

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

**Seventy-Fourth Session  
January 24, 2007**

The Legislative Commission's Budget Subcommittee was called to order by Chair Morse Arberry Jr. at 8:40 a.m., on Wednesday, January 24, 2007, in Room 4100 of the Legislative Building, 401 South Carson Street, Carson City, Nevada. Copies of the minutes, including the Agenda ([Exhibit A](#)), the Attendance Roster ([Exhibit B](#)), and other substantive exhibits are available and on file in the Research Library of the Legislative Counsel Bureau and on the Nevada Legislature's website at [www.leg.state.nv.us/74th/committees/](http://www.leg.state.nv.us/74th/committees/). In addition, copies of the audio record may be purchased through the Legislative Counsel Bureau's Publications Office (email: [publications@lcb.state.nv.us](mailto:publications@lcb.state.nv.us); telephone: 775-684-6835).

**COMMITTEE MEMBERS PRESENT:**

Assemblyman Morse Arberry Jr., Chair  
Assemblywoman Sheila Leslie  
Assemblywoman Barbara Buckley  
Assemblyman Moises Denis  
Assemblyman Joseph Hogan  
Assemblywoman Ellen Koivisto  
Assemblywoman Kathy McClain  
Assemblyman David Parks  
Assemblywoman Debbie Smith  
Assemblywoman Heidi Gansert  
Assemblyman Tom Grady  
Assemblyman Joe Hardy  
Assemblyman John Marvel  
Assemblywoman Valerie Weber

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

**COMMITTEE MEMBERS EXCUSED:**

Senator Coffin

**STAFF MEMBERS PRESENT:**

Mark Stevens, Assembly Fiscal Analyst  
Gary Ghiggeri, Senate Fiscal Analyst  
Steve Abba, Principal Deputy Fiscal Analyst  
Larry Peri, Principal Deputy Fiscal Analyst  
Mark Krmpotic, Senior Program Analyst  
Rick Combs, Program Analyst  
Barron Brooks, Committee Secretary  
Patricia Adams, Committee Assistant



Chairman Arberry recognized Michael J. Willden, Director, Department of Health and Human Resources (DHHS).

### **DEPARTMENT OF HEALTH AND HUMAN SERVICES**

Mr. Willden introduced Mary Liveratti, Deputy Director, Programs DHHS, and Michael Torvinen, Deputy Director, Fiscal Services DHHS. He noted that several division administrators and support staff were in the audience available for questioning.

Mr. Willden opened by stating that it had been a rewarding two years for the Department because they had been involved with a number of successful projects including:

- The Office of Suicide Prevention.
- The Problem Gambling Account.
- The Office of Minority Health.
- The 211 Phone System.
- Health Insurance Flexibility and Accountability Waivers (HIFA).
- The Rawson-Neal Mental Hospital.
- The remodeling of the Dini-Townsend facility.

Mr. Willden continued by discussing some of the more troubling issues faced by the Department over the last two years. Most notable were:

- Child welfare concerns.
- Infrastructure with Child Protective Services.
- Child fatalities.
- Children in large congregate institutions.

Mr. Willden added that the Department had worked hard on their behavior health systems redesign for children's mental health. These projects had made significant progress but were still struggling, and he would be talking about them in the budget for further enhancements the Department believed were appropriate.

Mr. Willden said the Department had muddled its way through implementation of Medicare Part D, and that it was a difficult experience for the staff. He cited the Deficit Reduction Act and its impacts on the Welfare Division and the Medicaid program.

Mr. Willden covered the continuing struggles with recruiting and retaining skilled professionals, particularly nurses, social workers, mental health counselors, and psychologists. On any given day, the Department had 400 to 600 vacancies, which were primarily skilled professional positions.

Senator Raggio asked what was in the budget to deal with the recruitment and retention of skilled workers. Mr. Willden said that salary increases helped and that an additional ten percent (two-grade) increase for both direct care and administrative nurses was recommended. A number of healthcare coordinators and facility surveyors, who assisted clients with program navigation and dealt with the Bureau of License and Certification, had been left out of the nursing pay raises. He said that this must be dealt with to close the pay gap between administrative nursing positions and direct care nurses. The Department also requested positions to help focus on retention and recruitment. Senator Raggio

questioned whether the changes were in The Executive Budget. Mr. Willden responded that they were.

Mr. Willden added that there were a couple of items for special consideration in the budget that were not able to get funded including signing bonus opportunities, rural area differentials, and a six/five retirement plan. The latter was a program to reward individuals with one additional year of retirement for working five years in one of the skilled professional positions.

Mr. Willden said that Department had worked with a number of advisory groups and legislative committees and would work to incorporate the recommendations into the budget.

Mr. Willden then referred to [Exhibit C](#) provided to the Subcommittee. He began with an overview of the organization of the Department. There were six major divisions within the Department:

- Aging Services
- Child and Family Services
- Health
- Mental Health and Developmental Services
- Welfare and Supportive Services
- Healthcare Financing and Policy

Mr. Willden added that the Department also was responsible for the Office of the State Public Defender and provided administrative support to the Indian Commission.

Referencing page 2 of [Exhibit C](#), an organizational chart of the Director's office, Mr. Willden spoke of the recommendation for three new positions in the Director's office. One additional fiscal position was requested in the Senior RX program, as well as a full-time problem gambling specialist, and a new position highlighted earlier to deal with the recruitment of skilled professionals.

Mr. Willden turned the attention of the Subcommittee to the "Fiscal Overview" tab, of [Exhibit C](#). The first chart on page 3 showed the Department's budget for the next biennium at just over \$5.4 billion, an increase of \$700 million from the current biennium with 59 percent of the resources being allocated to Health Care Financing and Policy. The chart on page 4 showed the DHHS budget as a percentage of the entire state budget. The entire state budget was approximately \$18.2 billion with roughly thirty percent being allocated to DHHS, up one percentage point from the current biennium. Page 5 illustrated the General Fund budget for the 2007-2009 biennium at \$6.8 billion, with DHHS receiving \$2 billion. Page 6 took the General Fund and broke it out into the various divisions and programs that the Department administered. Of the \$2 billion in General Fund support, roughly \$1.7 billion was in the base budget, the same amount as in the current biennium. About \$202 million was added for caseload growth and the mandates that were required. The General Fund enhancements added up to just under \$100 million. Page 7 showed the budgeted funding sources for fiscal year (FY) 2008 and FY 2009. Mr. Willden noted that the federal share had decreased by four percentage points in FY 2008 and six percentage points for FY 2009. Mr. Willden said that the decrease in funds could be attributed to a number of issues, but two were the most important. The big provider of health services was the Center for Medicaid and Medicare Services, and the state's matching federal participation rate had declined as a result of higher per-capita income in Nevada. The second issue was the significant expansion in state mental health programs, where

there was not much federal participation. Mr. Willden noted that this was a much greater shift away from federal funds than the previous biennium.

Senator Beers asked whether a chart existed that broke down the decline in federal funds. Mr. Willden said that some of the division administrators would discuss the issue of declaring federal revenues. As an example, a one percent drop in federal matching funds for FY 2009 would result in a loss of \$15 million for the State.

Mr. Willden moved on to pages 8, 9, and 10 of [Exhibit C](#), which showed the detailed breakdown of recommended funding for each of the divisions and each program during the 2007-2009 biennium. Page 11 was a breakdown of the full-time equivalent (FTE) positions in each division.

Mr. Willden moved on to the "Demographics/Rankings" tab. He mentioned that the document had been kept up-to-date during his tenure in the Director's office. Provided within this section of the handout were statistics on population, employment, poverty, children, seniors, disability, health, medical care, public assistance, and federal funding in Nevada.

Assemblywoman Leslie questioned the statistic on page 21 showing Nevada ranked 50<sup>th</sup> in keeping children safe in their homes whenever possible and appropriate. Mr. Willden indicated that the statistic came from the federal Child and Family Services Review (CFSR). He affirmed that the statistic was correct. Assemblywoman Leslie asked Mr. Willden to cite statistics as he continued his presentation. Mr. Willden agreed.

Senator Beers questioned whether the statistic in discussion was out-of-date and the likelihood that Nevada was still last in the category. Mr. Willden acknowledged the review was from 2003 and that much progress had been made. He added that there were substantial enhancement requests to improve child welfare services. Senator Beers stressed the importance of having more up-to-date statistics to work with. Mr. Willden said that there had not been another comprehensive review, but there were updates occurring.

Mr. Willden moved to the "DHHS Highlights" tab of the exhibit. For Capitol Improvement Projects (CIPs) the highlights were:

- Expand Desert Willow Treatment Center in Las Vegas by 12 beds.
- Remodel buildings on the Northern Nevada Mental Health Campus to expand the Adolescent Treatment Center (ATC), provide office space for mental health staff, demolish old buildings and remove from central heat plant, and plan for a new consolidated services building in future CIP.
- Purchase land and plan for a 50 bed Forensic Treatment Facility in Las Vegas.
- Perform several maintenance projects related to hot water system rehabilitation, security issues, and restroom renovations.

Senator Mathews asked Mr. Willden about an old stone house on the Northern Mental Health Campus and whether it would be razed. Mr. Willden informed Senator Mathews that the building would not be demolished because of its historical value.

For Technology Improvement Requests (TIRs), the highlights were:

- The "Electronic Birth Registry," an online, real-time method of registering the births, deaths, and fetal deaths in Nevada.

- A "Data Warehouse," an enhancement to create real-time and statistical databases from most divisions within DHHS. The warehouse will have the ability to link or match databases.

Mr. Willden noted an error on the exhibit that showed the TIRs under Budget Account (BA) 3125 when it should have been BA 1325.

Mr. Willden mentioned that there were 21 one-shot appropriations, totaling \$5.7 million recommended in The Executive Budget.

Mr. Willden indicated that Mr. Torvinen would cover the Director's Office in detail. Mr. Willden noted the major methamphetamine program expansion and that additional resources were being recommended to educate the public on substance abuse issues, prevention activities, treatment activities, and a new co-occurring disorder initiative.

Assemblywoman Leslie inquired about the methamphetamine education program and whether there were details available. Mr. Willden responded that there were no details but that there was a workgroup tasked to come up with the education plan by April 1. Assemblywoman Leslie mentioned she had a bill draft that provided \$1 million for prevention coalitions, and she was hoping to be involved with the workgroup. Mr. Willden added that there was an older State Infrastructure Grant (SIG) that provided funds to the thirteen prevention coalitions, which was now being replaced by \$5.3 million within the budget.

Mr. Willden also wanted to note the family resource centers. Part of the child welfare struggle was that the State had a poor capability to do what was called an alternative response to all child protective services. There was an initiative to provide additional resources to all family resource centers to provide additional staffing.

Chairman Arberry noted for the record that Senators Titus and Cegavske were present.

Senator Rhoads asked whether there had been any improvement in the staffing in the rural Nevada areas and indicated he had been to a dedication of one of the buildings and was shocked to find out how many vacancies there were. Mr. Willden responded that there had been some improvement, but the levels were not where they wished them to be. He mentioned that Dr. Brandenburg, in his presentation, would speak of recruitment difficulties in the rural clinics budget. Senator Rhoads asked whether there was any discussion of creating incentives for people to work in rural programs. Mr. Willden responded that the Department pushed three incentives forward, but none of them made it through the budget process.

Chairman Arberry requested to hear the Director's Office overview.

Michael Torvinen, Deputy Director, Fiscal Services (DHHS) introduced himself. He stated that within the Director's Office there were a total of eight budget accounts. He added that the Director's Office also provided some administrative and fiscal support to the Public Defender and the Indian Commission. Mr. Torvinen directed the Subcommittee's attention to page 40 of [Exhibit C](#) and noted the decision unit E325 to enhance funding for the 211 Phone System. He added that the system was a public/private partnership and that funding had been received from a number of sources which were listed in the exhibit. Going forward there had been funding received from the Fund for Healthy Nevada, for FY 2009. Decision unit E325 was a request for \$200,000

per year from the General Fund, primarily to expand the hours of operation of the 211 system.

