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

Seventy-fourth Session
February 21, 2007

The Joint Subcommittee on General Government of the Senate Committee on Finance and the Assembly Committee on Ways and Means was called to order at 8:01 a.m. on Wednesday, February 21, 2007. Chair Kathy McClain presided in Room 2134 of the Legislative Building, Carson City, Nevada. Exhibit A is the Agenda. Exhibit B is the Attendance Roster. All exhibits are available and on file in the Research Library of the Legislative Counsel Bureau.

SENATE SUBCOMMITTEE MEMBERS PRESENT:

Senator Dean A. Rhoads, Chair
Senator Bob Coffin

ASSEMBLY SUBCOMMITTEE MEMBERS PRESENT:

Ms. Kathy McClain, Chair
Mr. Tom Grady
Dr. Joe Hardy
Mr. Joe Hogan
Mrs. Ellen M. Koivisto
Mr. David R. Parks

SUBCOMMITTEE MEMBERS ABSENT:

Senator Bob Beers, Chair (Excused)

STAFF MEMBERS PRESENT:

Joi Davis, Program Analyst
Bob Atkinson, Senior Program Analyst
Michael Bohling, Committee Secretary

OTHERS PRESENT:

Jeanne Greene, Director, Department of Personnel
Kim Foster, Administrative Services Officer, Department of Personnel
Keith Wells, Administrator, State Motor Pool, Department of Administration
Greg Smith, Administrator, Purchasing Division, Department of Administration
Mary Keating, Administrator, Administrative Services Division, Department of Administration
Leslie A. Johnstone, Executive Officer, Board of the Public Employees' Benefits Program
Martin Bibb, Executive Director, Retired Public Employees of Nevada

CHAIR MCCLAIN:
We will begin the review of the budget for the Department of Personnel (DOP).

JEANNE GREENE (Director, Department of Personnel):
We have prepared a handout entitled "Budget Presentation to the Joint Subcommittee on General Government" (Exhibit C, original is on file in the Research Library), and I will speak about a few of the highlights. Page 3 identifies the authority for our Department, how we are organized and the Department's goals for 2008 and 2009.

The Organizational Chart on page 5 identifies two newly-requested positions, highlighted in orange, and one position being transferred from the Department of Information Technology (DoIT), highlighted in green.

Page 6 contains a summary of our budget request, and we are prepared to discuss each of the enhancements or answer any questions you may have.

PERSONNEL

Personnel – Budget Page PERSONNEL-1 (Volume I)
Budget Account 717-1363

Page 7 contains the request for a computer network specialist I position to be transferred from DoIT. This position will save our budget approximately $90,000 each year as we will no longer have to pay an hourly rate to DoIT for this service.

E-502 Adjustments - Transfers In – Page PERSONNEL-7

E-902 Transfers – Page PERSONNEL-11

We have a request to place an employee-assistance program (EAP) counselor in Elko. The counselor will travel to see employees in Ely every two weeks.

E-252 Working Environment and Wage – Page PERSONNEL-4

While State employee counts have more than doubled in the last 25 years, the number of EAP counselors has remained constant. We have 2 counselors serving over 16,000 employees and are not effectively serving the 2,000 rural-area employees. Due to limited staffing, rural-area employee contacts with EAP counselors are primarily over the telephone. To be effective, face-to-face meetings and consultations must occur.

Our counselors assess personal problems and workplace concerns, provide short-term counseling, grief counseling and critical-incident stress management and make referrals to other professionals. The addition of this position will assist in workplace productivity and relations.

Enhancement E-255 is a request for a new compliance investigator in Las Vegas. We requested this position in the 73rd Legislative Session though it was not funded by the Legislature.

E-255 Working Environment and Wage – Page PERSONNEL-5

The number of complaints filed for sexual harassment and discrimination has remained high, and with an increasing employee population, it is necessary to add another investigator. A major concern by managers and deputy attorney generals is the length of time it takes to complete an investigation. The courts have indicated investigation time should be no more than two weeks, and it currently takes an average of 49 days.

The establishment of an additional investigator in Las Vegas will reduce travel time required for the other investigators, allow us to respond in a timely manner and reduce legal liability caused by the excessive time to complete investigations.

In addition to the legal ramifications, delays also cause morale and productivity issues for the accuser, the accused and witnesses. The sooner the investigation is completed and appropriate action is taken, the better it is for all involved.

Decision unit E-806 is a request to move two unclassified positions to different salary tiers.

E-806 Unclassified Position Salary Increases – Page PERSONNEL-9

The equal employment officer (EEO), compensated at $66,830, manages the statewide program, including the supervision of a classified EEO officer who is compensated at $69,843. This change, from tier 12 to tier 11, will appropriately place the unclassified position at a higher level than the subordinate. We also request the title be changed to EEO director to recognize the responsibilities assigned.

The unclassified salary for division administrator, Administrative Services, is $82,742. This position supervises an information technology manager II, Grade 43 compensated at $91,997. This proposed change from tier 10 to tier 8 will place the unclassified position slightly above the subordinate classified position.

KIM FOSTER (Administrative Services Officer, Department of Personnel):
Enhancement unit E-850 is for the Certified Public Manager (CPM) program. The DOP launched a nationally-accredited CPM program in July 2004 to address the succession in leadership issues in the wake of a projected 65-percent retirement rate within upper-level State service management occurring over the next ten years.

E-850 Special Projects – Page PERSONNEL-10

This is an aggressive program of 300-plus hours of course work, comprised of six levels, ending with a developmental quality-improvement project which must be completed by each participant. To date, we have 75 graduates of the program from Classes I and II, and 81 participants enrolled in Classes III and IV. The quality-improvement projects performed by participants have provided a return on investment of $1.1 million. We do not have all of the expenditures associated with running Classes I, II and III, but I am projecting them to be approximately $230,000.

There is a quality-improvement project at the Department of Motor Vehicles (DMV) in which the participant is attempting to convert 10 percent of the credit card sales to debit card sales, saving the expense of paying credit card fees. They have not reached the 10-percent goal. However, in the first two months, they have actualized over $45,000 in savings and are projecting over $272,000 in savings over the course of one year.

A quality-improvement project at the Department of Health and Human Services is intended to better identify disabled and senior Medicaid recipients who did not require nursing-facility care. To date, they have identified three individuals and have moved them from nursing care into the community. In a three-month period, over $55,000 was saved with a projected annual savings of $132,000.

We would like to offer a certified supervisor management program which would consist of only the first three levels of the CPM program. This component is meant to address the needs of first-line supervisors and middle managers by introducing them to cutting-edge leadership strategies and philosophies. It will encompass three full weeks of training over a six-month period.

