

**MINUTES OF THE
LEGISLATIVE COMMISSION'S
BUDGET SUBCOMMITTEE**

**Seventy-third Session
February 2, 2005**

The Legislative Commission's Budget Subcommittee was called to order by Chair William J. Raggio at 8:30 a.m. on Wednesday, February 2, 2005, in Room 4100 of the Legislative Building, Carson City, Nevada. The meeting was videoconferenced to the Grant Sawyer State Office Building, Room 4401, 555 East Washington Avenue, Las Vegas, Nevada. [Exhibit A](#) is the Agenda. [Exhibit B](#) is the Attendance Roster. All exhibits are available and on file at the Research Library of the Legislative Counsel Bureau.

SENATE COMMITTEE MEMBERS PRESENT:

Senator William J. Raggio, Chair
Senator Bob Beers, Vice Chair
Senator Dean A. Rhoads
Senator Barbara K. Cegavske
Senator Bob Coffin
Senator Dina Titus
Senator Bernice Mathews

ASSEMBLY COMMITTEE MEMBERS PRESENT:

Mr. Morse Arberry Jr., Chair
Ms. Chris Giunchigliani, Vice Chair
Mr. Mo Denis
Ms. Heidi S. Gansert
Mr. Lynn C. Hettrick
Mr. Joseph M. Hogan
Ms. Ellen M. Koivisto
Ms. Sheila Leslie
Mr. John W. Marvel
Ms. Kathy A. McClain
Mr. Richard D. Perkins
Mr. Bob Seale
Ms. Debbie Smith
Ms. Valerie E. Weber

STAFF MEMBERS PRESENT:

Steven J. Abba, Principal Deputy Fiscal Analyst
Gary Ghiggeri, Senate Fiscal Analyst
Bob Guernsey, Principal Deputy Fiscal Analyst
Mark W. Stevens, Assembly Fiscal analyst
Anne Vorderbruggen, Committee Secretary

OTHERS PRESENT:

Terry Savage, Director, Chief Information Officer, Department of Information Technology
John P. Comeaux, Director, Department of Administration

Shelly Person, Chief of Administration, Director's Office, Department of Information Technology
Randy Potts, Manager, Chief Information Security Officer, Director's Office, Department of Information Technology
Mark Blomstrom, Deputy Director, Communication and Computing Division, Department of Information Technology
Kathy Ryan, Deputy Chief, Planning and Programming Division, Department of Information Technology
Don Henderson, Director, State Department of Agriculture
Rick Gimlin, Deputy Director, State Department of Agriculture
Nancy K. Ford, Administrator, Welfare Division, Department of Human Resources
Virginia (Ginny) Lewis, Director, Department of Motor Vehicles
Michael D. Hillerby, Chief of Staff, Office of the Governor
George Togliatti, Director, Department of Public Safety

CHAIR RAGGIO:

We will open with the budget review of the Department of Information Technology (DoIT).

TERRY SAVAGE (Director, Chief Information Officer, Department of Information Technology):

I would like to review our overview booklet, *DoIT Strategic Direction, 06/07 Budget Cycle* ([Exhibit C](#), original is on file in the Research Library), and would be happy to address any questions.

We have listed our major accomplishments and highlighted some that are particularly important. During the Information Technology (IT) Optimization Study you authorized in the 72nd Legislative Session and which we conducted in conjunction with the Department of Administration, we discovered we had a serious problem with perception of our Department by our customers. We started a cultural change program within the Department and had communication training for all members of the Department. Before we finalized this budget, I went to most of the other agencies and told them what we were doing and what we were planning and, by and large, they were happy with the direction we are going.

The mainframe upgrade worked extremely well. The system is designed with additional processors already built in and, as the users increase their demands and it is in the budget, all we have to do is flip a switch.

Almost four years ago, we started an IT oversight process with a number of different committees. The strategic planning committee is comprised of the customers and business leaders. In June, the committee reviewed and ranked the major IT projects being proposed by all departments. When the rankings were done and the people at the meeting were asked if anyone had a problem with the rankings; no one did. The tax project was ranked as the number one project.

We have been focusing on IT security which is a major issue and growing in importance. Last session, two additional security positions were approved and we are going forward for some additional positions which I will discuss later. We have also been aggressive about getting funding from the federal government. In addition to the actual grant funding, we were able to get the

National Security Agency (NSA) to perform an audit of our IT systems. This produced some useful information. Since the charter of the NSA is to provide IT audits to federal agencies, we asked if the Nevada National Guard would count as a federal agency. I talked to Major General Giles E. Vanderhoof, the Adjutant General of Nevada, and he wrote a letter to the NSA requesting the audit. They accepted the request and the audit was done at no cost to the State.

Let us move on to strategy. We are facing a number of challenges. The IT field is one of the most dynamic in the State. It changes all the time and the technologies change. We are responding to those changes with this budget. We are trying to optimize the way we have personnel deployed. That is not just a technological change but in response to recommendations included in the IT Optimization Study. The Optimization Study was run by Mr. Dave McTeer, from the Department of Administration, to make sure it was an objective approach. The only way I was involved in the study was in the oversight committee at the end of the process. That committee consisted of Mr. Mike Hillerby, Chief of Staff, Office of the Governor; Mr. John P. Comeaux, Director, Department of Administration; and me. We accepted the majority of recommendations contained in the Optimization Study. One of the recommendations is to decentralize the majority of the programming staff which I will discuss a little later. The audits were helpful in pointing out some things we need to do.

The digital microwave project began in 1997, before I joined State government. The existing analog microwave system is fragile and we are in the junk yard and fabrication stage for getting replacement parts. Phase 4 is the final phase of the digital microwave. We hope to build it out during the upcoming biennium. We have increased demand for mainframe utilization. Customers are finding that moving on to distributed systems is not always cost-effective. You have multiple sign-ons that are not always as reliable. Security for the distributed system is not as good as the security for the mainframe. By customer choice, not by anything we are directing, the customers are tending to migrate back to the mainframe in some cases. Since we were able to get a better system than we had hoped, the increased capacity will be technologically painless. There will be cost to it, but the users are fully prepared to pay the cost.

We proposed changes to our enabling statute, chapter 242 of Nevada Revised Statutes (NRS). The proposed changes are generally to improve our organizational responsiveness.

The page titled "Strategy" in [Exhibit C](#) illustrates the key difference from what we have done in the past. Instead of using billable hours, we are going to be focusing on infrastructure and oversight. We see our role as running the big hardware pieces. The oversight committee is to make sure everybody is doing things right. If somebody in the State, other than my Department, is doing IT work according to established standards and policies, that is fine. As long as it is being done right, I do not feel any need for my Department to have to be the one to do it. The infrastructure side of the house is largely run by Mr. Mark Blomstrom, Deputy Director. The oversight function is largely handled by Ms. Kathy Ryan, Deputy Chief. The administration group does not change. Ms. Shelly Person, Chief of Administration, continues in charge of administration. Security is also an oversight function, but I have chosen to keep that as a direct report to me, at least for this next biennium.

There are financial implications to this distinction between infrastructure and oversight. Most of the infrastructure pieces, like the e-mail and the mainframe computer time, are charged on a usage basis. The user is charged a certain amount each month for an e-mail account and for its mainframe computer time, depending upon how much is used. The oversight pieces are typically allocated. We had hoped to move to an allocation based on IT spending this budget cycle, but it turned out to be too complicated. For fiscal year (FY) 2006-2007, it will be allocated the way it has been done historically which is by full-time equivalents (FTE) based on the agency size.

The final page following the "Strategy" tab in [Exhibit C](#) is our headcount history. Workload is going up and headcount is going down. We are happy with that.

CHAIR RAGGIO:

Does this reflect the proposed transfers out?

MR. SAVAGE:

Yes, it does and the proposed additions, as well.

In personnel, the largest financial recommendation was to decentralize Nevada Operations Multi-Automated Data Systems (NOMADS), and I accepted that recommendation. In FY 2004, the demand for programming services dropped significantly and, even if the agencies saved money by doing that, we still had to pay employees. It is difficult to predict and staff for hourly billing. Mr. Dave McTeer and Mr. Dan Stockwell, the head of our programming group, verified with the agencies, the smaller agencies in particular, how much work they thought they were going to need from our people. The big agencies, like the Welfare Division, can manage an IT staff. Taxation has its own IT staff because they have enough workload to hire a full-time professional IT manager. Smaller agencies cannot do that, particularly if they need only a few hundred or even a thousand hours of work in a year. They either need to hire the work out to a contractor or we need to plan to provide it for them. What we did in each case was decide whether it made more sense to put money in the budget for outside contractors or if it made more sense for our staff to meet that requirement. The remaining people we have are pretty well matched to the workload the agencies are forecasting for FY 2006-2007. The fiscal problems we had with the programming group are gone and that is under control.

We are proposing to transfer one position from the programming group to the project oversight group. This is an extremely important function. We started the project oversight committee about three or four years ago and, because of the resource constraints, we had to restrict it to dealing only with those projects of \$500,000 and above. The big IT Statewide projects are now being monitored by all, or most of, the senior IT managers. All agencies are invited to participate on the project oversight committee, and many do.

The graph on the second page following the "Personnel" tab in [Exhibit C](#) illustrates what typically happens if we do not spend enough money up front to define the requirements to get the design clear and do the work to make sure the project is done correctly. It is expensive to fix things when you are late in the development cycle or in production. As the more frugal approach, we are proposing to spend more money up front getting the requirements well defined and getting the design well set up. If the investment is made early, the

development will go more smoothly and production and maintenance will be less costly.

The "Project Lifecycle" chart on the next page shows this in a slightly different format. The first part identifies the need for something and what needs to happen, followed by a more formal requirements definition. Then we go through the request for proposals and the vendor award stage. We go through design, development, production and retirement planning. Ideally, when we start a project, we should estimate how long it will last, when it will need to be replaced and how we are going to handle that.

The identified need column is covered by our existing IT planning group. The \$500,000 plus projects are covered by the IT project oversight committee. The majority of IT projects in the State are less than \$500,000. Those projects are unsupervised by project oversight. Our proposal is to start a project oversight unit that will begin to fill that in. We will move down the dollar scale as far as the resources permit. At some point, we will have covered everything we believe needs to be covered.

CHAIR RAGGIO:

There are costs associated with the concept of putting more money up front in order to reduce the life cycle cost in future years and providing the oversight on projects of less than \$500,000. Has that been plugged in to the *Executive Budget*?

MR. SAVAGE:

Yes, we have included that within the budget.

CHAIR RAGGIO:

I am not talking necessarily about your budget. I am talking about all the other budgets that will be affected. Has that cost been put into all the other budgets?

JOHN P. COMEAUX (Director, Department of Administration):

When this issue first came up, we looked at the method used to develop a cost for those smaller projects and determined there was enough funding included in those projects to cover the oversight cost. We did not add anything to them. We think there is adequate funding.

MR. SAVAGE:

We have been working closely with Mr. Comeaux and his staff on all of these things and they have been enormously helpful.

The last page in the "Personnel" section of [Exhibit C](#) shows the organization chart for the Policy, Planning, and Research group. We are not adding any positions for project oversight. We are transferring one from the programming group. The other three are positions that are already included in the organization.

CHAIR RAGGIO:

Are you going to talk about rate model later? Who is going to do that?

MR. SAVAGE:

I certainly can and Ms. Shelly Person, Chief of Administration, can, as well.

CHAIR RAGGIO:

We have questions on the rate modeling.

SHELLY PERSON (Chief of Administration, Director's Office, Department of Information Technology):

My unit is responsible for the rate model development. In the past six months, I have hired two qualified staff members and I am happy to say I have a full staff on board now. We have implemented a Windows version rate development application. We have included the Budget Office in the rate model development. With regard to the budget cycle for the *Executive Budget*, we have developed the rates that incorporate all services in the budget presented today. We have developed a policy with regard to rate development in response to the Audit Subcommittee's recommendation for policy and procedure development. We have also developed some detailed procedures. Both documents have been submitted to staff at the Legislative Counsel Bureau (LCB) for review.

CHAIR RAGGIO:

In the "Computing" area of the analysis staff has given us, the revenues were something like \$8.8 million, but the expenditures in that area were over \$11 million. There was a 25 percent differential, or a variance of \$2.2 million. How are you going to address that? There is also a variance in "Data Communications & Technical Services" where the revenues are less than the expenditures. What are you doing about that in policies and procedures so you can more accurately reflect the allocation for these expenditures?

MS. PERSON:

We have a policy implemented now which says if there is a 30-percent variance, we will go back and review adjusting rates for the fiscal year. We like to minimize that because of the impact to agencies.

CHAIR RAGGIO:

Do you not have quarterly assessments?

MS. PERSON:

Yes we do.

MR. SAVAGE:

Five or six years ago, the rates were really unstable. Our objective is not to change rates more often than once a year.

CHAIR RAGGIO:

Because of the federal programs, do you not have to make sure the rates are realistic?

MR. SAVAGE:

Yes, and that is facilitated by each budget account reserve. If we collect more revenue than predicted, the reserves are increased. If we collect less, we take that out of reserves.

CHAIR RAGGIO:

The Legislature approved funding for an outside contractor in the 2003 Legislative Session to ensure there was compliance with federal cost principles and standards. It is our understanding the rate model review was not performed by an outside contractor in FY 2004. Can you address that?

MS. PERSON:

We used the approved funds to invest in the more updated version of the rate model software. We also had to use some funds for training and, with some staff turnover, we did not have the consultant come in for the review.

CHAIR RAGGIO:

That sounds like an alibi, not an excuse. I am not being difficult but we approved the funding because it is important, particularly with the federal cost principles and standards involved. I guess the Department had not finalized any policies and procedures to improve the accuracy of the billing rate. Is there not a need to have accuracy in those billing rates?

MR. SAVAGE:

We are in compliance with Office of Management and Budget Circular A-87, which is the relevant document. We now have in-house capabilities to make those evaluations we did not have before.

CHAIR RAGGIO:

Have you finalized the policies and procedures on the accuracy of the billing rates?

MR. SAVAGE:

We have turned the draft in to the LCB for review, but we need to finalize them. The full draft is done.

MS. PERSON:

The draft procedures are going through review with all of our unit managers, our fiscal staff and our budget analyst, and they will be finalized by March 15.

CHAIR RAGGIO:

We need to keep on top of that.

MR. SAVAGE:

Yes, we will.

ASSEMBLYMAN MARVEL:

The Audit Subcommittee has been frustrated that you have not responded to the request by the Legislative Auditor to get your billing up to speed. I think Chair Raggio and Chair Arberry have received letters from Mr. Paul Townsend, Legislative Auditor, regarding this. It is important to all of the State budgets that you get the billing rates up to speed and implemented soon.

