MINUTES OF THE
SENATE COMMITTEE ON FINANCE

Seventy-third Session
May 18, 2005

The Senate Committee on Finance was called to order by Chair William J. Raggio at 5:18 p.m. on Wednesday, May 18, 2005, in Room 2134 of the Legislative Building, Carson City, 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.

COMMITTEE MEMBERS PRESENT:

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

COMMITTEE MEMBERS ABSENT:

Senator Dean A. Rhoads (Excused)

GUEST LEGISLATORS PRESENT:

Assemblyman Mark A. Manendo, Assembly District No. 18
Assemblywoman Ellen M. Koivisto, Assembly District No. 14

STAFF MEMBERS PRESENT:

Bob Atkinson, Senior Program Analyst
Brenda J. Erdoes, Legislative Counsel
Gary L. Ghiggeri, Senate Fiscal Analyst
Bob Guernsey, Principal Deputy Fiscal Analyst
H. Pepper Sturm, Chief Deputy Research Director
Sandra Small, Committee Secretary

OTHERS PRESENT:

Keith Rheault, Ph.D., Superintendent of Public Instruction, Department of Education
Evan R. Dale, Deputy Manager, Administration and Finance, State Public Works Board
Dana Bilyeu, Executive Officer, Public Employees' Retirement Board, Public Employees' Retirement System
Miles Celio, Administrative Services Officer, Nevada National Guard, Office of the Military
Martin Bibb, Retired Public Employees of Nevada
Rose E. McKinney-James, Clark County School District
P. Forrest Thorne, Executive Officer, Board of the Public Employees' Benefits Program
James T. Richardson, Nevada Faculty Alliance
Michael D. Hillerby, Chief of Staff, Office of the Governor

CHAIR RAGGIO:
We will look at proposed amendments to Senate Bill (S.B.) 56, S.B. 223 and S.B. 461. The Committee requested Mr. H. Pepper Sturm meet with Senator Maurice E. Washington and select members of this Committee to consider amendments to these bills.

SENATE BILL 56 (1st Reprint): Makes various changes concerning charter schools and distance education programs. (BDR 34-18)

H. PEPPER STURM (Chief Deputy Research Director, Research Division, Legislative Counsel Bureau):
The Committee has received documents entitled Explanation of Proposed Amendment to Senate Bill 56, First Reprint (Exhibit C) and the Proposed Amendment to SB56 (R1) (Exhibit D). The amendment does three things:

1. Restores the requirement that the district level accountability report reflect information from all charter schools located in the district.

2. Removes requirement that members of the charter school governing body receive a salary and payment for expenses commensurate with the school district board of trustees.

3. Removes the requirement that funding made to charter schools be adjusted to provide for quarterly apportionments to the Fund for Charter Schools.

CHAIR RAGGIO:
The third change, on page 11 of Exhibit D, changes section 11, pages 19 and 20 of the bill. Does the amendment take out the 0.25 percent to be withheld?

MR. STURM:
That is correct.

SENATOR TITUS:
Is there a provision that makes members of boards for charter schools exempt from reporting requirements?

MR. STURM:
That change is not in this amendment. Section 10, subsection 2, page 9 of Exhibit D, makes these board members public officers, and subsection 3 removes salaries for board members.

SENATOR TITUS:
Does that mean they have to meet reporting requirements of a public officer? Do we want to burden individuals with that requirement? What is required if you are a public officer?

SENATOR COFFIN:
The reporting requirements are useful to prevent self-dealing within the organization.

CHAIR RAGGIO:
We will get a legal opinion for the reporting requirements of a public officer.

SENATOR BEERS:
The board member of a charter school is spending public funds. We want them to be subject to the same reporting as others who spend public funds.

CHAIR RAGGIO:
We will come back to S.B. 56. We will discuss S.B. 223.

SENATE BILL 223 (1st Reprint): Revises provisions governing education. (BDR 34-73)

MR. STURM:
The Committee has received an Explanation of Proposed Amendment to Senate Bill 223, First Reprint (Exhibit E) and the Proposed Amendment to SB223 (R1) (Exhibit F). The amendment removes the school voucher provisions completely along with payments for home-schooled children and the requirements for Senate confirmation of the superintendent of public instruction.