We plan to send 50 participants to the CPM program each year and expand the current six-level program by 15 percent. We are also asking for funds to provide an advanced writing course to help participants write their Capstone reports. We will be sending some of our trainers to Franklin Covey to become certified to provide the writing course to participants.

Enhancement E-276 is to provide online delivery of mandatory supervisory courses.

E-276 Maximize Internet and Technology – Page PERSONNEL-6

We recently completed a pilot project which put our sexual harassment refresher course online. We are proposing to put five mandatory supervisory courses online. Our goal in moving these basic courses online is to unburden our trainers, enabling them to develop intermediate and advanced courses to be given in a classroom setting.

Enhancement E-256 is a request for additional supplies and training for the Office of Employee Development. The additional supplies are primarily videos to enhance our already existing classes. We are asking for money to instruct our trainers in developing intermediate and advanced courses. Lastly, we are asking for funding for our trainers to attend local chapter events to network with other training and development professionals.

E-256 Working Environment and Wage – Page PERSONNEL-6

MS. GREENE:
Decision unit E-253 is a request to participate in out-of-state job fairs in an effort to address the State's recruiting difficulties. This would provide funding for one of our staff and an agency staff member to travel and make on-the-spot offers.

E-253 Working Environment and Wage – Page PERSONNEL-5

Decision unit E-251 is a request for funding to support the enhancement of our mediation program. We are asking for additional travel costs for participants, advanced training costs, and a conference table for the EEO director in the south. She does not reside in a State building and, as a result, has no conference abilities.

E-251 Working Environment and Wage – Page PERSONNEL-4

Decision unit E-250 is a request of funding for preemployment drug testing.

E-250 Working Environment and Wage – Page PERSONNEL-4

Decision unit E-586 is funding for the second phase of our Nevada Employee Action and Timekeeping System (NEATS) Applicant Tracking System (NVAPPS). The first phase successfully went online in September 2006.

E-586 Technology Invest: Maximize Internet & Technology – Page PERSONNEL-7

Phase I was the front end of the process in which applicants are able to submit applications online. Information is then transferred into our existing applicant tracking system (TRAC), and all further processing takes place there. Phase II of NVAPPS will allow us to roll TRAC functions directly into the new system, allowing everything to take place in the NEATS program.

Enhancement E-280 is a request to equip our testing rooms with personal computers (PC) for online testing capability.

E-280 Maximize Internet and Technology – Page PERSONNEL-7

We do not currently have online testing capability in our TRAC system, and, with the implementation of NVAPPS Phase II, we will need to adequately equip our testing rooms. Administration has agreed to give us 40 surplus PCs and we are requesting funding for an additional 20. As a result, we will have 30 PCs at each testing site.

MS. FOSTER:
The next decision unit is for UNIX consolidation. This is being proposed by the Department of Administration and will consolidate 16 servers into two super servers which will be located in Carson City and Las Vegas. This is to replace outdated equipment and provide redundant processing capabilities, thereby facilitating a sufficient disaster-recovery plan in the case of a catastrophic event.

E-225 Eliminate Duplicate Effort – Page PERSONNEL-3

The costs shown on page 19 of the budget presentation are over and above what we are currently paying for the systems.

The next enhancement is location scheduling. This is a proposal to add another module to the NEATS program. It is an electronic calendar system enabling the user to search the availability of facilities for meetings or video conferencing and calendar them online. We will be able to utilize expensive State facilities to their full capacity if we implement this decision unit.

E-587 Technology Invest: Maximize Internet & Technology – Page PERSONNEL-8

The next decision unit is for conferencing equipment for the employee development offices in Las Vegas and Carson City. A new server is included to enhance our ability of storing digital-image records.

E-720 New Equipment – Page PERSONNEL-9

Enhancement E-710 is for replacement equipment. The majority of the costs are for replacement computers, software upgrades, office furniture and an air-conditioning unit for our computer room. We replace our computers under the policy set by DoIT. We are having difficulties with 53 out-of-warrantee computers and are asking to replace about one-third of them.

E-710 Replacement Equipment – Page PERSONNEL-8

ASSEMBLYMAN HARDY:
In discussing the employee assistance program, you stated the workplace has become more stressful and has more problems. What is causing this to happen and what are we doing about it?

MS. GREENE:
It is primarily due to the lifestyle changes over the last 30 years. Both parents work in most families and we have a prevalence of drug addiction. We are also seeing an increase in gambling-related problems with State employees.

We are addressing these issues by adding an additional EAP counselor, instituting a mediation program to address issues on the job site and prompt sexual harassment and discrimination investigations.

CHAIR MCCLAIN:
Is it true we have 2,000 rural employees who are not currently being served by the EAP?

MS. GREENE:
Rural employees are being served over the telephone. The counselors travel to major rural offices once each year to update employees on available services but do not spend that time counseling.

CHAIR MCCLAIN:
Are telephone consultations from rural employees included in the 1,250 client contacts reported in 2005?

MS. GREENE:
Yes.

CHAIR MCCLAIN:
Do you have the figures for client contacts in 2006? How many were from rural employees?

MS. GREENE:
I can provide that information to the Committee, but I do not have it with me at this time.

CHAIR MCCLAIN:
You stated compliance investigations are averaging 49 days. You have three investigators and 94 cases in 2006 totaling just over 30 cases each. Why does it take this long?

MS. GREENE:
There is an average of 13 interviews for each case. The investigators complete a comprehensive report and provide it to the agency's administrator.

CHAIR MCCLAIN:
Has the caseload increased enough to warrant an additional investigator?

MS. GREENE:
The caseload has increased to some extent. The issue is the time required to complete investigations.

CHAIR MCCLAIN:
You have three people at Grade 36 filling Grade 32 positions; will you adjust those grade levels?

MS. GREENE:
When we began the program, we moved existing personnel analyst positions to this unit. We believed they would be able to perform special projects in addition to the investigation; consequently, we left them at a Grade 36. Since they have been devoted solely to investigations, we will reclassify those positions to Grade 32. The individuals will not be impacted as they are currently being paid at the Grade-32 rate.

CHAIR MCCLAIN:
Regarding decision unit E-250, there are few states which require preemployment drug screening, and Nevada currently prescreens the Department of Public Safety personnel. Is there a need to include all new employees in such a program?

MS. GREENE:
Statistics from 2006 show 22 applicants in Public Safety positions failed the drug-screening test. The $100,000 cost each year insures against the possibility of hiring addicted employees.

CHAIR MCCLAIN:
Will this be funded by the hiring agencies?

MS. GREENE:
The DOP would bear the cost for all agencies.

ASSEMBLYMAN PARKS:
Who pays the cost for agencies to perform random drug testing?