MR. SAVAGE:

Yes, and we are confident the rates are in good shape. As I mentioned, we did get the full drafts of those policies and procedures completed and will be finalizing them within the next month or so.

CHAIR RAGGIO:

Please keep us informed about that.

SENATOR BEERS:

If I understood correctly, your current standard is 30 percent. If the variance exceeds 30 percent, you revisit the rate. Is there any plan to reduce that threshold to something less than 30 percent?

MS. PERSON:

The intent is to refine that figure as we progress through the rate development process, including reviewing the draft policy and procedures as we go along. As I mentioned, we submitted our first drafts for reviewing this past month. Those items are constantly under review and I envision modifying them as we move along, refining the process and learning from it.

MR. SAVAGE:

As a general observation on the whole rate development process, there are two sides to it. There is the cost side which is what we expect to spend on personnel and equipment. But, there is also the utilization side which is equally important. If we forecast the State is going to use 10,000 e-mail accounts and the agencies end up choosing to use only 8,000, that destroys the rates. That is what the reserves are for in each of the budget accounts. We have found that forecasting our cost is comparatively easy relative to forecasting utilization. In the mainframe area we have been aggressively negotiating down some of the software costs and those savings are included in this budget proposal. The utilization is tough. Last summer, we were asking agencies to forecast two and three years into the future how much they would be using for each service we provide. That is why we have to adjust it at least once a year. Our accuracy has improved enough that we have not had to change rates midyear and the expectation is that, in addition to not having to do that again, we will be tightening the thresholds you are talking about.

SENATOR COFFIN:

You are charging an FTE on your security assessment which has almost tripled. Have you had any feedback from agencies that may balk at this because they do not have the budget?

MR. SAVAGE:

The feedback has been generally positive. I have briefed this entire package to the other cabinet members. There were a couple of concerns about funding but, by and large, the support for security was very substantial.

SENATOR COFFIN:

Is the rationale of charging for FTE versus bytes used a common method of billing?

MR. SAVAGE:

It is the most common. What we want to do for the next budget cycle is figure out a way to allocate based on IT spending. Until this year, there was no way to do that. The Nevada Executive Budget System simply was not capable of producing that calculation. Now it technically is, but it is more complex than it might sound. We talked with Mr. Comeaux and his staff, originally thinking of doing that. They made the decision, which I concurred with, that for this cycle it was just too late. We will plan to do it for FY 2008-2009. The more common approach is FTE. It is not as accurate as allocating based on total IT spending, but it is fully acceptable to the federal government.

SENATOR COFFIN:

Would that most likely pass muster with the federal government?

MR. SAVAGE:

That is correct.

ASSEMBLYMAN DENIS:

I want to get a better feel for how you actually project the costs. How do you project the e-mail service going from what it currently is to what you are proposing?

MR. SAVAGE:

It is typically a two-step process. The process begins with utilizations. There are 180 agencies in State government and we provide 43 services. We work with each of the agencies to figure out how much of each of the 43 services they will need in each year of the biennium. Based on that, we look at what it is going to cost us to provide that volume of service. The cost is divided by the utilization volume to give us the rate per individual unit.

ASSEMBLYMAN DENIS:

When we look at that utilization, do we at some point determine that it might be better to go with a vendor instead of in house to provide some of these services if it is going to be cheaper?

MR. SAVAGE:

We look at that explicitly. In fact, that was the main point of the Optimization Study. There are basically three ways you can provide an IT service. You can either do it internally centralized which is what my Department does; you can do it internal to the State but decentralized which is what we are doing with some of the programmers; or you can go with an outside contractor. We looked at some of the heavy hitters in this version of the Optimization Study. The expectation is to have this be an ongoing effort and if it saves the State money for us to get out of a business and privatize it, we will do that.

ASSEMBLYMAN DENIS:

In looking at the rate for Digital Subscriber Line (DSL) service, I wonder if we could get a better rate through Sprint or one of our other contractors.

ASSEMBLYWOMAN McCLAIN:

Since we are not going to have these rates finalized until March 15 and we have the subcommittee hearings earlier than that, could you bring us a report on the different rate models that we have approved, like in FY 2003? Also include what was implemented the last two years and the proposed rates.

MR. SAVAGE:

The rates have actually been finalized for the *Executive Budget*. What we submitted recently were the written procedures, but we have already done it for the *Executive Budget*.

ASSEMBLYWOMAN McCLAIN:

Can you bring those comparisons to the subcommittee meeting?

MR. SAVAGE:

We can do that.

SENATOR BEERS:

Could you also bring a list of the top two external vendors that were considered for each of the services, particularly the e-mail services, DSL service, voice mail and server hosting? Those rates are more than five times what the private sector is charging.

MR. SAVAGE:

We will take a look at that.

The next area is security. We had the LCB audit, the NSA assessment and we had our own staff doing determinations of the work we needed to do. The organization chart in [Exhibit C](#) lists the four areas we will be focusing on for IT security. Disaster recovery is most important. Assessment and awareness is another area. About 75 percent of security incidents are typically from in-house personnel. They are not from external hackers. Technical security program administration involves doing some of the technical analysis. The last area concerns accreditation. Even with our current request, there is more security work than we will be able to do. We need to work with the agencies so they will be able to pick up a lot of the work in house for their own needs. We are requesting nine security staff members and have identified for each position what they would be doing. A couple of positions have a start date in FY 2008 because there is a need for them, but we did not feel we could go that far this fast.

This is a prudent request. It keeps the total security cost in line with other State governments and private industry, but lets us identify some of the key needs.

ASSEMBLYMAN DENIS:

In security issues, are we talking about threats coming in to the system through the agencies such as Trojans, viruses and those types of things?

MR. SAVAGE:

It would include that, but it is not strictly limited to that. It also includes things like making sure people know they should not write their password on a little yellow label and stick it on the screen. Training will be for Security 101 issues.

ASSEMBLYMAN DENIS:

Does the State have an overall security or is it up to each individual agency?

RANDY POTTS (Manager, Chief Information Security Officer, Director's Office, Department of Information Technology):

There are some functions we need to do core centralized to the State. We try to push the defense barriers as far out as we can and protect at the boundaries as much as possible. Antivirus software is still deployed on the computer systems of individual users, or should be since it is policy. However, that is left up to each agency to independently execute.

ASSEMBLYMAN DENIS:

My concern is if somebody is not overseeing it, a lot of time and energy could be wasted trying to fix a problem. It seems we should have a centralized focus to achieve that.

MR. POTTS:

That is precisely what we are proposing with this budget request. We want to make sure we have the additional resources to assist the State agencies and try to develop it systematically and centrally. Everything that can be centralized and dealt with by a core group would be done within the security unit.

ASSEMBLYMAN MARVEL:

The Legislative Auditors came up with about 15 recommendations for implementing a better security system. How far along are you in implementing these recommendations?

MR. POTTS:

We are working through our corrective action plan. Out of the 15 findings, 6 have been completed. There are some additional ongoing things, such as quarterly reviews, annual reviews and additional assessments.

ASSEMBLYMAN MARVEL:

Could you notify Mr. Paul Townsend of the progress you are making in this area?

MR. POTTS:

We will be sending that out this month. We are sending it to the Department of Administration this week.

ASSEMBLYMAN MARVEL:

We would like to have it for our auditors too.

MARK BLOMSTROM (Deputy Director, Communication and Computing Division, Department of Information Technology):

I would like to make one mention in follow-up to what Mr. Potts said. An easy way to look at this may be that we have for some time now, as a function of our Department, protected the State technically in terms of our network and perimeters. What we are now advocating is an enterprised structure that will also help the departments in the overall IT security sense.

Phase 4 is the final phase of the replacement and upgrade of the old analog microwave system. Phase 4 will bring on an additional 14 sites, including an emergency operating center in Carson City.

ASSEMBLYWOMAN MCCLAIN:

Has anyone considered selling the privilege of putting cell phone towers on these sites to make some money and also have cell phone coverage in the middle of the State?

MR. BLOMSTROM:

We have, and on one of the southern prison properties we have done exactly that. Through and in conjunction with Division of State Lands, a small portion of the land at that prison property has been leased long term to a cell company and the State is reaping some revenue.

ASSEMBLYWOMAN MCCLAIN:

Why not do it on all of them because we could recoup some of the cost of this project through selling it to someone like Sprint or Cingular?

MR. BLOMSTROM:

Phase 4 is a \$7.3 million project. Phase 3 is 58-percent complete and will be moving along through the balance of this fiscal year. We will be requesting roll-forward on the balance of the Phase 3 funds.

In March of this year, we implemented a new machine. This was a complete replacement. We are currently operating at about 80 to 85 percent capacity. We are requesting an increase in capacity in FY 2006 as part of this budget presentation.

ASSEMBLYMAN DENIS:

For the subcommittee, could you provide more information on what kind of programs you are running on the mainframe versus what people are running off the mainframe?

MR. BLOMSTROM:

I would be pleased to do that.

SENATOR BEERS:

What is the steep increase in the fourth quarter of FY 2004 on the chart titled "State of Nevada Mainframe Utilization" in [Exhibit C](#)?

MR. BLOMSTROM:

That was the implementation of the Z900 mainframe.

SENATOR BEERS:

What changed from the third quarter to the fourth quarter of FY 2004 that caused a significant increase in utilization?

MR. BLOMSTROM:

That was the actual implementation of the Z900 mainframe. We had been artificially capping our utilization in order to not impede our performance on the old mainframe. At that point, in a manner of speaking, the demand was unleashed.

CHAIR RAGGIO:

With the upgrade you are proposing, this should not happen again in the foreseeable future.

MR. BLOMSTROM:

That is correct and I am happy to say we are in good shape for not only this upcoming biennium, but also the biennium beyond.

MR. SAVAGE:

The final section of our handout, [Exhibit C](#), contains the proposed changes to our enabling statute, NRS 242. We are proposing a change that would enable us to reallocate people, as needed, based on the technology and the demands of the users. We are also proposing to remove the expiration date of 2007 from the confidentiality provisions that were added in the 2003 Legislative Session. The statute currently requires all State agencies to use our services with the exception of some that are specifically exempted. We are proposing to change that so all agencies are required to use our services, but the Governor can authorize exemptions. We feel this should be a Governor's executive decision, and the Governor fully supports this change.

ASSEMBLYMAN DENIS:

How much input do you get from other State agencies in preparing your budget? Did you give them sufficient time with the changes in rates and the standards you are proposing so they could sufficiently prepare their budgets?

MR. SAVAGE:

Yes, it is an interactive process and the agencies have a great deal of input. During the Session there will probably be some changes, either to our expenditures or to some of the agency expenditures. When the budget is finally closed at the end of the Session, we will have to reevaluate the utilizations against our cost and come up with a final rate model.

ASSEMBLYWOMAN GIUNCHIGLIANI:

In looking at the bill draft request list, was this tried in the 2003 Legislative Session?

MR. SAVAGE:

Yes, a different version of it.

ASSEMBLYWOMAN GIUNCHIGLIANI:

It seems as if we approve rates and then your Department goes ahead and does what we said you could not do in the first place. Do you have a plan to bring us for consideration regarding what could be privatized within your Department?

MR. SAVAGE:

We do not at this time.

ASSEMBLYWOMAN GIUNCHIGLIANI:

I would like to ask the subcommittee to explore some components. I know the mainframe is important, and maybe the microwaves, but there may be areas that could be run more efficiently.

MR. SAVAGE:

The tax project, for example, has been outsourced. I do not anticipate we will do any large scale application development in the State again. The expectation overall, and we do not have a written plan except to the extent we presented here, is that individual hourly services, like programming, will probably be outsourced in the future. The only things that cannot be outsourced are the oversight functions. We cannot give up oversight of projects or security. We can hire contractors as project managers and we can hire out some security functions, but we have to maintain the oversight within the State. The infrastructure pieces can go either way. If we are going to look for additional opportunities for outsourcing, that would probably be the place to look.

ASSEMBLYMAN HETTRICK:

On page 9 of the bill draft request (BDR), you have "Responsibilities of Department; review of proposed applications of information systems." I agree with the quality assurance, but I am concerned with the drop in the developmental cost from \$50,000 to \$10,000. Do you have enough people to do that fast enough since the work cannot be started until it is approved?

MR. SAVAGE:

We do have a fairly robust process for reviewing the technology investment requests.

KATHY RYAN (Deputy Chief, Planning and Programming Division, Department of Information Technology):

We are not looking at just personal computer replacements; we are looking at projects. Planning staff works with the agencies to help them complete the technology investment requests. Our purpose is to make sure all costs are identified. If an agency does not have experience with IT projects, they may forget to include some things. This gives us a chance to work with them and make sure they identify all costs.

SENATOR BEERS:

Would you come to the subcommittee prepared to discuss what impact this unseasonable weather is going to have on your plan to finish the radios and microwave and how it might impact our budgeting? I imagine there are mountaintops you will not be able to get to until August or September.

MR. BLOMSTROM:

We will do that.

CHAIR RAGGIO:

That will conclude the overview of the Department of Information Technology. We will now hear from the Department of Agriculture.

DON HENDERSON (Director, State Department of Agriculture):

Our presentation will be based on our handout titled *Presentation to the Legislative Commission's Budget Subcommittee* ([Exhibit D](#)).

The Department of Agriculture is charged with the responsibility of advancing and protecting agriculture-related industries in Nevada for the benefit of our State and citizens. This charge is much broader than just production agriculture for the growing of crops and livestock. It includes testing and certification of all measuring devices used in commerce from gas pumps to the scale at the neighborhood market and truck scales, and also the setting of State standards for petroleum products, antifreeze, fertilizers and the use of pesticides.

In rapidly-growing states such as Nevada, this diverse mission becomes a challenge. To meet this challenge, the Department has organized into six divisions as illustrated on page 2 of [Exhibit D](#). The Division of Administration, headed by me and Mr. Rick Gimlin, Deputy Director, provides administrative assistance, support and oversight to the five remaining operational divisions and the numerous advisory boards and commissions that fall under the umbrella of the Department of Agriculture. Some of these other commissions and boards include the Nevada Beef Council, Rangeland Resources Commission, the Nevada High School Rodeo Association, Nevada Junior Livestock Show Board and the Garlic and Onion Growers' Advisory Board.

Included with [Exhibit D](#) is a brochure which describes the functions of the five operational divisions. I will briefly describe each one for you.

The Division of Animal Industry assists in the diagnosis and eradication of animal and livestock diseases in cooperation with federal agencies, county

agencies, private veterinarians and livestock owners. The Division also provides information on the requirements for interstate and international movement of livestock.