Mr. Torvinen said E450 was a decision unit to create a personnel officer in the Director's Office to work with retention and recruitment of positions with a focus on the rural areas.

Mr. Torvinen added that the Department had made a request for a supplemental appropriation of \$635,000 to finish paying for the move of DHHS offices to Technology Way in Carson City. He added that staff had already moved into the building and that he would work with the Subcommittee on adjusting the appropriation if needed.

Mr. Torvinen moved on to the Developmental Disabilities budget, BA 3154. The account supported the Governor's Council on Developmental Disabilities, and worked to engage in advocacy capacity building and system changes to promote independence and self-determination. Mr. Torvinen noted that this budget was the "Base Budget" moving forward.

Mr. Torvinen said the Community Based Services budget, BA 3266, was also administered by the Director's Office. There were initiatives to implement some of the recommendations developed by the Committee on Disabilities. Decision unit M541 was another decision unit to address the Olmstead Supreme Court case. This decision unit provided technical assistance and training to agencies offering to provide positive behavioral support services.

Chairman Arberry questioned how much funding was recommended in the decision unit. Mr. Torvinen replied that it was \$191,000 over three years.

Mr. Torvinen stated that M540 provided funding for traumatic brain injury rehabilitation (TBI), allowing services for an additional 64 people, bringing the caseload to 100 over the biennium.

Chairman Arberry requested clarification of what services would be provided. Mr. Torvinen responded that individuals received services tailored to their needs over a period of time to allow them to remain independent and function without being institutionalized. There was also funding recommended to grow caseloads for Personal Assistant Services (PAS). Sixty-three additional people would be served, bringing the ongoing service caseload to 216 by the end of the biennium.

Senator Cegavske questioned the removal of TBI education from some of the schools in the southern part of the State.

Todd Butterworth, Social Services Chief 3, Office of Disability Services, responded that the question should be directed toward the Department of Education but mentioned that DHHS received a federal grant to do a TBI action plan for the State. Mr. Butterworth agreed that kind of support should be in the schools and thus was an area the office would review, but in the end, it was up to the educational system to make that decision. Senator Cegavske stressed that education was a joint effort between DHHS and the educational system. Mr. Butterworth added that the Personal Assistant Services Program would now be able to provide TBI support for up to two hours each day.

Mr. Torvinen said that E542 was the Department's independent living services decision unit, which involved about \$1.7 million over the biennium. He added that 403 individuals would be served with these funds.

Mr. Torvinen stated that E325 requested funding to create an online registry of interpreters for the deaf and providers of real-time captioning services. This was related to one of the recommendations of the interim Legislative Committee on Persons with Disabilities. This funding was derived from telephone surcharges and totaled almost \$64,000 for the biennium.

Enhancement Unit 326 requested funding to allow the Strategic Plan Advisory Committee (SPAC) to continue its work regarding the ongoing implementation and monitoring of the Department's Strategic Plan for People with Disabilities. This was in compliance with the Olmstead decision.

Mr. Torvinen moved on to the Healthy Nevada Fund, BA 3261. This budget contained funding from the tobacco settlement. It accounted for the activities related to Senior Rx and Disability Rx. There was money in the Fund for a Healthy Nevada, which flowed through to the Grants Management Unit. Medicare Part D was implemented in January 2006, and implementation did not go very well on a national level. Mr. Torvinen said that the Department experienced a lot of the frustrations, and the staff worked long and hard to get through the implementation, adding that the budgetary impact had been addressed in the Department's request. He noted that caseloads had been adjusted as well. There were two caseloads for each program: Medicare eligible and non-Medicare eligible. There was a decrease in Senior Rx caseloads since the implementation of the Medicare Part D, but ongoing, it looked as though there would be an upswing in the caseload as people hit the coverage gap in Medicare Part D. As far as Disability Rx, the program started out slow, but caseload had grown to 550 people. The Department had tried to provide for inflationary costs on medications and asked for a full-time accounting assistant to manage and reconcile the payments to the Part D drug plans. Travel money was also requested to attend a national conference to ensure the program's manager could stay abreast of all the developments related to Medicare Part D. Finally, the Department tried to project some caseload increases using the state demographer's estimates. The projected increases ran a little over 5 percent for the first year of the biennium and just under 5 percent for the second year. Mr. Torvinen mentioned that the projections may be off and that the Department may have under-budgeted.

Mr. Torvinen referenced page 45 of the [Exhibit C](#), where the Department had an ongoing budget account, BA 3241, for a Blue Cross Blue Shield settlement. He said that final payment had been received. The Department transferred that money to the Community Home-Based Initiatives Program (CHIP), but noted that the CHIP program would no longer see that influx of money. Budget Account 3195 was the Grants Management Unit where there were seven different funding sources. The Department created this budget account to help better manage all of the funding sources and to grant the funds to community recipients. Also in this budget account was the Advisory Committee on Problem Gambling. Mr. Torvinen said that the Department had been successful at implementing the program and getting some money into the community. Mr. Torvinen mentioned that there was a decision unit to staff a full-time grants manager to assist with this program.

Chairman Arberry questioned when the money committees would receive information on the success of the program. Mr. Willden responded that the annual report had been prepared and would be given to the Legislature within the next couple days.

Mr. Torvinen referred to page 46 and noted Mr. Willden had spoken of



alternative response, or differential response, and that these were two identical ways of referring to the Family Resource Centers' (FRCs) activity related to child welfare.

Mr. Torvinen moved on to BA 3195, which was the initiative related to the differential response and the one-shot appropriation for automobiles. He added that E325 was to reestablish funding for problem gambling. The prior legislation that established the funding was sunsetted, so the Department had built a budget to eliminate the funding, and then went ahead and requested the funding back. Mr. Torvinen added that there was a Bill Draft Request (BDR) associated with that process. Also within that BDR was a request to increase the administrative allowance from 1 percent, to up to 5 percent.

Referencing page 47 of [Exhibit C](#), BA 3201, Children's Trust Account, Mr. Torvinen spoke of the fees the Department received, which were earmarked statutorily from the birth and death certificate fees. He added that the fees were isolated so that interest could be earned and later be transferred into the Grants Management Unit. There was a federal grant in the Grants Management Unit that was spent first, and afterward, the unit utilized fee funds. The Department was budgeted a reserve of \$300,000 per year in this account.

Mr. Torvinen stated that BA 3200, Problem Gambling, received slot tax revenue to fund the program. He added that the money was deposited and transferred from the Gaming Control Board.

Mrs. Smith mentioned that she did not hear anything mentioned about autism. She asked whether there were any requests for funding that would be heard in Subcommittee.

Mr. Willden replied that there were two points regarding autism. He stated that Dr. Brandenburg would talk about the three regional centers that provided services and that autism assistance was folded into those requests. Mr. Willden added that within the Health Division's budget was the early intervention services budget with autism assistance included in that budget as well. He conceded that there were not specific decision units regarding autism recommended in The Executive Budget.

Senator Mathews stated that she had asked for autism to be included in the budget early on. She added that she had a BDR to deal with the issue.

Mr. Willden said that the Department requested some budget decision units within items for special consideration. Additional information would be provided at a later time.

Assemblywoman Leslie questioned whether there was any caseload growth for substance abuse in the budget. Mr. Willden replied that there were decision units that dealt with replacing the federal State Infrastructure Grant (SIG) grant which could take people off waiting lists. Ms. Leslie stated that she was unhappy with the outcome.

Chairman Arberry thanked DHHS for their testimony and recognized the Division of Mental Health and Developmental Services (MHDS). Carlos Brandenburg, Ph.D, Administrator, MHDS, introduced Debbie Hosselkus, LSW, Deputy Administrator, and Jeff Mohlenkamp, Administrative Services Officer IV.



## **DIVISION OF MENTAL HEALTH/DEVELOPMENTAL SERVICES**

Dr. Brandenburg began by turning the Subcommittee's attention to [Exhibit D](#), the MHDS Budget Presentation. Referencing the "Organizational Chart" tab, Dr. Brandenburg mentioned that the Bureau of Alcohol and Drug Abuse (BADA) had been transferred to the Division. The organizational chart showed the various clinics throughout the State of Nevada for both Mental Health Services and Developmental Services.

Dr. Brandenburg moved to the "National Ranking" tab which showed the per capita spending rankings. In reference to a question from Senator Beers, Dr. Brandenburg mentioned that the data was from fiscal year (FY) 2004. The FY 2005 numbers were not available. He stated that in FY 2000, the Division did a prevalence study which provided the number of severely mentally ill individuals in Nevada that indicated about 31,000 Nevadans were going without services at this time.

Dr. Brandenburg proceeded to the next tab titled "Financial Overview." He mentioned the third pie chart showed the funding for mental health, substance abuse, developmental services, and administration for the biennium. The fourth pie chart broke down the actual funding by State and federal dollars. He noted that the funding sources included roughly 69 percent General Fund and 24 percent federal funds. The fifth pie chart was a breakdown of the funding recommended for mental health agencies. He noted southern Nevada received 61 percent of the funds. The sixth pie chart was a breakdown of funding for the developmental services agencies. Dr. Brandenburg pointed out that Desert Regional Center received over 60 percent of the funding, or roughly \$172 million. The last page of the tab contained a breakdown of each of the funding sources for each of the agencies. He mentioned that Governor Gibbons had recommended an increase to Division's budget of 29.9 percent, and that the Desert Regional Center had received \$51 million of the \$167.9 million increase for MHDS during the 2007-2009 biennium.

Assemblywoman Gansert questioned the lower amount of federal funds for developmental services. Dr. Brandenburg responded that there was not as much funding available for mental health because the Department did not receive federal dollars for any of the inpatient services, only for outpatient services.

Dr. Brandenburg proceeded to the tab labeled "Narrative Summary" in [Exhibit D](#). The Division provided services for inpatient, outpatient, and forensic services on the mental health side. Assembly Bill 2 of the 22nd Special Session, section 211, mandated the transfer of the Bureau of Alcohol and Drug Abuse (BADA) to the Division. The Bureau had been officially transferred in December 2006. He added that the Division changed the name of BADA to the Substance Abuse Prevention and Treatment Agency (SAPTA), because the Division did not have bureaus within the organization.

Concerning the mental health services, Dr. Brandenburg said Southern Nevada Adult Mental Health Services, provided both inpatient and outpatient services. Currently there were 216 inpatient/observation beds in the Las Vegas area. The Rural Clinics budget operated 21 separate clinics throughout rural Nevada. He mentioned that the Lakes Crossing center was the only maximum security forensic facility. Dr. Brandenburg noted that roughly 41 percent of admissions to Lakes Crossing came from Clark County. Dr. Brandenburg added that there

was a Capital Improvement Project (CIP) recommended to design a forensic facility for Clark County.

Senator Cegavske asked how the patients were transported to northern Nevada. Dr. Brandenburg responded that the Clark County Police Department transported patients by airplane to the Lake Crossing center in Northern Nevada.

Assemblyman Marvel asked where the forensic facility would be located in Las Vegas. Dr. Brandenburg responded that there had been community concern about building a forensic facility on West Charleston. He added the facility was planned to be built near the women's prison.

Assemblyman Denis asked how many outpatient received services from rural clinics. Dr. Brandenburg replied that the total number of individuals served was about 5,100. Assemblyman Denis questioned where the rural patients were transported when necessary. Dr. Brandenburg responded that it depended on the county of residence. He added that about 90 percent went to northern Nevada.

Dr. Brandenburg said that on page 2, under the "Narrative Summary" tab, were the cross-agency major budget initiatives. Assembly Bill 175 of the 73<sup>rd</sup> Legislative Session provided funding to expand mental health services but stipulated that funding would end after FY 2007 and could not be included in the base budget. Because of that, the Division had to request enhancement units to continue this funding.

Dr. Brandenburg said E325 funded a mental health court. Continued funding for a triage unit was in E326. The triage unit provided services for those individuals who had substance abuse problems as well as mental illness. The funding came from a partnership between the public and private sector: one-third of the funding was provided by the State, one-third by the county, and one-third by the Hospital Association. The Division had \$900,000 in the base budget for triage services in Clark County and \$500,000 for the triage unit in northern Nevada. Enhancement Unit 327 provided funding for housing assistance and community based mental health services for 90 clients in Clark County. Dr. Brandenburg noted this assisted the Division in keeping the mentally ill out of the hospitals and emergency rooms by providing residential services in the community. Currently, there were over 900 mentally ill individuals receiving residential services in Clark County.