MS. GREENE:
The only department performing random drug testing is the Department of Transportation (NDOT). This is due to a federal regulation requiring employees with commercial driver's licenses be randomly tested for drug use. Currently, NDOT pays the cost for random drug testing.

ASSEMBLYMAN PARKS:
Is for-cause drug testing funded by the DOP?

MS. GREENE:
Currently, for-cause drug testing comes from the agency budget. Through this proposal, the cost will be funded by the DOP.

CHAIR MCCLAIN:
Does the Department of Corrections perform random drug testing?

MS. GREENE:
They do not have the authority to perform random drug testing.

CHAIR MCCLAIN:
Phases I and II of the NVAPPS project seem successful. Can you give the Committee more detail on the implementation?

MS. GREENE:
Phase I allows agencies to create a job announcement, which comes through our office, and is posted on the Internet immediately upon approval. Previously, we only posted job announcements once a week. Now, we are able to post them throughout each day.

CHAIR MCCLAIN:
Have you had any feedback from the agencies using NVAPPS?

MS. GREENE:
Yes, we have. We had some glitches in the beginning, but, overall, the agencies are pleased with NVAPPS. To date, we have had 40,000 applications submitted online, comprising 90 percent of all applications submitted. We have the ability to scan applications into the system for individuals who lack Internet access.

CHAIR MCCLAIN:
Does this save you time in qualifying applicants?

MS. GREENE:
Yes. It reduces the time required to get qualified applicant lists to the agencies.

CHAIR MCCLAIN:
Do you have any statistics showing time savings?

MS. GREENE:
Not yet. We implemented Phase I in September 2006, and we are still collecting data.

CHAIR MCCLAIN:
What will Phase II encompass, and what will the costs be?

MS. GREENE:
Phase II of the NVAPPS project will enable us to perform applicant-qualification tests, statistical analysis of applicants and applicant evaluations online. Communications with the applicants will be by e-mail, for those with e-mail capability, saving the Department postage costs.

CHAIR MCCLAIN:
Describe the online testing. Will applicants be able to test from home?

MS. GREENE:
No. The online testing will consist of written examinations conducted in our testing room.

CHAIR MCCLAIN:
Will there be ongoing costs after Phase II is completed, and is Phase II the final phase? Was the DoIT involved in the implementation of NVAPPS?

MS. GREENE:
Phase II is the final phase. The DoIT was not associated with the NVAPPS implementation; we contracted with a private programming firm.

MS. FOSTER:
We will not be paying any additional licensing fees for the software. Programmers from DoIT, who work for us full time, will be performing all maintenance on the system, and there will be an hourly cost associated with it.

CHAIR MCCLAIN:
Is this the position you want to transfer from DoIT?

MS. FOSTER:
No. The position we are transferring is a Personal Computer Local Area Network (PC/LAN) technician.

CHAIR MCCLAIN:
Can you tell the Committee why it is necessary to transfer this position from the DoIT?

MS. GREENE:
Our initial budget request was to transfer programmers from the DoIT into our budget. The previous director of DoIT believed if we transferred those positions, the hourly rate would increase for the remaining programmers. The request was taken out of our budget.

MS. FOSTER:
We originally put the programmer positions into our budget in an effort to work towards the DoIT's long-range plan. In the 72nd Legislative Session, funding was approved for the Department of Administration to perform an information technology (IT) optimization study. From the study, a recommendation was made to decentralize all full-time programmers and database administrators to agencies that employed IT managers. In the 73rd Legislative Session, 70 positions were decentralized into various agencies. At the time, we could not decentralize as we had no IT manager. Subsequently, we reclassified a position to IT manager to run our operations.

The hourly rate for the DoIT programmers has increased 47 percent, and the hourly rate for database administrators has increased 60 percent. If we move those positions into our budget, we will realize $680,000 in cost savings over the DoIT's hourly rate.

In the private sector, it is normal for senior business managers to manage their own technology projects. If you cannot manage your technology projects, it decreases your ability to effectively manage your operations and compromises them.

Given the IT study and the facts I have shared today, I think it is more effective to have those positions employed directly by the individual agencies.

CHAIR MCCLAIN:
That was a good explanation. It saves money and is more efficient.

MS. GREENE:
I would like to go on record indicating the Governor supports centralization of IT positions.

CHAIR MCCLAIN:
Do we have statistics regarding the success rate of attending job fairs at out-of-state colleges?

MS. GREENE:
We have not attended any out-of-state job fairs. There is currently no funding in the budget which allows us to go out of state. The universities we are targeting have programs in both nursing and social work. Both are areas of critical need in Nevada.

ASSEMBLYMAN HOGAN:
This activity lends itself to analysis by campuses visited and particular fields in which we are attempting to recruit. If we keep records of the number of job offers and the number of hires, we will learn which campuses are productive. This will give us an opportunity to reallocate our resources from the least-productive campuses and focus on the fruitful ones.

CHAIR MCCLAIN:
Can you give us more information on the electronic calendaring system?

MS. FOSTER:
The electronic calendaring system will provide a source of information regarding the types of facilities available, their locations, equipment availability for video conferencing and a scheduling calendar enabling the user to reserve the facility.

CHAIR MCCLAIN:
Would this system be available to all agencies?

MS. GREENE:
Yes.

CHAIR MCCLAIN:
Please provide staff with a breakdown of the federal funds, General Funds and other funds required to fill your requested positions.

We will now close the hearing on the DOP and open the hearing on the State Motor Pool.

ADMINISTRATION

Motor Pool – Budget Page ADMIN-52 (Volume I)
Budget Account 711-1354

KEITH WELLS (Administrator, State Motor Pool):
The Motor Pool's function is to provide fleet management for the State of Nevada. We provide daily-rental services to State employees in three locations; Reno, Las Vegas and Carson City and manage about 650 vehicles permanently placed with agencies.

The primary enhancement in my budget is a new position for the Las Vegas Motor Pool under decision unit E-250.

E-250 Working Environment and Wage – Page ADMIN-54

The next item under budget account (B/A) 711-1354 is a rate increase. This increase will have a minor effect on agency budgets. The principal forces behind the increase are the increased monthly rent associated with the Las Vegas Motor Pool and increased fuel costs.

CHAIR MCCLAIN:
When will the new facility in Las Vegas be completed?

MR. WELLS:
The facility is scheduled for completion in the middle of April 2007. When we have an actual date of substantial completion, we will send an all-agency memorandum.

CHAIR MCCLAIN:
You mentioned the new position request, but we noticed you also eliminated a driver position. Can you explain?

MR. WELLS:
I eliminated one driver position and transferred duties to other people to make funding available for the management position in Las Vegas. This position is critical due to the workload in Las Vegas and my need for better management oversight of the 500 cars there.