The Division of Livestock Identification protects against livestock theft through brand registration and inspection. The Division also investigates livestock losses on roads and railways and processes stray livestock.

The Division of Plant Industry is the largest, most diverse division in the Department. This Division conducts cooperative programs with the U.S. Department of Agriculture, the U.S. Environmental Protection Agency and State and county agencies in many areas. Some of these areas include nursery licensing and inspection, pesticide and fertilizer registration, pesticide use monitoring, pest control operator licensing, insect and plant disease identification and survey, federal and State plant quarantine and enforcement and noxious weed control.

The Division of Measurement Standards is comprised of two bureaus. The Bureau of Weights and Measures assures consumers that the weights and measures of food and non-food products, services or commodities purchased in Nevada are accurate. Our staff checks the quantity labeling on packages, investigates complaints and annually inspects over 3,000 scales, gas pumps and meters. The Bureau of Petroleum Technology is responsible for the development of fuel standards for internal combustion engines. It analyzes about 3,500 samples of fuel offered for sale at service stations each year. When nonstandard fuels are found, the Bureau of Weights and Measures is notified so corrective actions can be taken.

A little-known division within the Department is the Division of Resource Protection. This Division provides assistance to residents of Nevada in the management and abatement of damage caused by predatory animals, birds and rodents throughout the State.

Due to the nature of the Department's mission, we are dependent upon laboratory analysis. We maintain numerous analytical laboratories including animal disease diagnostic laboratories in Reno and Elko, petroleum testing laboratories in Sparks and Las Vegas, and pesticide, fertilizer and plant disease laboratories at the Reno headquarters. The Department currently employs just under 100 FTE positions in 5 offices located in Reno, Sparks, Las Vegas, Winnemucca and Elko. We employ over 150 intermittent positions located throughout the State. Most of the intermittent employees are part-time brand inspectors who work in their local community for the Division of Livestock Identification on a time and material basis. The Division and the livestock brand program are solely fee based. The Department has 19 budget accounts containing over 70 individual State and federal programs. Twelve of these budget accounts are contained in the *Executive Budget* because they involve General Fund support or positions. The remaining seven are not included in the *Executive Budget* in that they meet one or more of the following requirements: the account does not receive General Fund support, there are no positions in the account, the account has statutory authority to set fees, receive and expend funds or the balances of the funds do not revert back to the General Fund.

The Department receives approximately 71 percent of its funding from fees and grants from federal agencies and other sources. The General Fund has proposed

to provide about 29 percent of the Department's funding base. These funding levels are described by budget account on the table found in Section II on page 4 of [Exhibit D](#). For purposes of comparison, this table displays the proposed funding levels for the coming biennium against those appropriated in the last biennium. This table indicates that the General Fund contributions across these accounts will increase by about 8.4 percent. The funding contributions from other sources remain stable or have declined slightly. Primary factors driving these trends across the agency relate to rising employee costs in the General Fund component and the completion and loss of funding from several federal grants.

Budget account 101-4537, Petroleum Technology, shows an increase of almost 50 percent under other funding sources. This increase results from the normal replacement and upgrade of several pieces of expensive equipment. These enhancements are paid from the Department of Motor Vehicles (DMV) smog inspection fund.

Budget account 101-4541 shows a loss of 44 percent of revenue from other sources. This revenue loss is attributed to the loss of the contract with Winnemucca Farms which discontinued its contract with the Department to provide potato inspection and grading services.

CHAIR RAGGIO:
Why did they do that?

MR. HENDERSON:
Our fees got too high and they did not see the benefits to overcome those costs. We now provide potato inspection and grading services on an as-needed and time and material basis.

ASSEMBLYMAN MARVEL:
Who is overseeing that now?

MR. HENDERSON:
I am not sure who is in charge.

ASSEMBLYMAN MARVEL:
Who is watching the grading?

MR. HENDERSON:
That is under the Division of Plant Industry. The grading programs in the Winnemucca area are overseen by Mr. Martin Larraneta, our Agriculturist in the Winnemucca office. He provides the oversight and scheduling of inspectors as requested by Winnemucca Farms.

Budget account 101-4550 shows a loss of 16 percent under other sources. These revenue losses can be attributed to the completion of several U.S. Department of Agriculture grants relating to Newcastle disease, West Nile virus, and homeland security measures.

Budget account 101-4554 shows an increase of nearly 40 percent under General Fund contributions. While there has been some increase in our employee costs under this account, nearly 50 percent of the costs in this account are recovered through an internal administrative cost recovery program.

As the budgets for the remaining department accounts are finalized during this Legislative Session, these General Fund contributions will be reduced.

SENATOR RHOADS:

There are several things you should prepare for the subcommittee hearings. The Rangeland Resources Commission bills have taken a long time to get paid. I have had many complaints this year on the brand inspection program and the policy of brand inspection. You should also be prepared to discuss predators.

The State of Nevada has no one representing agriculture on the Nevada Commission on Homeland Security. Have you looked into the reason for that?

MR. HENDERSON:

The enabling legislation does not specifically identify a spot on the Nevada Commission on Homeland Security for agriculture. I think that was just a limitation of the original legislation. We have been working closely with the other Executive Branch agencies on our request for homeland security funding. We have had a successful program and are hopeful some of the available grant funding will be made available to the Department to meet some of our needs.

SENATOR RHOADS:

Do you have someone in charge of policing what could happen in the State of Nevada?

MR. HENDERSON:

Every administrator within the Department is involved with homeland security issues. Our lead contact for the Department is Mr. James Connelley, our Administrator of Livestock Identification and Agriculture Enforcement. At one time last year there was an agriculture subcommittee, but, due to some legal issues with the legislation, I understand those subcommittees cannot be staffed. We remain active and, to the extent we can, participate in the program.

Could you be more specific about the complaints you have received about the brand program?

SENATOR RHOADS:

We can get into that during the subcommittee meetings and I will talk to you about it later.

MR. HENDERSON:

That would be fine. Thank you.

Some other factors driving these budgets are summarized at the bottom of page 4 of [Exhibit D](#). The *Executive Budget* contains a proposal to convert several intermittent seasonal positions in Plant Industry and Livestock Inspection from budgeted FTE to budgeted labor hours. This is a paper change, but it is important to accomplish this because it more accurately states the number of FTEs in a respective budget account. Another Department-wide proposal contained in the *Executive Budget* is the replacement of computers throughout the Department, based upon need and the Department's replacement schedule. After these decision units are implemented, all users in the Department will be using the same version of Microsoft Operating System.

Budget account 101-4554 includes replacing some current furniture. The furniture to be replaced is basically State excess property that has gone past its useful life. Another enhancement in our budget proposal is the creation of a \$1,000 host fund each year for the State Board of Agriculture. The host fund will allow the Department to pay for a variety of refreshments during Board meetings. These refreshments are currently being paid for by individual board members or Department staff.

There are enhancement units in budget account 101-4540 to replace two vehicles in the Agricultural Enforcement Unit. The vehicles to be replaced have over 140,000 miles on the odometers. There are also enhancement units for training for Agriculture enforcement officers and related staff. The estimated amount for this training is \$5,000 and it would be done in State.

Under the Division of Plant Industry in budget account 4540, we propose to replace two vehicles that have over 120,000 miles on the odometers.

Budget account 101-4550 includes an enhancement for a cost-share program with the Department of Wildlife to work cooperatively to survey and identify zoonotic animal diseases found in wildlife which may be transmitted to both domestic animals and humans. This cost-share program supports some operations for the new veterinarian recently hired in the Elko office. In addition, the Division of Animal Industry is cooperating with the University of Nevada, Reno (UNR) to develop a large animal necropsy facility. There is an enhancement unit included in this budget to pick up \$5,000 of the operating costs associated with this facility so we can utilize it along with the University.

Division of Measurement Standards, budget account 4551, has numerous enhancements, most of which would replace outdated non-repairable, inoperative equipment. There is also funding to replace some of our large, heavy equipment.

CHAIR RAGGIO:

Those are the kinds of items the subcommittee can look at.

MR. HENDERSON:

I will provide updates on issues where staff has had questions. We were asked to provide a status report on the Department's involvement in the management of the estray horse program in the Virginia Range and discuss funding and expenditures recommended in the *Executive Budget*. The Virginia Range Wildlife Protection Association encompasses more than 300,000 acres in the hills to the east of Reno and Carson City. The majority of this property is under private ownership. Since the spring of 1997, the Department has undertaken annual census counts of horses located within this area. There is a chart on the bottom of page 6 of [Exhibit D](#) which shows the estimated populations of the horses in each one of these years. Beginning January 2003, all counts have been performed in the winter months to better reflect true population numbers. Prior to that, the horse censuses were done whenever we could get access to a plane to go up and count horses.

Since the summer of 1999, horses have been removed and adopted. The second table at the bottom of page 6 of [Exhibit D](#) shows the number of horses we have captured and the adoptee count. To date, the Department has been able to find homes for all these horses and has not resorted to open sale of

horses. Beginning in 2003, the Department, in collaboration with UNR College of Agriculture researchers, Pennsylvania State University researchers and researchers with the U. S. Department of Agriculture (USDA) Wildlife Service Research Laboratory, has evaluated several means of contraception in estray horses. To date, two vaccines show promise. Field trials are under way to evaluate these products. Monies from UNR, USDA and Bureau of Land Management (BLM) have made this work possible. Long-term plans are to continue to remove horses and expand the field contraception with a target population of from 500 to 600 horses in the area. Funding levels in FY 2006 and FY 2007 are the same as they were in FY 2005 and should be adequate, barring any unforeseen emergencies.

SENATOR RHOADS:

What do you currently do with the unadoptable horses?

MR. HENDERSON:

We bring the horses to a temporary holding facility at the Northern Nevada Correctional Center. We check the horses, deworm them and give them any shots they need. A few of the horses are entered into the prison training program at the Warm Springs Correctional Center. When the horses enter the training program, the title is transferred to the prison program and they keep the proceeds.

SENATOR RHOADS:

I am talking about the unadoptable ones.

MR. HENDERSON:

So far, we have been able to adopt every one of them.

SENATOR RHOADS:

Are you aware of the sales authority that BLM now has?

MR. HENDERSON:

I am and we support that.

SENATOR RHOADS:

Have you sent any horses to the sales?

MR. HENDERSON:

We have not needed to at this point. If we received enough money to gather a lot of horses off the mountain, it could be a problem for us. So far our removals have kept up with the adoptions.

SENATOR RHOADS:

Would your policy be to go along with the sales authority if necessary?

MR. HENDERSON:

Our policy is to hold these horses for 60 days. If they are not adopted within 60 days and we have the budget, we have the flexibility to hold them a little longer to try to get them adopted.

SENATOR RHOADS:

After 60 days you would go through a sale?

MR. HENDERSON:
Yes, sir.

SENATOR TITUS:
I would appreciate it if you would hold them a little bit longer if there is a possibility for adoption. Is anything being done about the cheat grass that is moving south and invading some of the ranches?

MR. HENDERSON:
Some studies on that issue have been undertaken by UNR. I have not seen the results of those studies. It is a difficult problem. Cheat grass is already in southern Nevada. It is known as red broom grass. The species intermix and interbreed. They are super-adaptive and invasive. We need to be able to manage the field loads to reduce the fire hazard it causes, through livestock and other means. That is the technology today.

ASSEMBLYWOMAN GIUNCHIGLIANI:
The fire hazard is part of the problem. Did you contract with UNR to do this study and how long has it been? Should we be getting a report from them?

MR. HENDERSON:
It is my understanding they received federal grant funds to do that research. It is an extensive multiagency review.

ASSEMBLYWOMAN GIUNCHIGLIANI:
Are they working with the Nevada Fire Safe Councils that have been established which are also federally funded?

MR. HENDERSON:
I believe there is discussion, but I could not tell you how closely they are collaborating.

ASSEMBLYWOMAN GIUNCHIGLIANI:
They talked about the wild horse problem in today's newspaper. Apparently, there are new federal changes that allow them to go to slaughter if they are either ten years old or have gone to three auctions and not been purchased. I believe we have 8,400 horses up for auction from BLM at this time. Is that correct?

MR. HENDERSON:
It is my understanding BLM is holding 8,400 horses which meet that criteria.

ASSEMBLYWOMAN GIUNCHIGLIANI:
That means someone changed the rules so they can go to slaughter, and that is just shameful.

MR. HENDERSON:
Whether they go to slaughter depends upon who purchases the animal.

CHAIR RAGGIO:
Let us move on to the Mormon cricket issue.

MR. HENDERSON:

As you are probably aware, Mormon cricket populations doubled over the past spring and summer. The Department worked in cooperation with the USDA, BLM, county governments, local municipalities and the public to conduct a very aggressive Mormon cricket survey and treatment program. The program we implemented had the following priorities: public safety, protection of crop lands and protection of urban areas from the impacts of Mormon crickets. Aerial treatment programs were conducted in seven northern Nevada counties with 272,000 acres being treated. Approximately 20 percent of this acreage was private land. This represents a considerable increase over the 72,000 acres that were treated in 2003.

CHAIR RAGGIO:

As cold as this winter has been in the north, is that going to limit this problem?

MR. HENDERSON:

The weather we have had so far is not going to affect it. What becomes key is if we have cold, wet conditions when the crickets hatch in March. The issue of what kind of year we are going to have next year is still unknown.

Over the last year, the Department distributed or applied over 80 tons of carbaryl bait to public and private lands to control the crickets. We hired 12 seasonal employees and 1 full-time employee over the past year to supplement our permanent staff involved with the program. The total cost of the program last year was \$1.3 million. The majority of this cost was covered by a \$6.7 million grant from the federal government. This grant will be used to fund future treatment programs.

CHAIR RAGGIO:

Is there still money available from that grant?

MR. HENDERSON:

Yes, and that is reflected in our budget.

Another important aspect of this program is the grant money was also used to reimburse growers for expenses incurred in battling or treating the outbreak of clear-winged grasshoppers across northern Nevada. These grasshoppers infected over 100,000 acres of native and improved pastures. The reimbursed amount was about \$90,000 for that program.

SENATOR RHOADS:

I would like to compliment you and your staff for the excellent job you did last summer. We did not have a grasshopper problem like we have had in the past. We had Mormon crickets all over the place. They did not do much damage to our hayfields, but they were out on the range and it was just unbelievable how thick they were. Does the BLM have a policy to eradicate Mormon crickets, because most of them were on public lands?

MR. HENDERSON:

Yes, they are involved with our program. They issue a pesticide use permit that allows us to access public lands. We go through the whole environmental impact process over the winter.

SENATOR RHOADS:

Can you bait on public lands?