Assemblywoman Buckley asked whether an analysis had been done of the patients in emergency rooms and acute beds to ascertain whether with additional residential services MHDS could have avoided a crisis in the first place. She wondered whether more prevention was needed. Dr. Brandenburg replied that patients in emergency rooms were there because they were a danger to themselves and others. He added that one of the things that the Division would be tracking was the number of patients who were new to the system, compared to the number of individuals that were readmissions. Dr. Brandenburg explained that this would tell the Division whether the individuals coming into the emergency rooms were coming in because they were new to Clark County and had not received any mental health services before, or that they had come out of residential programs, did not have residential programs, or did not have the case medicine system to help. The Division was in the process of trying to make that determination. Dr. Brandenburg said there were proposals that each clinic become an urgent care clinic to do their own admission, follow-up, and medication, and thus avoid the movement of patients. This might help keep people out of the emergency

rooms and hospitals. Assemblywoman Buckley asked when the analysis would be complete. Dr. Brandenburg replied that MHDS would try to expedite the process.

Senator Cegavske asked how the different sections at the Dini-Townsend facility were being used for patients. Dr. Brandenburg replied that there was a 20-bed pod for overflow from the Lakes Crossing Center. He added that 20 beds were currently vacant at the facility. Senator Cegavske wondered whether more Clark County patients could be brought up to northern Nevada if needed. Dr. Brandenburg said he was unsure whether the Clark County Sheriff was willing to transport the patients. Dr. Brandenburg stated that he was in favor of further developing the services in Clark County. He added that 80 new beds were recently opened in Clark County.

Assemblywoman Leslie added that while there was capacity for the 20 beds at the Dini-Townsend facility, they were not staffed, and there was not money in the budget to do so. Dr. Brandenburg agreed that the patients should be kept in Clark County.

Turning to E328, Dr. Brandenburg said that AB 175 of the 73<sup>rd</sup> Legislative Session had provided \$7 million to contract for 50 acute psychiatric beds. He added that the Division sent out a request for proposal, and WestCare had won the contract. WestCare provided the 50 beds from November 2005 to September 2006. When the Rawson-Neal Hospital opened, the number was reduced to 25 beds. Enhancement Unit 328 provided for 22 acute psychiatric beds in Las Vegas during the 2007-2009 biennium.

Chairman Arberry asked whether 22 beds would make much of a difference overall. Dr. Brandenburg replied that the 22 beds would help but not eliminate the existing problem.

Dr. Hardy questioned the role of WestCare, and added that he did not see any budget dealing with the outsourcing. Dr. Brandenburg responded that WestCare would most likely continue with their triage activity but not continue providing psychiatric services. With 190 beds at the Rawson-Neal Hospital and 77 at the old hospital, there was capacity to expand in the future without contracting out for additional beds. He remarked that there was a possibility of adding a third floor to the old hospital. Dr. Hardy questioned whether there was flexibility for other beds, if necessary, in the budget. Dr. Brandenburg responded that 55 beds could be added in the old hospital.

Dr. Brandenburg moved on to page 4 of [Exhibit D](#), M101, which included medication inflation growth of 7.25 percent in FY 2008 and 7.75 percent in FY 2009. He noted that the chart showed the impact of the medication inflation on the General Fund.

Dr. Brandenburg stated that E814 contained the enhancement that Mr. Willden discussed regarding the proposed salary adjustments for psychologists, health counselors, nurses, and social workers. This decision unit provided roughly a 9.5 percent increase in salaries. The increases for those positions would help both divisions with recruitment and retention. Dr. Brandenburg added there would still be problems with nursing recruitment because of the national shortage of nurses.

Dr. Brandenburg turned to page 5 of the exhibit, BA 3161, Southern Nevada Adult Mental Health Services (SNAMHS). The M201 decision unit, Residential Support Services, provided for caseload growth of 85 clients in Clark County.

The M202 decision unit, Programs for Assertive Community Treatment (PACT), provided caseload growth for 49 clients. Dr. Brandenburg stated that these clients needed intensive community support because they had a propensity to go in and out of the emergency rooms and hospitals. Clark County currently had two PACT programs that were extremely successful. Dr. Brandenburg noted that this intensive program helped people stay out of the hospital and emergency rooms because of the intensive supervision that was provided.

Dr. Brandenburg said E329 was a security enhancement that provided 24 hour security coverage for the Rawson-Neal Hospital. The hospital needed security to ensure that the staff and community remained safe.

Dr. Brandenburg stated that E432 was an infrastructure enhancement unit for SNAMHS, and provided six additional positions to meet critical infrastructure needs.

Turning to page 6 of [Exhibit D](#), Dr. Brandenburg discussed decision unit M200, which recommended medication clinic caseload growth for an estimated 170 new clients for the biennium. Maintenance unit 201 provided for an additional 30 clients in residential support services. Continuing on page 6, Dr. Brandenburg said that M204 brought the Psychiatric Ambulatory Services (PAS) program up to its proper funding level. The program offered up to 72 hours of care to individuals who did not need long-term assistance.

Dr. Hardy questioned whether decision unit M204 was going to play a part in getting individuals out of the emergency rooms and into the Division's facilities. Dr. Brandenburg responded that the services had been in place for some time and had succeeded in keeping individuals out of the emergency rooms.

Dr. Brandenburg said that M208 recommended caseload growth of 50 individuals for the Mental Health Court (MHC).

In response to a question from Senator Rhoads, Dr. Brandenburg remarked that the Division eliminated 29 clinical positions from the rural clinics budget. This was done because the caseload did not justify the positions.

Dr. Brandenburg said that M206 in the rural clinics budget provided caseload growth of 18 clients for the psychosocial rehabilitation service programs. He added that roughly 23 percent of the caseload in rural clinics were children and adolescents.

Dr. Hardy asked whether videoconferencing and treatment from afar concepts were in the budget for rural clinics. Dr. Brandenburg replied that they were not in the budget. While being passed by the Legislature and implemented in some of the rural clinics, he explained that some of the physicians were very reluctant to utilize the videoconference system. He added that they were working through those problems with staff.

Dr. Brandenburg referenced page 8 of [Exhibit D](#) in regard to the Lakes Crossing Center. He stated that decision unit M600 provided for the expansion of 28 beds at the Lakes Crossing Center. He noted that the Department was sued in federal court because individuals adjudicated incompetent to stand trial were held at the Clark County Jail longer than seven days. As a result of the suit, the Division approached the Interim Finance Committee (IFC) and requested funding to be able to open up an additional 28 beds: eight beds at the Lakes Crossing Center and 20 beds at the Dini-Townsend Hospital. The M600

decision unit provided for additional staff for 20 beds at the Dini-Townsend Hospital.

Senator Cegavske asked what the average length of stay and cost was per patient. Dr. Brandenburg responded that the average length of stay at Lakes Crossing was 137 days in FY 2006, and he would be able to provide the average cost at a later time.

Dr. Brandenburg moved to page 9, Developmental Services Agencies which provided services to Nevadans with mental retardations or related conditions. Mental retardation was a debilitating lifelong condition, so the individuals needed services throughout their lifetime. He stated that there were three separate agencies that provided the services and that most clients were served by private providers. The Division's three agencies included:

- The Desert Regional Center (DRC) in Las Vegas [BA 3279] with a current capacity of 54 institutional beds as well as community-based services.
- The Sierra Regional Center (SRC) in Northern Nevada [BA 3280] with a current capacity of 20 institutional beds as well as community-based services.
- The Rural Regional Center (RRC) [BA 3167] which served rural communities.

Citing page 10 of [Exhibit D](#), Dr. Brandenburg discussed the cross-agency budget initiatives. Maintenance unit 200 covered caseload growth in each budget account. He stated that DRC was estimated to provide services to 414 new individuals; RRC, 133; and SRC, 93.

Dr. Brandenburg said that decision unit M540 related to services for clients on waiting lists for over 90 days. The Olmstead Supreme Court decision indicated that residential services needed to be provided to individuals within 90 days. He added that the waiting list was accurate and up-to-date. The caseload growth was 167 for DRC and 127 for SRC.

Dr. Brandenburg stated that M541 eliminated the remaining 20 state-run Institutional Care Facility beds in northern Nevada and reduced the beds at the DRC by six. The closure of the beds eliminated 55.49 positions. A crisis prevention intervention team would be developed in all three regions to assist clients, family members, and providers. Two respite beds for children and two for adults were added.

Chairman Arberry questioned the elimination of staff and whether the individuals could be transitioned somewhere else within the system. Dr. Brandenburg responded that the positions from the rural areas were already vacant and that the positions from SRC were being transferred to the crisis prevention teams.

Senator Raggio requested more detail on the respite beds. Dr. Brandenburg said that the children's beds would be contracted, and the adult beds would be within the institution.

In response to a question from Senator Mathews, Dr. Brandenburg said the beds would be staffed by the existing staff. He added that the four beds recommended were sufficient.

Dr. Brandenburg moved to page 11 of [Exhibit D](#). He stated that decision unit E814 requested the recommended salary adjustment for the clinical professionals.

Dr. Brandenburg informed the Subcommittee that he would review a summary of other budget initiatives by individual agencies. The conversion of Intermediate Care Facilities for the Mentally Retarded (ICFMR) to community placements at the DRC was included in decision unit M542. The conversion of these beds would put more people into the community. The M602 decision unit provided placement for dually diagnosed individuals to receive services. The additional staffing would help provide services and develop infrastructure. The E900 decision unit provided for the transfer of positions from the SRC to the crises intervention and prevention team for rural Nevada (RRC).

Dr. Brandenburg turned to page 14 of the exhibit to speak about the Substance Abuse Prevention and Treatment Agency (SAPTA), BA 3170. The SAPTA worked to reduce the impact of substance abuse in Nevada, and provided regulatory oversight and funding for the community based and public non-profit organizations. Replacement funding for the State Infrastructure Grant (SIG) was recommended in decision unit E412. The SIG grant, used by SAPTA to fund 13 community coalitions and 43 separate drug prevention programs, expired in September 2007. This decision unit requested General Funds to replace the lost federal funding. The SAPTA would use this funding to continue its drug prevention efforts targeted at youths ages 12 to 25. Funding was recommended at \$5.3 over the biennium.

Senator Raggio asked whether the \$5.3 million would replace all of the lost federal funds, and how often the grant application occurred. Dr. Brandenburg responded that all of the federal funding would be replaced, but he did not know the application schedule. In response to an additional question from Senator Raggio, Dr. Brandenburg stated that other programs were able to apply for funds from the grant. Dr. Brandenburg noted that 50 percent of the funding, \$1.15 million per year, was recommended to be used for methamphetamine prevention.

Dr. Brandenburg stated that E413 was a wait-list reduction decision unit. As of November 2006, approximately 2,200 people were waiting an average of 18 days to receive treatment. Based upon the average annual cost of \$2,702 per client, this decision unit allowed community providers to serve an additional 567 people in FY 2008 and 850 in FY 2009. He added that 45 percent of the funding was recommended for methamphetamine treatment.

Dr. Brandenburg said decision unit E414 was for a co-occurring disorders pilot program. This decision unit requested funding to initiate a pilot program that treated clients with both substance abuse problems and mental illness. This funding would allow SAPTA to establish a pilot program in southern Nevada in FY 2008. Mr. Brandenburg noted that the Division had not put any substance abuse dollars in the mental health agencies. He felt the funding was needed to enhance the substance abuse infrastructure to be able to continue developing and enhancing co-occurring disorder services.

In response to a question from Senator Raggio, Dr. Brandenburg stated that decision unit E414 provided approximately \$1,920,000 for FY 2008 and \$1,917,000 for FY 2009. Dr. Brandenburg added that approximately \$9.6 million from the SAPTA budget was going toward methamphetamine treatment and prevention.