CHAIR MCCLAIN:
Are the 500 cars in Las Vegas in use every day?

MR. WELLS:
Of the 500 cars, 425 are assigned to agencies. The biggest users are the Division of Parole and Probation and the Office of the Attorney General. The fleet grew by 24 percent in fiscal year (FY) 2005-2006 and will grow by 16 percent in FY 2007-2008.

ASSEMBLYMAN PARKS:
How large is the parcel for the new facility?

MR. WELLS:
The parcel is one acre.

ASSEMBLYMAN PARKS:
Is one acre sufficient?

MR. WELLS:
It would have been nice to have two acres, but land is expensive. Our fleet is transitional; as a result, we are not storing many vehicles at any given time.

CHAIR MCCLAIN:
Will one acre be sufficient five years from now?

MR. WELLS:
The building was planned for future growth.

CHAIR MCCLAIN:
Will you explain to the Committee the meaning of outside-rental revenue?

MR. WELLS:
When I pay $100 to Enterprise Rent-A-Car, that $100 comes back into my budget as revenue from the requesting agency. It is a pass-through cost.

CHAIR MCCLAIN:
Are you prepared to discuss new vehicle purchasing?

Motor Pool Vehicle Purchase – Budget Page ADMIN-60 (Volume I)
Budget Account 711-1356

MR. WELLS:
The Motor Pool Vehicle Purchase account is a holding account for the accumulation of funds realized from vehicle disposals, insurance recoveries, depreciation allowances and General Fund appropriations for new vehicles.

Decision unit E-711 is for the purchase of 71 vehicles in FY 2007-2008 and 93 vehicles in FY 2008-2009. Those are replacements for end-of-life cycle, fully-depreciated in-fleet vehicles.

E-711 Replacement Equipment – Page ADMIN-61

Decision unit E-721 is for increasing the Motor Pool fleet by 15 daily-rental vehicles in FY 2008-2009.

E-721 New Equipment – Page ADMIN-61

Decision unit E-722 is to purchase 56 new vehicles to satisfy additional-vehicle requests from agencies.

E-722 New Equipment – Page ADMIN-61

Decision unit E-888 is a onetime appropriation of $1.3 million to purchase 77 new vehicles over the biennium. This will satisfy additional-vehicle requests agencies have submitted to the State Motor Pool.

E-888 One Shot Appropriations – Page ADMIN-62

CHAIR MCCLAIN:
Is the Division of Parole and Probation (P&P) using this many vehicles due to an increase in staff?

MR. WELLS:
From my understanding, P&P's goal is to have one vehicle for each officer. As of now, their officer count is higher than their vehicle count.

SENATOR COFFIN:
How many of your new vehicles will be hybrid vehicles?

MR. WELLS:
The federal law states 75 percent of the vehicles the State of Nevada buys for its fleet must be alternative-fuel vehicles. However, federal guidelines do not recognize hybrids as alternative-fuel vehicles.

The State of Nevada guidelines require 90 percent of new vehicle purchases must be alternative-fuel vehicles but includes hybrids. In the gap between 75 and 90 percent, we can buy any type of alternative-fuel vehicle. We have been incorporating hybrid vehicles into our Reno fleet for three years.

SENATOR COFFIN:
We should be purchasing hybrid vehicles for all fleets with the exception of pursuit- and long-distance vehicles. Most of our fleet use is metropolitan-type mileage.

MR. WELLS:
The driving force in vehicle purchases is cost. We have to purchase a certain number of vehicles with a limited amount of funding, and hybrids cost $10,000 more than standard flex-fuel vehicles. If I buy 80 hybrid vehicles, it would

represent a substantial increase in cost. State Motor Pool fleet vehicles are used for a considerable amount of rural driving where hybrid vehicles are impractical.

I have been purchasing hybrids and firmly believe in their use and promote them to the Division of Environmental Protection (DEP) whenever possible. As the cost of hybrids decreases, we will buy more of them.

SENATOR COFFIN:
The price of hybrid vehicles is declining. If we place a bid for 80 cars, we may get a price comparable to a standard flex-fuel vehicle.

MR. WELLS:
We already get a discount on State contracts, and hybrids are on the contract now. Hybrids are under limited production and the retail market drives the cost. The profit for manufacturers is in retail sales, and they are cautious in what they will sell to fleets. Last year I was only able to buy a few hybrids, as the manufacturer was reluctant to release hybrid vehicles into fleet use.

Another concern is the life cycle and resale value of hybrid vehicles. The vehicle must save a substantial amount of fuel costs over its life cycle to recover the additional $10,000 cost.

SENATOR COFFIN:
I investigated resale value prior to my recent purchase of a hybrid vehicle, and I found it to be considerably higher than most vehicles. I also performed a cost-benefit analysis, based on current gasoline prices, and found the payback was substantial.

MR. WELLS:
My biggest concern is the resale value of the car. We will be selling hybrid vehicles next year. Then, I will have solid figures to confirm how much those cars actually cost us.

SENATOR COFFIN:
Fleet sales are generously discounted, and, in the case of hybrid vehicles, it may not be necessary. If you diligently pursue selling these cars to the public, rather than a broker, you may find resale value to be much higher than expected.

ASSEMBLYMAN PARKS:
Do you purchase vehicles for the Department of Public Safety?

MR. WELLS:
The only Public Safety vehicles under my control are for the Division of Parole and Probation.

CHAIR MCCLAIN:
We will now open the hearing on the Purchasing Division.

<u>Purchasing</u> – Budget Page ADMIN-64 (Volume I)
Budget Account 718-1358

GREG SMITH (Administrator, Purchasing Division):
The Purchasing Division is responsible for all functions related to purchasing, renting and/or leasing of supplies, materials and equipment needed by State agencies and, to a lesser extent, political subdivisions.

CHAIR MCCLAIN:
Can you update the Committee on the repayment for the roof replacement on the Reno warehouse?

MARY KEATING (Administrator, Administrative Services Division):
Pursuant to S.B. No. 507 of the 72nd Legislative Session, the Purchasing Division is required to repay the bond fund for two roofs, one in Reno and one in Las Vegas. The Reno roof is not owned by the Purchasing fund, it is owned by the Building and Grounds Division (B&G) fund. We have an accounting mismatch, and have been working with your staff on this issue. It would not be appropriate for Purchasing to pay for the roof on an asset we do not own.

The work on the Las Vegas roof has just begun, and it is inappropriate for our agency to pay for an asset which is not complete. When the final determination is made on the Reno roof, we will work with your staff. This budget does not include a payback from Purchasing or B&G for the bond fund due to the mismatch of assets and paybacks.

