MINUTES OF THE MEETING
OF THE
ASSEMBLY COMMITTEE ON GOVERNMENT AFFAIRS

Seventy-Fifth Session
February 9, 2009

The Committee on Government Affairs was called to order by Chair Marilyn K. Kirkpatrick at 9:01 a.m., on Monday, February 9, 2009, in Room 3143 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/75th2009/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; telephone: 775-684-6835).

COMMITTEE MEMBERS PRESENT:

Assemblywoman Marilyn K. Kirkpatrick, Chair
Assemblyman David P. Bobzien, Vice Chair
Assemblyman Paul Aizley
Assemblyman Kelvin Atkinson
Assemblyman Chad Christensen
Assemblyman Jerry D. Claborn
Assemblyman Ed A. Goedhart
Assemblywoman April Mastroluca
Assemblyman Harvey J. Munford
Assemblywoman Peggy Pierce
Assemblyman James A. Settelmeyer
Assemblywoman Ellen B. Spiegel
Assemblyman Lynn D. Stewart
Assemblywoman Melissa Woodbury

COMMITTEE MEMBERS ABSENT:

None

STAFF MEMBERS PRESENT:

Susan Scholley, Committee Policy Analyst
Scott McKenna, Committee Counsel
Cyndie Carter, Committee Manager
Cheryl Williams, Committee Secretary
Olivia Lloyd, Committee Assistant

OTHERS PRESENT:

Michael E. Skaggs, Executive Director, Nevada Commission on Economic Development
Lindsay Anderson, Incentive and Research Analyst, Nevada Commission on Economic Development
Tom Clark, representing Sempra Energy, Reno, Nevada
Leslie A. Johnstone, CEBS, Executive Officer, State of Nevada, Public Employees' Benefits Program
Jeff Fontaine, Executive Director, Nevada Association of Counties, Carson City, Nevada
Wes Henderson, Government Affairs Coordinator, Nevada Association of Counties, Carson City, Nevada
J. David Fraser, Executive Director, Nevada League of Cities and Municipalities, Carson City, Nevada
Dan Musgrove, representing Nevada League of Cities, Carson City, Nevada

Chair Kirkpatrick:
[Roll taken]
We survived the first week, which is always encouraging. We have a shortened time frame today, and I invite Mr. Skaggs back up to the table.

Michael E. Skaggs, Executive Director, Nevada Commission on Economic Development:
I appreciate the opportunity to come back and finish our presentation (Exhibit C). I think there were six items that were taken away that you asked for action on, and I believe those are all in progress and we have contacted the individual members regarding those.

Assemblywoman Pierce talked about the performance measure, so you all got a chart in your email that shows what has happened to non-gaming employment. Gaming employment is falling. The non-gaming employment or the private sector jobs we deal with on a consistent basis continue to grow even with a growing labor force.

The other action item was on the workforce about K-12. In your package you also have amended language to our business plan that reflects some staff corrections of the fact there were about 20 items in our plan that I have glossed over. If you have any comments on this, please email me and let me know. This is from the handout that you received on Friday, if you still have it.

Chair Kirkpatrick:
We probably do not, but we can follow along.

Michael E. Skaggs:
I want to touch on the action plans, as shown on page 17, and getting into the important things that are going to happen over the next biennium. We have talked about the emphasis on renewables, specifically on the manufacturing of renewables. Right now we have one manufacturer of solar equipment in the state. We are looking at some way we can possibly amend the incentive language which would cause more manufacturing to come to the state. We have to understand where we are now, in terms of a base, so we can figure out a percentage of inputs we would require, because it is going to take us awhile to grow that base. We will work with the Committee on how we can move down that road together.

In "Global Trade and Investments," on page 17, we are planning to increase non-precious metal exports by $320 million, increase exports of current existing customer companies by $4 million, and on the investment side, which is foreign direct investment in Nevada, we would like to see the jobs increase by 360. One quick fact: We have 95 foreign counsels in California that have jurisdiction over Nevada, and we will make direct business opportunity presentations to each of those in the biennium.

I want you to realize how our procurement works. The state dollars that annually go into our procurement program are basically $90,000. With that we leverage $430,000 of federal money. It is one of the more efficient operations we have, and some of the metrics we are looking at are to increase our federal contract awards by $40 million and increase small/minority/woman-owned/service-disabled/veteran contractors by 180. That means 180 more people and firms we work with to link them to contract opportunities. We also set a target of adding 90 more companies to the state database so we can keep more procurement in the state.

There are two big attainments on film we would like to complete this year. One, we want to attract a state-of-the-art production studio to Nevada. Common sense tells us it is going to be in the southern part of the state because that is where most of the film-making activity is right now. We also need the sound stages and the related businesses because we want to build off that entertainment base. Actually, over the last biennium, the value of the film that we brought to the state was over $220 million. That was from a $1.6 million investment.

Under "Rural Economic Development," on page 18, strategic planning and community assessments are the keys. We have to help these communities plan how they are going to move their economy forward, particularly right now with the instability in this economy. Rural communities still need help because this is a new, rude day we are all living in. We need to help them find their opportunities.

With community block development grants (CBDG), we invest $250,000 of state money to match $3 million in federal money. It is one of the more efficient programs we have. We want to start to revolve loan funds with some of those funds and dedicate a quarter million dollars to entrepreneurial development in the rural areas. Entrepreneurial development is going to be a big thing with us because we have to start more businesses and it is a bigger hand-holding assignment. It takes more time on our side, but it is something that we definitively need to do.