SENATOR CEGAVSKE:
This is the first time I have seen the amendment. I would like some time to look at it.

CHAIR RAGGIO:
We will not act on S.B. 223 at this time. We will look at S.B. 461.

SENATE BILL 461 (1st Reprint): Revises provisions regarding education. (BDR 34-1323)

MR. STURM:
The Committee has received an Explanation of Proposed Amendment to Senate Bill 461, First Reprint (Exhibit G) and the Proposed Amendment to SB461 (R1), (Exhibit H). This amendment removes the prohibition of the Department of Education or its employees, or a school district or its employees, from requiring a pupil to obtain a prescription for a controlled substance as a condition of attending public school.

CHAIR RAGGIO:
Is this the bill that provides for the university school for profoundly gifted pupils that was proposed to be privately endowed and provides for scholarships for special-needs children?

MR. STURM:
Yes, those items are still in the bill.

CHAIR RAGGIO:
Are we only taking out section 52?

MR. STURM:
That is correct.

CHAIR RAGGIO:
Is there a fiscal note on this bill?

GARY L. GHIGGERI (Senate Fiscal Analyst, Fiscal Analysis Division, Legislative Counsel Bureau):
The bill was heard on May 12, 2005. This is what my notes say about that meeting. There was a request to add appropriations to the bill during the discussion. Mr. Craig Kadlub, Clark County School District, expressed some concern, but indicated the fiscal note is not applicable to the current reprint of the legislation. There was considerable testimony in favor of the legislation. There was testimony concerning the endowment. Mr. Daniel J. Klaich, University and Community College System of Nevada (UCCSN), indicated there would be minimal fiscal impact on the University System.

MR. STURM:
I reviewed the fiscal note. It appeared to me the fiscal note is based on the original version of the bill. The Department of Education thought there might be some fiscal impact on the special qualifications license, but they did not think it would be significant.

SENATOR COFFIN:
If Clark County and Carson City have withdrawn their fiscal note, there must not be a fiscal impact.

SENATOR MATHEWS:
The university school for the profoundly gifted was the only part of the bill I thought would pass. We are leaving a lot more in this bill.

MR. STURM:
I will go through the other sections of the bill. The bill addresses charter schools assuming responsibility for schools demonstrating need for improvement, provisions for teacher training and licensing for the university school for the profoundly gifted, appropriate instruction and curriculum to improve pupil achievement, reduction of federal education programs, increase in payment for transportation of pupils and technical revisions.

CHAIR RAGGIO:
Does anyone have any questions about this bill?

KEITH RHEAULT Ph.D. (Superintendent of Public Instruction, Department of Education):
The section on the special qualifications license was identical to Assembly Bill (A.B.) 206 that has been signed by the Governor. We have looked at the bill and have not testified in opposition of the bill.

ASSEMBLY BILL 206 (1st Reprint): Provides for issuance of special license for persons with certain graduate degrees and work experience to teach pupils in public schools. (BDR 34-996)

SENATOR TITUS:
Is there anything in the bill about vouchers?

MR. STURM:
Vouchers are in S.B. 223.

SENATOR CEGAVSKE MOVED TO AMEND AS INDICATED IN EXHIBIT H AND DO PASS S.B. 461.

SENATOR BEERS SECONDED THE MOTION.

THE MOTION CARRIED. (SENATORS MATHEWS AND TITUS VOTED NO. SENATOR RHOADS WAS ABSENT FOR THE VOTE.)

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CHAIR RAGGIO:
The Committee has a question about the amendment to S.B. 56. Would a charter school board member be required to comply with the disclosure and filing requirements of a public officer as outlined in *Nevada Revised Statute* (NRS) 281?

BRENDA J. ERDOES (Legislative Counsel, Legal Division, Legislative Counsel Bureau):
The charter school board members are already subject to NRS 281. The S.B. 56 clarifies the matter. The Legal Division provided an opinion in 2001 finding that the position is created by statute, board members determine the expenditure of public money and therefore charter school board members are subject to the requirements of NRS 281. They are subject to the jurisdiction of the Ethics Commission.

SENATOR TITUS MOVED TO AMEND AS INDICATED IN EXHIBIT D AND DO PASS S.B. 56.

SENATOR COFFIN SECONDED THE MOTION.