CHAIR MCCLAIN:
Will there be a contingency fund if you go to the Interim Finance Committee (IFC)?

MS. KEATING:
Traditionally, when an agency pays capital improvement costs for a building they occupy, it is covered through the Statewide Cost Allocation Plan (SWCAP). An agency's budget covers the operational and maintenance costs of their departmental objectives, and through the SWCAP, we deposit depreciation funds for each agency. Since these assets are in two different funds, and not in the General Fund, those depreciation dollars are not being captured. We are trying to find the appropriate method to fully recover the costs from the tenants of those buildings.

The roof will be paid for, but the method of payment suggested in section 5 of S.B. No. 507 of the 72nd Legislative Session is not consistent with what we have done with other buildings.

CHAIR MCCLAIN:
Regarding decision unit E-125, it appears some restocking fees, freight charges and purchasing errors were booked into a non-*Executive Budget* with no funding stream to cover costs. Does the $115,000 you are requesting to reconcile the purchasing fund include any items which could be charged to specific agencies rather than being allocated to all agencies?

E-125 Equitable, Stable Tax Structure – Page ADMIN-66

MS. KEATING:
Five years ago, a business practice was implemented in which those charges were placed into a non-*Executive Budget* account for which there was no revenue stream to offset the expenditures. This practice has stopped, and, at this point we are out of balance between the budget and the fund. This decision unit is a onetime correction to reconcile some old accounting practices.

CHAIR MCCLAIN:
How are these inconsistencies handled now? Are they billed back to the agencies?

MS. KEATING:
If an agency purchases an asset, the funds are taken directly from their budget. Discrepancies, depending on the situation, are billed back to the agency.

MR. SMITH:
There are fewer of these occurrences now than in the past.

CHAIR MCCLAIN:
Can you tell the Committee about the requests for the transfer of four positions from DoIT?

E-915 Transfer from BA 1373 to BA 1358 – Page ADMIN-69

MR. SMITH:
For the past 14 years, the DoIT has operated a separate contracts procurement unit staffed with five individuals. The proposal is one position will be eliminated, and our agency will accept the other four positions. There is an economy of scale in which our office of 26 people can offer support, education and training since we all follow the same rules of procurement.

CHAIR MCCLAIN:
Are you paying for these employees now?

MR. SMITH:
The Department of Information Technology is paying for them through an assessment. They have taken the assessment, converted it to our assessment methodology and put it into our budget.

CHAIR MCCLAIN:
Will we be saving the cost of one position, or will this position remain at the DoIT?

MR. SMITH:
I do not know what will happen with the position. We will be doing the same work with four positions they were accomplishing with five. We will spread the workload among our existing staff.

CHAIR MCCLAIN:
Decision unit E-711 recommends funding for a used sport utility vehicle (SUV). How will it be used and from where is this excess property coming?

E-711 Replacement Equipment – Page ADMIN-68

MR. SMITH:
We frequently drive around getting proposals and contracts signed and need cargo capacity for banker's boxes full of information being picked up and delivered. We secured a high-mileage 1998 Ford Explorer in 2001. We are now asking to excess the vehicle, secure a newer vehicle from the Highway Patrol and use it for three to four years. The money garnered from auctioning our existing vehicle will go to the Highway Fund.

CHAIR MCCLAIN:
Can you tell the Committee how you determine your purchasing assessments?

MR. SMITH:
The formula we have arrived at assesses agencies on their pro rata share of the use of our agency and the contracts we have. It is a three- to five-year average. Some agencies consistently assess at higher levels, such as the Department of Transportation (NDOT) and the Public Employees' Benefits Program (PEBP).

CHAIR MCCLAIN:
Is the PEBP assessment high due to health-care contracts?

MR. SMITH:
Yes. The dollar amounts associated with the PEBP, such as pharmaceuticals, are extremely high. It is not unusual to have three purchasing officers working full time with the PEBP developing requests for proposals (RFP). Theoretically, it requires the same amount of time and resources to develop a $5 million RFP as a $50 million RFP, but they are assessed differently. There is ongoing, time-intensive labor involved with the complexities and legalities of preparing RFPs for the PEBP.

CHAIR MCCLAIN:
Instead of assessing on the cost of a contract, have you considered basing the assessment on man hours?

MS. KEATING:
Our office uses a variety of methods in utilizing cost pools. The goal of a cost pool is to find a process which is as reasonable as possible to all parties. We specifically examined the PEBP, as it represents a 25-percent revenue and may become a 50-percent customer. The other thing to consider regarding the PEBP is they back-bill all of the other agencies and pass the charge on full-time equivalents (FTE) to the agencies they serve.

MR. SMITH:
We are always attempting to improve the formula to remove spikes and irregularities.

ASSEMBLYMAN GRADY:
Can we ask DoIT to provide a spreadsheet showing transfers into and out of the department?

CHAIR MCCLAIN:
Fiscal staff can provide the information.

LESLIE A. JOHNSTONE (Executive Officer, Board of the Public Employees' Benefits Program):
We will review the Governor's recommended budget for the PEBP, and provide background information on the Government Accounting Standards Board's (GASB) Statement 45 liability issue.

The PEBP program has a straightforward budget structure. We have three budget accounts: B/A 625-1338 is the operations budget, B/A 625-1390 is a pass-through account for the State contribution for active employees and B/A 680-1368 is a pass-through account for the State subsidy for retirees.

PUBLIC EMPLOYEES' BENEFITS PROGRAM

Public Employees Benefits Program – Budget Page PEBP-1 (Volume III)
Budget Account 625-1338

Retired Employee Group Insurance – Budget Page PEBP-9 (Volume III)
Budget Account 680-1368

Active Employees Group Insurance – Budget Page PEBP-12 (Volume III)
Budget Account 625-1390

MS. JOHNSTONE:
On page 4 of our handout entitled "Public Employees' Benefits Program FY 2008 & FY 2009 Budget and Post Employment Benefits" (Exhibit D, original is on file in the Research Library) is a graph of the total budget for the current biennium and the Governor's recommendations for the upcoming biennium which includes reserves as well as the operating budget. The Governor's recommended budget for FY 2007-2008 and FY 2008-2009, when compared to the current biennium, represents an increase of 15 to 20 percent each year.

The pie chart on page 5 shows expenses for B/A 625-1338. The self-insured claims are the largest category, comprising 62 to 63 percent of overall expenditures. Administrative costs constitute approximately 1 percent of the overall budget.

The pie chart on page 6 illustrates revenue for B/A 625-1338 with the State contribution for active employees funding 52 to 54 percent and the retired employee group subsidy funding 17 to 22 percent of the overall budget. The other premium income is from State and non-State participants' share of the premium.