Finally, under "Administration," we are instituting formal customer satisfaction training agency-wide. Some of the members of the Assembly and I have talked about responses from my organization that are not going to be tolerated anymore. We will have a formal customer satisfaction, not customer service, relationship. There is a difference; customer satisfaction means you walk away feeling as if we helped you. This will be formally instituted throughout the whole agency.

I would now like to bring our Research Analyst, Lindsay Anderson, forward because we will talk specifically about the El Dorado Energy Project and its incentive package.

Lindsay Anderson, Incentive and Research Analyst, Nevada Commission on Economic Development:

Mr. Skaggs mentioned to me that someone had asked specifically about the El Dorado Energy incentive package that was passed through our Commissioners in June of 2008. I have a handout (Exhibit D) with some basics about the project. It describes the company, Sempra Energy. The El Dorado

Energy Solar facility in Boulder City is composed of approximately 167,000 solar photovoltaic cell panels delivering 10 megawatts of power. The total project cost was about $40 million, $32 million of which was capital investment. As part of the abatement process, the company received sales and use tax abatement, personal and real property tax abatement, and modified business tax abatement.

I can answer any questions that you may have, but this handout gives a project overview of the incentive package.

Chair Kirkpatrick:
Does anyone have any questions? This was a controversial issue last session in the respect that Nevadans did not get those jobs. What kind of tools can we put in place for your department in the future to make sure that Nevadans get the jobs? Also, when balancing incentive and jobs, how can we get more for less? Virginia's plan pays itself back in two years, and for every $1 million they get 50 employees, so I want to know that we are competitive in Nevada.

Michael E. Skaggs:
I think we have had these incentives for two years. They are sunsetting, so it is the time to take a look at whether they did what we expected them to do. We are trying to build some synergy by creating this solar generation capacity in the state. Do we think we will bring in the supply base? Construction jobs are pretty intensive, some projects offering 400 to 600 construction jobs at a good wage. Most of the projects that we have been monitoring were able to satisfy expectations, in terms of Nevadans building those projects. Somewhere around 70 percent of the skill-sets came from the state. Let me go back and affirm with this company how much of that labor they were able to find here.

What we need to do through the community college system is to train. At Truckee Meadows Community College we have a course now that teaches Nevadans how to construct or install solar panels. I think this all fits together. Regarding the comment that a project may not create a lot of follow-up jobs, one question is how do we attract a supplier industry by incentivizing the generation piece that does create jobs that are sustainable?

I think it is new policy that we look at the data; we will compile everything you want, sit down, and figure out how to do it.

Chair Kirkpatrick:
Any questions? Mr. Stewart.

Assemblyman Stewart:
I have been out to that project, and I cannot believe there is only one permanent job. That is a big project. Is one person running the whole thing? There were no jobs there before. I do not follow this.

Michael E. Skaggs:
The facilities are that efficient. The employee is a maintenance person. New construction is that efficient. There is a representative of the company here if you would like him to comment.

Assemblyman Stewart:
What about security and things like that?

Chair Kirkpatrick:
Please go ahead. We did discuss this last session. I do not want to rehash the whole issue, but I think Mr. Stewart and I are on the same page. We want long-term jobs, not one job.

Tom Clark, representing Sempra Energy, Reno, Nevada:
Sempra Energy is a parent company of El Dorado Energy. To answer your question specifically, Mr. Stewart, this facility is right next to a natural gas plant that we also own. There is one direct job for the solar facility, but we have quite a few people on campus who help with security and such matters.

Chair Kirkpatrick:
Mr. Goedhart.

Assemblyman Goedhart:
This question is directed to Lindsay Anderson. The handout says the estimated new personal and real property tax generated is $1.3 million. Is that per year or over ten years?

Lindsay Anderson:
That is actually over a ten-year period. Personal and real property tax is hard to estimate; rates change regularly. This is based on the information that we have now. The point with the personal and real property tax is that we abate 50 percent for renewables. The local governments get 50 percent of what they normally would have received.

Assemblyman Goedhart:
I have been looking at some of the other solar companies. Even with the abatements, some of these projects, which might cost $4 million a megawatt to construct, result in anywhere from 1½ to 3 cents per kilowatt hour being paid

by the rate payers in property taxes. On the other hand, if you compare that to a coal-fired power plant, it could be 4/10 of a cent per kilowatt hour. Legislatively, I believe we also have to consider, on a policy decision, is it a good thing to charge renewable energy five, six, or seven times the property tax rate per kilowatt hour as that generated by a coal-fired power plant?

Chair Kirkpatrick:
Mr. Goedhart, you are on the Commerce Committee, right? We will hear plenty on that topic.

Does anyone else have any questions? [There were none.]

Mr. Skaggs, I read your draft and I think you have a very good, fluid draft; it gives us a place to start working. I was surprised that we have a lack of affordable housing in the rural communities. Can you explain that to me? I worked on the affordable housing committee, and they testified they have plenty of housing.

Michael E. Skaggs:
In some of the mining communities, their housing is completely utilized. So prices are not only high, but now with the economic situation, we are having trouble getting homebuilders funded. So, whether it is Eureka, Elko, Ely, or Battle Mountain, we are having trouble getting any housing built. This is the type of housing shortage we are having. People would be moving there if there were housing units, because the jobs are there. Those communities are relatively healthy.

