Soderberg said he would be hard-pressed to say how the funds were working once they left the PUC. He stated that collecting the Universal Energy Charge, except for the first year of implementation, had cost the PUC much less than anticipated. The auditing function had been expected to be much larger, and the PUC had expected competition between the gas and electric industries to flourish, creating more people to collect from, but that had not happened.

Senator Rhoads asked what happened to the money received from the Universal Energy Charge that was not spent. Mr. Soderberg replied that he did not know, as the funds were passed on to other agencies.

Senator Beers explained that the Universal Energy Charge budget had been heard previously and testimony had been heard stating that the number of people served was going to be reduced by approximately 25 percent and the cost per person served increased by approximately 25 percent. While the budget account did have a reserve that carried over, it had been used, and the budget was operating on cash flow.

Chairwoman McClain closed the hearing on Budget Account 3920.

Chairwoman McClain opened the hearing on Budget Account 1352.

DEPARTMENT OF ADMINISTRATION
INSURANCE AND LOSS PREVENTION (715-1352)
BUDGET PAGE – ADMIN-45

Susan Dunt, Risk Manager, Insurance and Loss Prevention, Risk Management Division, Department of Administration, identified herself for the record and introduced Jim Fry, Deputy Risk Manager. Exhibit B was provided to members of the Subcommittee.

Ms. Dunt presented an overview of Budget Account 1352. The mission of the Risk Management Division was to provide insurance services to State agencies to help protect against catastrophic losses to State assets, including property, employees, and contract-type services. The Division also developed, adopted, and promoted loss prevention and loss control programs to minimize losses to the State.

Ms. Dunt said the Risk Management Division was divided into two sections, general Insurance and Loss Prevention, and Worker's Compensation. A significant amount of Division resources were dedicated to the Worker's

Compensation section, according to Ms. Dunt. The insurance section administered the State's property insurance program, the self-funded auto physical damage program, the excess liability insurance program that protected the tort claim fund, and several miscellaneous-type insurance policies obtained for various reasons for different agencies. Ms. Dunt said, in addition, the Division provided contract review services, reviewed insurance requirements of Request for Proposals, and the resulting contracts.

The Risk Management Division budget contained seven full-time equivalent (FTE) positions, all housed in the Carson City area. Ms. Dunt stated the Division accomplished a significant amount of agency activity through several large broker contract services that were procured on a random basis.

Ms. Dunt reported there were no new programs contained in Budget Account 1352 and most changes were related to adjusted base and changes in insurance levels projected over the future.

Chairwoman McClain noted the high deductible and the cost of the Worker's Compensation policies and asked if the Division had considered self-insuring Worker's Compensation. Ms. Dunt replied that the Division was in the process of reviewing and considering either a fully self-insured Worker's Compensation program, or partially self-insured Worker's Compensation program. Many of the same costs would be incurred under a self-insured program that had been incurred with the current program. Ms. Dunt said the Division would be required through State Division of Insurance regulations to maintain a level of excess insurance. The Division would also be required to continue with claims administration services. Ms. Dunt explained that the contract holders provided an extension to the program and if those services were not utilized, the Division would probably need an additional four to six employees to provide service comparable to that being provided currently.

Chairwoman McClain asked if the Division decided to go entirely self-insured, would the Division of Insurance be required to approve. Ms. Dunt replied that the Division would have to work with them.

Assemblyman Hettrick inquired as to when the results of the study would be available. Ms. Dunt replied that the Division would need to work with the Division of Insurance and their actuaries to perform the projections of losses. The expectation was that within the next biennium the Division might be able to ascertain what the cost would be for a self-funded program. Ms. Dunt said the Division was in the process of negotiating new broker contracts and would be working very closely with the new brokers to evaluate those options. One of the difficulties with a self-insurance program was that collateral was required that equaled 105 percent of losses. Currently, the law would not allow for an exemption from the collateral requirement for public employers. The Division would need to acquire a large letter of credit to meet the collateral requirement. Mr. Hettrick commented that it appeared the Division had covered every claim under the deductible since 2001, and while he understood the need for excess insurance, he said he was glad the Division was looking at alternatives.

Chairwoman McClain said she was concerned about the recommended reserve levels for insurance types, such as aviation and employee fidelity, and requested an explanation. Ms. Dunt explained that the requested reserve levels would allow the Division to pay for more than one large claim under the different lines of insurance, should that occur during a budget cycle. Because the Division budget was based upon what had been spent the prior biennium, the deductible levels were changed, or the insurance costs were fluctuating, the Division wanted flexibility in order to cover those costs if needed. Ms. Dunt stated that the Division was not one of the funds eligible for general contingency funding, so the goal was to have a significant level of reserve to protect the agency. At the end of the biennium, if the reserve level was higher than had been needed, the funds were rolled-over to the next biennium, allowing the Division to lower rates to agencies.

Chairwoman McClain asked how the Division had reached an increase of 18 percent in the reserve. Ms. Dunt deferred the question to Mary Keating, Administrator, Department of Administration.

Ms. Keating explained that the Insurance and Loss Prevention Fund was unique in that for financial reporting purposes the Division recorded what was referred to as "incurred but not reported." Those items were expenses that had been incurred, would require payment, but were unknown at the present time. When those items were recorded, the Insurance and Loss Prevention Fund would become approximately $37 million in the red. Ms. Keating said the question became, how much cash should remain in the fund to avoid raising rates, or requesting funds from the IFC in the interim, in the case of a catastrophic occurrence. She continued and said, "there was no magic number," upcoming expenses had been estimated, an amount had been determined to cover those expenses, and it had mathematically worked out to 18 percent.