After a 15-minute recess, Chairman Arberry reconvened the Subcommittee and called upon the Division of Child and Family Services.



## **DIVISION OF CHILD AND FAMILY SERVICES**

Fernando Serrano, Administrator, Division of Child and Family Services (DCFS), introduced himself. Mr. Serrano turned the Subcommittee's attention to page 2 of [Exhibit E](#), Division of Child and Family Services FY 2007-2009 Budget Overview. He stated that the Division's work was about partnering with families, communities, and government agencies, with a goal of providing a seamless array of services. Prior to accepting his position in January 2006, Mr. Serrano had spent the previous 23 years as a Chief Juvenile Probation Officer in two Nevada judicial districts, and had seen the importance of providing seamless services.

Mr. Serrano said the mission of DCFS entailed three disciplines:

- Provide child welfare services in 15 counties.
- Provide oversight to the urban county child welfare offices statewide.
- Provide juvenile justice services.

Turning to pages 4 and 5 of the exhibit, Mr. Serrano stated that DCFS revenues were 8.35 percent of total DHHS revenues, and General Fund support was 11.86 percent of total DHHS General Funds.

Mr. Serrano stated that the DCFS budget summary was on page 6. The DCFS budget requested for the 2007-09 biennium budget totaled \$451,353,786. The program spending broken down for FY 2008 was as follows:

- Child Welfare, \$111,997,031 (51 percent)
- Juvenile Justice Services, \$38,915,589 (18 percent)
- Children's Mental/Behavioral Health Services, \$38,184,330 (18 percent)
- Administrative and Other Programs, \$28,475,990 (13 percent)

Mr. Serrano turned to page 7 of the exhibit, which broke down the Division's overall funding for FY 2008 as follows:

- General Funds, \$113,526,976 (52 percent)
- Federal funds, \$62,384,726 (29 percent)
- Other, \$41,661,238 (19 percent)

Chairman Arberry questioned whether there had been a decrease in federal funding and whether anything had to be made up through the General Fund.

Diane Comeaux, Deputy Administrator, Family Programs (DCFS) responded that a decrease had occurred in Title IV-E funding as a result of a number of changes at the federal level in regard to eligibility for the funds. The difference was made up by the General Fund.

Mr. Serrano continued on page 8 of [Exhibit E](#) and stated that the improvement strategies were:

- Increasing Nevadan's Access to Services.
- Staffing Appropriately to Meet Federal Outcomes and National Standards.
- Enhancing Organizational/Professional Competence and Safety.

Turning to page 9 of the exhibit, Mr. Serrano spoke of the expansion to the Oasis On-Campus Treatment Homes. The Oasis program treated youth who were both severely emotionally disturbed and had developmental disabilities. The program had a service capacity of 17. At the September 2006 meeting of the Interim Finance Committee, the Committee approved DCFS's request to expand the Oasis On-Campus Treatment Homes with the opening of two additional homes to serve a total of 10 children/youth. The Division was in the process of completing the hiring/training processes and expected the homes to be open within 30 days. Mr. Serrano added that the DCFS budget recommended continued support of the expansion.

On page 10, Mr. Serrano stated that the Division requested foster care rate increases. Currently the Division paid \$21 per day and recommended an increase to \$24 per day in FY 2008 and \$28 per day in FY 2009. He stated that the current foster care payment was not adequate to cover children's basic expenses. The monthly foster care payment for a 9-year-old child was \$591.69. The average middle-class family spends about \$854 per month on a child of the same age, according to the U.S. Department of Agriculture.

Mr. Serrano explained that with the onset of the methamphetamine epidemic, the Division anticipated the need for foster care to increase. In Clark County, it was estimated that an additional 450 foster homes were needed to meet current caseload needs.

Mr. Serrano stated that with the transition of child welfare programs to Washoe County in January 2003, the County made a policy decision to pay all family foster homes \$30 per day, even though the State only reimbursed the County \$21 per day. In February 2003, Washoe County had an available licensed bed capacity of 780, and in August 2006, the capacity was 1,240, which represented an increased capacity of 59 percent.

Chairman Arberry questioned what the national averages were in regard to foster care rates and whether Nevada's rates discouraged foster care participation.

Mr. Serrano replied that the key was to recruit and retain, and that it was hard at the current rate. He added that they requested positions to communicate with foster parents in order to identify and address their needs.

Senator Beers questioned whether there was a large disparity between counties in caseload growth. Mr. Serrano stated that Clark County had greater growth for a number of reasons including population growth. He stressed the need for prevention activities to avoid placement in the first place. Mr. Serrano added that the Division was beginning to expand after-hours and weekend services.

Assemblywoman Buckley added there had been a working group established to answer the question Senator Beer's had asked. The group concluded that methamphetamine and short-term placements played large roles in the caseload increases. Ms. Buckley agreed with the need for prevention activities in order to reduce the number of short-term placements.

Chairman Raggio asked whether Clark County was considering raising the daily rate for foster care as Washoe County had done. Mr. Serrano stated that he did not know.

Mr. Serrano said that page 11 of [Exhibit E](#) dealt with Northern Nevada Child and Adolescent Services, Early Childhood Mental Health Services; and Outpatient

Services Intake Coordinators. Currently, there was no staff dedicated to responding to inquiries at the two sites in Reno. The Division proposed intake coordinators to receive the inquiries and assist the families in accessing the services. He added that in Las Vegas, every center had an intake coordinator to carry out this function, and in the north, clinicians rotated to carry out the intake coordinator function. The recommendation came from the Washoe County Children's Mental Health Consortia.

Mr. Serrano said that page 12 of the exhibit showed the expansion of Northern Nevada Child and Adolescent Services, Early Childhood Mental Health Day Treatment Services. This program provided behavioral interventions and skill-building for children 4 to 6 years old. Mr. Serrano added that the Division ran a half-day program in Washoe County, and this request would enable an afternoon session as well.

Turning to page 13 of [Exhibit E](#), Mr. Serrano discussed Mobile Crisis and Stabilization Services. There were many similarities between this request and the Adult Mobile Crisis Team that was approved. Mobile crisis services had proven effective with children in reducing the need for emergency room visits and psychiatric hospitalizations. Mr. Serrano added that the request was supported by the Clark County Children's Mental Health Consortia.

Mr. Serrano stated that on page 14 was a request regarding the Desert Willow Treatment Center (DWTC). The request was to convert 12 beds, from serving youth with just severe emotional disturbances to serving youth with severe emotional disturbances and co-occurring substance abuse disorders.

Senator Cegavske questioned what ages were using methamphetamine. Mr. Serrano replied that the ages were getting younger. The majority of cases were between 12 and 18 years of age.

In response to a question from Assemblywoman Leslie, Ms. Comeaux replied that substance abuse treatment was being added to the current patients and that other services were not being lost.

Mr. Serrano moved to page 15, which dealt with positions that review child deaths. The DCFS budget asked for four full-time equivalent (FTE) positions to facilitate the prompt response to child fatalities. He added that DCFS was now required to conduct a review on every child fatality that occurred in the State because of abuse and neglect.

Mr. Serrano stated that on page 16 of [Exhibit E](#) was a request for four FTEs to help meet increased federally mandated oversight requirements for all public child welfare jurisdictions in the State.

Mr. Serrano said that page 17 addressed a need with the Interstate Compact on the Placement of Children (ICPC). He stated that ICPC ensured out-of-state placement was made in an adequate home and setting, and that the setting was monitored. Recent legislation in Congress dictated that the home-study had to be conducted within 60 days. Four positions were requested to meet this requirement.

Mr. Serrano explained that page 18 of the exhibit was a request relating to the Interstate Compact of Juveniles (ICJ). The ICJ was the Juvenile Justice version of ICPC. The provisions were approved last session for the Interstate Compact of Juveniles, and currently 30 states had approved the compact.

Mr. Serrano turned to page 19 of [Exhibit E](#) and stated that the Division had requested three Grants and Project Analyst positions for the Division's Grants Management Unit (GMU). The GMU provided programmatic oversight for 11 federal grants including approximately 150 sub-grantees and eight contracts totaling more than \$15 million. These positions would complement the one current position designated to carry out that function.

Mr. Serrano stated that page 20 of the exhibit dealt with rural child welfare staff safety. He stated that there were different definitions of "rural" and that some areas in the State were more isolated than others. The Division requested 10 800MHz radios for communication and 21 leased Motor Pool vehicles for transporting children.

Senator Beers questioned the effectiveness of 800MHz radios for the rural areas. Mr. Serrano responded that they had been working with the Department of Information Technology concerning the issue.

Chairman Arberry questioned the deferment of maintenance on some facilities. Ms. Comeaux responded that there were not any funds for deferred maintenance in the budget.

Senator Mathews asked for a clarification in regard to the building maintenance. Ms. Comeaux replied that there was maintenance that needed to be performed, but it had not been funded.

Mr. Serrano turned to page 21 and discussed operational costs and a new Information Systems Specialist to support Avatar. Avatar, a clinical case management and billing system, was funded through the Department of Administration's budget through a one-time appropriation. The Division's UNITY (Unified Nevada Information Technology for Youth) budget would need to fund Avatar in the future. He noted more information was available on page 58 of the exhibit.

Mr. Serrano stated that on page 22 was the Child Welfare Integration Budget for Washoe County. The Washoe County Integration budget request for the 2007-09 biennium budget totaled \$54,792,154 and included a total of 94.04 FTEs. Mr. Serrano explained that the charts on the page showed the breakdown of the budget. Page 23 contained pie charts that illustrated the funding for the Washoe County Integration budget.

Turning to page 24 of the exhibit, Mr. Serrano went into more detail on the Washoe County integration request which included:

- The continuation of funding ongoing costs and the cost of Washoe County supporting 82.06 FTEs.
- The caseload increases for foster care placement and adoption subsidies.
- The addition of six FTEs to support projected foster care caseload growth.
- The addition of one FTE to support the new ICPC.
- The funding to increase the daily foster care rate from an average of \$21 per day to \$24 per day in FY 2008 and \$28 in FY 2009.
- The addition of three mental health counseling positions.
- The addition of one FTE Social Worker to support caseload growth and foster care licensing.
- The funding to change two 0.51 FTE positions to two full-time positions to support increased workload demands.

- The funding to reclassify two Social Worker III positions to senior social work positions and one office assistant to an office support specialist position to meet increased workload demands.

In response to a question from Senator Cegavske, Ms. Comeaux replied that all current positions were fully staffed.

In response to a question from Senator Raggio, Ms. Comeaux responded that the Child Welfare Integration budgets were based on the original budget agreements with Governor Guinn and that more information would be provided at a later time.

Mr. Serrano moved to page 25 of [Exhibit E](#) to discuss the Clark County Child Welfare Integration request. The Clark County Integration budget for the 2007-09 biennium totaled \$135,551,408. He noted the breakdown of the budget within the charts on page 25.

Mr. Serrano added the chart on page 26 illustrated the funding and showed how it was distributed.

Assemblywoman Gansert questioned the lower federal funds for Clark County in comparison to Washoe County. Ms. Comeaux replied that certain federal funds were capped and Washoe County received some Medicaid dollars that Clark County did not. She added that there was some question whether the Medicaid money would continue to be received.

Senator Raggio asked whether the difference could be attributed to salary differences. Ms. Comeaux replied it was not.

Mr. Serrano turned to page 27. The specific requests for Clark County included:

- Continued funding of ongoing costs and the cost of Clark County supporting 217.06 FTE integration positions.
- Increases for foster care placement and adoption subsidies.
- The addition of 47 FTE positions in FY 2008 and an additional 17 FTE positions in FY 2009 to support projected caseload growth.
- One FTE position to support the new ICPC.
- Funding to increase the daily foster care rate from an average of \$21 per day to \$24 per day in FY 2008 and \$28 in FY 2009.
- Funding for 32 FTE family support worker positions to provide additional visits with children, parents, and related foster parents.
- Funding for five FTE positions to expand recruitment, training, and retention of foster homes.
- Funding for six FTE positions to support the expected increase in the number of new licensed foster homes.
- Funding for six FTE foster parent liaison positions to provide support, mentoring, and retention of 500 additional foster care beds.
- Funding for six FTE positions to enhance the Placement Team to facilitate the direct placement of children into family foster care homes on a 24/7 basis.