Chair Kirkpatrick:
What tools does your office need to do better quickly? Are there any tools, legislatively, that you need to help put Nevadans back to work?

Michael E. Skaggs:
My principal concern is going to be addressing the sunsetting of renewables. Also, planning a policy we can all feel comfortable with, a policy that is a good tool for business inducement to come here and also hits the targets we once set as a state for what we would like see on the employment and the capital investment side.

As far as the agency goes, I told you I am not going to ask for more money or any of those crazy things.

Chair Kirkpatrick:
That is good because we are broke and are trying to keep you from being consolidated.

Assemblyman Stewart:
I appreciate this paper with all these bullet points on your coordination with the educational community. I encourage you to intensify that. I have already alerted the Clark County people that you will be contacting them.

Michael E. Skaggs:
I look forward to our follow-up meeting this week.

Chair Kirkpatrick:
Does anyone else have any questions? [There were none.]

I would like to invite the Public Employees' Benefits Program up to the table.

Leslie A. Johnstone, CEBS, Executive Officer, State of Nevada Public Employees' Benefits Program:
I wanted to provide some background information about the program: who we are and who we serve. In the presentation (Exhibit E) I will briefly go through our governance structure, benefit options, long-term liability, and a little bit about the Governor's recommended budget and its impact on the participants.

Regarding our governance structure, the Public Employees Benefit Program (PEBP) is incorporated in Chapter 287 of the *Nevada Revised Statutes* (NRS) and the *Nevada Administrative Code* (NAC) which includes the PEBP program as well as the non-state benefit plans.

We have a nine-member board. The members represent various constituencies and are appointed by the Governor.

On page 4, I have listed the eligible participants to be enrolled in the plan. Our focus tends to be on the state because of the volume. We have state active employees, including the university system, and state retirees, who are eligible to join either at the time of retirement or every two years when we conduct a late enrollment in even-numbered years. The non-state participants can come in as active if their employer chooses to bring all of their actives, with some very limited exceptions. The employer needs to bring all of their actives onto the plan in order to be considered a participating entity. The eligibility of retirees of non-state jurisdictions has been frozen as part of Senate Bill No. 544 of the 74th Session. That basically limits the eligibility for non-state retirees to those who were on the plan as of November 30, 2008, unless their employers join the plan with their actives. This is commonly referred to as "the all in or all out provision."

I will skip over page 5 other than to point out that we currently have 44,000 participants on the plan, 33,000 of whom are state actives and retirees.

On pages 6, 7, and 8, we have indicated, for each of the participant groups, what benefits they are eligible for. The benefits do vary between non-state and state employees as well as university employees and retirees.

Page 9 gives you a visual of a one-year budget for the program; this is Fiscal Year 2009. On the expense side, we are heavily dependent upon the predictability of the self-funded claims, in that that is the most volatile area for the program. We have a fair amount of expenses for fully insured products, which, in this context, are life insurance and the Health Maintenance Organizations, or HMOs. On the funding side, we are heavily reliant on the subsidy from the state, both for the actives as well as the retirees.

The premium slice includes participant contributions as well as the non-state jurisdictions' payment for any subsidy for their retirees.

On page 10, we have included a ten-year history of the reserves of this program. Some of you may have understood the financial troubles the plan has been through periodically. I think this page depicts it very well. In 1998 we were not able to fund our liability reserve for what is called "incurred but not reported" expenses, and that was the year that we required a bailout from the Legislature. We went through a reconstitution from the previous committee on benefits to the current PEBP structure in the 1999 Legislature, and we were somewhat financially solvent until we came into 2001. This plan, along with many plans around the country, had the unfortunate experience of very large claims. We went through a change of vendors as well, for our claim payments, and that unearthed some claim issues. That necessitated another bailout in 2002.

Since then, we have substantially improved the vendor accountability for all aspects of the program as well as implementing several fiscal policies that are very conservative in nature. As a result the program has stabilized significantly. Since 2004, we have been able to establish a new reserve, which is referred to as the "rate stabilization reserve," and we are actually dealing with the problem of excess reserves, which are the light colored bar. We have provided what we call a "premium holiday" for the last three years in order to spend down that excess reserve. The federal government watches that very closely, in that they are a large contributor to the premium we charge to state programs.

On page 11, we have an overview of the Government Accounting Standards Board (GASB) 43/45 valuation. In 2006, the GASB implemented some requirements for governmental entities, as in the private sector, to record or acknowledge in their financial statements a long-term liability for benefits other than pensions. As of June 30, 2008, a plan design and state subsidy structure was in place. The total value of the benefits, or the big number that we all hear about, is $4 billion. What that represents is, if the state were to go out of business on June 30, 2008, and if the state were to commit to continuing the benefits' structure as well as the funding for retirees, it would require $4 billion on that day.

What is actually required on the financial statement is to note a figure that is referred to as the "annual required contribution." This is the benefit earned that year, plus the amortized portion of the past benefits that had been earned. We update this at least annually. We are preparing to provide the information based upon the PEBP proposal that went before an agency request as well as the Governor's recommended budget and the impact on these figures with each of those different funding scenarios.