Chairwoman McClain asked what the Division used as a basis to project something that had not happened, or might never happen. Ms. Dunt replied that was a difficult assessment to make, but the Division looked at the deductible levels currently in place and anticipated the cost for one large claim in each category. In the event of a bad year where there was more than one catastrophic claim, the goal was to have enough funds in reserve to pay at least one additional catastrophic claim per line of insurance. Ms. Dunt stated that was the method used to set forth the foundational costs for reserves.

Ms. Keating commented that the Department of Administration was aware of the Division's cash flow under normal operating circumstances and they also knew what bills needed to be paid. It was impossible to immediately change course, raise rates, and receive an influx of cash.

Senator Beers said he would like to revisit the question of self-insurance, and noted in 2001 there had been accidents that had necessitated filing claims against policies in the amount of $1.4 million. Ms. Dunt replied that the first year into the new program the Division had incurred a major catastrophic claim. After adjustments to reserves, that claim was $3 million, and the insurance company had imposed a $750,000 deductible. When the original deductible had been evaluated, the insurance company had examined losses for the previous years and the Division had never breached a million dollar claim. Ms. Dunt said the first year into the new program a major catastrophic claim had occurred, the very next year another catastrophic claim, involving four Nevada Department of Transportation (NDOT) workers, had occurred, and in the next year a third catastrophic claim had occurred. Ms. Dunt indicated the Division had incurred catastrophic claims for three years in a row that received the notice of the insurer, and made the State a difficult risk for any other insurer to consider.

Senator Beers asked if any of the losses exceeded the deductible. Ms. Dunt replied that the deductible had been exceeded in the second year as well as the first year.

Senator Beers asked by how much the claim had exceeded the deductible in 2003. Ms. Dunt said 2003 had been when the four NDOT workers had claims, and she believed the combined reserves had breached the deductible level; there had been some changes in those claims, and they would most likely breach the deductible if they had not already.

Senator Beers requested the Division to inform staff of the times and amounts of the deductible breaches. Ms. Dunt said she would, and informed the Subcommittee that another claim would probably breach the deductible because the claimant had gone to permanent disability status.

Senator Beers requested a write-up explaining each of the catastrophic claims. He stated the reason he was so interested in investigating complete self-insurance was if the current broker fees had been consistent over the past five years, they certainly exceeded the amount drawn under the policy. Ms. Dunt clarified that the broker fees, whether or not the State was self-insured, would still be charged to some extent because they were an extension of the program and provided a variety of services under the program. While there would be some reduction of fees, they might not be completely eliminated.

Senator Beers stated the Division's work program showed that 26 percent of the policy was broker fees, which would make the premium for FY2005 approximately $1.5 million. Ms. Dunt reiterated that the Division was planning to take a close look at a self-insured plan.

Senator Coffin asked with which brokers the State had a contract. Ms. Dunt replied that currently the Worker's Compensation program was split between two brokers, one was Willis, who provided the insurance procurement services and policy related services, including actuarial studies. The other insurance broker was Orgill Singer and Associates, who provided services related to claims administration, the managed care program, the third party administrator, and claims oversight services.

Senator Coffin asked if the brokers actually paid the claims out of their budgets. Ms. Dunt replied that they did not. Senator Coffin asked who paid the claims and Ms. Dunt responded that the third party administrator was Sierra Nevada Administrators.

Senator Coffin asked what fee was paid to Sierra Nevada Administrators. Ms. Dunt replied that the claims administration costs for the next biennium was approximately $1.1 million and that included a full staff of claims adjustors. Currently, there was an eight-person team assigned to manage the State's claims, which included payment of their costs and a 5 percent fee.

Senator Coffin asked if the percentage of broker fees was based upon the premium for the stop-loss coverage. Ms. Dunt replied that it was a contracted negotiated rate that was based on a standard premium cost of $11 million. The broker fee was 4 percent, which was divided between the two brokers.

Senator Coffin asked how the percentage had gotten to the current level. Ms. Dunt replied that the broker fees had remained at $440,000 per year since

2001. Senator Coffin commented that had been 4 percent and Ms. Dunt replied that was correct.

Senator Coffin asked what was different about the broker's current services that would keep their commission at that cash level. Ms. Dunt replied that those commissions were based upon a contracted rate and the Division was presently in the process of renegotiating new contracts with the brokers.

Senator Coffin commented that the Commission was very good for negotiating the stop-loss. Ms. Dunt emphasized that there were a variety of other services provided by the brokers and stated she would be happy to detail those services in a follow-up.

Senator Coffin said he could see that Sierra Nevada Administrators' expense, and a portion of Orgill Singer's was based upon the activity relating to claims and administration below the stop-loss. He continued and said the Willis of Seattle expenses were more related to the insurance aspect. Ms. Dunt commented that was true, plus the monitoring management of that insurance policy.

Ms. Dunt informed the Subcommittee that each year Willis of Seattle fully marketed the State's program to the insurance industry. The State's policy was shown to other insurance agencies and it was required that Willis provide any quotes submitted by competitors. Willis also compiled an annual list of what agencies they talked to, and what type of response they received from each insurance carrier. While the Division believed in stability, according to Ms. Dunt, the agency also believed in competition and ensuring that the State was procuring the best insurance rates available. Ms. Dunt said, unfortunately, with the police and fire risk in Nevada, and three years of catastrophic claims, the State was not a very attractive risk to insurance carriers.