MR. HENDERSON:

We can bait on public lands. The only restrictions we have are the label requirements of the product being used. We cannot treat near surface water sources and we stay about a half-mile away from sage grouse strutting grounds. Those restrictions have not inhibited us from getting effective treatment on the crickets.

SENATOR MATHEWS:

How dangerous is the treatment to humans? I hear you are concerned about birds, fish and everything else, but it is right in our backyard at Red Rock.

MR. HENDERSON:

The spray product being used is an insect hormone that is specific in its actions. It affects only insects that molt, and it is not a chemical pesticide. Crickets and grasshoppers eat the bait, but other insects do not. The precaution about spraying around water is only a precaution. We feel the restriction placed on spraying around sage grouse salt licks is unwarranted, but the federal agencies involved think there is some doubt. They would rather err on the side of caution.

SENATOR MATHEWS:

If my chickens or ducks eat the crickets, it is okay?

MR. HENDERSON:

There would be no effect.

The third question posed to us was to update you on our internal cost allocation plan and what is contained in the *Executive Budget*. During the 1999 Legislative Session, the Division of Administration was separated from the Division of Plant Industry and placed in budget account 101-4554. The FY 2001-2003 biennium budget request included an allocation schedule based upon funding sources and FTE positions to fund the Division. The current budget request includes this same allocation schedule which strives to equitably fund the Division. It is based upon funding levels and FTE positions in each account. There has been no change to our internal cost recovery program.

We were asked to update you on our Agriculture Enforcement Unit. Our response is contained on page 8 of [Exhibit D](#). The Agriculture Enforcement Unit was established during the 2001 Legislative Session to act as mobile ports of entry for the enforcement of Titles 49 and 50 of NRS and numerous other chapters relating to agriculture products, commodities and livestock entering or transiting the State. The mission of the Agriculture Enforcement Unit is to protect the people of the State of Nevada, its agricultural industry and food supply from either illegal or unintentional importation of plant and animal diseases, pests, noxious weeds, theft and unfair business practices. The program goals are listed on page 8 of [Exhibit D](#). The chart at the bottom of the page contains the program statistics over the past two years on patrol miles, vehicles stopped and the resulting verbal warnings, warning citations and court citations.

ASSEMBLYWOMAN LESLIE:

Is your Department involved in any way in the UNR animal farm investigation? Is the Nevada Farm Bureau under your Department?

MR. HENDERSON:

We are not involved at this time. Over the past couple of years, we were asked to look at some specific livestock disease issues. One issue involved some research pigs. In the two investigations, our State veterinarian was asked by the Dean of Agriculture to look at the situation and derive a conclusion as to whether there was a disease problem. In both instances, we did not find any disease problems.

ASSEMBLYWOMAN LESLIE:

Is it a federal or State exemption which prevents local health authorities from inspecting?

MR. HENDERSON:

I believe it is a State exemption.

ASSEMBLYWOMAN LESLIE:

Who would I talk to in your office about this?

MR. HENDERSON:

Probably me and our State veterinarian.

ASSEMBLYWOMAN LESLIE:

I would like to talk to you about that in some detail.

MR. HENDERSON:

We were asked to provide a status report on our employee appreciation program. This program was established during the 2003 Legislative Session. Page 9 of [Exhibit D](#) provides a summary of the program. The last budget targeted \$1,350 each year to be set aside to recognize classified employees who have shown high dedication to their jobs. The awards are divided into three quarterly awards and one yearly award. The quarterly awards provide \$250 to the recognized employee, and the annual award is \$350. The condition placed upon the award is that the money be used to purchase something which assists the employees in their jobs. We notify the employees of the award and they decide what office equipment they would like. They submit a purchase order that goes through our accounting office and the item is purchased.

SENATOR BEERS:

Why was only about \$215 spent in that account in FY 2004? Is that slow accounting or do you not have anyone worth recognizing?

RICK GIMLIN (Deputy Director, State Department of Agriculture):

We had people worth recognizing, but it took them a while to identify what they wanted to buy. Expenditures have picked up in 2005 as our staff is beginning to understand how the money can be used.

MR. HENDERSON:

Some of our employees were skeptical when we implemented the program, but now they think it is a good program and want to be involved. Items that have been purchased with these awards include computer equipment, files, a

briefcase and office chairs. The program has been well received and it is identified in our budget to be continued at the same funding level.

The last question we were asked to provide was an overview and update concerning plans to purchase a new, existing building to replace our office in Elko and how it might modify the State's capital improvement budget if the purchase is successful. The Department has a branch office and animal diagnostic lab located in Elko. It was built in the mid-1970s on land designated for the Great Basin College. Over the past 30 years, the Elko college campus has continued to grow toward our office building to the point they now have a proposed capital improvement project to build a 35,000 square foot electrical industrial technology center right on top of our office. We have been aware of this proposal for a while, so we worked with the State Public Works Board and developed a linked capital improvement project to build a new office in Elko.

The capital improvement project contained in the *Executive Budget* includes constructing a 6,000 square foot replacement facility for the Department located at the Nevada Youth Training Center. The estimated cost for this new building approaches \$4.3 million. Both of these capital improvement projects, the Great Basin project and our Department office project, are linked and recommended for funding in the *Executive Budget*. During the interim, the Department identified an existing commercial property for sale in Elko that is well suited to meet current and future needs of the Department in this area. There is a picture of this facility on page 9 of [Exhibit D](#). The building, owned by GSL Electric, Inc., was built in 1997 and, with some minor renovation and modification, would meet or exceed the facilities proposed in the capital improvement project. This commercial property has been appraised and fully evaluated by the State Public Works Board staff.

CHAIR RAGGIO:

I think the committees have already heard about this from the Public Works Board. We did approve earnest money and it is our understanding there are negotiations underway. It all depends upon what final action the Legislature takes on the Capital Improvement Program. Unless someone has some specific need for further information regarding this, I do not think we need to go into it any further.

ASSEMBLYMAN MARVEL:

What is your turnover rate?

MR. HENDERSON:

Our employee turnover rate is very low. I saw a report recently which indicated about 25 percent of our existing workforce would be eligible for their 30-year retirement within 5 years.

ASSEMBLYMAN MARVEL:

Are you understaffed?

MR. HENDERSON:

We are not short of personnel. We do not have building space to house additional personnel.

ASSEMBLYMAN MARVEL:

You can make a request for it.

MR. HENDERSON:

Yes, we have. There is a capital improvement project in the *Executive Budget* to pursue the development of construction documents for a new Reno headquarters building. The project would build a new expanded headquarters building in conjunction with our weights and measures facility in Sparks.

ASSEMBLYMAN MARVEL:

You would move from where you are now?

MR. HENDERSON:

Yes, we have been there since 1960. That project is recommended in the *Executive Budget*.

SENATOR BEERS:

You have several proposals in the budget that are funded by the General Fund.

MR. HENDERSON:

The gasoline import inspection fee mill assessment of 55 mills a gallon was set up by State statute and has been collected for some time. It was set up to fund the State Sealer of Weights and Measures. The revenue is collected by the Nevada Tax Commission and it comes to the General Fund in the amount of about \$660,000 a year. That funding is allocated back to us through the Legislative budget process to cover any loss between other fees we receive and the cost of the program. We have historically received about \$250,000 each year from that revenue stream. Over the past several bienniums we have been held to a flat budget. This is a very capital-intensive, equipment-intensive agency. We have deferred equipment replacement for many bienniums. With this budget proposal, we anticipate catching up with some of the backlog of equipment replacement for this Division, funded through the gasoline import inspection fee.

CHAIR RAGGIO:

The Committee will now take up the overview of the budget of the Welfare Division of the Department of Human Resources.

NANCY K. FORD (Administrator, Welfare Division, Department of Human Resources):

With me is Mr. Gary Stagliano, Deputy Administrator, Program and Field Operations; Mr. Roger Mowbray, Deputy Administrator for Administrative Services; Mr. Gary Buanacorsi, who is my Deputy Administrator for Information Systems; and Ms. Sandee Wyand of the Las Vegas Office. Our handout entitled *State of Nevada, Department of Human Resources, Welfare Division, 2005-2007 Biennial Budget Overview*, ([Exhibit E](#), original is on file in the Research Library) is the main document to which we will be referring.

The first tab in [Exhibit E](#) shows the revenues for the Department distributed by Division. The Welfare Division is a little over 10 percent of the Department's revenue. Page 2 illustrates how the General Fund is distributed. The Welfare Division is almost 9 percent of the General Fund for the Department of Human Resources. The third page shows how our funding is distributed in each of the fiscal years. About 62 percent of our funding in 2006 is federal funding, about 29 percent is General Fund and about 9 percent is "other." The "other" is

mainly comprised of Universal Energy Charges (UEC) funding and the State's share of collections in the child support enforcement account.

We continue to be the fastest-growing state in the country. Since the inception of welfare reform, Nevada's population has grown. We have had a 45 percent population increase, but the Temporary Assistance to Needy Families (TANF) block grant is a set amount of money. After the tragedy of September 11, 2001 (9/11), our caseload grew more than any other state in the country. Our average caseload went up over 47 percent in TANF. The next state was South Carolina with a 22 percent average caseload increase. We are 49th in welfare spending per capita at \$471 per thousand population; we are 48th in welfare spending as a percentage of general spending at 9.1 percent; we are 50th out of 51 in average monthly food stamp participants; and we are 51st in per capita Medicaid spending.

Page 5 of [Exhibit E](#) is an overview of what our organization looks like in the central office. I have included contact numbers as these are the people you are most likely to contact for information. The one exception is Ms. Leslie Danihel, Eligibility & Payments Chief, who retired last Friday.

Welfare is responsible for several programs: TANF, food stamps, Medicaid eligibility, child care, child support enforcement and energy assistance. Those are our major programs. The handout titled *Nevada State Welfare Division FY 2004 Overview of Programs* ([Exhibit F](#)) gives a general overview of the various programs. In addition, we have a fact book which I did not hand out. It is over one inch thick and we can get hard copies if you would like. It is also on our Web site.

Caseload is highly critical to projecting our budgets because they are based upon caseload. We have had some challenges in our caseload projections in the past because of what happened with 9/11 and the impact it had on Nevada. Historically, the Legislature has capped our budgets. If something untoward happens with our caseload and it should go up unexpectedly, we cannot go to the Interim Finance Committee (IFC) to seek additional funds to help manage the caseload. We have to cut benefits and services in order to remain within budget. The chart on page 7 of [Exhibit E](#) illustrates what has happened with our TANF caseload. Nevada's lowest month was in March 2000 at 15,487. After 9/11, our caseload skyrocketed. The only way we got through until the 2003 Legislative Session was because we had a reserve.

Page 8 of [Exhibit E](#) shows the history of the TANF reserve. At the time of 9/11, we had about a \$22 million reserve. But for that reserve, I would have had to cut benefits and services to people in low-income families when they were in their most dire need. This was because of all the layoffs. I will be asking for some leeway to be able to come back to IFC should something unexpected happen, like economic downturn, natural disaster or another terrorist attack that would affect my caseload. I would like the opportunity to justify and try to seek additional money. In the current situation, we will not have a reserve. By the end of FY 2007 the reserve dollars are estimated to be gone and there is no reserve set forth in my budget to be funded.

CHAIR RAGGIO:

Does the proposed budget plan to spend the existing reserve?

Ms. FORD:
Yes, it does.

Under the TANF grant, we are down to 9.42 recipients per thousand population. At our low point in 2000 we were at 8.25. Because of our huge population growth, we have a larger population to serve. If we get down to 8.25 per thousand, it is going to be a lot more in raw numbers than it was in FY 2000. However, I am still limited with the same amount of money.

The chart on page 10 of [Exhibit E](#) shows the data for food stamps. Food stamps are at an all-time raw number high. We are not at our per capita high. The next page shows you where we stand on Medicaid. Medicaid is at both a per capita and raw number high in our caseloads.

The handout titled *Nevada State Welfare Division, Caseload Projections, State Fiscal Years 2004 and 2005* ([Exhibit G](#), original is on file in the Research Library) gives you an outline of how difficult it was for us to predict caseloads in the 2003 Legislative Session due to 9/11. It threw a variable into every equation. We worked closely with LCB and other statisticians to come up with a good caseload projection. At the end of the 2003 Legislative Session, after the 21st Special Session, the Legislature funded us with our lowest available caseload projection. The TANF has come in lower than that, not just because of the economic situation improving, but also because we made some affirmative steps to try and make sure we were serving the population that needed our services and wanted to participate in our programs.

The next thing that flows out of caseload is staffing. In this budget, I do not ask for any new staff based upon the programs we currently administer. I am asking we be allowed to retain all the staff you so generously gave us in the 2003 Legislative Session because we still need that staff. On page 14 of [Exhibit E](#), we have a stacked bar chart which shows our caseload. There is a tendency for people to rely on the TANF cash caseload as being our caseload because that is where the cash goes out the door to families. The TANF is an extremely small piece of our caseload. The entire caseload is mainly Medicaid and food stamps. My staff in the Field Services Division have to process and decide applications in every single one of those cases. They have to process every application that comes in the door, whether it results in a case or not. So if an application or case is denied or withdrawn, staff still has to manage that case. Currently, in the TANF categories, including the Child Health Assurance Program, we have about a 33 percent denial rate. That is 33 percent more than just the caseload. In food stamps we have about a 22 percent denial rate. Those are more applications with which our staff have to deal.

Page 16 of [Exhibit E](#) shows how we calculate the staffing needs in our budget account 101-3233. That is our Field Services budget account and the people in the district offices who process cases. It is about a 12- or 13-step process but we gave you the shortened version for this hearing. We reduce caseload to an actual case jacket on a desk. Because many people are eligible for TANF, food stamps, and Medicaid, those are deemed all one case. We then apply a guideline to determine the workload. This helps determine when we need new staff and when we should stop hiring. It also helps to move staff, particularly in the Las Vegas valley, from office to office when the caseloads fluctuate. In the last 2003 Legislative Session, we were given 129.5 new positions. We are grateful we got those positions and we need them. If we apply our guidelines for FY

2006 and FY 2007, based upon the projections in the *Executive Budget* we would need 125 new positions. We are not asking for any new positions, we just want to maintain the positions we have.

As I mentioned, TANF is a block grant. We get about \$47 million each year from the federal government. We have to spend approximately \$27 million each year in "maintenance of effort" which is State General Fund we have to spend in order to bring in the block grant. If all the money in the block grant is not spent each year, it can be carried forward. Those carry-forward federal dollars become the reserve for future years. Prior to 9/11, we had money to carry forward so the reserve grew to \$22 million. The chart on page 8 of [Exhibit E](#) illustrates what happened. Our TANF cash exceeded our expenses in 2000 and 2001 and our reserve was growing. Because of 9/11, our expenses skyrocketed in 2002 and our reserve was starting to deplete. In 2003, we still had expenses exceeding revenues and the reserves were going down.