Chair Kirkpatrick:
I want to stop you there and check to see if anyone has any questions. First, I would like to commend you, because last session you had just walked in the job. You are still there, and I am thankful for that because you walked into a real mess. I like to give credit where credit is due.

Assemblyman Settelmeyer:
Because I see future problems in funding, I had a bill last year to take 25 percent of any surplus and divide it between PERS and PEBP until they are 85 percent funded. What percentage are we funded now?

Leslie Johnstone:
For future liabilities you would have to call it zero because the benefits program has always been on a pay-as-you-go basis. So the only portion allotted in the budget is just for the current year's cost.

Chair Kirkpatrick:
I have a couple of questions. On pages 6, 7, and 8, why are there options, such as high deductible, low deductible, value plan, and then HMOs? Why do we not have just one plan that works for the state? From what I can tell, we have a bunch of different little plans, and I do not know if we are using our purchasing power effectively. What is the reasoning behind that?

Leslie Johnstone:
The main driver has always been the demand for choice from the participants. The self-funded plan has tended to have a high and a low option. We have had, in the past, a third option within the self-funded plan. Frankly, most of the participants enroll in the low-deductible, self-funded plan. In a moment I will get to a plan design change that the PEBP Board is proposing that would collapse that.

There is not a good statewide option out there for the health maintenance organizations (HMO). HMOs are driven by their population. We tend to have a strong HMO in the north and a strong one in the south, and they reciprocate to try to make it as transparent as possible for the participants, but there is not a good statewide option on the HMOs.

The value plan was added this year as a requirement of Senate Bill No. 544 of the 74th Session. We provide an option to Medicare retirees that does not include medical, understanding that those individuals would receive their medical from Medicare and look to PEBP for the remaining benefits. We had very low utilization with that option, so we are asking that that requirement be made permissive rather than mandatory.

The Senior Care and the Senior Dimension HMO options are low-cost alternatives for Medicare retirees; there has been a request to offer the choice to those individuals also.

Chair Kirkpatrick:
Out of all of these programs, which is the most efficient and less costly to the state, as far as the subsidy?

Leslie Johnstone:
The black-and-white answer is, if you are in the south, the southern HMO is the lowest-cost option. The self-funded plan is rated across the entire state, and the expenses for medical benefits for the north are a good 25 to 30 percent more than the south. So when we have a plan that is rated statewide, because the subsidy for the employees is the same no matter where you live, it does tend to increase the overall average.

Chair Kirkpatrick:
I know that we are all going to have to make some changes in how we do business on the Public Employees' Benefits Program, so I have been doing some research. I am not clear how the purchasing is done. Does it go out by request for proposals (RFP)? Currently, within statute, it does not say that it has to go

through the bidding process because of different qualifiers, so how does that work? Do the board appointees have a term limit?

Leslie Johnstone:
As far as the procurement process, everything that we contract goes out by RFP, and we tend to do that every four years with few exceptions. Regarding our purchasing power, we think that having 44,000 participants brings with it a good deal of purchasing power, and through the RFP process we have a good, transparent procurement process. We also end up with vendors that give us favorable ratings, and they tend to be the larger vendors. Because of our size, we need to go with reputable, good-size firms. I think we get good purchasing power indirectly because we are dealing with vendors that tend to be national in nature.

As far as the appointments, the board members serve four-year terms. The terms are staggered, so if I were to go through the membership, at least one-half of the eight that are currently on the board are less than two years on the board because of the turnover that has occurred. Randy Kirner happens to be the longest-serving member, in that he has been there since the inception of PEBP in 1999.

Chair Kirkpatrick:
That would tell me that we are constantly getting a new board every time we are going out for RFP. That is what it looks like to me.

Leslie Johnstone:
It is a little bit unusual to have this kind of turnover. We have gone from the bad days of 1999 to ultraconservative on how we approach the RFP process, to make sure that there was not an undue influence from the staff. Now the pendulum has swung back to the middle, where we have an evaluation committee made up of two PEBP members, one of which is a board member, and an outside person who is a state employee but not related to the PEBP program. It is the committee that really looks at the proposals in detail, and their scoring is given a 40 to 50 percent weight that goes forward into the board selection. While the board is making the final selection, their scoring is heavily weighted by the evaluation committee that looked at the proposals in detail.

Chair Kirkpatrick:
Because they are appointed members, do they have to fill out a financial disclosure?

Leslie Johnstone:
No, the only ones who are compensated are the non-state employees, and they get $80 a meeting.

Chair Kirkpatrick:
Do they have to fill out financial disclosures?

Leslie Johnstone:
I should know the answer to that. I do not think they have to because of the low compensation, but I can double-check.

Chair Kirkpatrick:
Okay. Please continue with your presentation.

Leslie Johnstone:
Page 12 is an overview of the Governor's recommended budget for the Public Employees' Benefits Program. This page is more helpful because it shows the percentages from each source. The state subsidy in the Governor's budget makes up 43 percent of the overall budget, and the contributions from the participant and the employers of the non-state retirees make up 40 percent.

On the uses side, I would like to emphasize the operating expenses for this program is 1 percent of the total budget. What goes into this category is the cost of the PEBP staff and the actuary consultant we use. The self-funded administration is where the third-party administrator and the network costs are included. Almost 60 percent of the budget is consumed with the self-funded claims. This is where we focus our energies to contain cost. On an average day we spend about $700,000 for medical and dental expenses. The pricing of the fully insured products are typically adjusted every 12 months.