Assumptions used to develop this budget were driven by the cost for each participant. Enrollment inflation is estimated at 5.2 percent for FY 2007-2008 and 7.3 percent for FY 2008-2009.

CHAIR MCCLAIN:
Do you have access to agency requests for new personnel when projecting enrollment?

MS. JOHNSTONE:
No, we utilize estimates based upon historical growth.

CHAIR MCCLAIN:
Are you confident in this type of projection?

MS. JOHNSTONE:
We have been experiencing this type of overall growth for the past four years, significantly since the passage of A.B. No. 286 of the 72nd Legislative Session resulting in the addition of non-State retirees.

Another key assumption is an 11.4-percent combined increase in claims for medical and prescription costs each year, which is slightly lower than it has been in past years. In the dental program, we are projecting a 7-percent increase each year. In the Incurred, But Not Reported (IBNR) reserve, which is set aside for claims we have incurred but have not yet been received by our third party administrator, we have recommended a reserve growth of 11.4 percent each year. This corresponds with the medical claims increase.

We have projected a 10-percent increase for insured products. This category includes Health Maintenance Organization (HMO), which is the largest share of the insured products, life insurance and accidental death and dismemberment.

Cost increases consist of several components. Inflation in the cost of products and services, shifting of co-payments or deductibles between the plan and the participants, utilization, government mandates and new medical treatment technology all contribute to the program's cost increases.

Medical cost increases are outpacing general inflation, and entities are reducing overall health-care costs by reducing benefits. Nationally, the reduction in benefits averages between 4 and 5 percent each year. The national industry trends of 7- and 8-percent cost increases occur after those changes in benefits are incorporated. The trends we have projected, at 11.4 percent, are calculated before any change in benefits takes place.

Page 11 illustrates a breakdown of our projected enrollment growth. In FY 2007-2008, we are projecting 35,141 State and 4,776 non-State participants for a total of 39,917 participants. The significance of these two groups is the State group is weighted toward active participants, and the non-State group consists almost entirely of retirees. The passage of A.B. No. 286 of the 72nd Legislative Session has made a large impact on these dynamics.

The chart on page 12 of Exhibit D graphically displays our enrollment numbers since 2003 and what this budget projects in the upcoming biennium. If there are any changes in eligibility, it will impact our projections.

Page 13 outlines our performance indicators. The expense ratio is the operating expense compared to revenue from premiums. Since we are not a profit-generating organization, we remain stable between 6 and 8 percent which is less than expense ratios found in the private sector.

The claims-loss ratio is revenue compared to the cost of claims. In FY 2006-2007, we intentionally budgeted to lose $21 million to reduce excess reserves.

SENATOR COFFIN:
I am concerned about the prices of durable medical equipment goods. I use a continuous positive airway pressure (CPAP) machine to help me stop snoring. The filter for this machine, supplied by Apria Healthcare, is a small patch of paper which costs $8 to $10. With a reputable online company, I can buy six filters for the same price.

I recently received a telephone call from an Apria representative informing me I was entitled to order new equipment. When I inquired about the cost of CPAP equipment and filters, I learned the prices contracted with other entities were considerably lower than the prices contracted with the State of Nevada.

Sierra Health Services, a third party, negotiates the State's contracts with medical suppliers, and I think we should examine our purchasing process to ensure we are getting the most for our money in these contracts.

MS. JOHNSTONE:
When we examine network contracts, we select a network based upon overall cost savings. In theory, the network should be able to get a better rate than we can negotiate on our own. We need to have shorter-term contracts in place due to a fluctuating market for goods and services. When we lock into long-term contracts, we are unable to take advantage of new market conditions.

SENATOR COFFIN:
I presumed the inflated price of the filters was Apria's fault; it was not. It is the fault of the people who are negotiating contracts on our behalf.

ASSEMBLYMAN HOGAN:
The Legislative Counsel Bureau (LCB) Audit Division's report of September 2006 noted a need for improvement in contracting practices, particularly the process for evaluating proposals and strategic planning. Can you describe to the Committee the progress of actions taken regarding this report?

MS. JOHNSTONE:
The purchasing recommendations made in the auditor's report concerned inconsistencies in scoring between different evaluators and the difference in criteria used by the Evaluation Committee and Board of the PEBP. We are confident in our ability to recommend the most capable vendors to the Board due to the combined experience of our evaluators and industry experts with whom we consult.

The Board then selects their preferred vendor from a list of viable finalists recommended by the Evaluation Committee. In response to the audit, changes were made to the scoring sheets matching criteria used by the Board and the Evaluation Committee.

The Board has reviewed the strategic plan and will adopt a revised plan, which addresses the concerns of the LCB audit, at the March 8, 2007, meeting.

CHAIR MCCLAIN:
Please continue discussing performance indicators.

MS. JOHNSTONE:
Generic drug utilization is an area in which we continue to make improvement. We reached our 63-pecent utilization goal in last quarter's report from Catalyst Rx.

Medical and dental network use remains stable. We continue to inform our participants of the network structure and the impact of out-of-network use.

The appeals ratio of 0.72 appeals for every 1,000 participants shown in the FY 2007 column was estimated, based upon inadequate reporting, and is truly at the 0.15 rate recorded in the FY 2006 level. It is not as big an improvement as it appears to be.

Plan changes effective for July 1, 2007, include changing how benefits are coordinated for participants who have other primary insurance, mainly impacting Medicare participants. We will be changing to a standard coordination of benefits. This change will permit the PEBP to pay allowable expenses Medicare does not cover.

Under our new contract with Catalyst Rx, prescription drug savings will be enhanced through reduced pharmacy costs and increased discounts. If Catalyst Rx is able to grow their business and obtain larger discounts, those discounts will be immediately passed on to the PEBP under the new contract arrangement which could result in $2 million in savings. Although our administrative costs will increase substantially, our overall savings under the new contract will increase to $3 million each year.

In a change to the generic drug benefit, we no longer apply a $50 deductible toward generic drugs. The annual $50 deductible will only apply to drugs on the formulary. This change has a small cost the first year which will be counteracted by resulting increases in future generic drug utilization.

We are changing the manner in which the program reimburses Medicare participants for Part B premiums. For the past two years, the plan has reimbursed 80 percent of the cost of the Medicare Part B premium. Rather than issuing a separate check to the participants each year, the plan will reduce the participant premium by the same amount.

The final change, effective for July 1, 2007, will modify the reimbursement rate for out-of-network dentists to equal the rate used for dentists within the network. The participant still has a 50-percent cost share for out-of-network dentists, but the overall plan costs will decrease due to reduced contract rates with in-network dentists.