Senator Coffin opined that in many cases insurance rates were the result of a claims management problem. He wondered if the frequency had changed. Ms. Dunt stated the frequency had not changed; the Division had had a couple of very bad claims. She further reported that the Division was very comfortable that "we have a very tight ship" as far as claims administration was concerned. One of Orgill Singer's responsibilities was to review performance indicators that had been put in place for the claims administration team on a monthly basis. Ms. Dunt said Orgill Singer carefully reviewed levels of performance and the Division reviewed all claims. Exhibit B included a "Benchmarking Survey" in which Nevada had participated with 11 other states. The survey demonstrated how Nevada compared with other states as far as various aspects of Worker's Compensation and the general insurance program were concerned. Ms. Dunt said of significant interest was the fact that Nevada had only a 7 percent level of lost time claims compared to total claims, the lowest percentage of lost time claims of all the states that were benchmarked. The national average of lost time claims was 18 to 20 percent of claims.

Senator Coffin asked what commission the Division was paying in the Property and Contents insurance category. Ms. Dunt replied that for the Property and Contents insurance and Aviation insurance, the Division had a contracted rate with the broker to have a maximum of a $150,000 fee for any number of insurance policies obtained in any given year.

Senator Beers asked in what year a public safety heart/lung claim was attributed. Ms. Dunt replied it was attributed to the year it was identified as a claim with the exception of a retiree. In the case of a retiree the claim would be considered on the last year the retiree was employed. Senator Beers commented that the Division could potentially look back quite a few years on those cases. Ms. Dunt replied that the State had significant liability.

Senator Beers wondered if any of those types of claims would exceed the catastrophic policy. Ms. Dunt replied, generally not.

Senator Beers asked if that liability was quantified anywhere in the financial statements. Ms. Dunt said in the last actuarial study the Division had specifically asked for a breakout of the police and fire heart/lung risk. Prior to 2001, the risk would remain with the Employer's Insurance Company of Nevada (EICON); it would not be something the State would pay except in 2000, because there was still one open year with EICON. Any reopened claims under the year 2000 would incur a financial liability for the State. Ms. Dunt said any retiree claims that occurred after 2001 would fall under the current insurance programs. The Division had had an actuarial review and part of the projections going forward included that.

Senator Beers asked how much the projection was. Ms. Dunt replied she would provide those figures at a later date.

Chairwoman McClain closed the hearing on Budget Account 1352.

Chairwoman McClain opened the hearing on Budget Account 1388.

DEPARTMENT OF INFORMATION TECHNOLOGY
DOIT COMMUNICATIONS (721-1388)
BUDGET PAGE – DOIT-60

Terry Savage, Director, Chief Information Officer, Department of Information Technology (DoIT), identified himself for the record, and introduced Mark Blomstrom, Deputy Director, DoIT, and Shelly Person, Chief of Administration, DoIT.

Mr. Blomstrom presented a brief overview of Budget Account 1388, the Network Transport Services Unit. Mr. Blomstrom explained that the Unit built the basic highway for State information transmission. The Unit used microwave, fiber, leased circuits, and partnering agreements to build a basic backbone. The "info superhighway" carried data, voice, video, and radio communications. Mr. Blomstrom said a number of the other communications used by the State, such as telephone, data, and Internet access, rode on top of the basic transport system. The Network Transport Services Unit also handled digital microwave phases and the implementation of that program. Mr. Blomstrom contended that the value of Budget Account 1388 was in assembling a large consolidated communication transport system for the State and thereby realizing "economies of scale for the taxpayer."

Mr. Blomstrom said Budget Account 1388 was approximately $2.2 million in FY2005, $2.4 million was requested for FY2006, and $2.3 million was requested for FY2007.

Budget Account 1388 contained 12 full-time equivalent employees and operated four cost pools for specific services, according to Mr. Blomstrom.

Senator Beers stated it appeared as if reducing reserve levels by $466,281 over the 2005-07 biennium would reduce the rates for services included in The Executive Budget by approximately 10 percent.

Shelly Person, Chief of Administration, DoIT, replied the agency was expecting a reduction of the reserve to bring it down to the 60-day limit. Ms. Person referred to the NEBS print-out, and said the rates shown were still a bit high at 19 percent in FY2006, and 25 percent in FY2007; the rates should have been 17 percent each year. The reduction would be made through the legislatively approved final budget and adjustments to the rate model to bring the rates down to 17 percent.

Senator Beers inquired as to who would perform the facility maintenance functions for the microwave sites if the Maintenance Repair Technician was reclassified to a Development Technician.

Mr. Blomstrom responded that the person in the Development Technician position would continue to perform the identified tasks. The Department had discovered that there was an element within those tasks that better utilized the Development Technician series very specifically. There was some element of electrical wiring and tower work involved, but the position was not an electronic technician position.

Senator Beers asked how much more the reclassification of the position would cost. Mr. Blomstrom replied that Decision Unit E-805 addressed four reclassifications and he did not have available the exact cost of that specific position reclassification, but the position was increased from a Grade 31 to a Grade 33 on the pay scale.

Senator Beers asked if $1,250 per month sounded correct. Ms. Person replied that Decision Unit E-805 showed a total cost of $16,837 for all four reclassifications for FY2006, not for just one reclassification.

Senator Beers referred to Decision Unit E-275, the Digital Microwave Upgrade Project, and stated that after the adjustment was made in the funding sources between General Funds and other funds, the total project costs would not match what major users would support. Senator Beers commented that in the 2003 Session the Subcommittee had been told that the Highway Fund would account for 67 percent of the total usage of the microwave system and with the funding mix presented in The Executive Budget it was not quite 67 percent.

Mr. Blomstrom responded that Senator Beers was correct, there had been a shift in the number of dedicated circuits used by the Highway Fund agencies versus the non-Highway Fund agencies. With the migration of the DPS to the 800 MHz, the agency did not have an exact final percentage, 67 percent was an approximation.

Senator Beers asked what the current approximation was for Highway Fund utilization of the fully-built Microwave System. Mr. Blomstrom replied it was approximately 78 percent.