I will talk a little about the Governor's budget on page 13 regarding the state subsidy for actives. Currently the state subsidy covers about 90 percent of the cost of the employee and his dependents. The Governor's budget would reduce that to 75 percent, and it would be 75 percent for both the employee and the dependent. The Governor's budget also includes the savings that were recommended by the PEBP Board in the area of plan-design changes. By way of background, the PEBP Board was responding to a budget target that it was given in complying with its agency requests; the PEBP Board looked at that as a reduction in state subsidy and a reduction in plan benefits. The reduction in state subsidy was changed by the Governor's Office, but the plan changes are included as proposed by the PEBP Board.

On page 14, we have the annual assessment for each active position for the current biennium at $557.30 in FY 2008 and $626.16 in FY 2009. These are monthly assessments; that is how much the plan draws from each agency budget for each of their positions. Those assessments are what covered 90 percent of costs for actives. In 2010, the Governor's recommended budget would bring that down to $549.00 in FY 2010 and $596.75 in FY 2011; that would cover 75 percent of the cost of actives.

On page 15, we have the current situation for the state retirees. I want to take a minute to describe this. The current eligibility for a state retiree is five years of service with Nevada public systems. There is a base amount of retiree subsidy that is included in the session bill for the Public Employees' Benefits Program. That base amount is allocated for retirees who retired before January of 1994, and it is also the 15 years of service figure for anyone who retired after 1994. We have a two-tier system on how the subsidies are calculated, based upon retirement date.

On page 16, the Governor's budget would require legislation to change subsidy provisions because the eligibility for the subsidy is included in the statute. If current retirees are not eligible or they are not on Medicare Part A and Part B, their subsidy would be reduced from its current level by 50 percent over a two-year period, with a 25 percent reduction the first year and an additional 25 percent the second year.

There would not be any subsidy for any state retiree with Medicare Part A and Part B.

Future retirees with the retirement date of July 1, 2009, or later, as included in the Governor's budget, would not receive any subsidy. So when we quote the retiree subsidies on future pages, that would apply only to current retirees who are not on Medicare Part A and Part B. It is important to note this would also affect the non-state retirees in the plan because the subsidy that is required of non-state employers is to mirror whatever the state provides to its retirees. Again, the Governor's budget includes the savings from the plan changes proposed by the PEBP Board.

On page 17, we have similar information with asterisks that are very important, because the FY 2010 and FY 2011 base subsidies would apply only to current non-Medicare retirees. Once those retirees reach Medicare age, where they can receive both Part A and Part B, their subsidy would go to zero.

Page 18 shows a little history on the percentages used by the PEBP Board to calculate the rates. This is how we allocate the assessment that is charged to all the state agencies, and we break it up into what we refer to as a "base plan" and "all other plans." Currently the "base plan" is the high-deductible plan. We try to make the pricing for that plan favorable, so that we can get more people into that plan because it is lower cost to the plan and to the state. The low deductible self-funded plan and the HMOs would be considered "other plans." You can see what the breakout is between the employee and the retiree versus their dependents.

Moving forward, we would be at 75 percent for the employee and the dependent no matter what plan they are on. The percentages shown in the lower right-hand columns and rows would be for current, non-Medicare retirees only. I appreciate the fact that those percentages do not mean much to people in terms of what would come out of their paychecks or pension check, so we are having the actuaries put together a rating scenario to show what the premiums would be if the Governor's budget were to go through. In future hearings we will be able to present that.

I wanted to talk about the plan changes the PEBP Board has proposed. The most significant is to collapse the options under the self-funded plan into just one option. What would be available to most participants would be one HMO product and one self-funded product. We have used that deductible on the self-funded plan option as our balancing figure to the target we were given last summer. The comparison is the current deductible for the low option where most people have enrolled: $500 for the individual and $1,000 for the family. Most people complete what we refer to as the Health Assessment Questionnaire, where we offer a very nice incentive that reduces the deductible by 50 percent if the questionnaire is completed. We were trying to get people in the wellness mode and offered a very expensive incentive, frankly.

Most people are in the low-deductible category. Most people fill out the Health Assessment Questionnaire. This means that most people are paying a $250 deductible. Under the plan changes proposed by the PEBP Board, the single-option deductible would go to $725 for the individual and $1,450 for the family.

On page 20, we have the other plan changes that are included. I have already talked about the Health Assessment Questionnaire. We also proposed splitting the Medicare Part D subsidy between the Medicare retirees and the program. To date we have passed the subsidy we received from the federal government straight through to the retirees. Since we comingled the prescription expenses in this proposal, we said we should also share in the subsidy that we received from the federal government. However, if the budget goes through as proposed, we would not receive a Medicare Part D subsidy, in that we would not meet what the federal government refers to as the net test to be eligible for that subsidy.

The board also approved implementing some long-term policies, which involved indexing our annual out-of-pocket maximum or increasing that annual out-of-pocket maximum each year by an amount equal to one-half of the medical trend, and also increasing the annual deductibles by medical trend; that would be for medical, dental, and pharmacy. We have been at the same deductible and co-pay levels since at least 2003. With medical inflation, that means that the plan is sharing in more of the increases than the participants. The indexing policy would be a way to share in that cost increase.