THE MOTION CARRIED. (SENATOR RHOADS WAS ABSENT FOR THE VOTE.)

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CHAIR RAGGIO:
The Committee will look at S.B. 510 requested by the Department of Administration.

SENATE BILL 510: Makes appropriation for expenses relating to arbitration associated with design and construction of Southern Nevada Veterans' Home. (BDR S-1461)

EVAN R. DALE (Deputy Manager, Administration and Finance, State Public Works Board):
This is a onetime request for ongoing litigation costs associated with the Nevada Veterans' Home. The funds will support arbitration. The estimated cost is $673,900.

SENATOR BEERS:
What is the value of the repairs being litigated?

MR. DALE:
We are defending. We held $1.8 million and used those funds to finish the project.

SENATOR BEERS:
Are they contending they finished the project?

MR. DALE:
The claimant has many points of contention, one being unjustified termination.

SENATOR BEERS MOVED TO DO PASS S.B. 510.

SENATOR TITUS SECONDED THE MOTION.

THE MOTION CARRIED. (SENATOR RHOADS WAS ABSENT FOR THE VOTE.)

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CHAIR RAGGIO:
We will open the hearing on S.B. 511.

SENATE BILL 511: Makes supplemental appropriation to Department of Education for signing bonuses for teachers. (BDR S-1464)

DR. RHEAULT:
This supplemental appropriation will fund 218 bonuses to eligible teachers. The funds budgeted for this purpose have been expended. We had new hires this spring entitled to the bonus.

CHAIR RAGGIO:
Is this appropriation for teachers who have earned the bonus in fiscal year (FY) 2005?

DR. RHEAULT:
That is correct.

SENATOR COFFIN MOVED TO DO PASS S.B. 510.

SENATOR MATHEWS SECONDED THE MOTION.

SENATOR MATHEWS:
Is this bonus in addition to the teachers' salary? If you believe what you read in the newspaper, Clark County is going to give teachers $30,000 for a down payment on a house.

CHAIR RAGGIO:
The law states a bonus of $2,000 will be paid to newly-hired teachers. The Department of Education has determined there are insufficient funds to pay all of the teachers entitled to the bonus in FY 2005.

THE MOTION CARRIED. (SENATOR RHOADS WAS ABSENT FOR THE VOTE.)

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CHAIR RAGGIO:
We will open the hearing on A.B. 113.

ASSEMBLY BILL 113 (1st Reprint): Authorizes certain public employees with active military service to purchase up to 2 additional years of service in Public Employees' Retirement System under certain circumstances. (BDR 23-696)

ASSEMBLYMAN MARK A. MANENDO (Assembly District No. 18):
I sponsored this bill at the request of constituents in my district. Eligible public employees, including volunteer firefighters, may purchase a number of months equal to the number of full months served on active military duty, not to exceed two additional years of service. I have no problem with another bill saying three years. The member must pay the full actuarial cost of the service credit. People who take a leave of absence from their job to serve in the military do not lose retirement service credits while away. Their employers continue to make contributions on their behalf. We are all aware of the extraordinary sacrifices made by Nevadans while on active military duty in postings all around the United States and the world. Almost 2,000 Nevadans are serving overseas in the global war against terror in places like Iraq and Afghanistan. Daily these men and women face danger from explosive devices and terrorist attacks. This is a bill to recognize the sacrifices made by public employees who leave their homes, families and jobs to serve on active duty.

CHAIR RAGGIO:
This bill looks like S.B. 122 processed by this Committee and passed on April 15, 2005. To my knowledge, there has not been a hearing in the Assembly.

SENATE BILL 122: Authorizes certain public employees with active military service to purchase additional years of service in Public Employees' Retirement System. (BDR 23-630)

MR. MANENDO:
There was a hearing on April 20, 2005, with no action taken.

MR. GHIGGERI:
Both S.B. 122 and A.B. 113 are not exempt. If there is no action taken on the legislation by May 20, 2005, they will fail.

MR. MANENDO:
I believe S.B. 122 is still active because it passed from this House within the time limits.

CHAIR RAGGIO:
This is the kind of nuisance that bogs down the legislative process. Here is a good measure with merit.