In response to a question from Chairman Arberry, Mr. Serrano replied that children became safer when they were seen more often, safer when those who saw them were better trained, and safer when those who saw them had appropriate caseloads. The additional positions allowed the Division to track

and monitor how children were doing in the foster care placements, which would make the placements safer.

On page 28 of [Exhibit E](#), Mr. Serrano discussed the recommended two-grade increases for sworn officers, professional mental health staff, and nurses.

On page 29, Mr. Serrano noted a supplemental appropriation request in the amount of \$3,696,791 to cover a projected shortfall in the Clark County integration budget. This request would cover funds transformed into FY 2006 as well as a projected shortfall in 2007.

On page 30, Mr. Serrano stated that there were three Bill Draft Requests (BDR).

- BDR 597 would add violation of parole as a condition of being placed in a detention facility for not more than 30 days. Presently, the statute allowed only for probation violators to be sentenced in this manner.
- BDR 598 would help ensure compliance with certain provisions of the Federal Child Abuse Prevention and Treatment Act (CAPTA).
- BDR 599 would amend NRS 432A to add residential, shelter, and educational child care institutions to the definition of child care facility and provided that the facilities would be licensed by the State. It would also amend NRS 217.410 to allow the division to expand a maximum of 10 percent of total revenue collected to fund existing costs associated with administering the Account for Victims of Domestic Violence.

On page 31, Mr. Serrano discussed the recommended Capital Improvement Projects (CIP). Funds were reconvened for a construction project at the Desert Willow Treatment Center, which would add one 12-bed, adolescent acute unit. Another project included a maintenance request at the Summit View Youth Correctional Center to replace and add security cameras. He noted other projects involved Americans With Disabilities Act (ADA) compliance issues at the West Charleston campus, specifically with buildings 9, 10, and 16.

On page 32, Mr. Serrano stated there was an organizational chart of DCFS. He added that the tabs labeled "Position Summary, Capital Improvement Projects, Caseload Projections, and Progress From 2005 Session" contained other useful information.

Assemblywoman Leslie commended Mr. Serrano for his presentation and asked about the lack of discussion on juvenile justice and whether there was anything in the budget to address the problems at the State training centers.

Mr. Serrano stated that there was not. He mentioned that the Division had been aggressively hiring and training staff.

After a recess, Chairman Arberry reconvened the meeting and called upon the Division of Welfare and Supportive Services.

### **WELFARE DIVISION**

Nancy K. Ford, Administrator, Division of Welfare and Supportive Services (DWSS), introduced Roger Mowbray, Deputy Administrator for Administrative Services, DWSS; David Stewart, Deputy Administrator for Information Systems, DWSS; and Gary Stagliano, Deputy Administrator for Program and Field Operations, DWSS.

Ms. Ford began by referencing [Exhibit F](#), Division of Welfare and Supportive



Services 2007-09 Biennial Budget Overview. She stated that the chart on page 1 broke down revenues by division within DHHS. The DWSS budget was the third-largest within DHHS.

Ms. Ford said the chart on page 2 showed a breakdown of General Fund support used by each division within the Department. She noted that DWSS received 7.24 percent of the General Fund support recommended for the Department.

Ms. Ford stated that page 3 showed the funding sources for fiscal years 2008 and 2009. She added that the Division's funding was approximately two-thirds federal funding and one-third State funding. She briefly explained the "other" category.

Page 4 listed Nevada demographics and key comparisons with other states. Ms. Ford noted that:

- Nevada ranked 41st nationally in the Temporary Assistance for Needy Families (TANF) needs test.
- Nevada ranked 32nd nationally in average TANF cash grants.
- Nevada was one of 15 states that did not have a medically needy program.

Ms. Ford explained that page 5 was an organizational chart of the Administrative Office.

Referencing page 6 of [Exhibit F](#), Ms. Ford stated that the chart showed the number of persons eligible for Medicaid, food stamps, and TANF. While there were discrepancies between actual caseloads and budget approved caseloads, she added that the Division was within the margin of error in their predictions. She noted that TANF was the lowest caseload. Pages 7 and 8 contained the data for the chart on page 6.

Turning to page 9 of the exhibit, Ms. Ford said the chart showed legislatively approved caseloads for FY 2006 compared to actual caseloads. She pointed out that TANF cash grants came in 6.32 percent below projection, while TANF med-related came in 11.06 percent below projection. Ms. Ford added that other caseload projections could be seen in the other columns.

On page 10, Ms. Ford noted that total medical-eligibles came in 6.86 percent below projection.

Ms. Ford explained that beginning on page 11 were charts that showed where the Division stood with the caseloads on a per capita basis. Page 11 showed food stamps at 44.6 recipients per thousand in population for 2006. Ms. Ford said page 12 showed TANF cash grant recipients per 1000 residents, which registered at an all-time low of 6.98 recipients per thousand in 2006. Ms. Ford stated that page 13 showed that there were 64.33 Medicaid recipients per 1000 residents in 2006.

Ms. Ford turned to the "Federal Mandate" tab of the exhibit. She stated that the Deficit Reduction Act (DRA) imposed many requirements on the Division's programs. Those listed on page 14 were:

- Stricter work participation requirements.
- An internal quality-control review required to verify participation.

- The elimination of the population modifier and high performance bonuses resulting in a loss of \$3.7 million per year.
- The imposition of a \$25 annual fee after collection of \$500 for certain child support cases.
- Verification of citizenship and identity.

Ms. Ford clarified the \$25 child support enforcement fee in response to questions from Senator Beers and Assemblywoman Leslie. She stated that when services were used to collect child support over \$500 in cases having not received public assistance, a one-time per year fee of \$25 would be collected. She added that cases do not have to be delinquent in order to receive services.

Senator Beers asked whether additional staff was needed to collect the fee. Ms. Ford stated that the computer system would be used, and additional staff was not needed.

Ms. Ford stated that page 15 of [Exhibit F](#) listed the Deficit Reduction Act (DRA) changes to TANF effective October 2006. The table showed the current law on TANF before and after the Deficit Reduction Act. Ms. Ford said that before the DRA, caseload reduction credit reduced the required Work Participation Rate (WPR) by the percentage reduction in caseload from 1995 to the current year. After the DRA, caseload reduction credit that reduced the required WPR was amended to be the percentage reduction from 2005 to current year. For example, she stated that last year the Division reported a 48.2 percent caseload reduction credit, but using 2005 as the base year, it would have been a 11.4 percent caseload reduction credit. This change was going to make it much harder to achieve the required WPR. Ms. Ford stated that the other major change was in Maintenance of Effort (MOE). In order to receive the TANF block grant, the Division had to provide MOE of \$27 million. Under the old law, cases paid using MOE dollars did not count in work participation. She stated that hard-to-serve caseloads were 37 percent of the Division's total caseload. By bringing those cases back into WPR, it would be difficult to meet the required WPR. Ms. Ford added that an individual required 30 hours of work-related activity per week to be counted as a work participant.

Assemblywoman Leslie commented that the change would be very problematic. She questioned whether someone who qualified for disability would be taken out of the WPR. Ms. Ford replied that nobody could be removed from the WPR. She added that the Division had to restructure the TANF program and implement new strategies to help certain individuals and prevent them from hurting the work participation rate. Assemblywoman Leslie asked whether there were items in the budget that related to those strategies. Ms. Ford replied that there were such items.

Ms. Ford added that the activities within the 12 areas specified in the TANF federal statute were now defined by the federal agency through federal regulations. One of the major things the Division planned was to pay out benefits retroactively. Individuals would have to report and meet requirements before receiving benefits.

Moving to the "Budget Highlights" tab, Ms. Ford stated that page 16 outlined the Welfare Administration BA 3228. This budget account requested:

- Three quality control specialists for the DRA.
- One-shot funding for the replacement of equipment.
- Food stamp high performance bonus proposals:

- A corrective action kick-off meeting to reinforce the importance of quality eligibility determinations and to provide training.
- Q5i quality control software to quantify federal error rates, internal review findings, and work participation rates.
- Investigations and recovery software to track investigations, overpayments, administrative actions, and criminal actions.
- iRise software to create interactive simulations for users with real data, capture requirements, and manage requirements throughout the project lifecycle.
- File management software to more efficiently track case files electronically and utilize more economical off-site storage space.
- Laptops for program chiefs to enhance portability and business inefficiencies.

Ms. Ford noted that she fully expected the Division to fail the required WPR in 2007, along with the majority of other states, because of the drastic changes.

Chairman Arberry questioned what the difference was between the proposed file management software and the existing NOMADS system. Ms. Ford stated that this software would electronically index the Division's hard-copy case files.

In response to a question from Assemblywoman McClain, Ms. Ford stated that the Division was working toward electronic imaging using a product called FileNet.

Assemblyman Denis questioned whether the software had already been developed. Mr. Stewart, Deputy Administrator for Information Systems, believed the software was "off-the-shelf."

Senator Beers questioned whether the Division could go straight to electronic imaging and skip the file management software. Mr. Stagliano, Deputy Administrator for Program and Field Operations, replied that they still needed a more efficient manner to inventory the existing hard-copy case files.

Ms. Ford turned to page 18 of [Exhibit F](#), the Field Services BA 3233. She outlined the staffing needed to deal with the new Work Participation Rate requirements. This included 30 work participation advisers, two lead workers, three supervisors, five assistant office managers, and 10 clerical support positions. Ms. Ford added that within the account was one-shot funding for the replacement of equipment. The Food Stamp High Performance Bonus Proposals included:

- Elko office relocation to co-locate with other DHHS divisions.
- Elko phone system to improve customer service, establish five-digit dialing, and generate long-distance savings.
- Laptops for district office managers for portability and increased efficiencies, and projectors for district offices to enhance staff training.

Chairman Arberry questioned the cost of the projectors for the district offices. Ms. Ford replied that 11 laptops and CPUs were being purchased in addition to the 11 projectors.

Senator Raggio questioned whether all of the proposals were fully paid for by the high performance bonuses. Ms. Ford replied that the proposals were fully paid for, and the bonuses could be matched with other federal sources. She added that this was one-time money.

Senator Beers questioned when the phone system upgrade proposal was developed and wondered whether the fiber optic cable approved in the IFC was a component of that upgrade. Mr. Stagliano replied that the upgrade did not deal with the newly approved fiber-optic cable but mentioned that the Division would be willing to look at different connectivity strategies.

Ms. Ford turned to page 19 of [Exhibit F](#), which outlined the TANF BA 3230. She stated there was no new staff in the budget account, but that additional training and education was requested for the New Employees of Nevada program (NEON), which was the work participation program. Ms. Ford stated that in October 2006, the Board of Examiners approved contracts that would streamline the process for getting individuals into training opportunities quickly, by being able to pay the training vendor immediately. The Division was asking for augmentation in that budget in order to be able to complete the project. Ms. Ford stated that work participation rates in FY 2006 were 43 percent for "all families" compared to the goal of 50 percent, and an estimated 42.6 percent for "two-parent families" compared to a 90 percent target rate. She noted that everybody who had been paid for out of maintenance of effort dollars would now be counted toward the WPR. If those individuals would have been included in the work participation rate for 2006, work participation rates would have dropped roughly 28 percent. Ms. Ford explained there was a big challenge ahead to meet the WPR.

Ms. Ford added that the TANF reserve from current biennium was higher than anticipated, and she would talk more on that later.

Ms. Ford said that the Division had re-instituted the transfers to Clark and Washoe Counties for the Emergency Assistance Program. The Division was now transmitting a total of \$4.7 million to Washoe and Clark counties.

Ms. Ford stated that the supplemental funding of \$3.7 million per year would be eliminated in federal FY 2009, which she had noted earlier.

Ms. Ford turned to page 20, which was the history of TANF reserve. She noted the drop in the reserve for fiscal years 2002 and 2003, due to the effects of September 11, 2001, but added that the reserve had been steadily growing since. She expected the growth to continue until 2009, but at that time the reserve would need to be drawn down, mainly due to the loss of the supplemental grant and the costs of additional staffing that would need to be augmented.