During the 2003 Legislative Session, we projected a need for some "General Fund in lieu of TANF" if we were going to maintain programs at the current levels. We did not think the reserve was going to carry us through the biennium. The Legislature gave us about \$8 million in "General Fund in lieu of TANF." In 2004, the caseload came down and we were able to revert almost all of the "General Fund in Lieu of TANF" given to us in FY 2004. In FY 2005, our expenditures again exceed revenues. A lot of this is because we are now fully staffed with the new positions we got from the Legislature. In FY 2005, we are fully staffed and our expenses once again exceed our revenues. We are going to spend some of the "General Fund in Lieu of TANF" to get through this fiscal year. In FY 2006 and FY 2007, we expect our expenses to continue to exceed our revenues and we will continue to need some "General Fund in Lieu of TANF." The TANF carryforward will support us through FY 2006, but in FY 2007 we will need about \$7.7 million.

As shown on page 18 of [Exhibit E](#), we reverted \$8.2 million in "General Fund in Lieu of TANF" last year and had a carryforward of about \$12 million going into FY 2005.

At the end of this year we will be reverting about \$18 million to the General Fund. This is about 78 percent of the General Fund given to us. It includes the high-performance bonus of \$2,036,000 for FY 2002 and \$16 million of "General Fund in lieu of TANF." We will spend \$4 million of the carryforward from last year and our carryforward is going to be down to \$8 million.

We have new federal mandates and I will be asking for additional staff to support that. The Medicare Modernization Act which establishes the pharmacy benefits, Medicare Part D, is supposed to come into effect January 1, 2006. This requires the Medicaid agency to determine eligibility for Medicare Part D. There are two subsidy categories with the Medicare Modernization Act. The categories are full subsidy and partial subsidy, with different income and resource limits.

We are supposed to start taking applications for these benefits on July 1 of this year and the benefit begins January 1, 2006. We are asking for one program specialist II in welfare administration to help with policy development and maintenance of this piece of the program. We also have a systems impact because we are going to have to develop a database to track these cases.

These people are not Medicaid eligible, but they are eligible for Medicare pharmacy benefits. Because we are the eligibility agency for Medicaid, we are required to participate in determining eligibility for this program.

We are requesting 11 new staff in Field Services for managing the additional caseload. That is eight workers, two clerks and one supervisor. The final regulations for the Medicare Modernization Act came out January 21, 2005. We attended a meeting in Richmond, California, on January 13 with the Social Security Administration (SSA) and the Center for Medicare and Medicaid Services (CMS) and talked about this. The SSA is well situated to take all applications, and they want to take all applications. They would prefer Medicaid agencies not determine eligibility. The statute requires us to determine eligibility. We will have staff assist people who come to our offices to apply because we have more offices in this State than the SSA. Our staff will assist them to apply through SSA either online or by filling out an application and mailing it in. Usually, the SSA determines eligibility. However, if an applicant refuses assistance by the SSA, our Division is required by statute and is capable of providing eligibility determination for the client. We estimate very few applicants will refuse SSA assistance; therefore, we have proposed to manually determine eligibility. By the time we get to our detailed budget hearings, we can adjust this request because we will have more information about what is required.

ASSEMBLYWOMAN LESLIE:

Are these new cases? Are you anticipating the Division is going to go through all its existing cases to see who qualifies for this or are you thinking this is going to bring new people to the Welfare Division that you have never seen before?

Ms. FORD:

We estimate this is going to be new applicants. The people who are currently on Qualified Medicare Beneficiary and Special Low Income Medicare Beneficiary will automatically be eligible for Medicare Part D. They are going to conduct an auto-enrollment in the fall. People who are already eligible for Medicare Part A and B, but are not currently on Medicaid, will come to us and ask to be put on Medicare Part D.

ASSEMBLYWOMAN LESLIE:

Do we still have to determine how Senior Rx fits into this picture?

Ms. FORD:

Yes, and I do not know a lot about Senior Rx. I probably will not be able to answer your questions on that.

ASSEMBLYWOMAN LESLIE:

We have Medicaid doing it, we have you and we have SSA. The seniors just want their prescriptions and they are going to be confused.

Ms. FORD:

I think the worst thing is we will be determining the eligibility, but then they have to go to CMS to enroll in their pharmacy plan because we do not process enrollments.

ASSEMBLYWOMAN LESLIE:

Are you talking to your sister agencies about this? You must be having meetings with everybody.

Ms. FORD:

Yes, we are.

ASSEMBLYWOMAN MCCLAIN:

Are you saying a senior who is on social security and does not qualify for any Medicaid or Supplemental Security Income is going to come to a welfare office to apply for Part D?

Ms. FORD:

I think they very well may because we have a lot more welfare offices around the State.

ASSEMBLYWOMAN MCCLAIN:

I do not see that happening at all.

Ms. FORD:

If they come to us, we have to be able to take the applications and assist them in the processing phase. There are only three SSA offices in the State, so I foresee people coming to our offices because we are more accessible.

SENATOR BEERS:

You are going to determine the eligibility and they are going either online or to the SSA office and have their eligibility determined again?

Ms. FORD:

No, we will assist them in filling out the SSA application or applying online and sending it to SSA, who will determine eligibility. It is only those cases where somebody insists Welfare determine their eligibility, because the statute requires us to do it, that we would perform a manual determination of eligibility.

SENATOR BEERS:

Do they go to SSA and get their determination repeated?

Ms. FORD:

We tell SSA they are eligible and send them to CMS for enrollment.

SENATOR BEERS:

Do you give them a piece of paper to take to SSA?

Ms. FORD:

To sign up for Medicare and Medicaid services they have to go to CMS.

SENATOR BEERS:

Can you handle this problem by providing a computer for their use, with a sign directing them to the computer?

Ms. FORD:

We could, except there are security problems. We need to have staff assist them.

SENATOR BEERS:

What security problems do you have?

MS. FORD:

We do not have a way to limit access if we just have a terminal out there for people to apply. Also, seniors may need assistance in filling out the application.

Another federal mandate is Payment Error Rate Measurement. This mandate seeks reductions in improper payments. The regulations are still being promulgated by the federal government. The anticipated release date for the final regulations is August 26, 2005, and the implementation date is October 1, 2005. We put two quality control specialists in our budget request, but we may need as many as 30. The Improper Payments Information Act, Public Law No. 107-300, directs the federal government to establish error rates in all programs for which they are responsible. They are looking at error rates for TANF and for child care in addition to Medicaid.

The Division of Health Care Financing and Policy will draw a sample from their monthly universe of claims paid and denied. Those samples are created for both Medicaid and Nevada Check Up. Eligibility reviews are then required to be conducted for the month of the service, not the claim. We have service dates that could be up to two years old. That means our staff will have to review the eligibility rules in existence at the time and make sure they were properly applied and the person was eligible on the date of service. Home visits are required as part of this eligibility process. The proposed regulations would have no administrative period. If someone reports a change on the 20th of the month, which would not affect their eligibility for the following month, and they had a service in the following month, technically they are not eligible any more. That would be counted as an error. Even though a change is timely reported, considered and implemented, it will count as an error because on the date of service they were not really eligible. We have provided our comments. We do not know what the final regulations are going to be, but it is fairly onerous.

There have been pilot projects going on about this across the country. The proposed regulations indicate it is going to be 2,000 claims each year. The average case processing time for each case in the North Carolina pilot project was 24 hours. That means it is going to take 48,000 staff hours to review 2,000 cases. According to the Department of Personnel, a State employee utilizes 1,600 hours each year in productive time. That means we need 30 new reviewers. This does not include support staff, clerks, supervisors and other people we may need. I am hopeful the final regulations will be much less onerous than the proposed regulations.

This session, we are requesting two quality control specialists so we can start preparing for this program and get policies and procedures in place. I would like to have the ability to come back to the IFC should the federal mandate require that I have more staff than the two quality control specialists. If we have to put in 30 new people, we would have office space issues.

President Bush placed a \$1.3 million administrative assessment against Medicaid in the proposed FY 2005 budget. That did not go through in the final budget, but we believe it will be in the 2006 budget. If this should occur, we would like the ability to come back to IFC so we can backfill that amount.

Changes are being proposed to the federal Office of Child Support Enforcement 157 Report. This is in the 60-day comment period now. We do not know what is going to happen, but it will affect our budget.

Budget account 101-3228 is our Welfare Administration budget. This is the one where we deal with all our accounting and statistics and make sure we are complying with all the requirements. It includes our program specialists who set up policies and procedures for the field. The E409 enhancement unit is for the Health Insurance Flexibility and Accountability Act (HIFA) waiver. We will need funding in budget account 101-3228 to get the computer systems to track these cases and determine eligibility. We will be asking for 11 new staff in Field Services to help process the increased caseload.

There are ten decision units across budget account 101-3228 which result in the transfer of 33 programmers from DoIT to us. Those programmers are housed with us and perform all our programming work. Those ten units need to be considered as a package because it includes all the equipment, training and software that go with the positions.

We are asking for a family support specialist to be converted to a program specialist I for our Medicare buy-in program. This employee is housed with and works with our program specialist. There is also an enhancement unit that will unclassify about five positions in budget account 101-3228.

Budget account 101-3232 is the State supplement that goes to group care facilities for the aged and blind. This is the only projected caseload increase over the next biennium.

Budget account 101-3233 is our Field Services budget account. We are asking for 11 additional staff for the HIFA waiver which I have already mentioned. Our lease at the Charleston office is up this year. That has not been a good office.

CHAIR RAGGIO:

What does the HIFA waiver do with regard to areas of pregnant women, small employer insurance and catastrophic injury?

MS. FORD:

It expands the eligibility for pregnant women so children and pregnant women between 133 percent and 200 percent of poverty will be eligible. The proposal is for a capped caseload so we need to program for being able to cap the caseload. It is my understanding small employer insurance and catastrophic injury are going to be worked out by other agencies or entities.

CHAIR RAGGIO:

Would you need 11 more staff as a result of that?

MS. FORD:

Yes, for what we estimate will be the expanded caseload due to the increased number. We will be happy to provide detailed calculations at the next budget hearing.

CHAIR RAGGIO:

The committees will want to know that.

Ms. FORD:

The small employer insurance and catastrophic injury affects us mainly through programming. We need to develop aid codes to identify those people so when we put it over to Medicaid, they have an eligibility code.

We are proposing to relocate the Charleston office. We are trying to find new office space now. Regarding relocation of the Henderson office, our current landlord has offered to construct a building at the same site. It is a very favorable deal with minimal increases, so we are asking for that. We are asking to remodel the Fallon office because we are proposing to close the Hawthorne office and move those two employees into the Fallon office.

ASSEMBLYMAN HETTRICK:

On the Henderson office where the landlord is offering to build and leaseback, is there no opportunity to do a lease/purchase or anything there? That would ultimately save the State some money instead of paying rent forever.

Ms. FORD:

We did not ask him, but I do not think there is because he owns that whole shopping center. Most of our field offices are located in areas that are convenient to our clientele, like on bus routes, so they are in shopping center-type areas.

ASSEMBLYMAN HETTRICK:

I am sure the location is good. If there were a way to find a suitable location where we could do a lease/purchase, it would ultimately end up saving the State money. Over the same 20 years of payments we would own the building instead of paying rent, and at the end of 20 years have to start the cycle over again. I think we ought to at least explore that before going ahead with this to see if we can save the State money.

Ms. FORD:

I think that is something to consider, particularly in our current exploration of the Charleston situation.

The Fallon phone system was originally in the Fallon remodel project. We pulled it out to make it separate. This gives them ability to five-digit dial like other State offices. They would get free long distance and it is anticipated to save some costs.

Decision unit M425 is for recommended deep cleaning of all offices. We are also asking to reclassify six family services specialist IIs and we are asking to unclassify one position.

The Child Care Assistance and Development Program is designed to help low-income families with their child care needs. We currently have one half-time clerical in our central office and we are proposing to expand that position to full time. We are proposing a new child care computer system. Our contractors currently own the computer systems. The two separate computer systems are substantially similar, but they maintain and own them and we have to rely upon them to get data. We are proposing to build a child care system that will provide access for people who need it. We will be able to generate our own reports and have a much easier time trying to track what is happening in that program.

There is no General Fund being used to build this. It is 100 percent federally funded.

ASSEMBLYWOMAN LESLIE:

In the south you have split the child care contract between two entities. Which of them will have the computer system?

Ms. FORD:

With the new system, we would have it. We would provide Web access to the computer system to input data and generate reports.

ASSEMBLYWOMAN LESLIE:

One entity is performing eligibility tasks and the other is managing payments. Would both of them use the computer system?

Ms. FORD:

That is correct.

ASSEMBLYWOMAN LESLIE:

Would this allow us to get the data we have not been able to get?

Ms. FORD:

That is correct.

ASSEMBLYWOMAN LESLIE:

Are you going to be able to do this with no General Funds?

Ms. FORD:

It is 100 percent federal funds.

There is another enhancement unit that transfers additional federal funds to the Division of Child and Family Services (DCFS) to assist them in their expanded child care licensing needs. There is also a proposed reclassification of a developmental specialist III to a specialist IV which more closely aligns the job duties.

Budget account 101-4862 is our Energy Assistance Program. This is the program which is funded through the UEC everyone sees on their gas and electric bills and through the Low-Income Home Energy Assistance Program.

There is an enhancement unit to allow for travel to a conference in Washington, D.C. They were unable to go last year because of our huge outreach campaign, but they would like to keep it in the budget.

We have an enhancement to increase our administrative cap. The way the UEC works is the Public Utilities Commission (PUC) brings in the money. They are allowed to keep three percent for their administrative costs. Then, it comes to us and we get to keep 3 percent of 75 percent. The PUC has agreed to reduce their 3 percent to 2 percent. During this biennium we have a BDR to assist with that. We will be asking to increase our ability to access administrative funds to 7 percent of our 75 percent of the UEC. We have found we do not have adequate money to be able to process cases and manage this caseload in a timely fashion.

We currently have housing bond money which we have been able to access to assist with our administrative costs, but those monies will expire June 30, 2005. Our outreach campaign in this program has been extremely successful. We have more applications coming in the door which is the good news. The bad news is we are up to ten weeks in case processing. We would like to get down to 30 days, but have inadequate administrative funds to do that.

Our proposed budget would increase client payments as a result of our outreach and marketing campaign in energy assistance. Our caseload was projected to be 25 percent over FY 2004 levels. Our applications are up 46 percent over the same time period last year between July and December, and our payments are 52 percent higher than they were between July and December of last year.