The first change is to pull back on a recent enhancement that was included for neurotherapy and psychotherapy for individuals with attention deficit disorder (ADD) or attention deficit hyperactivity disorder (ADHD), and that was implemented last July.

We are working with the HMOs for plan-design changes that would limit their growth to 5 percent, which is one-half of what it would normally be. We will be working with them through the spring on what that does to their plan design. We also adjusted the reserve for rate stabilization, reflecting the reduced risk on the plan with these changes.

Page 22 was prepared before last week's PEBP Board meeting. I asked the PEBP Board to delay the start of the next plan-year because we are normally in a mode of setting our plan rates in March in order to hold open enrollment in May and begin our plan new in July. At this point, we would be moving forward with the Governor's recommended budget; however, if the Legislature makes any changes to that, it would necessitate us having a second open enrollment with the participants. In order to avoid any confusion should that happen, I would ask the board to extend the current plan year and delay the next plan year by three months. The board, for some logistical reasons regarding higher education, actually delayed it four months. So we would be starting our next plan year in November, and that means we would be able to set rates with the known subsidy, and whatever the rules are, coming out of this legislative session in July with better information than if we asked the board to approve rates in March.

The PEBP legislative platform is included in Senate Bill 103, which has a hearing next week. It is primarily made up of clarifications about implementing Senate Bill No. 544 of the 74th Session and Senate Bill No. 547 of the 74th Session. They truly do not impact any legislative policy. After we implemented those bills, we noticed some areas where it would be better to clarify the statute. We are also asking for stronger language to enforce the collection of subsidies from non-state jurisdictions for their retirees. There are a couple of jurisdictions that we have struggled with since the implementation of that subsidy requirement in 2003. We are making some progress, but we would like to have some stronger language included in the statute to help with those collection efforts.

In closing, I would like to point out that we are trying to keep our website updated with actions through the budget process. That includes PEBP proposals, the Governor's recommended budget, and things that come out of the legislative process—they are right on our homepage. We also have a "Frequently Asked Questions" section as well. There are many uncertainties, so we are trying to get the best information out to our participants. With that, I will take any questions.

Chair Kirkpatrick:
I really do want to thank you, because two years ago you were thrown into the legislative session with only a few months behind you, and I think you are striving to make some changes that are beneficial.

Assemblywoman Pierce:
On page 20, it says "eliminate health assessment questionnaire." Is this one of the recommendations of the board?

Leslie Johnstone:
Yes.

Assemblywoman Pierce:
I have a constituent who would be very happy about that.

Leslie Johnstone:
It is not our most popular policy.

Assemblywoman Pierce:
I heard about it from one of my constituents. How did this work? They filled out the questionnaire and then there was a deduction. How did that deduction get paid for?

Leslie Johnstone:
We started this in 2006; it was along with many other plans around the country. We were looking for ways to encourage individuals/participants to be involved in their own health. The most common tool being used is a health assessment questionnaire, or a health risk assessment, that individuals

completed. We could use it to offer them educational material or outreach, depending on what kind of support and resources we had for that outreach. The reduction in the deductible and increase in the dental maximum is paid out of the plan funds. It is very expensive. It is about $6 million a year in what we did. Looking back at it with 20/20 hindsight, most plans found that the price point for people to get involved in something like this is much lower, such as money cards, $100, or much smaller incentives. After we get past this budget process, we would like to focus on a more targeted plan design that would be wellness-oriented and have some compliance requirements. A health risk assessment would be part of that.

I recently participated in an accreditation process for wellness vendors, and it is simply a normal requirement of a wellness plan. We will do that, but not with such a broad-brush approach as we did in the past. We had one informed vendor talk to us about this. They were right. We probably missed the point on the health risk assessment, in that people were after that deductible and did not pay much attention to what the report said about how they could improve their health. We would like to take a much more targeted approach, and it will include some compliance for the health risk assessment, as well as metrics about whether or not they are trying to improve their health.

Assemblywoman Pierce:
So, with the board recommendations, this is going to go away? When do you foresee this new program?

Leslie Johnstone:
I think we will be able to get this going for July 2010. It is very difficult, with the lack of certainty on what our funding will be, to come up with a new plan-design in time for the upcoming year.

Assemblywoman Spiegel:
I am having a little difficulty reading and understanding page 14. Is it saying, for Fiscal Year 2008, the state was providing an average subsidy of $557.30 per employee?

Leslie Johnstone:
Correct.

Assemblywoman Spiegel:
And that the agency was requesting, by FY 2011, $739.80?

Leslie Johnstone:
Correct.

Assemblywoman Spiegel:
So in FY 2011, the $596.75 is the Governor's proposed subsidy, but theoretically by then the cost would have increased a lot more, and the employee pays the difference. Is that correct?

Leslie Johnstone:
Correct. The medical trend for us is still around 9 to 10 percent overall. The $596.75 then supports a reduced plan design, which is a form of cost shifting. Expenses that otherwise would have been paid by the plan would now be straight out of the pocket of the participant, and they reduce the subsidy from its current average of 90 percent to 75 percent. There are two forms of cost shifting going on, and it would also absorb the medical inflation.

Assemblywoman Spiegel:
Then there is no differentiation in subsidy between the base employee and their dependents?

Leslie Johnstone:
Correct, as proposed in the Governor's budget.