Senator Beers said that according to his calculations, total project funding over the full four phases from the Highway Fund, was less than 67 percent. Mr. Blomstrom stated there had been different splits between the Highway Fund and the General Fund over each of the phases of the project. The DoIT was attempting to accomplish two items: (1) to represent at the end of the project the same use of dedicated circuits represented by Highway Fund agencies and General Fund agencies, (2) to approximate those funds as the shift in utilization became apparent. Mr. Blomstrom said that while the Department did not have an exact figure, a summation of Phases 1 through 4 could be provided to the Subcommittee.

Senator Beers asked if the Highway Fund utilization of the microwave system would be larger than the 67 percent estimated in 2003, or smaller. Mr. Blomstrom replied that the utilization would be larger than 67 percent based upon the reduction of the number of circuits used by the older VHF being removed from the microwave system. Mr. Blomstrom continued and said that as more shared use of the 800 MHz system was implemented there would be more use by non-Highway Fund agencies.

Senator Beers asked if the capacity of the microwave system would eventually be filled. Mr. Blomstrom replied that the Department anticipated there would be certain “choke points” within the system that would need to be constantly monitored and expanded. In a system the size of the microwave system there were pipes of differing size. Some of those pipes were more than adequate for the foreseeable future, but others would need to be expanded.

Senator Beers asked approximately how much the expansion of the “choke points” would cost. Mr. Blomstrom said it was anticipated that Phase 4 would be the final phase of the project and it would be fully completed. However, when Phase 4 was completed, it would move into a maintenance mode. That was typical of nearly any system of that size, according to Mr. Blomstrom. As the utilization of the system was monitored, “choke points” would be identified. The repair and expansion of those “choke points” would not cost anywhere near the cost of the build-out of the system.

Senator Beers noted at one point the microwave project had appeared to promise the discontinuance of maintenance for the old analog system. Senator Beers asked if those savings had been identified and built into the budget. Mr. Blomstrom replied that those savings had not been factored in, but Senator Beers was accurate about the savings that would occur when Phase 4 was mostly completed and the 35-year-old analog system was abandoned. At that point, it was expected that there would be a lowering of the maintenance requirement. The first part of the digital system had become operational in 2000, and parts were now out of warranty. Mr. Blomstrom stated the Department had been spending nearly 75 percent of the maintenance effort keeping the old analog system operational. The analog maintenance had been performed to the exclusion of a large amount of site maintenance. The Department would be attending to those neglected facilities that had not been addressed in the course of the microwave project. Mr. Blomstrom said it was his expectation that there would be lowered maintenance costs overall, and the Department was planning to increase the level of preventive maintenance on the new digital system.

Senator Beers asked if the two-meter system that would be dismantled ran down the analog backbone, or the new digital backbone. Mr. Blomstrom replied that the two-meter system had been utilizing Phase 1 of the digital microwave system. There were more circuits on the old analog microwave system for the VHF system than there were on the new digital microwave, however, it was a split.

Senator Beers said there were officers in Parks and Forestry in rural Nevada carrying two radios in order to be able to communicate with their bases; the concern would be if that situation was not alleviated and officers had to continue carrying two radios, would that prevent retiring the old analog backbone. Mr. Blomstrom replied that it would not, as there was no connection between carrying two radios working in two different two-way communication bands.

Chairwoman McClain noted that A.B. 532 extended Phase 3 funding and asked how that would affect Phase 4. Mr. Blomstrom replied that A.B. 532 changed the expiration date of the original allocation of funding for Phase 3 to June 30, 2007. Phase 3 had not been completed as far as had been hoped due to weather and other factors. Mr. Blomstrom stated Phase 3 was currently at 58 percent completion. The Department had closely integrated work on Phase 3 with work on Phase 4, and was planning to use the same work crews that would move from Phase 3 to Phase 4.

Chairwoman McClain asked if at least some of the work would be performed simultaneously. Mr. Blomstrom replied that was correct.

Chairwoman McClain asked why the other budgets within the Department did not contain equipment reserves as did Budget Account 1388. Ms. Person responded that there had been a change and Budget Account 1388 would not have a separate equipment reserve. Ms. Person continued and said, "according to OMB Circular A-87, reading specifically into the requirements of that federal chargeback policy, we cannot set up a separate equipment reserve."

Chairwoman McClain asked if a change order would be coming from the Budget Office and Ms. Person replied that it would.

Chairwoman McClain closed the hearing on Budget Account 1388.

Chairwoman McClain opened the hearing on Budget Account 2361.

DEPARTMENT OF TAXATION (101-2361)
BUDGET PAGE – TAXATION-1

Charles Chinnock, Executive Director, Department of Taxation, identified himself for the record and introduced M. Lynne Knack, Administrative Services Officer III, Department of Taxation; David Haws, Information Systems Manager II, Department of Information Technology; Dino DiCianno, Deputy Executive Director, Department of Taxation; Thomas Summers, Deputy Executive Director, Department of Taxation; and Diana Woodward, Accenture, Project Lead for Unified Tax System for State of Nevada.

Mr. Chinnock noted that the Subcommittee had been provided with Exhibit C, entitled "Governor Recommends Budget Overview, March 25, 2005," and Exhibit D, entitled "UTS-Accenture Revision Summary."

Mr. Chinnock stated that the Department of Taxation was responsible for the collection and distribution of 20 different taxes and fees. Prior to 2003, the Department was collecting and distributing $2.9 billion of revenue. In 2004, the Department collected and distributed $3.6 billion in revenue. Mr. Chinnock said the Department estimated in the next biennium $4.0 billion of revenue per year would be collected and distributed. From the standpoint of high level performance issues for the Department, as a result of the 2003 Session, a series of either new taxes, repeal of taxes, or changes to taxes were implemented. Mr. Chinnock commented that the Department had also implemented the Unified Tax System (UTS).