CHAIR RAGGIO:
What is the average payment?

MS. FORD:
The average payment in FY 2004 was about \$481 and now it is \$710. The other thing we are asking for in the BDR is regulatory authority to set limits on payments and more effectively manage this money. Currently, we have to distribute an amount according to statute and there are some very high payments made.

We have some adjustments to the TANF budget based on caseload projections which are much lower than they were in the 2003 Legislative Session and much more ameliorated. In March, we will recalculate all these figures, based on February's actuals, and some of these things are going to adjust out in our TANF budget as we progress.

The benefit levels for the Kinship Care Program were reinstated to 90 percent of the foster care rate effective July 1, 2004.

CHAIR RAGGIO:
We are concerned about departure from capping on these programs. That is something we have capped historically. Why was the decision made to utilize all of the reserve instead of keeping some of it and not having to suggest coming to IFC and open up this situation of uncapping?

MS. FORD:
I believe that decision was made because if we try to build a reserve, it means we have to ask for additional General Funds in lieu of TANF. The general sense of this body is that federal funds are to be spent before General Funds. If I try to build a reserve with TANF money, I have to ask for additional General Funds.

CHAIR RAGGIO:
We are not building a reserve, we would be preserving the current reserve.

MS. FORD:
I cannot preserve the reserve without getting additional General Funds.

CHAIR RAGGIO:
We would like to see an analysis of the amount of General Funding required to maintain a reserve for this purpose.

Ms. FORD:
We will be happy to do that.

ASSEMBLYWOMAN LESLIE:
Before we leave TANF, I notice in the budget there is again no adjustment to the subsidy to families. Do the federal officials ever look at Nevada and suggest Nevada take a look at increasing the subsidy for families? Maybe that should be considered because it has been a long time.

Ms. FORD:
It has been quite a long time. Single families and two-parent families have not had any increase in their benefit since 1992. Part of the difficulty is that any increases result in additional General Funding.

ASSEMBLYWOMAN LESLIE:
What is the average amount that a mother with two children would receive each month?

Ms. FORD:
The most they could get is \$328.

ASSEMBLYWOMAN LESLIE:
They have been getting \$328 since 1992. Is it typical in most states that they do not raise it for decades?

Ms. FORD:
I think it is, because everybody is in the same boat we are. We are not the lowest cash grant.

ASSEMBLYWOMAN LESLIE:
Where are we on the scale?

Ms. FORD:
We are 35th. We are not at the bottom.

ASSEMBLYWOMAN LESLIE:
We are not in the middle either.

Ms. FORD:
No, we are not in the middle. We are low. I have to admit I have not looked at the impact of increasing grants for single-parent and two-parent families, but we can certainly do that and make some proposals.

ASSEMBLYWOMAN LESLIE:
I wonder if it is going to be 25 years before we look at that. We can talk about it.

Ms. FORD:
I would be happy to. The difficulty is the block grant is flat funded, there are no cost-of-living increases and there are no population increase modifiers, so it is a very difficult thing to try and stay within.

In the New Employees of Nevada program we are asking for additional enhancement to provide training for our clients. We want to train them in programs and careers where they can have wage advancement because that is what is going to get them to self-sufficiency.

CHAIR RAGGIO:

Are we subjected to a penalty in that program?

Ms. FORD:

There was a penalty for failing federal fiscal year (FFY) 2003 work participation rates. We anticipated this was going to happen. After 9/11, with an average caseload increase of 47 percent, we had the same staff to manage that caseload for a period of time as we had before. We had to divert a lot of our activities over to front-line processing of applications to assist those people in need rather than working on getting people into employment. Our raw work participation rates between 2002 and 2003 went up. There are three ways we can get out of a penalty. One is reasonable cause to have the penalty waived and we are going for that right now. We are in the process of preparing our appeal saying we have reasonable cause because it was due to the impact of 9/11.

CHAIR RAGGIO:

What kind of an action plan is being considered to correct this?

Ms. FORD:

The second step is the corrective action plan. We would have to write out the corrective action plan to the federal government and they would approve it. We believe we have already met that because we have passed work participation rates for 2004.

CHAIR RAGGIO:

What is the penalty?

Ms. FORD:

The penalty would be \$2.1 million. It is not assessed until the corrective action plan fails. We do not believe this will ever be assessed. We maintain that we have already done corrective action, but we did get a letter.

The reorganization of TANF is still on the horizon and has been as long as I have been on this job. We are on continuing resolution through March 31. We believe TANF reauthorization will be approved this year. The work participation rate has increased in excess of 70 percent over time, but there is no increase in funding. It is the same block grant.

The Child Support Enforcement Program is administered by the Welfare Division in conjunction with the county district attorneys. We have cooperative agreements with many of the district attorneys with whom we work. In this budget account we are asking that the support enforcement specialists be reclassified to family services specialists which will more closely align them with their level of duties and responsibilities. It also gives us flexibility with our staff. This budget account also proposes the unclassification of one position.

In FY 2002 we had a penalty assessed for data reliability. The penalty was \$428,000 which is 1 percent of the TANF block grant. We appealed the penalty

to the Grant Appeals Board. It was all briefed and it has been submitted since late May or June. We still do not have a decision on it.

We also received a penalty letter for data reliability for FFY 2003. We went through a data cleanup and we thought we fixed all our problems, but we did receive that penalty letter.

CHAIR RAGGIO:
That was the third consecutive time?

MS. FORD:
This is the second consecutive time.

CHAIR RAGGIO:
I thought staff indicated it was the third.

MS. FORD:
It is the second time for penalty.

CHAIR RAGGIO:
Do you have a higher penalty if you get it three times?

MS. FORD:
It is incremental. The 2003 letter was a 2 percent penalty against the TANF block grant which was \$856,000. We still believe we will win the 2002 penalty appeal. If we do, the penalty for 2003 will get reduced because we will be back in the first year of penalty status.

CHAIR RAGGIO:
Is 2 percent about \$856,000?

MS. FORD:
Yes, it is. We think we have fixed all our data reliability problems. Yesterday, we had an entrance conference where federal officials will be conducting our 2004 data reliability audit.

CHAIR RAGGIO:
Are you giving these penalty situations a high priority?

MS. FORD:
Absolutely. The difficulty with child support is there is no opportunity for a corrective action period. They just assess it. There is, in the Senate Bill for the TANF reauthorization, a proposal to fix that and make it retroactive. We are hoping that will pass and assist us.

We have a BDR to rename the Department of Human Resources the Department of Health and Human Services and rename the Welfare Division the Division of Transitional and Supportive Services.

CHAIR RAGGIO:
Everybody understands welfare. Why do you want to change it?

Ms. FORD:

We are really not welfare. We try to support and help people and get them to become self-sufficient. We would like to change our name, but it is open to debate. If you think of a better name, we would be happy to consider it.

SENATOR BEERS:

Did you say you fixed the 2003 work participation failure problems?

Ms. FORD:

Yes, we have and believe we have passed 2004. The federal officials have not performed the final assessment, but we estimate we had a 54 percent work participation rate for 2004.

SENATOR BEERS:

Did your statistics indicate we are first in the nation in growth in TANF?

Ms. FORD:

We were between FFY 2001 and FFY 2002, but not any more.

SENATOR BEERS:

One of the things which can moderate that growth is the management of the caseload and transitioning and helping people off welfare and into a job.

Ms. FORD:

That is part of it, but about one-third of our caseload is child-only cases and those people do not have to go to work. They will always be there.

SENATOR BEERS:

I am seeking some assurance that you are aggressively transitioning people into jobs for the remaining two-thirds.

Ms. FORD:

Yes, we are doing the best we can.

SENATOR BEERS:

This would give one the impression you are planning to go forward by forever spending more than your block grant.

Ms. FORD:

One of my goals is to get us back within the block grant unless the Legislature decides they would like to spend additional General Funds in order to expand programs.

SENATOR BEERS:

Including Medicaid, that is exactly what we have done and what we are doing again this budget.

Ms. FORD:

Medicaid and food stamps are entitlements, so we do not have a lot of control over that caseload. The TANF is different.

SENATOR BEERS:

Why would our TANF population grow so much faster than other states, even accounting for the growth in our population? Is there a population modifier in the block grant?

Ms. FORD:

Not any more. The population modifier was frozen at the 2001 level for which we get \$3.7 million. They could even decide not to continue to give us the \$3.7 million. We get \$3.7 million in addition to the base block grant of about \$43 million, for a total of \$47 million a year. They have not increased the population modifier since 2001 and we get no more additional money for population growth.

SENATOR BEERS:

What is your strategy to get back within the limits of the grant?

Ms. FORD:

Our strategy is to continue to get people to work and try to get them into jobs that progress and have wage gains.

SENATOR BEERS:

Do you have a time frame within which you expect that strategy to bear fruit?

Ms. FORD:

It is continuing to bear fruit. We have increased our work participation.

SENATOR BEERS:

The graph in [Exhibit E](#) does not indicate that your strategy is going to be successful.

Ms. FORD:

You are making an assumption that I have a stagnant population and I do not.

SENATOR BEERS:

No, I am making an assumption that you have a stagnant grant.

Ms. FORD:

I do have a stagnant grant, but I have different people entering the program continually. There is also the five-year time limit. When people hit their five-year maximum federal time limit, they cannot come on our program unless a State-funded program is created. That is going to affect our caseloads. I cannot control how many people want to apply for the program and how many people go off the program. Our goal is to increase our work participation rates, get these people to work and get them self-sufficient so they do not have to rely on us.

SENATOR BEERS:

How long are you going to give yourself to see if that strategy for getting your spending down to within your grant amount is successful?

Ms. FORD:

It has already been successful because my caseload has come down.

SENATOR BEERS:

I thought we just discussed it was your strategy to bring the spending down to the limit of the grant.

MS. FORD:

It is my goal to get back within the block grant without having to cut programs any more than we already have. By next session, I should have a better feel for this. Currently, I am still feeling some effects of 9/11.

SENATOR BEERS:

What are the alternatives to getting those people to work? Are they capping the program?

MS. FORD:

I could cap the program, reduce grants, reduce services and cut grants to other sister agencies. We currently give money to Mental Health and Developmental Services, Health, and DCFS.

SENATOR BEERS:

How long is it your intention to focus on this one strategy to determine if it is going to get your spending down within your grant level?

MS. FORD:

That question is very hard to answer until I get my caseloads down where they are stabilized. My caseloads are tied more to the unemployment rate than anything else. If something happens and unemployment goes up, my caseload goes up about a month later.

SENATOR BEERS:

I am hearing that you do not have a well thought-out strategy for bringing your spending to within the limits of your grant.

MS. FORD:

I am going to have to see how and where the caseload levels out to determine what I need to do next.

The next BDR increases the administrative cap for the Energy Assistance Program and also gives me regulatory authority to help manage the levels in the Energy Assistance Program.

We also have a BDR to amend the qualifications for the administrator of the Welfare Division because they are outdated. There is also a BDR to exempt the State Child Support Disbursement Fund from the Uniform Disposition of Unclaimed Property and create an unclaimed property fund in child support.

CHAIR RAGGIO:

We will take up those BDRs as the bills come before the Committee.

At this time, we will review the Department of Motor Vehicles budget which is in Volume III of the *Executive Budget*.

VIRGINIA (GINNY) LEWIS (Director, Department of Motor Vehicles):

I will start by going through some of the Department's accomplishments over the past two years. Probably one of the greatest accomplishments has been the

implementation of the 100 percent staffing at our metropolitan offices in Las Vegas. The rewards and support from both Governor Guinn and the Legislature are many. The roll-out of the 100 percent staffing was phased in over an 11-month period. We started with the Carey office in October 2003, and went on to the Sahara office in December 2003, the West Flamingo office in May 2004 and Henderson in September 2004. Due to the additional trainers funded by the 2003 Legislature and some subject matter experts out of our Field Services Division, we were able to complete 11 new hire and vacancy academies, each of which are eight weeks long, during FY 2004. This represents 133 newly-trained employees for the Las Vegas metropolitan offices.

The reduction in wait times has been significant. This additional staffing has allowed us to have all service windows covered throughout the day to compensate for activities which take employees away from the window. Prior to that, the North Las Vegas Carey office had an average wait time of about 92 minutes in August 2003. In August 2004, they were down to 57 minutes. The Sahara office wait time went as high as 75 minutes in November 2003. By November 2004, it was down to 42 minutes. The Flamingo office was as high as 89 minutes in September 2003 and it came down to 44 minutes in September 2004. The Henderson office was at 90 minutes in November 2003 and down to 46 minutes in November 2004. The Flamingo, Henderson and Sahara offices all had an average wait time in December 2004 of 35 minutes. Nevada's wait times are an accurate reflection of how long that customer is truly in the office; it is not just the time they are queued in the system.

As we had anticipated with the 100 percent staffing, overtime has been greatly reduced in the metropolitan offices. Between FY 2003 and FY 2005 there has been a 68-percent reduction in overtime hours in the Las Vegas offices.

CHAIR RAGGIO:

There were 17 positions allocated for the Galletti Way office and they have not been recommended for continuation. Yet the information before me indicates the wait times there are 61 minutes. Why is that not being addressed?

MS. LEWIS:

The positions which were in reserve for this biennium included staff for the Galletti Way office. When we concluded the 2003 Legislative Session, the direction we were given was to come back when there was a need to move the positions out of reserve. You had already funded the Carey and Sahara offices. We came back with the Flamingo and Henderson offices and we have been watching the Reno office very closely. While there have been times when the wait time has exceeded one hour, they are still coming in under that hour. We believe there are processes and some staffing scheduling we can do internally before I come back and ask for those positions.

CHAIR RAGGIO:

I want to keep an eye on that, so please do so.

SENATOR MATHEWS:

I have been at the Kietzke Lane office in Reno twice and the wait was 30 minutes at the very most.

CHAIR RAGGIO:

Where does the 61 minutes average figure come from?

Ms. LEWIS:

There could have been one month when that was the average, but we look at every month as we go.

The next accomplishment was the installation of the 14 kiosks Statewide. During the six-month period of July through December 2004, over 59,000 kiosk transactions were completed. Of those transactions, 55 percent were cash and 19 percent were completed in Spanish. The average transaction time was under two minutes. In the future, our kiosks will be expanded to include drive record printouts and reinstatements for lapse of insurance. Both transactions are currently online on the Internet.

When my management team was putting together their budget for the upcoming biennium, they asked for additional technicians for some of our smaller offices like Minden, Pahrump, Mesquite and Fallon. Those offices are starting to get very busy. Rather than put additional positions in our budget request, we are negotiating with the vendor to put kiosks in those offices as an alternative to staffing. The number of customers in our southern Nevada offices continues to grow. When comparing July through December of 2003 versus 2004 there has been an overall customer increase of 11.5 percent.