DANA BILYEU (Executive Officer, Public Employees' Retirement Board, Public Employees' Retirement System):
The Retirement Board is neutral on both A.B. 113 and S.B. 122 because they are actuarially cost neutral. From our reading, A.B. 113 deals specifically with active military service not tied to particular periods of conflict, whereas S.B. 122 is limited to Operation Enduring Freedom and Operation Iraqi Freedom. The bills could deal with separate periods of service credit for purposes of military service.

CHAIR RAGGIO:
Are you saying A.B. 113 would allow me to go back to my two years of service in World War II?

MS. BILYEU:
That is correct.

MILES CELIO (Administrative Services Officer, Nevada National Guard, Office of the Military):
The Office of the Military appreciates all of the bills that have been introduced to support the reserve and National Guard. We support A.B. 113.

MR. MANENDO:
It appears that A.B. 113 and S.B. 122 passed about one day apart. Assembly Bill 113 has been in the Senate since April 20, 2005.

CHAIR RAGGIO:
The difference is that A.B. 113 had a hearing.

MR. MANENDO:
I appreciate that.

CHAIR RAGGIO:
We will close the hearing on A.B. 113 and open the hearing on A.B. 438.

ASSEMBLY BILL 438 (1st Reprint): Revises provisions governing health insurance for certain retired public officers and employees. (BDR 23-792)

ASSEMBLYWOMAN ELLEN M. KOIVISTO (Assembly District No. 14):
The purpose of A.B. 438 is to deal with an issue resulting from the implementation of A.B. No. 286 of the 72nd Session. Not all the time a person works for a public entity counts toward the Public Employees' Benefits Program (PEBP) subsidy. Retirees expected a certain subsidy and found they had to pay hundreds of dollars more for benefits particularly if they were covering a spouse. The purpose of A.B. No. 286 of the 72nd Session was to prevent that situation. The intent of A.B. 438 is to reinstate the use of years of service to determine the allocation of the payment of the subsidy for retired participants. It will provide subsidies based on total years of service and will allocate the subsidy to all appropriate employers on a pro rata basis.

SENATOR BEERS:
Did we hear some testimony that not all local governments offer a subsidy?

ASSEMBLYWOMAN KOIVISTO:
As a result of A.B. No. 286 of the 72nd Session, if a retired public employee from a local government opts to be covered under PEBP, the local government must pay the subsidy.

CHAIR RAGGIO:
The fiscal note for A.B. 438 is $185,000.

MARTIN BIBB (Retired Public Employees of Nevada):
The Retired Public Employees of Nevada support A.B. 438.

SENATOR BEERS:
Did anything in the amendment to this bill change the fiscal note?

ASSEMBLYWOMAN KOIVISTO:
The amendment was offered by PEBP.

SENATOR BEERS:
Would you explain why the retirees were not getting credit for years served?

ASSEMBLYWOMAN KOIVISTO:
If an employee worked for more than one public employer, for example, they worked for the state for 15 years, the city for 3 years and then the county for 4 years, the 3 years and the 4 years did not count.

MR. GHIGGERI:
The fiscal note attached to this bill will be utilized to reimburse the retired employees who had out-of-pocket premium expenses over the past two years due to the way the legislation was written.

SENATOR BEERS:
Does that mean, on an ongoing basis, there is no fiscal impact to the state because we are currently paying our portion of the subsidy? The bill will impact the local governments who are not paying their portion of the subsidy.

MR. GHIGGERI:
That is correct. It would be an ongoing cost to entities which have not paid the subsidy in the prior two years.

ROSE E. MCKINNEY-JAMES (Clark County School District):
In the original form, we opposed this bill. The bill is now revised and appears to establish an equitable treatment with respect to the entities impacted by an employee's service credit. What is not clear is the fiscal impact. Last session, because of a lack of clarity, we had a significant problem with A.B. No. 286 of the 72nd Session. We have the opportunity to clarify whether or not we are looking at new costs to any of the local entities.

CHAIR RAGGIO:
The 72nd Legislative Session passed A.B. No. 286 requiring local governments to subsidize their retirees who elect to participate in the PEBP in the same manner the state subsidizes its retirees. The state would only subsidize based on the years of state service. Is it the intent of A.B. 438 to allow service of less than five years to count as years of service for purposes of PEBP and allocate the total years of service to each employer?