I will now discuss the PEBP's reserves. We have two reserves: one is the rate stabilization reserve (RSR) and the other is the IBNR reserve. Our current budget provides the RSR $24 million, and the Governor's recommended budget is $28.5 for the upcoming biennium. This is trended by the actuaries to the midpoint of the biennium, June 30, 2008. This reserve's purpose is to absorb any spike in claims should they occur.

In our most recent audited financial statement, the IBNR reserve was valued at approximately $21.5 million. We have trended 11.4 percent each year in the Governor's recommended budget to end the biennium at $29.7 million. We have structured the budget to eliminate excess reserves by the end of the biennium.

Our overall reserves at the end of FY 2005-2006 were $94.1 million. Deducting the RSR and the IBNR reserves, noted on page 16 of Exhibit D, we had an estimated excess reserve of $48.5 million. In FY 2006-2007, we are projecting an overall loss of $21.5 million, and are estimating an increase of the IBNR reserve of $2.5 million. This will leave an excess reserve of $24.5 million at the end of FY 2006-2007.

Page 17 shows our plan to eliminate the $24.5 million excess reserve during FY 2007-2008 and FY 2008-2009. This will be accomplished by increasing the amount of the RSR and the IBNR reserves by $4.4 million and $5.8 million respectively. We also propose to fund our wellness enhancement decision unit with $6.1 million and use $8.3 million to offset State subsidy and participant contribution shares.

A breakdown of the reserve reduction offset to assessment, shown on page 18 of Exhibit D, shows $72.6 million in projected overall reserves for FY 2006-2007 balanced forward to the FY 2007-2009 biennial budget. After deducting the RSR of $28.5 million, the IBNR reserves of $29.7 million, a wellness enhancement of $6.1 and $20,000 to fund a portion of the communication enhancement, the remaining $8.3 million will be available to offset State subsidy and participant contributions over the 2007-2009 biennium. This amounts to approximately $4.2 million each year.

Our maintenance decision units include M-100 and M-101 for statewide and the PEBP claims inflation. Decision unit M-102 is to balance to the recommended reserve levels, M-200 for enrollment growth increases, M-300 for statewide fringe-benefit rate adjustments and M304 for statewide cost-of-living adjustment (COLA).

M-100 Inflation - Statewide – Page PEBP-2

M-101 Inflation - Agency Specific – Page PEBP-2

M-102 Inflation - Agency Specific – Page PEBP-3

M-200 Demographics/Caseload Changes – Page PEBP-3

M-300 Fringe Benefit Rate Adjustments – Page PEBP-4

M-304 2% Yr 1 and 4% Yr 2 COLA – Page PEBP-4

Our largest enhancement decision unit, E-325, provides expanded use of the existing wellness benefit. Currently, the self-funded program provides $2,500 for participants to be used toward wellness screenings and examinations. In an effort to increase the utilization of the wellness benefit, we ran a test phase in FY 2006-2007 in which we identified obstacles to using the wellness benefit. We are about to embark on a pilot initiative, involving 1,000 active employees and 250 retirees selected by workplace and provider location, in which we will attempt to increase their participation in the program through workplace motivation and momentum. We will track the pilot group's expenses in a separate plan specifically for them. The cost of this enhancement is approximately $3.1 million each year.

E-325 Services at Level Closest to People – Page PEBP-5

We have four major diagnostic areas in our self-funded plan which comprise over 45 percent of our medical expenses. Musculoskeletal is consistently our top category and consumed 18 percent of our overall medical expense in FY 2005-2006. It is followed by circulatory, digestive and respiratory which consume 12, 9 and 7 percent respectively.

After examining where we spend our money, the Board selected cardiac wellness as the area to focus our efforts. This involves the medical management of identified cardio-vascular disease, integrated with therapeutic lifestyle change which consists of nutritional improvement, exercise and stress management techniques.

CHAIR MCCLAIN:
Who will be conducting the wellness program?

MS. JOHNSTONE:
We are working with the network to identify wellness-friendly providers. Once identified, we will educate the providers on what this benefit involves and what the program entails. We will be implementing provider-reimbursement schedules to financially encourage them to focus on wellness and match participants with contracted providers. The first phase of the analysis will measure the risk factors of participants at the beginning and end of a 12-month period. In the second phase, our utilization-management company will track expenses over a 24- to 36-month period to evaluate the impact on claims.

CHAIR MCCLAIN:
My advice is to coordinate your efforts with Mr. Al McDaniels, the director of the Senior Olympic Games. They are working with the University of Nevada, Las Vegas, to start a wellness program for seniors.

MS. JOHNSTONE:
Thank you, I will contact them.

Page 23 of Exhibit D lists some of the incentives we are providing to the wellness program participants for the pilot phase of the program. We will reduce the pharmacy deductible and co-payments by 50 percent and waive the deductible for some wellness supplies to those who remain compliant with the wellness protocol.

Page 24 examines our initial study, and uses the benefit of previous studies, to estimate the overall cost savings to the plan.

We have estimated a utilization-management cost of $475 a year for each participant for a total cost of $504,925. The cost estimates for this plan were generated from data supplied by a University of Nevada, Reno study.

Decision unit E-251 provides funding for an outside auditor to perform quarterly reviews of our enrollment and eligibility records.

E-251 Working Environment and Wage – Page PEBP-5

Decision unit E-326 expands our current communications plan of holding focus-group meetings and providing additional mailings to participants. The $20,000, funded from the reserve, is a onetime expenditure for a professionally produced video about the PEBP.

E-326 Services at Level Closest to People – Page PEBP-5

Decision unit E-710 is a standard equipment replacement enhancement for computers, optical character recognition software for scanning enrollment forms, a replacement server and additional data storage devices.

E-710 Replacement Equipment – Page PEBP-6

Decision unit E-720 is for a server designed for disaster recovery and additional data storage which will enable us to absorb enrollment growth without additional staffing.

E-720 New Equipment – Page PEBP-6

Decision unit E-813 is a statewide unclassified step adjustment, and E-818 is a no-cost decision unit transferring the information technology contract unit from the DoIT to purchasing.

E-813 Unclassified Step Adjustment – Page PEBP-7

E-818 IT Contract Unit – Page PEBP-7

The allocation of the active employee assessment, in B/A 625-1390, is shown on page 31 of Exhibit D. These estimates of employee subsidy are based upon the coverage of 100 percent of employees' cost and 85 percent of dependent's cost for those enrolled in the high-deductible plan. Slightly lower percentages are shown if the employee or dependent is enrolled in the low-deductible or HMO plans. Overall, the State subsidy covers 90 percent of the cost for active employees.

The progression of active subsidies is shown on page 32. The amount in FY 2006-2007 is intentionally lower due to our planned $21 million loss. Page 33 shows an overall calculation of the distribution between enrollment growth and inflation.