The alternative technologies available to our customers to renew their driver's license or registration include the Internet, emission stations, interactive voice response on the telephone and kiosks. These technologies are projected to handle approximately 500,000 customers in FY 2005. That is 48 percent more than in FY 2004 and more than the Flamingo office, the busiest office in Las Vegas, where we project over 390,000 customers this fiscal year.

CHAIR RAGGIO:

What is the alternative to getting your driver's license renewed by going down and having a picture taken?

Ms. LEWIS:

You can renew it by mail once in an eight-year period.

CHAIR RAGGIO:

Do you have to go down and get a picture taken?

Ms. LEWIS:

When we get everyone on the digital driver's license database and have the image stored, we will have more flexibility for renewing a driver's license. Currently, if you do it by mail or on a kiosk, you get a sticker to put on the back of your license. The goal is to be able to issue a new card with updated information and a new expiration date, using the same image.

The fraud unit implemented within our Compliance Enforcement Division has proven to be very successful. The unit was funded and established to ensure the Department's processes are not used fraudulently. Since the inception of the unit in October 2003, there have been 1,122 cases which include 22 odometer fraud, 133 document fraud, 839 identity fraud, 55 title fraud and 73 other fraudulent practices. The unit has made 106 arrests, canceled 161 documents, referred 16 cases to the District Attorney's office and put 2 false identification manufacturers out of business. A number of accolades and

letters of appreciation have been received from other law enforcement agencies in support of the unit and the assigned personnel. In closing the budgets from the subcommittee out of the 2003 Legislature, the Department was directed to re-justify this unit. Although the *Executive Budget* reflects these positions in the Base Budget, the Department is prepared to defend the effectiveness and accomplishments of this critical program to ensure continued funding.

Another project we completed was the implementation of digital license plate technology for the production of specialty plates. With this technology, a new license plate can be developed, produced and stocked in our offices within a matter of weeks. In the past, the design process could take up to five months before an agreement was reached between the sponsor, the vendor, DMV and law enforcement. In addition, inmates at the license tag plant are learning and using basic computer skills, graphic designs, data entry and bar coding for shipping. Our goal is to use this technology for the manufacturing of all license plates in FY 2006. By converting to this method of production, we will eliminate the paint solvents, hazardous chemicals and routine hazardous material inspections. Production time will be increased because the equipment no longer needs to be cleaned or torn down in preparation for a new design. The oven and presses can be eliminated, reducing utility costs and Occupational Safety and Health Administration requirements. The process has been streamlined with the potential of mailing plates to owners of new vehicles without them coming to a DMV office.

CHAIR RAGGIO:

Do these plates and the colors on them last as long as the plates we have been using?

MS. LEWIS:

They are still made with aluminum; they are a lighter weight aluminum but they have the life span of any other comparable plate. One of the benefits of the digital plate is the ability to produce more color and creative graphics that we cannot obtain with our current technology.

Our budget supports us reaching the goals listed in our handout entitled *Nevada Department of Motor Vehicles, Budget Overview* ([Exhibit H](#), original is on file in the Research Library). The goals and enhancements which support those goals are listed following the tab entitled "Enhancement Summary."

The *Executive Budget* recommends a total of 35 new positions for the agency over the biennium. The new positions would include 19 in FY 2006 and 16 in FY 2007. The 15 positions proposed for FY 2007 would allow for 100 percent staffing at the new Decatur facility. This replacement facility will have 7 additional windows which will require 14 additional technicians and 1 DMV supervisor. The *Executive Budget* recommends two compliance investigator positions for the salvage wrecker, body shop and garage budget. This is a self-funded budget supported through business licensing fees. In 1997, this account was given the responsibility of registering garages and investigating work order violations. No additional positions came with the added duties and responsibilities. The actual workload associated with garages has accounted for 69 percent of the total workload in FY 2004 and far exceeded what we anticipated.

We are requesting six positions to augment our audit team in the Motor Carrier Division. This includes four auditors, one supervising auditor and one administrative assistant to be located in Las Vegas. These positions will increase the Division's ability to detect and reduce fuel tax underreporting and evasion as well as to gain compliance with Nevada's fuel tax laws. We will do this by increasing the frequency of field audits performed on Nevada's 172 licensed fuel suppliers. The Division's goal is to increase audits from once every four years to once every two years. Over the four-year period from FY 2001 through FY 2004, Nevada's licensed fuel suppliers remitted over \$1.8 billion to the State, counties, cities and airports. Auditing each supplier an average of only once during a four-year period places us at substantial financial risk.

A total of six positions over the biennium are recommended for our IT Division. This includes two positions for a swing shift for Carson City operations, a programmer for fleets to be based in Las Vegas, a network position for the new Decatur facility and two programmers are recommended to create a motor carrier track. Our goal is to become less reliant on outside contractors and phase in the development of in-house programs currently under contract with Associated Computer Specialists (ACS). During FY 2004, existing programmers began the development of an in-house electronic filing and payment system to replace the program contracted to ACS. This work has already saved the State money by reducing the motor carrier Base Budget in the amount of \$262,000 for contract services. This savings will be realized every year from this point forward. The total contract with ACS exceeds \$800,000 each year. The IT group has the skills and expertise to phase in the remaining programs still on the ACS system. The savings already realized from this work more than covers the cost of two additional programmers.

A supervising investigator is recommended for the Compliance Enforcement Division in the Reno area to correct the existing staffing ratio of 12 to 1. The additional supervisor will bring the span of control to a manageable level of supervision. A DMV technician is recommended for the Central Services Division to assist the staff processing titles for the salvage vehicle program. The Legislature passed A.B. No. 325 of the 72nd Session, which required businesses to obtain a salvage title for a salvaged vehicle before it could be sold. The law requires that DMV issue these titles within two days of receiving all necessary documentation. Businesses pay a \$10 fee for each salvage title. This money is deposited into the salvage wrecker and body shop account. These fees defray the cost to the Department of processing the salvage titles. The workload for salvage titles has almost doubled from our original projections. The fiscal note we provided during the 2003 Legislative Session reflected a projection of over 36,000 titles for FY 2005. Based on the activity for the first six months of this fiscal year, we are now projecting almost 67,000 titles.

A DMV appraiser is recommended for the Pahrump office to handle the increased workload and allow the Department to comply with the statutory requirement of processing appraisals of abandoned vehicles within ten business days after receipt of the request. There are three DMV technicians recommended for the Henderson office to handle increased back-office workload in the area of fleets and title production. Another key area of the *Executive Budget* recommends ongoing training for our IT staff. The technology advances we have made demonstrate the benefits of this training and request your support for continued training for the staff.

When DMV submits the agency budget, the Highway Fund appropriation cannot exceed 22 percent of the revenue we collect and distribute to the Highway Fund. In past Legislative Sessions, we have pushed the limit on the cap, but have always found alternative funding sources to offset our Highway Fund needs. The 22-percent cap on our budgets does not appear to be an issue for the FY 2006-2007 biennium. The Department budgets for the 2004-2005 biennium closed with two new revenue sources to offset Highway Fund need. We are now close to being almost a 50 percent fee-funded agency. Those two revenue sources have generated over \$11 million. Also, the revenues in FY 2004 were very strong for our agency.

The growth in the State for the cost of using credit cards has become a problem. The projected cost for the upcoming biennium will exceed \$11 million. These expenses are presently funded through an appropriation from the Highway Fund. In FY 2004, the Department collected over \$138 million through credit card payments. Of that total, \$14.5 million went to the General Fund, \$31 million to the Highway Fund and over \$91 million to Nevada's counties and schools. The Department believes it is appropriate to bring forward BDR 1038 as a mechanism to address this inequity. The BDR simply asks to allocate credit card fees proportionately among the various entities receiving funds for which credit cards are used. The Department will do this by taking the cost associated with credit cards off the top prior to distributing the funds collected.

I would like to briefly touch on the status of the new Decatur facility. The 2003 Legislative Session funded over \$9 million for the capital improvement project which would replace the existing DMV office located on Carey Avenue in North Las Vegas. These funds did not include the purchase of property since the Department has worked with the Division of State Lands and found a site in North Las Vegas that could be transferred from the U.S. Bureau of Land Management (BLM) to the State. The current site in North Las Vegas is a 33-acre parcel off Decatur. The DMV would build on 14 acres of this parcel. The design of the new facility has been completed and the last hurdle has been the sign-off transfer of the parcel from BLM to the State. As recently as last Friday, the Assistant Secretary of the Interior has assured the Governor's office that the land transfer would be signed off. The Field Services budget includes three months of additional lease payments if the construction of the facility encounters delays. The lease on our Carey office expires at the end of December 2005. The State Public Works Board has selected Pace Contracting for the project and when we have the land transfer in hand, the contract can be awarded and construction can begin.

CHAIR RAGGIO:

The *Executive Budget* recommends a reduction in the reserves for budget account 101-4772, Motor Vehicle Pollution Control. This money goes to Clark and Washoe Counties. Also, there is a BDR that would allow direct distribution of funding from these sales to non-attainment areas. Would you discuss that?

Ms. LEWIS:

The Department has submitted a BDR that would increase the reserve from \$500,000 to \$1 million. We did this to ensure the cash flow for the beginning of a fiscal year is available to the State agencies that rely on this account for funding. That would include the Department, the Division of Environmental

Protection and the State Department of Agriculture. There is another BDR which would streamline the process for the counties to access money from the account. Currently, they are required to come to the IFC.

CHAIR RAGGIO:

What is the purpose of the BDR?

Ms. LEWIS:

Our BDR would not authorize more money. I understand the counties are submitting a BDR that may alter how much money they get from the account.

ASSEMBLYMAN HETTRICK:

One thing I would like to see us do is streamline how boat and trailer registrations are processed. I had to go to one place to register the boat and another to register the trailer and it was a nightmare to get it done.

Ms. LEWIS:

It is hard for the customer because boats and boat trailers are registered in separate places. We cannot change that because of our current structure.

CHAIR RAGGIO:

At this time, we can discuss the proposed vehicle registration fee rebate.

Ms. LEWIS:

I do not have a formal presentation on the proposed rebate. The role of the DMV in the rebate is as the source of information. We know who, how much and where it goes. We have provided data to the Governor's office for calendar year 2004. He has determined he could refund up to \$300 per vehicle registration. We were able to identify that 2,066,000 refunds would be issued. That includes personal vehicles, trailers, motorcycles and motor homes. It does not include boats. It includes 100 percent Nevada-based commercial power units. We knew we had \$300 million. We were able to identify that over 1.6 million checks would be issued for the total amount paid on the registration fee, the government services tax and the supplemental tax. The remaining would have a cap of \$300.

CHAIR RAGGIO:

Is the proposal to issue rebate checks versus giving a credit?

Ms. LEWIS:

The proposal is to issue a refund check. From the perspective of DMV, it is the best and easiest way to manage this task. To issue credits, we were looking at an extended period of time for programming. It would be difficult for the agency to manage and that is not how the Governor wants to deliver this to the citizens.

CHAIR RAGGIO:

Is it contemplated that the refund would be made within a specific period of time?

MICHAEL D. HILLERBY (Chief of Staff, Office of the Governor):

We decided the time period that made the most sense was the registration fees paid in calendar year 2004. The fiscal year in which the State operates would

be difficult to explain to the public. People started calling to inquire about when they would get their rebate as soon as this idea was suggested.

CHAIR RAGGIO:

How was the \$300 million amount of this program determined?

MR. HILLERBY:

The Governor looked at the revenue coming to the State and at the needs and determined that was an appropriate number to give back to the public.

CHAIR RAGGIO:

Is there an administrative cost that is not presently reflected in the proposed budget?

MS. LEWIS:

When we looked at the \$300 million and the real numbers that were actual fees paid in calendar year 2004, the final payout is \$297 million. This has left about \$2.3 million on the table for administrative costs.

CHAIR RAGGIO:

Is \$2.3 million the anticipated cost of administering this rebate program?

MS. LEWIS:

This is a collaborative effort with multiple agencies. We have not finalized the cost. We have discussed outsourcing as a practical solution. We know we have to manage the information to the public, and DMV has identified a phone center that will be set up with temporary staff to give information regarding the refunds.

CHAIR RAGGIO:

It is important we have the projected costs as soon as possible. Can we expect the agencies involved to get together within a very short time, analyze it and give us the projected costs, whether \$2.3 million or otherwise?

MS. LEWIS:

There is a meeting tomorrow with the office of the State Controller, office of the Treasurer and DMV, to start drafting a bill to ensure the needs of every agency are met and if any changes in the law are needed.

SENATOR BEERS:

Do your DMV files have the ability to decode the encoded social security numbers? Are you looking at sending out 1099 forms?

MS. LEWIS:

We collect the social security number at the time of a driver's license, not a vehicle registration. A social security number is not on the registration transaction.

MR. HILLERBY:

Since it is a refund of taxes, we are looking into whether there is a legal requirement with the IRS that we process 1099 forms to individual taxpayers.

SENATOR BEERS:

When do you think we are going to get that ruling?

MR. HILLERBY:

We are meeting to work on the BDR again tomorrow. We have initial budget numbers and informal estimates on what it may take to outsource this project. We want to get the BDR to you as soon as we can so there is plenty of time to talk about it and make sure all the questions get answered.

SENATOR BEERS:

A number of people who registered a vehicle in Nevada in 2004 may have moved back to Idaho. Are they going to get a check as well?

MS. LEWIS:

If they have left the State and have a forwarding address, the U.S. Postal Service will forward it. Otherwise it will come back to the State. We have about a 3.8 percent return rate on our registration renewals. If they know they have a check coming, a lot of people will provide us with their current address.

CHAIR RAGGIO:

Is this going to be an automatic refund to everyone who is in that category who paid for calendar year 2004, or is it going to be based upon some application that needs to be made?

MR. HILLERBY:

It would be an automatic refund. We do not think people should have to request it.

CHAIR RAGGIO:

The obvious question is what to do with the rebate for people who have moved and people who have died.

MR. HILLERBY:

If people have died and have survivors in the State, it should go to them. One thing that will likely be in the BDR is some mechanism to send back to the General Fund any checks that come back and for which we cannot find the rightful owners.

ASSEMBLYMAN MARVEL:

If I had 1,000 taxi cabs, would I get a \$300,000 rebate?

MR. HILLERBY:

You would get up to \$300,000 depending on the registration on the cabs.

ASSEMBLYMAN MARVEL:

What about the trucks that are apportioned?