Assemblyman Aizley:
First, I need to make a personal disclosure. I worked for the State of Nevada for 40 years and retired in December 2008. I am Medicare A and B eligible. Is the state subsidizing any part of the retirement plan for people in similar situations who have put in their time? It seems as if we are going to lose all subsidies from the state in medical coverage.

Leslie Johnstone:
For the Medicare retirees with Part A and Part B, the state currently subsidizes about 60 percent of the cost of the retiree and his dependents. You can view the program as a very nice supplement plan to Medicare because it pays for co-payments and co-insurance that otherwise the retiree would be subject to.

Regarding the second part of your question, you are correct. The full cost would have to be borne by the Medicare retiree. They would still have access to the PEBP program but would have to pay the full cost. When looking at the PEBP program versus what one's choices might be on the open market, they are not apples to apples because the PEBP program does include supplemental coverage that most private policies would not include or would have a much lower out-of-pocket limit. It includes prescriptions, which people in some of those structures have to pay separately through Part D. It includes life insurance, dental, and vision that typically are not included in the other policies. In order to do a side-by-side, you really need to do it by line-of-benefit coverage.

Assemblyman Aizley:
The point I am trying to get to is take two people with similar years of service in Nevada: If one has Medicare Part A and Part B, and the other does not, the state will subsidize one and not the other.

Leslie Johnstone:
Going forward, that is true only if the person without Medicare retired before July 2009. If they retire after July 1, 2009, there would not be any subsidy for any retiree regardless of their status with Medicare.

Assemblyman Stewart:
First of all, the vacancy that is on the board, how long has that been open and has that caused problems having an uneven number of voters?

Leslie Johnstone:
That seat became vacant in October 2008, and so far it has not caused a problem. We had some other vacancies that many times left us with an odd number of members anyway. We have two slots on the board that represent the private sector, and those members have always been very helpful in putting things in perspective when we are making major policy changes. We are lacking that, but it has not caused any logistical problems per se.

Assemblyman Stewart:
Secondly, I guess you are prepared for the great influx of retirees coming in before the deadline.

Leslie Johnstone:
We went through a couple of influxes with the non-state group, as you might imagine, before their eligibility was curtailed in November 2008. We added about 2,000 non-state retired employees then. The retirement system and PEBP both have to operate under conditions by which people sometimes are not able to advise people what the final rules will be, and that makes it difficult for everyone. Regarding the logistics of adding the people, PEBP is prepared for it. It is a very personal decision for individuals; they have to look at the impact on their pension as well as any lack of assurance that we give them about what that subsidy will be in the future.

Assemblyman Stewart:
I need to disclose that I am a retired teacher with 34 years experience and have Medicare Part A and Part B. To follow up what Mr. Aizley said, it seems a bit unfair to those of us who put in our 40 quarters and qualified for Medicare Part A and Part B, that we are now being penalized for our initiative. Those who did not are going to get subsidies.

Secondly, this is more of a statement than a question. I think we have the rules made before the game starts, we have rules change during the game, and now we are having rules change after the game is over. I have received a ton of emails like that from retired people who are saying, "We played by the rules, we did our part, and we were looking for this. Now that the game is over, you are changing the rules and saying, 'Wait a minute. You thought you won 27 to 24, and you actually lost 24 to 21.'" I find that very difficult for my constituents and others to accept.

Chair Kirkpatrick:
I am not sure that requires a response.

Assemblyman Bobzien:
By way of disclosure, I am a PEBP participant as well as an eligible PEBP retiree. I wanted to drill down a little bit deeper into the wellness issue. I have heard similar concerns from my constituents as Ms. Pierce has voiced. It did strike me that the whole questionnaire route was sort of questionable in terms of its ability to actually promote wellness. You did mention working through an accreditation process and trying to be a little more comprehensive with what you are doing about wellness. Can you give us some specific previews of the sorts of tactics that would comprise a more comprehensive attempt at wellness? I do think, going forward, a big part of the cost-containment issue is clearly wellness, but no one has ever been able to operationalize and get it right.

Leslie Johnstone:
It is very hard to show the financial benefits. I think most individuals and professionals say it takes three to five years minimum before you start to see some payback from a wellness program, especially with our demographics. Our average employee is 47 years old. With that demographic it is very important that we figure out a way to make this work. Some of the tactics would include the health assessment questionnaire that is on the market. It is very similar to what we did last year, which was considered invasive by very many people. Again, I think we missed the point with the participants as to why we wanted the assessment and how they could benefit from it.

We have to be careful we are not discriminatory in any way. We have to look not at weight loss but at attempts at weight loss. We cannot look at the success of becoming a nonsmoker; we have to look at attempts at becoming a nonsmoker. Many of these are now considered medical conditions, so you cannot dictate, to any material extent, somebody’s premium based upon whether or not they are a smoker. Material has been deemed at about 20 percent differential in terms of what the incentive is. We have to be careful, and that will probably prolong the time it takes to receive the benefits. The pricing we put on a wellness plan is important, and the subsidy percentage has a lot to do with that. Because heretofore we have been at 90 percent, it is hard to price it in a way that really makes a big difference to the employee, and that will require a long-term approach. It would be compliance with attempts for better health completion of the health assessment questionnaire, to have your screenings completed on an annual basis or on the recommended frequency. That will require some administrative overhead as well. When we go into this, we will need this to be a long-term approach; otherwise we should not even get started.