P. FORREST THORNE (Executive Officer, Board of the Public Employees' Benefits Program):
You are correct. The minimum five years of service credit for a public employer to participate in the allocation of the total subsidy amount will be removed. The public employer is now paying zero and the retiree does not receive a subsidy for public employment of less than five years.

CHAIR RAGGIO:
What is the reimbursement provision in this bill from PEBP?

MR. THORNE:
The bill is applied retroactively to the effective date of A.B. No. 286 of the 72nd Session. The $185,000 fiscal note will be paid from reserves.

CHAIR RAGGIO:
Will the PEBP recoup those funds?

MR. THORNE:
No, we will not.

CHAIR RAGGIO:
Is the $185,000 to reimburse retirees the original intent of A.B. No. 286 of the 72nd Session?

MR. THORNE:
That is correct.

SENATOR BEERS:
If A.B. No. 286 of the 72nd Session was intended to include all years of public service and had been interpreted as the intent in the beginning, the $185,000 would have been paid by non-state employers.

MR. THORNE:
There could be a mix of state and non-state employers. There could have been less than five years with the state.

MS. MCKINNEY-JAMES:
Does A.B. 438 require any additional resources from non-state entities?

MR. THORNE:
Yes, there would be a net increase spread over all of the local entities.

CHAIR RAGGIO:
What is being considered at this time so we can understand what is being proposed?

MR. GHIGGERI:
The Governor, for FY 2005, recommended a supplemental appropriation to fund the unfunded portions of A.B. No. 286 of the 72nd Session for the school districts. The Assembly Ways and Means Committee has amended that legislation, based on actual costs, to approximately $7.9 million. I believe the Distributive School Account includes funding for the school district portion of A.B. No. 286 of the 72nd Session in the Governor’s recommended budget for FY 2006 and FY 2007.

CHAIR RAGGIO:
We previously addressed a portion of that in the Interim Finance Committee. Does Clark County School District have a position on this bill?

MS. MCKINNEY-JAMES:
I believe we will be neutral on this bill.

JAMES T. RICHARDSON (Nevada Faculty Alliance):
A number of local governments are, or have, phased out their retirement plans or they were encouraging people who retired from local governments to come into the state plan. The local governments did not pay a subsidy. Last session A.B. No. 286 of the 72nd Session addressed that issue which has resulted in assistance to local government retirees who are in the plan. This bill, A.B. 438, is a cleanup bill. I encourage you to pass it. The cost is minimal, and it appears to be the fair thing to do.

CHAIR RAGGIO:
We will close the hearing on A.B. 438.

MR. GHIGGERI:
It is staff's hope that the Senate Committee on Finance closes all budgets before this weekend to give staff time to rebalance the budget. Depending upon what the Committee does with PEBP's budget, every budget in the *Executive Budget* will be out of balance. May 26, 2005, is the deadline for the Joint Senate Committee on Finance and Assembly Committee on Ways and Means budget reconciliation. If the Committee can complete their work by Friday afternoon, there will be no need to have a meeting on Saturday.

CHAIR RAGGIO:
We will look at the Senate Committee on Finance, Joint Subcommittee on General Government Closing Report, Public Employees' Benefits Program dated May 17, 2005, (Exhibit I).

PUBLIC EMPLOYEES' BENEFITS PROGRAM

Public Employees' Benefits Program – Budget Page PEBP-I (Volume III)
Budget Account 625-1338

BOB ATKINSON (Senior Program Analyst, Fiscal Analysis Division, Legislative Counsel Bureau):
The Subcommittee's recommendations and staff's adjustments to B/A 625-1338 are shown on pages 1 through 8 of Exhibit I. The Subcommittee's recommendations for commingling active employees, retirees without Medicare and retirees with Medicare are on page 2 of Exhibit I. The financial position of PEBP has improved significantly since the end of the 2003 Legislative Session. The *Executive Budget* and the Subcommittee concurred that approximately $23.9 million of the excess be placed in a rate stabilization reserve. The Budget Division submitted a budget amendment to spend down the excess reserves through a decrease in the amount of the state contribution for active employees and the amounts provided for retiree subsidies. The PEBP reported that approximately 80 percent of the revenues of the program are contributed by the employers and 20 percent by the employees.