MS. LEWIS:

There are just over 20,000 commercial power units that are 100 percent Nevada-based. They are not apportioned, are not leaving the borders of Nevada and are strictly in Nevada. We feel it is appropriate they be identified as entitled to the refund. We would not send a refund to people who have a bad debt with the State, who have a suspended registration for a parking violation or who have a second citation for Driving Under the Influence. There are about 54,000

exempt registrations in the system and we are not going to issue a refund to those.

ASSEMBLYMAN MARVEL:

Do you have an amount identified for all the interstate trucks that go through that are working on an apportioned license? Do you have to prorate for each of them?

MS. LEWIS:

They are not going to get a refund if they are apportioned.

ASSEMBLYMAN MARVEL:

They pay money to Nevada, do they not?

MS. LEWIS:

Our motor carrier system is housed by vendor so we would work through the vendor to get that done. We do not control it. The proposal that has been brought forward identified only the 100 percent Nevada-based vehicles.

MR. HILLERBY:

With respect to the question about taxi cabs, the Governor was adamant from the beginning that if you are a Nevada-based business and you pay those registration fees, you ought to get a refund. If you have 100 cabs in a fleet, or 20 vehicles in a fleet, you have paid registration fees on all of them. You are paying taxes, employing people, and it ought to come back based on how much you have put in as a Nevada-based business.

ASSEMBLYMAN HETTRICK:

Taxes were not premised on whether or not you had a registered vehicle. Yet, the people who have registered vehicles will get a refund and those who do not have a registered vehicle will not. I have a problem with that.

During the interim I asked about doing a rebate and was told there would be \$6 million in programming costs. You are now saying \$2.3 million would cover the cost. Postage alone is going to cost \$740,000. That is one-third of \$2.3 million, so I have a concern as to whether we are getting the whole cost estimate for this program.

MR. HILLERBY:

We are working on that budget now and have some informal cost estimates for outsourcing the project. We will include in the budget everything that has been discussed and we will bring the final numbers back to the Committee.

SENATOR TITUS:

Would someone who had a registered car, but has since been convicted of a crime and is in jail, get the rebate?

MS. LEWIS:

We would have no way of knowing that. We would send the check to the address we have on file and if there is a recipient who can legally cash the check on the other end, it is out of our control.

ASSEMBLYWOMAN GIUNCHIGLIANI:

Could we get a review of the Government Services Tax and how it was established to see if there could be something more beneficial to the public and more equitable than the proposed rebate? I would rather try to reduce the waiting times at DMV offices. Do you have some alternatives for us to consider?

I think the issue is that this is a one-time thing and it does not really fix any potential or perceived problems. Mr. Hettrick was right on point when he said we are rebating money to individuals who did not pay the tax that was raised in the 2003 Legislative Session. There is still a question we have heard today about the number of inequities and the overhead bureaucracy that has come to play. I would like to have some other alternatives on where some of these dollars could go that would benefit the majority of people.

MR. HILLERBY:

We looked at a variety of options including sales tax holidays. The sales tax holiday is attractive in some ways, but we felt one of the fundamental problems with that was we were asking people to spend more money in order to get money back. There is no perfect way to do this. We think this is the fairest and best way to get this money out to as many people as possible in Nevada, with as easy a mechanism as possible.

CHAIR RAGGIO:

This is one-time money. Other uses for one-time money could be the budget stabilization fund or capital improvement projects. If we do the rebate, is there going to be expectation that it will continue?

MR. HILLERBY:

Somebody probably will expect the rebate to continue and I appreciate you pointing that out. I neglected to address Ms. Giunchigliani's question about whether the money could be used to do other things at the DMV. I think the DMV staff have done a fantastic job with technology in reducing wait times. You could hire people with one-time money and lay them off as soon as the money was gone because the funding source may not be there. If the money is used for a capital project, once you build a building you have to staff it, maintain it and there are other ongoing expenses. These are all things we can talk about as the proposal moves forward in the Session. We look forward to hearing other ideas and debating them.

CHAIR RAGGIO:

I will now close the hearing on the Department of Motor Vehicles and on the proposed Vehicle Registration Fee rebate with the admonition that the requested information should be developed as soon as possible. This issue needs to be determined early in order to decide what we are going to do with budgets and other issues.

GEORGE TOGLIATTI (Director, Department of Public Safety):

I have a PowerPoint presentation which highlights the budget overview handout entitled "Nevada Department of Public Safety" ([Exhibit I](#)).

We have been working on strategic planning and developing our mission and our objectives to clarify where this Department is going. I would like to highlight three divisions. When I first arrived, the Governor's office expressed concern

regarding the Investigation Division and the Criminal History Records Repository. Both of these divisions needed our immediate attention. We made some dramatic changes in the Investigation Division and prioritized objectives. I envision the Investigation Division as continuing to not only serve as a critical part of the law enforcement effort in the rural areas, but to also be more of a detective bureau. We have turned the corner on the financial and perceived backlog issues with the Criminal History Records Repository. We have reorganized and changed the process. We are also working within the Fire Marshal's office.

We are dependent upon the federal government for our intelligence information. It comes from three areas: the Department of Homeland Security, the Department of Justice and the Department of Defense. We have had difficulty adjusting all of those sources to get adequate information and then taking that information and disseminating it to the necessary areas. I have tasked the Investigation Division to be involved in the Joint Terrorism Task Force. We also engaged the National Guard. In the beginning, when the commission was put together with A.B. No. 441 of the 72nd Session, everything worked fine for about a year. We now have a smaller, more effective commission. There are no State members on the commission. This is an excellent idea so we can be on the other side of the table to provide services from Homeland Security and administrative services from the Division of Emergency Management. The members of the Nevada Commission on Homeland Security are an independent body, an autonomous group, that can make decisions on how the federal monies are going to be spent within the State of Nevada.

CHAIR RAGGIO:

Is the proposal to take this out of the Governor's office and put it in the Department of Public Safety?

MR. TOGLIATTI:

That is my understanding. We also move from an advisory position to an administrative position.

CHAIR RAGGIO:

Is there presently a chief of Homeland Security?

MR. TOGLIATTI:

We presently have the Adjutant General Giles E. Vanderhoof with the National Guard who is our Homeland Security administrator.

CHAIR RAGGIO:

Do you envision someone else in that position?

MR. TOGLIATTI:

It is my understanding that Adjutant General Vanderhoof will continue in that capacity until he retires from the National Guard which should be sometime this spring. At that time, he would move to the position of Chief of the Homeland Security Division.

SENATOR RHOADS:

Who makes the appointments of the members to the Nevada Commission on Homeland Security?

MR. TOGLIATTI:
The Governor.

CHAIR RAGGIO:
There are four nonvoting members appointed from each House by the Speaker and the Majority Leader.

SENATOR RHOADS:
I have heard some concern from people in the rural areas that there is no one on that Commission representing agriculture. The quickest way for terrorism to hurt our State would be through agriculture. You might suggest this to the Governor.

MR. TOGLIATTI:
There is a considerable amount of money that comes from the federal government to all the states which has to be balanced on how it is distributed. I think our intent and the Governor's intent is to make sure there is an independent panel to do that.

In the course of being tasked with looking at the homeland security effort, the Division of Parole and Probation has identified between 18 and 30 individuals under their control who are believed to have terrorist leanings. A domestic terrorism threat remains to this country, as in the Oklahoma City bombing.

The Investigation Division within the Department of Public Safety is a law enforcement agency through all the counties, particularly the rural areas, that is key in maintaining intelligence information for those who do not have the resources.

We have received information from our sources in the federal government that the Byrne grant, the traditional grant for criminal justice, may be cut as deeply as 36 percent. If this happens, it will impact not only the rural areas but it will also impact our efforts within the Investigation Division. We currently have 18 employees who have been dependent upon federal funding and grants for their existence for approximately 12 years.

CHAIR RAGGIO:
How much money are we talking about with the reduction?

MR. TOGLIATTI:
I cannot give you an exact dollar figure, but I will provide that later.

CHAIR RAGGIO:
I think our staff is estimating somewhere between \$1.1 million and \$1.6 million as a result of that anticipated reduction.

MR. TOGLIATTI:
That sounds about right and it impacts other areas as well, because there are deputies in rural areas who are subsidized with these funds.

CHAIR RAGGIO:
The budget is showing \$1.3 million in each year. We need to be mindful that may not be available when we look at the budget. Is that what you are saying?

MR. TOGLIATTI:
Yes.

CHAIR RAGGIO:
What program will that impact the most?

MR. TOGLIATTI:
It will impact mainly the rural areas and a lot of the task force efforts. The Investigation Division has 18 employees who are dependent upon that grant. It will impact us Statewide in all areas.

A Staffing Summary is included in [Exhibit I](#). We are working to enhance the career paths for our employees and make them more effective and efficient. We are proposing a two-grade pay increase for our employees. We need to stop losing our employees.

CHAIR RAGGIO:
Why are there five fewer positions for the Nevada Highway Patrol?

MR. TOGLIATTI:
They are transferring to the Capitol Police so it is a movement of the numbers.

I was surprised when I first got here that we do not spend more time recruiting people, trying to get quality people into the Department of Public Safety. I was also surprised that we did not have a training academy in the south. Our first class has now graduated from our Las Vegas academy.

We will now show you our recruitment video ([Exhibit J](#), original is on file in the Research Library).

We have also revised our training curriculum. We need to give people the tools they need to be good managers.

CHAIR RAGGIO:
At this time I am turning the gavel over to Vice Chair Beers.

ASSEMBLYWOMAN GIUNCHIGLIANI:
I know you are sensitive to this, but the last phrase of the video was "picture yourself in one of these roles." None of the individuals in officer attire were women or people of color. I know you have a commitment because you and I have talked about the diversity issue. The video did not seem reflective of what I know your goals are. I would hope there would be some attention to that area.

MR. TOGLIATTI:
I am sensitive to this and I would like to draw your attention to the last page of [Exhibit I](#) which is a picture of our Las Vegas graduating class. We are trying to catch up in that area. What compounds the problem is that we are not competitive with other agencies who are recruiting the same candidates.

ASSEMBLYWOMAN GIUNCHIGLIANI:
Is the two-grade pay increase recommended in the *Executive Budget* only for Highway Patrol or is it for all employees?

MR. TOGLIATTI:

It is just within the Department of Public Safety. We also have a problem with losing dispatchers to other agencies for a raise in pay. Our intent was to stop the loss of the three- to five-year veterans from Parole and Probation and the Highway Patrol. I had no input on the Department of Corrections or the Division of State Parks.

ASSEMBLYWOMAN GIUNCHIGLIANI:

I appreciate that because I think that was supposed to be the focus. It seems like the *Executive Budget* recommends this increase for anyone who might have a badge, and we will have to look at that.

ASSEMBLYMAN DENIS:

Would it be possible to find out what the plan is as far as your recruitment efforts in the minority area? I would also like to know the current makeup of your Department and how you handle non-English speaking issues with the officers and that type of thing.

MR. TOGLIATTI:

We have that information and I can get it for you. We also have information from a study done on the profiles of people pulled over by the Highway Patrol.

ASSEMBLYMAN DENIS:

Do you also have a plan for recruitment, and are you putting extra resources into trying to recruit from the minority communities?

MR. TOGLIATTI:

We certainly do. It has been difficult because we cannot provide competitive pay and benefits. We also cannot allow people to double dip so there are certain people we cannot hire. I cannot pay people to transfer here. I cannot hire ex-veterans without sending them to Peace Officers' Standards and Training (P.O.S.T.). We reach out everywhere we can to find recruits: women, men, and minority. Multilinguals are great if you can get them.

VICE CHAIR BEERS:

Are you bringing bills to address some of those areas you have identified?

MR. TOGLIATTI:

We are hoping to, yes.

ASSEMBLYMAN MARVEL:

Corrections is having the same problem you are with people leaving for better pay after they are trained. Are we getting more competitive with the benefit package they offer?

MR. TOGLIATTI:

We have a matrix I can provide. With the two-grade increase, it appears we can get within approximately \$10,000 of some of the other agencies at the journeyman level. When you go into the higher ranks of lieutenant and captain, that disparity becomes larger.

ASSEMBLYMAN MARVEL:

Is it going to help you retain some of these people by moving them up two grades?

MR. TOGLIATTI:
We are hoping it will.

ASSEMBLYMAN MARVEL:
Corrections also had the problem of older people who would like to get into Corrections, but they would have to go through much of the basic training, even if the job did not involve direct inmate contact all the time.

A couple of years ago, I had a bill that stated if the State of Nevada trains a person who is later hired by another entity within a two-year period, they would have to pay the State of Nevada for the training costs. I will put that bill in again.

MR. TOGLIATTI:
The mobile data communications system is something that has to be done. We want to do it one time and do it right.

Part of our problem with the Criminal History Records Repository is not that they had a backlog, it is that the information is not complete. That is something we want to work on by integrating the system throughout the State of Nevada.

We modeled the commercial vehicle interdiction team after our drug interdiction team and it has been a real success.

VICE CHAIR BEERS:
When we get to the subcommittee, we would like some detail on the revenue sources and expenditures on the Homeland Security office coming in to the Nevada Department of Public Safety. I think we are a little thin on details on that right now.

ASSEMBLYWOMAN GIUNCHIGLIANI:
Do you have any specific ideas on what we could do to make sure that P.O.S.T. is still offered for the rurals?

MR. TOGLIATTI:
The rurals are greatly impacted by P.O.S.T. because the sheriffs have to find a candidate who can meet the qualifications set by P.O.S.T.

ASSEMBLYWOMAN GIUNCHIGLIANI:
I am sure the subcommittee will probe this because we need to look at how to do some of this differently, but not negatively impact the rural counties for their training needs.

MR. TOGLIATTI:
There has to be some accommodation for job experience. There is an agent who is currently retiring in Elko who would be an excellent person for local or State law enforcement. He is a firearms instructor and a Special Weapons and Tactics (SWAT) member with ties to the community for at least 15 years. He would have to spend months training if he were hired.

ASSEMBLYWOMAN GIUNCHIGLIANI:
We should take a look at some alternatives. Maybe the subcommittees could discuss that.

VICE CHAIR BEERS:
In the 2003 Legislative Session we put extra staff into the Fire Marshal's office. They were going to develop a business process plan for this Legislative Session. I do not know if you were aware of that, but I wanted to note that we are looking for that document.

MR. TOGLIATTI:
Yes, we are looking to reinvent the Fire Marshal's office. We will get that document to you.

VICE CHAIR BEERS:
There being no further business to discuss at this time, I will adjourn the meeting at 3:24 p.m.

RESPECTFULLY SUBMITTED:

Anne Vorderbruggen,
Committee Secretary

APPROVED BY:

Senator William J. Raggio, Chair

DATE: _____

Assemblyman Morse Arberry Jr., Chair

DATE: _____