Mr. Chinnock noted that page 4 of Exhibit C demonstrated the account information with respect to Budget Account 2361. He said it was a continuation of the base budget from FY2004 and there were reductions for expenditures that would not continue. Mr. Chinnock reminded the Subcommittee that the FY2004 base budget was a result of additional allocations and approvals that occurred before the Interim Finance Committee throughout FY2004 and FY2005. Those additional allocations were primarily for the Unified Tax System and staffing. Mr. Chinnock said The Executive Budget was basically the same for both years of the biennium, except for differing amounts of the Unified Tax System as shown in Decision Unit E-275. Mr. Chinnock commented that in Decision Unit E-275, as a result of some changes, rather than seeing $14.3 million in FY2006, the Department was proposing $17.1 million in FY2006, and $7.3 million in FY2007.

Mr. Chinnock pointed out that in a total budget of $22.9 million most of the funds went to personnel. Other expenses in Budget Account 2361 remained basically the same, but there were some changes in Information Services and Demographic Surveys.

Chairwoman McClain asked for comments regarding the pending change orders for the Unified Tax System (UTS). Mr. Chinnock responded that David Haws would address the status of the UTS and what changes were proposed. He added that the Department of Taxation was not proposing any change to the overall schedule of the project or the overall cost of the project.

David Haws, Project Manager for the Unified Tax System project, identified himself for the record and stated the Department had completed approximately 60 percent of Phase 1 of a four-phase project. The intent was to bring up an entire version of the application in the first phase which would ensure the application would work the way it was intended. Mr. Haws said Phase 1 had been progressing successfully.

Mr. Haws stated the project schedule had been aggressive for Phase 1 while working with the Department of Taxation. The vendor, Accenture, had made the determination to extend Phase 1 by approximately 60 days. The UTS was a fixed fee deliverable base contract and as a result of making that adjustment the Department was required to place change orders within the project to offset some of the costs incurred by Accenture. Mr. Haws referred to Exhibit D and stated there were four change orders being proposed. The first change order of $128,048 would be used to take up some of the slack time with the Accenture staff. That time had been planned to have been used for Master Service Agreement (MSA) staff to perform some of the conversion programming and development that was needed. Mr. Haws said that in working with Accenture, although their contract had a $175 per hour change order rate, they had reduced that rate to be more compatible with the MSA rate. Mr. Haws explained that some very skilled individuals, who were familiar with the project, would be assigned to some of the state tasks, such as conversion and interfacing.

Mr. Haws stated that change order number 2 was a Delay Sunk Cost for Phase 1, incurred to Accenture because of the delay of shifting staff. Accenture had also agreed to add a third trial conversion.

The third change order was a Delay Sunk Cost associated with Phases 2 and 3, according to Mr. Haws. This was a similar situation because of the adjustment to the schedule overall, and required a different mix of staff on the part of Accenture. Accenture incurred additional expense for which the State was responsible.

Mr. Haws said because Accenture had additional staff available, those staff members would be used instead of MSA staff to perform additional State tasks during Phase 2. The project had been a competitive bid project and as a result there were hundreds of reports generated. Mr. Haws noted there were opportunities to produce additional reports by using some of the Accenture resources.

Senator Beers inquired about a payment for Accenture's capital costs and requested an explanation.

Mr. Haws explained that Accenture, working closely with the State, disclosed there would be a $500,000 capital charge to the State for the change if the State would not adhere to some agreement to adjust the schedule and the deliverable payment. The State had not wanted to incur the $500,000 charge; therefore, an agreement had been made to work with Accenture to adjust the scheduled payments for the deliverables. The original contract price would remain the same. Mr. Haws said dollars had been brought forward into the schedule to avoid risks that might have been expected. Accenture had agreed that if for some reason the project were to terminate, those dollars would be adjusted back to the original schedule in order to offset any risks the State might incur. According to Mr. Haws, since it was a fixed fee contract the overall price had not changed, Accenture was simply being paid sooner in order to avoid the $500,000 charge for the change.

Senator Beers commented that adjusting the schedule usually meant a delay caused by the State. He said the Subcommittee was seeking some assurance that the root of the problem had been identified, dealt with, and the project was back on track.

Mr. Chinnock responded that page 2 of Exhibit D showed both the original phase schedule as well as the revised phase schedule. Mr. Chinnock noted that although the schedule had been extended in Phase 1, other options had been considered. While the capital cost would have been reduced, there would have been overlap in the schedules. It had been established that it was necessary to complete Phase 1, start Phase 2, and take an entire twelve-month period to complete Phase 2. Mr. Chinnock said there had been two sets of deliverables due in the original Phase 3 schedule, which had been more cumbersome than creating one set of deliverables as in the revised Phase 3 schedule. Additionally, Phase 3 brought on all of the excise taxes which then included a different group of employees in the Department of Taxation, who needed to perform different tasks. Mr. Chinnock informed the Subcommittee that was why Phase 3 had been established as it had been.

Mr. Chinnock said case management had been removed from Phase 4 and moved into part of Phase 3. He further stated that since Phase 1 had been completed and it had been determined what was needed in the project, the changes had been made in a way to ensure successful completion of the project. Mr. Chinnock stated that the bottom line was that the project would be completed at the same time as previously estimated, but with a more realistic time frame for each of the phases.

Mr. Chinnock stated that if the Department had it to do over again, and the phases were set as they were now and the contract was negotiated, there was probably no doubt that the contract could have been negotiated for the same price as before. But due to the fact that the contract was a fixed fee contract and schedule changes had been made throughout the contract while in Phase I, those types of charges applied. Mr. Chinnock maintained Accenture had been willing to work with the Department and he pointed out that the total schedule change cost of $510,564 was a maximum amount, not the cost. Accenture had agreed that if they could assign any of their people to other projects there would be no charge for personnel costs.