The retiree group assessment in B/A 680-1368, shown on page 34, is similar to the active-employee assessment. The estimates of retiree subsidy are based upon coverage of 73 percent of retirees' cost and 51 percent of dependent's cost for participants enrolled in the high-deducible plan. Overall, the State subsidy covers 59 percent of the retiree cost. Page 35 shows similar growth increases for the retiree subsidy as we saw in the active-employee subsidy. The retiree base subsidy amounts displayed on page 35 represent the subsidy for a retiree with 15 years of service

The retired employee group insurance (REGI) budget account is calculated differently due to the actual average of 17 years of service rather than the 15 years used in the retiree base subsidy calculations. Enhancement E-325 adds $25 million each year, which is included in the Governor's recommended budget, to partially pre-fund the GASB liability.

E-325 Services at Level Closest to People – Page PEBP-10

As recommended, we would collect the $25 million in the Governor's recommended budget each year through a payroll assessment to State agencies. Legislation will be forthcoming to create a separate trust fund to meet criteria outlined by the GASB.

CHAIR MCCLAIN:
Can you tell the Committee when we will receive this Legislation?

MS. JOHNSTONE:
We are currently working with the Department of Administration to finalize the language of the bill.

CHAIR MCCLAIN:
Will the bill assign management of the fund?

MS. JOHNSTONE:
Yes. As proposed, PEBP would manage the fund. It will include the recommendation of adding an investment officer. It will be similar to the investment structure of the Public Employee Retirement System.

CHAIR MCCLAIN:
Can you explain the GASB requirements to the Committee?

MS. JOHNSTONE:
Statements 43 and 45 from the GASB require all governmental entities to record any unfunded liability for other post-employment benefits (OPEB). By definition, the OPEB include everything other than pension benefits. In the State of Nevada's situation, this includes all the PEBP benefits.

The portion to be recorded on the financial statements as a liability is the difference between the annual required contribution (ARC) and the amount actually funded. Only the unfunded portion of the ARC is reported. While some of the ARC is funded by the REGI, a portion of the active-employee subsidy also goes toward the ARC, and it is the unfunded portion which is recorded on the financial statements. The annual required contribution is a misnomer as there is no requirement to pre-fund this liability. If the entity funds the full value of the ARC, there is no liability recorded on the financial statement.

The liability includes both the explicit subsidy, the amount going through the REGI account, as well as the implicit subsidy, the portion of the amount going through the AEGIS account. This implicit subsidy occurs due to commingling the claims expenses. Some of the retiree cost is spread to the active group; therefore, a portion is funded through the AEGIS.

The range of the amount of the liability depends on the pre-funding assumption. If the obligation is pre-funded, the GASB statement allows us to assume a market-rate discount on investment earnings for funds which have been set aside. In the preliminary estimates which have been developed, the market rate is assumed at 8 percent. If we continue to pay-as-you-go, as the State of Nevada currently does, we are only permitted to use a general investment discount rate of 3.5 percent. If we partially fund the liability, a blended rate is allowed so the discount will fall somewhere between 3.5 and 8 percent.

The Office of the State Treasurer is not prepared to say whether or not the GASB liability will have an impact on our bond rating. The rating agencies, which are comparing governmental agencies against one another, will favorably consider governmental entities which have plans in place to address the GASB liabilities.

The valuation estimate, on page 42 of Exhibit D, represents earned-benefit costs for past service, benefit costs for the current fiscal year and benefit costs for future service. Earned-benefit costs consist of the benefits earned for past service to the State. Current year's benefits costs are future benefits an employee earns from service in the current fiscal year. Future-service costs are the benefits an employee may earn if they stay in State employment beyond the current fiscal year. Added together, the valuation estimate falls between $1.6 and $4.1 billion, dependent upon whether or not the benefits are pre-funded. If we were to immediately set aside $1.62 billion, we would have no unfunded liability. If we continue to pay-as-you-go, we will reach $4.1 billion in total expenditures.

The ARC consists of the current fiscal year's cost and a portion of benefits earned in the past. This is permitted to be amortized over a 30-year period. The amount was estimated at $114 to $215 million for FY 2005-2006, and has increased to $158 to $273 million for FY 2007-2008.

We are in the process of having a new actuarial evaluation prepared with updated demographic and trend information. We will itemize the changes in assumptions, between the new evaluation and the one completed in 2005, and present them to the Committee in late March 2007.

The graph on page 43 shows the impact that various funding could have on the annual required contribution for FY 2007-2008 and FY 2008-2009. The table at the bottom of the page shows the amount in the budget as pay-as-you-go, the implied subsidy and the funded portion. Full funding of the ARC would require $116 million. The Governor's recommendation is $25 million each year, and pay-as-you-go as we have been doing. Our reported liability will be the difference between the ARC and what we actually fund.

At a staff level, we have developed ten different scenarios for discussion. This information is to illustrate the financial impact possible benefit changes may have. The graph on page 50 of Exhibit D, titled "Base Net Benefit Cost v. Pre-funded ARC Scenarios", compares the costs our current benefit structure, under pay-as-you-go, to changes in pre-funded benefit scenarios.

The first scenario is to eliminate the subsidy for new hires which will break even with our current funding level in the year 2025. The second scenario is to reduce the subsidy by 50 percent which will break even with our current funding level in 2033. The third scenario is to freeze the subsidy at its current level which will break even in 2010. The fourth scenario is to eliminate the subsidy for retirees after the year 2012 which will break even in 2022. The fifth and seventh scenarios were not feasible and were not included on the graph. The sixth scenario is commingling retirees' costs and separating them from the active employee costs which will break even in 2051. The eighth scenario is to eliminate the subsidy for Medicare retirees which will break even in 2016. The ninth scenario is to eliminate the subsidy for retirees, with less than 20 years of service, which will break even in 2037. The tenth scenario is to eliminate the subsidy for dependents which will break even in 2046.

If we do not change the benefits, but pre-fund the current benefit, it will take until the year 2054 to become less expensive than pay-as-you-go.

CHAIR MCCLAIN:
We will put all of this information into context after you give updated demographic and trend information in March.

MS. JOHNSTONE:
We will also have the actuary run any subset of these scenarios the Committee may request.

MARTIN BIBB (Executive Director, Retired Public Employees of Nevada):
We are happy to wait for the updated March figures before commenting.

CHAIR MCCLAIN:
There being no further business before the Committee, the meeting is adjourned at 10:37 a.m.

RESPECTFULLY SUBMITTED:

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Michael Bohling,
Committee Secretary

APPROVED BY:

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Assemblywoman Kathy McClain, Chair

DATE:___________________________

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Senator Dean A. Rhoads, Chair

DATE:___________________________