CHAIR RAGGIO:
What happens in the future if we spend down the reserves?

SENATOR BEERS:
The policy assumption is that increasing reserves are 80-percent employer contribution and 20-percent employee contribution. Therefore, decreases to the reserve should be distributed in a similar proportion.

CHAIR RAGGIO:
This is a departure from the Governor's budget.

MICHAEL D. HILLERBY (Chief of Staff, Office of the Governor):
We have been trying to understand the impact of this suggestion. The problem started with the Medicare retiree, particularly the Medicare retiree and spouse who saw a significant increase in the new contribution rates.

CHAIR RAGGIO:
How many people are Medicare eligible?

MR. HILLERBY:
There are 3,000 state retirees who are Medicare eligible. There are 679 in the Medicare and spouse group. It is important to remember, during this plan year, our employee and retiree contributions were decreased because of the reserve. We have received, as employees, more than the 20 percent. Our rates went down substantially in this current year. The rates will increase. Human nature asks, "What have you done for me lately?"

SENATOR BEERS:
As spokesperson for the Governor, you should specify when "we" means Mr. Hillerby the employee and covered by PEBP and "we" meaning the Administration.

MR. HILLERBY:
The 80/20 proposal would change the philosophy from having excess reserves subsidize rates to one where we give employees back a onetime rebate in their check. We, the Administration, think the employees have already enjoyed that 20 percent. There will be about a $15 million expense to a combination of general highway funds and others in the next biennium budget and an increase in rates to participants in the second year of the biennium of about $11 for family coverage and $17 for employee and spouse coverage.

CHAIR RAGGIO:
There is a $15 million cost if we approve the Subcommittee's recommendation in FY 2006 and rate increases in FY 2007.

MR. HILLERBY:
Mr. Thorne has the details. There are two issues. The first year of the biennium you would use reserves, the second year you would increase expenses. The net of that is $15 million in additional expense to the state budget on top of the rate increases.

MR. THORNE:
The combined impact of the refund would be about $7.35 million plus the cost of uncommingling the Medicare retirees.

SENATOR BEERS:
Members of the Subcommittee would agree that it would be beneficial for all of us to take these two issues one at a time. Taking them together is confusing.

MR. HILLERBY:
The first issue is the Medicare issue. Mr. Thorne will need to give you the details. The concern was that the Medicare retirees, in commingling, brought to

the group, actuarially speaking, their higher risk and spread that among the generally younger and healthier population of the active employees and other retirees. In exchange for spreading their actuarially higher risk, they brought in the money from Medicare. The rates went down for everyone because we spread that risk. Medicare retirees think they should get the sole benefit. There was a desire within the Subcommittee to do something for the Medicare retirees. What they have done affects the state General Fund and raises everyone else's rates. I asked Mr. Thorne, in front of the Governor, "Is it your belief that this plan now more accurately reflects the actual risk and cost of each tier than any plan we have had in recent years or ever?" Mr. Thorne said, "Yes." When you talk about the cross-subsidization that goes on in the PEBP, it is complicated. Mr. Thorne has said he thinks we have done the best job yet of identifying the cost and expenses for each group. The group of retirees and spouses and actives and spouses has turned out to be the most expensive group. Their rates reflect that. We did the predictive modeling based on actual experience, risk and cost and decided to live with that rate structure. Someone will always be in the outlaying group when you do an average split. I want to make sure everyone understands the implication of the decision made.

SENATOR BEERS:
It is my understanding, as Chair of the Subcommittee, that the Medicare-eligible treatment issue alone does not cost the General Fund any money. It does cause a decrease in the rates the small group pays and an increase in the rates the large group pays. What does cost the General Fund is another decision the Subcommittee made which is how we deal with the fact that this shifts the dollar cost from the small group to the large group. On the matter of that question, the Subcommittee said for the first year we will use the reserve from the system, and in the second year we will charge the participants. That means there are three issues rather than two. One is the degree of commingling with Medicare eligibles that alone shifts costs from one group of employees to another but does not increase the costs to the employer. How we deal with that increase in cost to the large group does cost the employer. We could also come to the resolution that we will implement new rates on July 1, 2005, to reflect that increased cost to the large group, but we were concerned because enrollment has already started for the new year.