Ms. Ford explained that on pages 20 through 24 was the reconciliation of the block grant for fiscal years 2006, 2007, and projected for 2008 and 2009. She mentioned that the TANF block grant was used in the Field Services, Administration, Child Care, and other DHHS budget accounts.

Ms. Ford stated page 25 of [Exhibit F](#) showed TANF caseloads and the amounts required for cash assistance. She noted that the TANF caseload had dropped, but kinship care had increased. She added that kinship care was more costly and had a higher cash grant than the other TANF programs.

In response to a question from Senator Mathews, Ms. Ford replied that the kinship care rate paid was at about 90 percent of the foster care rate.

In response to a question from Senator Beers, Ms. Ford replied that the September 2006 caseload recipient projection number of 17,543 was

anticipated to decline to 14,818 due in part to the impacts of the Deficit Reduction Act.

Ms. Ford stated that page 27 outlined the Child Support Enforcement Program BA 3238. She mentioned that the program had passed data reliability standards for 2005 and was now out of penalty status. All of the prior penalties assessed had been paid. She noted that the Division had appealed the first penalty, but the appeal had been denied. The Division was evaluating whether to appeal the decision to the Ninth Circuit Court. Ms. Ford mentioned the \$25 annual fee required by the Deficit Reduction Act and indicated a BDR would be introduced this session on this item. In addition, there was a reduction in genetic testing matching funds. The match used to be 90 percent federal funding but was now 66 percent federal funding.

In response to a question from Senator Beers, Ms. Ford stated, if a test was found positive for a non-custodial parent, the cost of the test was recouped from the non-custodial parent, but if it was negative, the Division absorbed the cost.

Mr. Stagliano added that the Division tests all possible parents.

Ms. Ford explained there would be a loss of federal matching funds for incentives in federal FY 2008. The Division had received incentives for its performance in the Child Support Enforcement Program which could be matched with federal dollars of 66 percent to leverage that money to a higher level. The incentives could only be used to supplement the program, thus preventing the Division from augmenting the program more effectively.

Ms. Ford stated that the Division was asking for a delinquency unit to be staffed by one person. The delinquency unit would focus on income withholding orders that employers had not transmitted and work with those employers. The Division would also work with delinquent cases.

Another issue was the availability of the State share of collections due to the Deficit Reduction Act. She anticipated that the DRA was going to reduce the Division's ability to collect TANF funds because the caseloads were going to drop. The State's share of collections, which was the percentage the Division kept of TANF dollars collected, was roughly 45 percent. The remainder was returned to the federal government based on the current federal participation rates. As the money to collect in TANF dropped, there would be a dwindling amount of money to support the program.

Ms. Ford stated that on page 27 of [Exhibit F](#) noted the audit conducted by MAXIMUS during the last biennium. The audit was out and posted on the LCB website. She noted there were ten primary recommendations, all of which would require more staff and resources to accomplish. It would be up to the Legislature to decide how far to go with the recommendations.

Senator Raggio asked about the cooperation with the District Attorney (DA) offices. Ms. Ford replied that some of the recommendations affected the DA offices, but whether or not the DAs would be willing to pay for the costs was in question. Ms. Ford added that the Division and the DAs were in communication.

In response to a question from Senator Beers, Ms. Ford stated that there were no responses to the audit in the budget, because the audit had just been released.



Ms. Ford reiterated that it was up to the Legislature to decide how to react to the recommendations and that more general fund money may be needed. One of the recommendations was replacing NOMADS. At some point in the next two years, the Division could apply for federal funding to replace the Child Support Enforcement System. What Ms. Ford recommended was funding for a feasibility study, so the Division could study the best way to go forward with the Child Support Enforcement System, rather than repeating mistakes of the past experienced with NOMADS.

Ms. Ford stated that page 28 of [Exhibit F](#) was the Childcare and Development Fund, BA 3267. She noted the eligibility in southern Nevada and the difficulties of the Economic Opportunity Board. The Division had taken over administration of the program in southern Nevada and had partnered with UNLV, who was helping with the staffing and training. She added that things were moving smoothly and that United Way was performing the fiscal intermediary functions.

Ms. Ford said the Nevada Childcare System, authorized in the last session, was in application development, and implementation was expected in December 2007. During the next biennium, the Division would be analyzing this program to determine whether or not the State should take it over.

The final budget account was the Energy Assistance Program (EAP), BA 4862. The EAP had two funding sources: the Universal Energy Charge and the Low Income Home Energy Assistance Grant. She pointed out that the program in Nevada had been recognized as a best practices model program. The Division had been asked to present at the National Low Income Energy Consortium conference in June, because other states were interested in the program model. Ms. Ford stated that the Division requested the conversion of six of its contract staff to State employees. The program currently had six employees augmented by 19 contract staff. One problem with the contract staff was that the average length of employment was eight months. Another issue was the Universal Energy Charge (UEC) Reserve. On page 30 of the exhibit was a chart showing UEC revenue versus expenditures by DWSS. Ms. Ford noted that the Division was spending more on an annual basis than the revenue coming in, which meant the reserve was spent to make up the difference. By the end of FY 2009, the reserve would be about \$500,000. It was Ms. Ford's preference to keep at least \$1 million in reserve to handle contingencies, and by next year, options would need to be developed to curb spending, such as capping benefits or energy usage.

Senator Raggio requested the issue of the UEC reserve to be brought up again in Subcommittee.

Ms. Ford explained that page 31 of [Exhibit F](#) showed the breakout of the receipts and expenditures that supported the chart on page 30.

Ms. Ford stated that the rest of the [Exhibit F](#) showed the FTEs, position transfers requested, and letters of intent. In closing, Ms. Ford briefly noted the BDR that addressed the \$25 annual fee, concerns from the Nevada Supreme Court decision, medical support issues, and a \$50 annual fee for financial management services in cases where child support enforcement had not been requested.

Chairman Raggio thanked the Division and the Department for their testimony.



Following a recess, Chairman Raggio reconvened and called for the overview of the Public Employees Benefits Program (PEBP).

### **PUBLIC EMPLOYEES BENEFITS PROGRAM BUDGET OVERVIEW**

Leslie A. Johnstone, Executive Officer, PEBP, introduced Jon Hager, Chief Financial Officer, PEBP.

Ms. Johnstone stated she would give a brief update on the financial history of the PEBP program, go over what was in the Governor's recommended budget, and then cover the post-employment liability issue.

Chairman Raggio noted that Ms. Johnstone had previously worked at the Fiscal Division and as the Chief Financial Officer of PEBP.

Mr. Hager stated that he had been a pilot in the Navy and received his Master of Business Administration at Texas A&M University. He started employment with the State three months ago.

Beginning on page 4 of [Exhibit G](#), Ms. Johnstone stated that the nine-year history showed there were seven years where income was greater than or equal to expenses; however, two years required an additional infusion of State funds. In 1999, there was a \$26 million subsidy increase that caused income to be greater than expenses. In FY 2003, during the 18<sup>th</sup> Special Session, an \$18 million subsidy was approved that allowed the year to break even. Of the two years with losses, the most significant was in FY 2002 when the program finances were being corrected, and at the same time, an unusually large number of large claims were incurred. The other loss year was the current year, FY 2007, which was budgeted to lose \$21.5 million to draw down excess reserves.

Ms. Johnstone referred to [Exhibit G](#), page 5, titled "Reserves." She noted that the chart went back 11 years and was from PEBP's audited financial statements. The recommended reserves were made up of the incurred but not reported, claims, and a reserve for catastrophic losses/reserve for rate stabilization. The only years that had a reserve for rate stabilization authorized were fiscal years 1997, 2006, and 2007. She added that funded levels had consistently exceeded the recommended reserve levels since FY 2004. The funded levels equated closely to the cash balance at the end of each year. The percentage of the reserve that was actually funded was also shown in the chart.

Turning to page 6 of [Exhibit G](#), Ms. Johnstone stated that the PEBP had three budget accounts. Budget Account (BA) 1338 was the main operating budget where claims were incurred for the self-funded program. Budget Account 1390 was the pass-through account for the active employee assessment, and BA 1368 was the pass-through account for the retired employee assessment.

Ms. Johnstone discussed BA 1338, which was outlined on page 9 of [Exhibit G](#). The chart compared the legislatively approved budget for the current biennium to the Governor's recommended budget for the upcoming biennium. The annual increases in the budget, exclusive of any reserves, were 15 percent from FY 2006 to FY 2007, 21 percent from FY 2007 to FY 2008, and 18 percent from FY 2008 to FY 2009. She added that the increases were made up of a combination of enrollment growth as well as increases in the cost of the benefits.

Turning to page 10, Ms. Johnstone stated that the chart showed where the expenses were incurred in the budget, including reserves. She noted that in FY 2008 approximately 61 percent was made up of the self-funded claims, and 19 percent was allocated for the fully insured products, most of which represented premiums passed through to the HMOs. Ms. Johnstone indicated that 15 percent of the budget in FY 2008 was set aside for the reserves, 3 percent for the administrative costs associated with the self-funded plan, and 2 percent for PEBP operations themselves.

Ms. Johnstone stated that the chart on page 11 showed the revenue for BA 1338. In FY 2008, approximately 52 percent of the revenue coming into the PEBP was generated from the assessment for active employees. 21 percent was balance forward funding from the previous year, about 17 percent was generated from participants, and the remaining 10 percent was the State portion of the retired employee assessment. Ms. Johnstone added that there were similar percentages for FY 2009. She said that the budget assumed a 5.2 percent increase in enrollment for FY 2008 and 7.3 percent increase for FY 2009. Medical and prescription claims increases were a combined 11.4 percent per year. The dental cost increases were 7 percent per year. All of the trend increases were provided by the plan's actuary consulting firm Aon, out of Denver, Colorado. Ms. Johnstone noted that the fully insured products were budgeted with a 10 percent cost increase per year, and the largest costs were from the HMOs.

Ms. Johnstone turned to page 13 of [Exhibit G](#), which outlined the enrollment projections. Enrollment growth was higher than in previous budgets because of the size of the State budget and the increase in State employees. The other large component was the non-state retiree growth. PEBP had an open enrollment each even-numbered year, where non-state and State retirees that were not currently part of the plan could request to join. In 2006, the PEBP had about 1,100 non-state retirees join PEBP. Approximately 100 came from the city of Las Vegas, 120 from Clark County, 415 from the Clark County School District, and 451 from the Washoe County School District. Ms. Johnstone added that page 14 showed the total population in the PEBP program. Of note was the budgeted figure for FY 2007, 34,800 participants, had been surpassed by almost 3,000.

In response to a question from Assemblywoman Gansert, Ms. Johnstone replied that some increases were subsidy driven, and the ongoing monthly increases seemed to be consistent.

Senator Raggio confirmed the increased number from the school districts.

Ms. Johnstone continued with the performance indicators. She noted that the program used the expense ratio and claims loss ratio to judge their financial performance. Expense ratio was basically how much it took of the premium revenue for the PEBP to operate. The ratio had been budgeted around 8 percent for FY 2008 and 6.4 percent for FY 2009. Those levels were comparable to FY 2006 at 7.6 percent. The claims loss ratio reflected how much of the premium revenue was being spent on actual claims and was projected at 93 and 94 percent, respectively, for FY 2008 and FY 2009. Generic drug utilization continued to see slow increases, which were estimated at 60 percent for FY 2008 and 63 percent in FY 2009. The PEBP had made some plan changes for the upcoming year, which may boost this rate higher. Medical network use remained stable at 89 percent. Dental network use also remained stable in the high 70 percent range. The appeals ratio estimates were based on some old

data, and as the PEBP has refined its reporting, the actual number has been much lower.