Senator Beers noted that it was two months from the beginning of Phase 2 and asked if Mr. Chinnock was confident of a timely start. Mr. Chinnock replied that he was confident that Phase I would come online just as planned, and Phase 2 would begin as scheduled and be successfully completed.

Chairwoman McClain said that audit recoveries showed how much was collected every year, but requested that the funds be shown in relation to the year the audit was done. Mr. Chinnock referred to page A-5 of Exhibit C, the current statistics, and said the chart showed the collections received in any one year. He explained that the ultimate success of an audit could not be shown currently, but with the new UTS the Department was hoping to be able to track that from a case management standpoint. Chairwoman McClain commented that it would be helpful to know in 2004, for example, how much money was from a 2001 audit.

Senator Beers said he had calculated approximately six audits per day from the yearly performance indicators and wondered if that was correct. Mr. Chinnock said that while he had not calculated the figure per day, there was no doubt the Department's audit completion rate had decreased dramatically in the past biennium.

Senator Beers said he understood the reasons for the decline, but indicated that it would not be difficult for someone to enter six lines into a spreadsheet every day to provide the Subcommittee with the amount of the annual audit findings in FY2007. Mr. Chinnock replied that Senator Beers was absolutely correct and the Department would be able to provide the requested information.

Mr. Chinnock stated there had been a 16 percent increase in the Department's audit staff because that was what had been allowed and it had been decided that would work. However, Mr. Chinnock had performed some calculations and determined that 60 percent of the audit staff had less than 2 years of experience, with 50 percent having less than 1 year of experience.

Senator Beers requested staff prepare a Letter of Intent directing the Department of Taxation to prepare a spreadsheet of audit dollar amount findings to be compiled until the new technology system was capable of providing the information.

Senator Coffin inquired as to why the Department of Taxation had had such a large turnover of personnel. Mr. Chinnock replied that some personnel had retired, some had gone to local governments because of better pay and benefits, and some had left because of incompatibility with the job or agency.

Chairwoman McClain said there were a few proposed budget amendments from the week of March 21, 2005. She requested information from the Budget Division regarding the amendments which addressed vacancy savings, new and replacement equipment and statewide, and Attorney General cost allocations.

James Manning, Budget Analyst V, Budget Division, Department of Administration, explained that the amendment to the statewide cost allocations and Attorney General cost allocations had been submitted last week, and had been meant to reduce what had originally been funded in the budget for charges, and reduce that figure to zero because it was a General Funded budget and probably those charges should not have been included. As far as vacancy savings, Mr. Manning said he was revisiting what had been done and attempting to come up with a revised amount of what should be charged in the budget.

Chairwoman McClain said the preliminary numbers showed quite a difference. Mr. Manning said that was based upon a review of how it was built in the first place, a different turnover rate, and taking into account 100 new positions from the last biennium to the present. He said he was still working with the Department of Taxation to determine what changes needed to be made.

Chairwoman McClain commented that budget closing was getting very close and requested information on those changes this week. Mr. Manning replied that he would provide the information.

Gary Ghiggeri, Senate Fiscal Analyst, LCB, commented that staff was working with the Department of Taxation and the Budget Division to resolve some base budget issues which would cost some money.

Chairwoman McClain closed the hearing on Budget Account 2361.

DEPARTMENT OF BUSINESS AND INDUSTRY
MANUFACTURED HOUSING (271-3814) BUDGET PAGE – B&I-40

Renee Diamond, Administrator, Manufactured Housing Division, Department of Business and Industry, identified herself for the record and presented an overview of Budget Account 3814.

Ms. Diamond stated that in the past the Manufactured Housing Division had experienced a downturn in the amount of revenue received. Approximately two years before the Division had raised fees with the support of the manufactured housing industry. The downturn in the industry had been unexpected as well as unmanageable from the perspective of the Division. Ms. Diamond said the downturn was national and came about because of a glut of production in manufactured housing, repossessions, and the restructuring of financing for manufactured homes. Ms. Diamond commented that in the past year Nevada had seen the industry regain approximately 25 percent over the historic lows of two and three years ago. This did not represent a return to previous record sales.

Ms. Diamond noted that in the past she had been asked by the money committees in the Legislature why the Division maintained such a high reserve, and she had replied that the industry trends could not be predicted. That statement had turned out to be prophetic because the manufactured housing industry had a downturn of approximately 55 percent over the highest year in Nevada. Ms. Diamond said during the past year approximately 25 percent of revenue had been recovered.

Ms. Diamond stated that six positions in Budget Account 3814 had been eliminated by employee layoffs. The Division was not planning to refill those positions any time in the near future and had economized in every area possible, including reusing the backs of fax cover sheets to send new faxes.

Ms. Diamond indicated that The Executive Budget recommended replacement of computers that had been due for replacement during the past biennium, but the replacement had been postponed. In addition, the Division's Las Vegas office had a 1996 Jeep Cherokee which needed to be replaced as it was approaching 180,000 miles on the odometer. Ms. Diamond said the Carson City office was now performing inspections as far away as Elko and Ely because the office in Elko had been closed due to economic considerations. An all-terrain vehicle was needed for the winter in the Carson City office. The present vehicle, a 2000 Chevrolet Malibu had approximately 100,000 miles on the odometer.

Ms. Diamond stated that she read all the industry publications but was unable to predict the industry trends. The western states had recovered slightly, but the rest of the nation was still losing business. Ms. Diamond said that although the manufacturers reported all repossession stock had been sold, new manufacturing was at an all-time low. According to Ms. Diamond, business was better in Nevada, but not everywhere.