MR. THORNE:
We are almost three-quarters through open enrollment. If you think in terms of having a cost structure of what the plan is paying out on the claims side of the equation, regardless of what you do on the revenue side and how you allocate who pays what, it does not affect the bottom line. It is a question of whether you are collecting more from the state, the participants, be they active, non-Medicare retiree or Medicare retiree. The impact is that by uncommingling the Medicare retirees, you lose the advantage of everyone being together, including taking advantage of Medicare Part A, which is at no cost to the Medicare retirees. It covers the hospitalization cost and provides a big part of the savings. That savings would then be spread across the entire population of actives, non-Medicare retirees and Medicare retirees. When you uncommingle the Medicare retirees, you shift the revenue side. It has not changed what we pay out on the claims side, but we are now receiving less from the Medicare retirees in revenue and the active subsidy increases. Since there are more employees than Medicare retirees, it has a greater impact on the General Fund.

SENATOR BEERS:
Is it because we subsidize the actives to a greater extent than the employees?

MR. THORNE:
That is correct.

MR. HILLERBY:
The details are complex, it is late in the evening and in the session. The net impact of this is both a $15 million hit and a rate increase to employees that was not originally budgeted. There has been talk of increasing the raise for public employees in the second year. Fifteen million dollars is 0.5 percent. There are real impacts to this decision stretching well beyond the 679 people who were the hardest hit.

SENATOR BEERS:
I do not believe that the Subcommittee considered the fact that the state has subsidized the employee portion of the cost from the reserve. I do not believe we contemplated that subsidization as the 20-percent piece of the budget amendment. That is a significant fact the Subcommittee has not considered.

MR. RICHARDSON:
This has been a major issue for all of us. I urge you to approve the part of the Subcommittee's report dealing with commingling. This issue has been before the Committee previously. I have a copy of the Letter of Intent signed by Assemblyman Morse Arberry Jr. in 2001 about the Medicare carve-out issue and commingling. If a person has Medicare as the primary payor, it needs to be recognized by the state now and in the future. If there is any chance of improving the picture for a second year raise in the next biennium, we would prefer not to have a rebate in the first paycheck of next year. The rebate idea came up late in the discussion. We did not have a lot of time to talk about it. The commingling is one issue and the rebate is another issue. Keeping them separate might help get us out of this morass.

SENATOR BEERS:
The Committee needs to understand what the Subcommittee was thinking on the rebate. Historically, we have taken the surpluses attributed to employee contributions and used them to reduce the rate over approximately one year. That causes an artificial lowering of the rate. When the target amount of surplus has been exhausted, the rate must go up to the normal amount. That is part of what has generated all of this discussion. As of July 1, 2005, it is proposed we stop the subsidy. To the employees, that appears to be an unusually large increase. We were seeking a way to adjust the reserve amounts without causing an ongoing subsidy so we can get out of the cycle of having a perceived rate hike that really represents the ending of a subsidy.

CHAIR RAGGIO:
I remember, some years back, the state put in about $26 million to save the PEBP system. No one gave the state a rebate.

SENATOR BEERS:
We did not have a schedule of how much has been contributed by the employer, how much has been contributed by the employee and how much reserves have been reduced by subsidization and/or by withdrawals into the General Fund.

MR. BIBB:
We have some concerns about the impact of these suggestions. In the Subcommittee on General Government we heard there was a significant return from the plan because of excess subsidies to the plan of about $47 million. Giving credit for Medicare as the primary payor for retires in FY 2006 significantly lowered the rate they would pay. The issue we did not understand was the impact on the subsidy. We did anticipate for FY 2007 there would be a greater rate due to the infusion of funds this year. The active contribution for FY 2006 goes up about $20 each month over the Governor’s budget amendment plus $33 in FY 2007. The retired subsidy portion stays where it was projected for FY 2006 and will drop by $27 each month to $294 in FY 2007. We did not understand there would be a decrease in the retiree group subsidy.

CHAIR RAGGIO:
We will hold this budget closing report. There being no further business to come before the Committee at this time, we are adjourned at 6:57 p.m.

RESPECTFULLY SUBMITTED:

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Sandra Small,
Committee Secretary

APPROVED BY:

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Senator William J. Raggio, Chair

DATE:____________________________________