Moving to page 16, Ms. Johnstone discussed the plan changes tentatively approved, to be effective July 1, 2007:

- Improve coordination of benefits to "Standard Coordination." The plan would cover expenses not picked up by Medicare for individuals who had met their annual deductible.
- Provide prescription drug savings by working with Catalyst Rx. The generic drug program would not be subject to the \$50 annual deductible. A 1 percent increase in the use of generic drugs would cover the cost of the changes and would result in savings for the plan.
- Change the method of reimbursing Medicare Part B. Checks were issued equivalent to 80 percent of each individual Medicare Part B premium. Instead of issuing checks, the PEBP would reduce the participant contribution by the premium amount. There were about 1,300 individuals who did not have a participant share at all or as much as the 80 percent Part B reimbursement, so their contribution will be brought down to zero.
- Change the out-of-network dental provider reimbursement. The plan would reimburse the out-of-network dentist the same amount as the in-network dentist, resulting in savings for the plan.

Senator Raggio questioned whether the "standard coordination" was secondary insurance to Medicare. Ms. Johnstone replied that it was.

In response to an additional question from Senator Raggio, Ms. Johnstone replied that the network contracts for in-network dental providers were better for the plan than the out-of-network providers.

Ms. Johnstone stated that she would describe what the budget included by way of the reserves. There were two reserves she would like to see set aside. The first was the Rate Stabilization (Catastrophic) Reserve. In the current work program, the reserve was budgeted at \$24.1 million; in the recommended budget it was at \$28.5 million, which meant it had been increased to the midpoint of what was recommended by the actuary. Ms. Johnstone added that the reserve was intended to help the plan absorb spikes in large claims or costs, so that it was not passed on to the participants immediately through rate increases.

Ms. Johnstone stated that the second type of reserve was the Incurred but Not Reported Reserve (IBNR). On June 30, 2006, the balance was \$21.5 million, and the same percentage increase was used as the increase for medical and prescription claims, which was 11.4 percent each year. As a result, the funded level as of June 30, 2009, was established at \$29.7 million. Ms. Johnstone added that any reserves in excess of those amounts would be reduced to zero by June 30, 2009.

Ms. Johnstone provided a chronology of the PEBP Reserve. She stated that PEBP had ended FY 2006 with a cash balance of \$94.1 million. The cash balance funded a \$21.5 million IBNR and a \$24.1 million Rate Stabilization Reserve. She stated that at the end of FY 2006, the program had an excess reserve of approximately \$48.5 million. The budgeted loss for the current year was \$21.5 million. There was an expected \$2.5 million increase to the IBNR during the current year. She stated that the estimated excess reserve at the end of FY 2007 would be approximately \$24.5 million.

Ms. Johnstone turned to page 19 of [Exhibit G](#), where she explained the drawdown on excess reserves. Starting with the excess reserve of \$24.5 million, she stated that \$4.4 million went toward the increase in the Rate Stabilization Reserve, \$5.8 million toward the increase in the IBNR, \$6.1 million toward the Wellness Enhancement decision unit, \$8.3 million toward the Subsidy and Participant Contribution offset, and a rounding of -\$0.1 million for "Other."

Senator Beers pointed out to the Subcommittee that the \$24.5 million could be thought of as a one-shot source of funds, but that the Wellness Enhancement decision unit and the subsidy were probably ongoing expenses. He noted that down the road something would have to be different to continue either the lower rate, in the case of the subsidy, or the Wellness Enhancement decision unit, because the money would not be available in the next biennium.

Ms. Johnstone stated that page 20 of the exhibit was titled "Reserve Reduction Offset to Assessment." The balance forward in the Governor's recommended budget into FY 2008 was \$72.6 million. She stated that \$28.5 million went toward Rate Stabilization, \$29.7 million toward IBNR, approximately \$6 million for Wellness, and \$20,000 for Communication. The Reserve Reduction available was \$8.3 million. She noted that the total State assessment was based on having about \$4.2 million each year funded out of the excess reserve.

Ms. Johnstone turned to page 21, titled "Maintenance Decision Units." They were:

- M100—Statewide inflation adjustments
- M101—Self-funded claim and fully insured product inflation
- M102—Balancing decision unit to recommended reserve levels
- M200—Enrollment growth cost increase
- M300—Fringe benefit rate adjustments
- M304—2 percent and 4 percent COLA

Ms. Johnstone turned to page 22 of [Exhibit G](#), titled "Enhancement Decision Units." She stated that E251 set aside \$19,200 in each year of the biennium to conduct quarterly audits of the enrollment and eligibility system. She stated, while there were many audits throughout the year, PEBP had not focused on auditing their enrollment records for adequate documentation and eligibility matching the enrollment. The PEBP proposed to start with a quarterly audit from an outside vendor, using the Request for Proposal (RFP) process. She added that the audit would be funded through premium revenue.

Ms. Johnstone stated that E325 was for the Wellness program. She stated that PEBP had relatively low utilization of the wellness benefit. Two years ago the plan increased the wellness benefit coverage from a maximum of \$600 per year to \$2,500 per year, per participant. She acknowledged, oddly enough, the actual utilization went down slightly. As a result, the Board had been looking for better ways to communicate with participants about what the wellness benefits were and inform the provider network about how to bill for wellness related services. The Board started a test group of 30 individuals to identify administrative problems, some of which were provider reimbursement rates; the way that the contracts were written did not incentivize the provider to spend time with the participant on a wellness visit. Currently the PEBP was in the process of developing a pilot project, which would have approximately 1,250 participants, to encourage people to participate in the wellness program. The program did not involve increasing benefits but rather increasing usage. She added that the program was working with the University in Reno to determine

what the best approach was to evaluate and analyze the data that came out of the pilot program. The Board had a wellness subcommittee that would be meeting to discuss how extensive the study needed to be to feel confident in how the cost benefit of rolling out the wellness program to the entire self-funded population was projected. Ms. Johnstone said the study was needed to determine whether or not the cost for expanding the utilization of the program would be offset by reduced medical claims. She stated that E325 was funded out of the excess reserves because it may not continue.

Ms. Johnstone stated that E326 was for the continued expansion of PEBP communications. She explained that the PEBP continued to struggle to get information out about the wellness program and would like to send out targeted mailings including information about exercise programs, weight reduction programs, and smoking cessation programs. She said that the PEBP also planned on placing newspaper advertisements to assist participation in meetings it planned to hold throughout the State. The PEBP had found, through focus groups, that this was beneficial. Another idea included in the budget was to professionally produce a video about the PEBP and its benefits that could be distributed to State departments and different associations that worked with PEBP. The decision unit totaled \$90,000 for FY 2008 and \$74,000 for FY 2009.

Ms. Johnstone stated that E710 was for equipment replacement. She explained that PEBP was very reliant on computer systems, which allowed PEBP to continue to store more data and keep the staff productive.

Ms. Johnstone said that E720 was for a server specifically designed for disaster recovery and additional data storage. Its purchase was included in FY 2008 for approximately \$36,000.

Ms. Johnstone stated that E813 was for unclassified step adjustments, and E818 was for an adjustment on assessments for information technology contracts.

Ms. Johnstone moved to BA 1390. The Active Employee Assessment budget was shown on page 29 of the exhibit. Overall, on average, the State subsidy share was 90 percent for active employees. She noted that in the previous budget the subsidy was estimated at 89 percent. Page 30 of the exhibit showed the Active Subsidy cost per participant from \$481.19 in FY 2006 to \$626.16 FY 2009 and the percent changes over those years. She pointed out that the 4 percent growth between FY 2006 and FY 2007 was the result of FY 2007 being intentionally budgeted to lose \$21.5 million. The participant portion of the \$21.5 million loss was accomplished through a premium holiday during the month of July 2006. The growth in FY 2009 was higher than trend because a larger percentage of the revenue needed to be generated from the subsidy. This increase was due to certain outside revenues and prescription rebates not increasing as much as program costs.

Ms. Johnstone stated that page 31 of the exhibit provided a breakdown of each decision unit making up the \$186.5 million assessment in FY 2008 and the \$224.9 million assessment in FY 2009.

Ms. Johnstone stated that page 32 of [Exhibit G](#) was BA 1368, the Retired Employee Group Insurance account (REGI). She stated that the same factors drove the calculations on the State subsidy for retirees.

In response to a question from Senator Raggio, Ms. Johnstone replied that the deductible for the high deductible plan was \$2000. She added that the deductible would be reduced by 50 percent if the Health Assessment Questionnaire was completed.

Ms. Johnstone stated that the retiree subsidy for the high deductible plan was 73 percent and 51 percent for the dependents. The subsidy for all other plans was 67 percent and 45 percent for dependents. She stated that the numbers were averages. The overall state share for FY 2006 was 59 percent, the same as used to build the budget for the current biennium.

Ms. Johnstone said that page 34 of the exhibit showed the Retiree Subsidy cost per participant. She stated that the reason for the low growth between FY 2006 and FY 2007 was also because of the planned loss. In FY 2008, the retiree subsidy adjustment was lower than the one for the active population. For FY 2009, the 12.4 percent increase occurred for the same reasons explained for active participants.

In response to a question from Assemblywoman Gansert, Ms. Johnstone replied that after five years of service an individual was eligible for a subsidy of 25 percent of the base amount a retiree with 15 years of service received. She added, in response to Assemblywoman Gansert's request, that she would provide additional information on how many people with between five and ten years of service received a subsidy.

Ms. Johnstone stated that page 35 showed the overall calculation for BA 1368. She explained that the PEBP could not calculate what was needed based on 15 years of service, because the average worker had over 15 years of service. She noted that the years of service were adjusted to 17 years. She stated that the base assessment amount was used in the session bill, but the adjusted number was used to build the budget. The budgeted accounts totaled \$36.5 million in FY 2008 and \$44 million in FY 2009.

Turning to page 36, Ms. Johnstone added that the Governor's budget had a proposal to partially pre-fund the postretirement liability generated from the retiree health insurance subsidy in the amount of \$25 million in each year of the biennium, which was included in decision unit E325. The budget was structured so that the amount would be collected the same way as the retired employee group insurance assessment. The proposal would establish a separate trust fund (680) for the pre-funded amount, which required legislation to establish the fund and provide authority on investment of the funds. The investment assumptions that were required based on Governmental Accounting Standards Board (GASB) statements ranged from 3.5 percent for pay-as-you-go to up to 8 percent, the standard that the Public Employees Retirement System was using. She added that with partial prefunding, the percentage would be somewhere in between.

In response to a question from Assemblyman Grady, Ms. Johnstone stated that when she referenced payroll, it only applied to active employees.

Assemblywoman Gansert wanted to clarify that of the \$50 million, \$30 million was General Fund and \$20 million was from other sources based on who was providing the funds for the payroll. Ms. Johnstone affirmed the numbers and that the General Fund share was roughly 60 percent.

Ms. Johnstone stated that page 37 showed the Annual Requirement Contribution (ARC) estimates if pre-funded, and the significance of the



\$25 million. Based upon a 2005 study, the total pre-funded amount of the ARC was \$157.5 million in FY 2008. The budget contained \$36.5 million as a direct payment toward that cost. She stated that there was an implied subsidy which was a portion of the active employee subsidy that went toward paying the cost of retiree benefits. That amount was approximately \$4.2 million. The Governor's recommended pre-funding was \$25 million per year, which was about 16 percent of the ARC. She noted the subsidies and pre-funding left an unfunded amount of \$91.8 million. The shortcoming in these numbers was that the Total Annual Contribution of \$157.5 million was calculated based upon full pre-funding. With partial pre-funding, the ARC would be higher. She added that the same dynamic applied in FY 2009, with the \$25 million representing 14 percent of the ARC.

Ms. Johnstone provided an overview of GASB 43 and 45. She added that additional information was available starting on page 38 of [Exhibit G](#). Ms. Johnstone said that GASB 43 required certain reporting to be completed if the plan was in place prior to June 30, 2007, but because the State of Nevada did not have a plan currently in place, the State would not be subject to most of those reporting requirements. She added that GASB 45 affected all governmental entities and applied to "Other Post Employment Benefits" (OPEB). There were liabilities that would need to be reported for each jurisdiction starting with the State's FY 2008 comprehensive annual financial statements. The unfunded portion of the ARC needed to be included as a liability on the financial statements, but if the ARC was fully pre-funded, there would not be a liability recorded. The ARC included the future costs associated with services that had already been provided, plus the costs of benefits earned in the current year. Ms. Johnstone added that it also included the explicit subsidy, the direct payment made for those benefits, plus any implicit subsidy. The range of the liability was based upon different assumptions regarding pre-funded and pay-as-you-go ranges. She added that the ARC was not required to be pre-funded, and she did not know what the impact would be on the State's bond rating. She mentioned that the general consensus was that pre-funded plans would be looked upon more favorably by the bond rating agencies. Ms. Johnstone explained that once the State set up the plan, it would have an agreement with its employees to provide the OPEB benefits, so there was a strong implication that the program would be ongoing once the plan was set up. She stated that in accounting terms, the ARC would be recognized as a liability that would be funded, so that if the State were to go bankrupt, there would be funds available to pay for the promised benefits. She added that page 42 of [Exhibit G](#) was a valuation estimate for the FY 2005, which was a depiction of what she just described.