Ms. Diamond referred to A.B. 114 which would move the limited dealers, who were currently licensed and paid into the recovery fund, to the Real Estate Division. Limited dealers were those realtors who sold a personal property dwelling in connection with real property land. If A.B. 114 passed and limited dealers were moved to the Real Estate Division, Budget Account 3814 would lose approximately $28,000 in revenue, and Budget Account 3847 would lose approximately $84,000 in the revenue for the biennium.

Ms. Diamond continued with her presentation and stated that Budget Account 3842 and Budget Account 3843 were requesting computers, some of which were due on the regular replacement schedule, but the majority were needed because the Division had postponed buying anything over the past few years.

Senator Beers asked if the Legislature had changed the statute last session that would permit one water hookup for a mobile home park. Ms. Diamond responded that as far as she knew the statute now allowed master meters in mobile home parks, which permitted each space within the park to pay a portion back to the park management for water usage.

Senator Beers remarked that he thought the inability to install master meters had caused the delay in development of new mobile home parks in the Las Vegas Valley. Ms. Diamond responded that was one of the delays. In Clark County, when a manufactured home community was developed, infrastructure costs were assigned per space, the same way as in a site-built community where costs were assigned per lot. Ms. Diamond said the infrastructure costs were partly master meters, but there were many other items as well. As a state agency the Division did not have any connection with developers until they were actually ready to develop; at that time the Division would approve the plans for the park. In Clark County the commercial property values were getting so high that the marginal, small, older parks were being closed. Ms. Diamond commented that the number of spaces for which the Division received fees would decrease. What balanced that for the Division as a whole and for Budget Account 3814, in particular, was that new manufactured homes were now permitted on private property. The new growth in the industry was all through development, rather than parks.

Senator Beers asked if that meant a single manufactured home on a single lot. Ms. Diamond replied that was correct. Northern Nevada had some new park developments, but in southern Nevada the majority of people were purchasing a lot and placing a manufactured home on it. Home costs were approximately 20 percent to 30 percent less with a manufactured home as opposed to a site-built home. Ms. Diamond informed the Subcommittee that new manufactured homes provided the Division with installation inspections and the majority of fee revenue, but mobile home parks were no longer a growth area.

Chairwoman McClain asked if it were true that local manufactured home agencies used to do inspections but the Manufactured Housing Division had taken over that function. Ms. Diamond replied that in Nye County, because they had no building department, the Division had always performed the inspections. Approximately one and one-half years ago, the Division had assumed the responsibility for statewide manufactured home inspections. Ms. Diamond said that statewide, with three inspectors, the Division was providing installation inspections. Those inspections were made for new homes or for a used home that was moved from one location to another. The inspections had to be performed before utilities could be connected.

Chairwoman McClain asked if the Division had a backlog of installation inspections. Ms. Diamond replied that while the Division often had backlogs, currently in Las Vegas the inspectors were caught up and working on a backlog of paperwork that needed to be completed. In northern Nevada the winter weather made business slower. There had been complaints from the manufactured home industry about inspections in the eastern part of Nevada, according to Ms. Diamond. When the office in Elko was closed the Division began sending an inspector from Carson City every two weeks to inspect homes in the eastern part of the state.

Chairwoman McClain inquired as to whether the Division had received consumer complaints regarding installation inspections. Ms. Diamond replied that there had always been some complaints, whether local departments or the Division performed inspections. She said she believed that there was an important degree of consistency when the Division was performing inspections with specifically trained people. The Division had a codes and compliance officer who understood the unique United States Office of Housing and Urban Development (HUD) codes while local building departments did not.

Chairwoman McClain commented that she would like to discuss the subject of consumer complaints with Ms. Diamond another time, because she believed there were consumer complaints that were not being made to the Division, and instead, were going to local building departments with no responsibility for the function. Ms. Diamond replied that in rural areas that might be a valid complaint.

Chairwoman McClain noted that reserve levels seemed somewhat high and wondered if any thought had been given to changing the current fee structure.

Ms. Diamond reminded the Subcommittee that in 1999 the reserve had been very large, and the Subcommittee had questioned the wisdom of carrying a reserve that large. However, in 2004 the Division had been unsure whether the reserve had enough funds to pay the two months "set aside" required when rolling over to a new fiscal year. Ms. Diamond maintained that because industry trends could not be predicted and because the national industry was in disarray, having a sound reserve was fiscally responsible. The manufactured home industry had not complained about the fee structure. Ms. Diamond said she wanted to replace some of the positions that had incurred layoffs before even thinking about reducing fees.

Chairwoman McClain asked if the Division had a request in The Executive Budget for rehiring for the positions that had experienced layoffs. Ms. Diamond replied that there was no request to replace employees in the present budget.

Chairwoman McClain asked if the manufactured housing industry was complaining about fees and Ms. Diamond replied that they were not. Ms. Diamond further explained that she had made a pledge to the industry during the regulatory hearings, that when the Division and the industry agreed that the Division was back to solid funding, fees would be reduced.

DEPARTMENT OF BUSINESS AND INDUSTRY
MANUFACTURED HOUSING (271-3814) BUDGET PAGE – B&I-40

Chairwoman McClain said it appeared to her that Budget Account 630-3842 was short on funds and Budget Account 630-3843 was not, and wondered if there was any way funds could be moved from one account to the other. Ms. Diamond replied that those budgets were in place as separately funded budgets before she had become administrator in 1995. The Mobile Home Lot Rent Subsidy had been the park owners' response to increased calls for rent control. Budget Account 3842 aided people who fell below the poverty level, while Budget Account 3843 handled landlord and tenant complaints and adjudications. Both budget accounts were funded with one-shot contributions from the park owners. Ms. Diamond said that as rents increased the need was higher, and the Division was required to recalculate the lot rent subsidy twice per year. Ms. Diamond further stated that she did not know if funds could be moved from one budget to the other.