In response to a question from Assemblywoman McClain, Ms. Johnstone stated that the demographics used by GASB were of actual employees, not the number of positions available.

Ms. Johnstone stated that PEBP had worked with the actuary to update some of the scenarios that had been presented. She noted that the data was two years old, but still could be used to give an idea of benefit changes and what impact the changes had on the unfunded liability. She stated that the data was directional only. She added that considerations on impact of recruitment and retention would have to be made and that medical inflation was expected to exceed the Consumer Price Index (CPI), but was not expected to continue at the current rate.

Ms. Johnstone identified the different scenarios on pages 44 and 45. She noted that the current benefit and subsidy structure was referred to as the "Base Scenario." The alternative scenarios were:

1. Eliminate subsidy for new entrants July 1, 2008.
2. Decrease subsidy 50 percent July 1, 2008, then grow at medical inflation.
3. Freeze subsidy.
4. Eliminate subsidy for people retiring on or after July 1, 2012.
5. Decrease benefits by changing plan design to maintain plan inflation at CPI.
6. Co-mingle retirees and actives separately.
7. Co-mingle retirees age 65 and older separately from early retirees and actives.
8. Eliminate subsidy for retirees eligible for Medicare part A and B effective July 1, 2008.
9. Eliminate subsidy for all retirees with less than 20 years of service effective July 1, 2012.
10. Eliminate subsidy for dependents of persons retiring on or after July 1, 2012.

Ms. Johnstone stated that the data behind the scenarios was located in [Exhibit G](#), adding that the information was shown in different ways.

Ms. Johnstone explained that page 46 ranked by cost the scenarios that had been updated and also compared pay-as-you-go to pre-funding. The scenarios were ranked in order of cost for pay-as-you-go. She noted that the figures reflected the projected costs for FY 2038. Each scenario showed the pre-funded break even fiscal year. She noted that by pre-funding current benefits, the breakeven year was 2053.

Senator Titus clarified that there were no plan changes in the current budget other than the \$25 million pre-funding.

Ms. Johnstone stated that page 47 showed the net State benefit costs using pay-as-you-go for each scenario for the next 30 years. She noted that the graph showed relatively how fast each of the scenarios increased in cost under the pay-as-you-go model.

Turning to page 48 of the exhibit, Ms. Johnstone said the graph reflected pre-funded ARC for each of the scenarios. She noted that in the first five years, there were more variations in cost, but in the long-term the high-cost options remained in the same order.

Ms. Johnstone stated that page 49 showed the pay-as-you-go ARC.

Ms. Johnstone noted that page 50 visually presented the same information that was in the table on page 46. Also, page 51 showed the same information taken out to the year 2068. She noted the growth in the base benefit structure in the later years.

Ms. Johnstone turned to page 52 of [Exhibit G](#), titled "New Actuarial Evaluation Underway." PEBP had started providing information to the consultant to update the demographic information as of December 31, 2006. The consultant would then update the evaluation and the scenarios and document the impact of the \$25 million pre-funding in the Governor's budget. She added that the update would be completed in late March.

After a brief recess, Chairman Arberry reconvened the Subcommittee and proceeded with the Department of Taxation overview.

### **DEPARTMENT OF TAXATION**

Dino DiCianno, Executive Director, Department of Taxation, introduced himself and stated that he would give a high-level overview with respect to the Department of Taxation's budget for fiscal years 2008 and 2009. He noted [Exhibit H](#), which he may refer to during testimony.

Mr. DiCianno stated that the mission of the Department was to provide fair, efficient, and effective administration of tax programs for the State of Nevada in accordance with applicable statutes, regulations, and policies.

Mr. DiCianno said that with respect to the budget, the base budget was for the continued funding of 323.51 Full Time Equivalent (FTE) positions. He stated he would not go into the maintenance proposals but wanted to focus on key issues for the Department in the present and future. He added that the success or failure of the Department hinged upon the continued successful implementation of the Unified Tax System (UTS) Project. He noted that without the UTS, the Department could not meet or improve its performance indicators with respect to taxpayer service.

Mr. DiCianno stated that E127 was the addition of four positions and associated costs for the Division of Assessment Standards, in order to manage new and expanding programs within the Real Property Transfer Tax Section, the Centrally Assessed Section, and the Local Government Finance and Locally Assessed Section. The amounts were \$226,497 for FY 2008 and \$271,251 for FY 2009. The total for the biennium was just short of \$500,000. There were increasing demands with respect to the Division of Assessment Standards and staff dealing with the Real Property Transfer Tax. He noted that the Department was the subject of an LCB audit, and that there were certain issues that needed to be responded to regarding the oversight of the Real Property Transfer Tax. A portion of the enhancement unit related to that audit. He stated that with respect to the Centrally Assessed Property Section, it was now required to take on additional duties in regard to unchartered and unscheduled air carriers. With the increasing demands on the Department with respect to Local Government Finance, especially with White Pine County, he believed it was prudent to bolster that process, because the Department had learned a great deal from working with White Pine County.

Mr. DiCianno stated that E128 was Information Technology production support. It provided for the addition of six positions for the in-house maintenance of the new UTS system and overall IT functions. There would be a Department of Information Technology (DoIT) database administrator that would be assigned to the Department. He noted that the exhibit outlined the proposal and the Department's vision of in-house IT structure for the present and future. He stated that there would be a new Deputy Director over Information Technology, an Information Systems Specialist (ISS) 3 position, an Information Technology (IT) Technician 3 position, and an additional ISS-3 position under Information Systems Applications. There would also be an Agency Program Information Specialist 2 position for customer support, and an Administrative Assistant 2. He added that the DoIT database employee would be under the Department's directive.

Mr. DiCianno stated that E130 was a lockbox contract for the outsourcing of tax return data entry and image scanning of documents staff retrieval by staff.

In addition, there was a one-time cost for Accenture to develop the interface between the UTS system and J.P. Morgan Chase, which currently had the lockbox contract. The request also included an estimator for transaction costs, which was approximately \$1.25 per transaction. He stated that the Department was asking for \$659,190 in FY 2008, and \$979,030 in FY 2009, a total for the biennium of \$1,638,220.

Mr. DiCianno stated that within the documents provided in [Exhibit H](#), there was a page associated with E130, which showed the indirect savings and realized efficiencies with the lockbox enhancement. He stated that the Department had an excessive amount of boxes full of documents that had to be sifted through in order to do research. The enhancement would reduce or eliminate the future need for additional resources to complete return posting. It would also eliminate the need to utilize revenue officers and tax examiners to post returns in order to complete monthly tax reporting and allow current accounting staff to be used for more analytical, proactive tasks. The lockbox enhancement would provide tax examiners with efficiencies at the front end and also reduce taxpayer inquiries. He added that once the backlog of indexing and scanning was caught up, the Department would maintain current document management, eliminating the need for document storage space.

Mr. DiCianno said E275 was a contract with Accenture to provide for future production support, system development, and maintenance of the UTS system, through the training of the Department's in-house IT staff. The amounts were \$3,850,000 in FY 2008 and \$3,550,000 in FY 2009.

Mr. DiCianno moved to E900. He stated that along with the reorganization of the IT section, the Department requested that staff be transferred from DoIT as part of the in-house production support team for the UTS system. The cost was \$224,182 for FY 2008, and \$234,561 for FY 2009, a total over the biennium of \$458,743.

Mr. DiCianno referred to the document in [Exhibit H](#) titled "Unified Tax System Project Overview." He stated that page 18 of the exhibit was a cost comparison showing the UTS project proposed spending plan versus year-to-date actual expenditures. He added the Department was in the final phases of the project which would go into effect in June 2007. He stated that page 18 also showed the UTS project appropriations versus actual and projected expenditures. He noted that the Department would only expend 88.22 percent of the appropriation.

Mr. DiCianno stated that E275 provided continued project funding for FY 2008 and 2009, to complete the development and implementation of the UTS project. The total costs for the biennium were \$3,504,992.

Mr. DiCianno noted that E710 replaced software and office equipment at a total cost of \$679,565 over the biennium. He noted that the Governor's recommended budget for the Department for FY 2008 was \$31,598,369 and for FY 2009, \$33,218,771.

In response to a question from Assemblywoman Smith, Mr. DiCianno replied that the lockbox service was provided by J.P. Morgan Chase, located in Arizona. There had been a push to contract with an in-state bank to provide the service; unfortunately, the in-state banks would also outsource the service to an out-of-state location.

In response to a question from Senator Raggio, Mr. DiCianno stated that the Streamlined Sales Tax Project was viable and continuing. He stated that there were currently 21 states participating, adding that Nevada was an associative member of the governing board. Among the items necessary to bring Nevada into compliance was the filing of electronic returns and the accepting of and e-payments. In order to be in compliance, the Department needed to ask Accenture to provide them with a bid for providing those services. He added that \$3,092,253 was in the original budget for the services, but because of the spending cap, that amount was removed.

Assemblywoman Buckley questioned the Southern California Edison case. Mr. DiCianno replied that it was a case brought in front of the Nevada Tax Commission in early May 2005. It was a refund request by Southern California Edison with respect to the exemption on coal purchases. He explained that coal had been brought into the State through a coal slurry to the Mojave Power Generating Plant in Clark County, which was now closed down. At the same time the Commission was hearing the case, the Attorney General's office sued the Nevada Tax Commission over open meeting law violations, because the case had been heard in a closed session. Although it was found that the Commission acted properly, the Commission's decision to grant Southern California Edison the refund was appealed by Clark County to the Nevada Supreme Court in December 2006. The case was ongoing, and Mr. DiCianno did not know the exact amount of the refund. He stated that the Court could reverse or approve the Commission's decision, and it was possible for the amount to be modified. The changing of an amount could create another round of litigation. He stated that he would provide more information and added that the Department of Taxation could not request judicial review of a Tax Commission decision.

In response to a question from Mr. Marvel, Mr. DiCianno stated that the initial parties in the refund appeal were Clark County and the city of Henderson. He believed that within the Clark County appeal itself, the city of Henderson was also named. He did not believe that the school district was named.

Assemblyman Denis moved back to the subject of electronic archival. He asked how it related to the UTS system. Mr. DiCianno replied that the information scanned by J.P. Morgan Chase had to be input into the UTS system, so the interface that Accenture would build would tie the two together.

Chairman Arberry thanked Mr. DiCianno for his testimony and adjourned the meeting at 4:28 p.m.

RESPECTFULLY SUBMITTED:

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Barron Brooks  
Committee Attaché

APPROVED BY:

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Assembly Member Morse Arberry, Chair

DATE: \_\_\_\_\_



**EXHIBITS**

**Committee Name:** Committee on Ways and Means

**Date:** January 24, 2007                      **Time of Meeting:** 8:30 a.m.

Bill	Exhibit	Witness / Agency	Description
	A		Agenda
	B		Attendance roster
	C	Michael J. Willden, Nevada Department of Health and Human Services	Overview of the Director's Office Budget Presentation
	D	Carlos Brandenburg, Division of Mental Health and Developmental Services	Budget Overview
	E	Fernando Serrano, Division of Child and Family Services	Budget Overview
	F	Nancy Ford, Division of Welfare and Supportive Services	Budget Overview
	G	Leslie Johnstone, Public Employees Benefits Program	Budget Overview
	H	Dino DiCianno, Department of Taxation	Unified Tax System Project Overview