Chairwoman McClain asked if Ms. Diamond, as Administrator, would have a problem if the money were moved around. Ms. Diamond stated that she would have no problem as long as the landlord-tenant program did not disappear. She also wanted to remind the Subcommittee that two positions, at the request of State Personnel, were changed to investigators and their salaries went from Grade 31 to Grade 32. Ms. Diamond stated that would have to be factored in, but otherwise she had no problem with moving funds.

Chairwoman McClain asked if the two positions in Budget Account 3843 had been changed to investigators, and Ms. Diamond replied that they had been changed from field representatives to investigators. Ms. Diamond related that throughout the State Personnel system there were only two field representative job classifications and they were assigned to Budget Account 3843. State Personnel had wanted that classification changed and it had been approved at the Interim Finance Committee. Chairwoman McClain requested that Ms. Diamond work with staff on rearranging the budget accounts.

Chairwoman McClain closed the hearings on Budget Account 3814, Budget Account 3842, and Budget Account 3843.

DEPARTMENT OF BUSINESS AND INDUSTRY
LABOR COMMISSIONER (101-3900) BUDGET PAGE – B&I-211

Michael Tanchek, Labor Commissioner, Office of Labor Commissioner, Department of Business and Industry, identified himself for the record and presented an overview of Budget Account 3900.

Mr. Tanchek said the proposed budget was basically a continuation budget and the only new request was moving from a 10-year computer replacement schedule to a 4-year computer replacement schedule.

Senator Beers asked for information regarding the agency's proposed technology projects. Mr. Tanchek explained that the Wages and Hours Program, where unpaid wages were collected for workers, used an overly-sophisticated system built on an old platform and the system was beginning to break down.

Senator Beers stated his concern was that the project was somewhat vague and there were few definitions. The Subcommittee was being asked to provide money for a gap analysis, which would pay for a study of how much it would cost to take a commercial off-the-shelf (COTS) system, and make it fit the needs of the Office of the Labor Commissioner. Additional funds were being requested for an IFC account to be available after the gap analysis was completed to pay for whatever had been determined to be needed. Senator Beers said that until the gap analysis was completed the Subcommittee could not ascertain how much the project would cost, as a large part of the cost would be modifying the COTS to what the agency needed.

Mr. Tanchek stated he had wanted to approach the project from the standpoint that the problem drove the solution, rather than the technology determined the problem to be solved. Mr. Tanchek said the agency was working with a lot of off-the-shelf technology, such as Excel spreadsheets. For the check writing function the agency was considering a Peachtree office-type application.

Senator Beers said he believed the agency should be part of the State's accounting system, the Integrated Financial System (IFS). Mr. Tanchek said the budget account being discussed was the statutory trust fund, money collected on behalf of workers and then paid out to workers.

Senator Beers asked if there was an accommodation for the "in and out" function within the IFS. Mr. Tanchek said he did not believe there was, but he would investigate further.

Dave McTeer, Division Chief, Information Technology Division, Department of Administration, identified himself for the record. Mr. McTeer said he did not believe the needs of the Office of the Labor Commissioner would be met by the General Fund accounting system of the IFS.

Senator Beers asked if the Division was considering Peachtree. Mr. McTeer replied that Peachtree was being considered as an option in the short term. He did not know what the ultimate solution would be because there were also program requirements as well as writing checks and tracking money.

Senator Beers noted there had to be 51 labor commissions, including the federal labor commission. Mr. Tanchek replied that the agency was investigating other labor commissions. Senator Beers requested an estimate of cost to pin down what the Labor Commission wanted to do and the Subcommittee would proceed from there.

Assemblyman Hogan asked if the Office of the Labor Commissioner could provide performance indicators in actual numbers in addition to the percentages, especially in the area of apprenticeship programs. Mr. Tanchek commented that the Subcommittee had been provided with Exhibit C, a document entitled, "Governor Recommends Budget Overview March 25, 2005," which explained the apprenticeship program in detail. Mr. Tanchek said that in the apprenticeship program there were 233 registered apprenticeship programs and out of those programs there were several that had no apprentices. In terms of active programs, the Office of the Labor Commissioner was monitoring approximately 125 per year. Since the last session the agency had handled approximately 5,211 claims for wages from the private sector with the recovery amount of $4.8 million. All of that money had been returned to the employees. Ninety percent of the wage claim work handled by the agency pertained to the private sector rather than the public sector. Over 1,000 public works projects were being monitored by the Labor Commissioner, according to Mr. Tanchek. The value of those combined projects was approximately $2.8 billion.

Chairwoman McClain asked if there were any backlogs since the agency was doing work with only 20 employees. Mr. Tanchek replied that the former Labor Commissioner, Terry Johnson, had left the agency in excellent condition. He believed that with the employees now working for the agency, they could probably do even more.

Chairwoman McClain adjourned the meeting at 10:03 a.m.

RESPECTFULLY SUBMITTED:

____
Anne Bowen
Committee Secretary

APPROVED BY:

____
Assemblywoman Kathy McClain, Chairwoman

DATE:____________________________________

____
Senator Bob Beers, Chairman

DATE:____________________________________

EXHIBITS

Committee Name: Assembly Committee on Ways and Means/Senate Committee on Finance Joint Subcommittee on General Government

Date: March 31, 2005 **Time of Meeting: 8:00 a.m.**

Bill	Exhibit	Witness / Agency	Description
	A		Agenda
	B	Risk Management Division	Insurance and Loss Prevention
	C	Department of Taxation	Governor Recommends Budget Overview
	D	Department of Taxation	UTS-Accenture Revision Summary