Assemblyman Settelmeyer:
I have some concerns. I have a lot of retired individuals in my district. Some of these changes are so large it will be hard for people on fixed incomes to adjust. One of the things that I want to touch on is the same that Mr. Stewart touched on. We have received a large bunch of emails from individuals who may be misinformed. They were told by someone, and I have constantly sent reply emails to them, "Who told you this? Who told you this was set in stone and can never be changed? Who promised you they would never be changed?" I have, as of yet, received no response to those questions. Is there any way in the future we could ensure new hires truly understand that their benefits can change over time? Obviously, someone is lying to these individuals.

Leslie Johnstone:
We could certainly work with the Department of Personnel on the material that a new hire signs. This is not going to make anybody feel better, but it is in our master plan document, on page 1, that these benefits are not guaranteed, and this subsidy is not guaranteed going forward. I think it is because the state has such a long history of subsidizing at its current levels that people have simply assumed that it is part of the arrangement.

We have heard the same concern from just about all new hires. When we had informational meetings on Senate Bill No. 544 of the 74th Session, regarding the non-state retirees coming onto the plan, we really tried to emphasize that if they move over to PEBP, the subsidy is not guaranteed. Some people might have heard that, and others did not connect all the dots, but many of the non-state participants who came in before 2003, when the rates went up considerably, felt like they had been sold a bill of goods to join PEBP. We tried to avoid that on S.B. No. 544 of the 74th Session and be very open that we do not know what is going to happen to this subsidy, that it could change, but the non-state retiree group will be the group to have the most policy changes attached to it. They were told in 1994 that they could come in; in 2003 that they would have part of their cost paid; in 2007 that their eligibility would be cut off; and in 2009, potentially, whatever subsidy they have would be reduced. So the non-state retirees have been put through a lot of policy changes.

Assemblyman Aizley:
On the assessment and on the screening, have there been any examples of cost savings resulting from the discovery of breast, colon, or prostate cancer? Early detection prevents a lot of expense. Are there any evaluations of those saved dollars?

Leslie Johnstone:
There are varying degrees of confidence in how that is evaluated. Intuitively, you would think it would have to pay for itself in the long run. If you can avoid one severe heart attack, you have probably paid for a significant wellness program; but the challenge is assuring the number-crunchers that heart attack would not have been saved through other means. It is the right thing to do, but it is a long-term commitment.

Chair Kirkpatrick:
I will tell you that my personal hope and goal for this Committee is that we work together to make some changes to provide some stability and some good insurance as opposed to making folks what I call "insurance poor"—the deductibles are so high that the people could never afford them. And somehow we end up paying for it anyway. I would be very nervous if I belonged to this plan and I didn't know which way the Legislature was blowing every two years. I think we need to make some substantial changes. I think in the long term they will benefit everybody going forward. That is my personal goal for the Committee.

I am sure Ms. Johnstone will be back here a few more times, so please do not hesitate to phone her because she is very receptive to working with this Committee. We will see that this issue will be in our Committee again as well.

I will now invite the Nevada Association of Counties to the table.

Jeff Fontaine, Executive Director, Nevada Association of Counties, Carson City, Nevada:
I want to thank you for the opportunity to provide this Committee with an overview of the Nevada Association of Counties (NACO). I would also like to thank you for inviting the counties to appear before you and for taking the time to learn about them and hear about their issues.

I am going to provide a quick overview of NACO and then turn it over to Mr. Henderson to tell you about our priorities for the legislative session.

As many of you know, NACO was formed in 1924 as the Nevada County Commissioners Association. We are a nonprofit, nonpartisan, state association for county governments, officials, and staff. All 17 counties are members of NACO. Our board is comprised of a commissioner from each of the counties, and we have representatives from each of our affiliate associations—there are nine. They include the district attorneys, judges, fiscal officers, assessors, sheriffs, treasurers, county clerks, human services administrators, and county recorders. NACO is also the state affiliate of the National Association of Counties, which represents county governments on issues before the federal government. We are a 100 percent state, which means that all 17 counties belong to that national association, and we are also a member of the association's Western Interstate Region, which deals primarily with public land issues.

I think one of the greatest things about Nevada is the uniqueness of the rich history of each of the counties and how they all make up the fabric of our great state. In your packet (Exhibit F) there are handouts with an overview of each of the counties and some facts and history, so hopefully you will have some time to view those. I am sure you know that Nevada's counties are diverse. They range in population from 1,200 in Esmeralda County to nearly 2,000,000 in Clark County. They range in size from Storey County, which is a couple of hundred square miles, to Nye County, which is the third-largest county in the United States. They vary in the percentage of public lands. At least five counties have 90 percent of their land owned by the federal government, making growth and economic development problematic.

The economies of some of the counties have not changed over the years. Ranching, agriculture, mining, and tourism are still the mainstays for some of the rural counties. Of course, the economic downturn has hit them pretty hard. A lot of them are struggling, and I think it is fair to say that virtually every county is looking for a way to diversify its economy. I think a number of counties are looking at the energy sector as a way to enhance revenues and create jobs.

Counties are also diverse in terms of their governments. The larger counties have the staffing and resources to provide a relatively broad range of services. Other counties do not have those resources and instead rely, to a great degree, on state services. I can tell you there are at least five counties that do not have a county manager, and in these counties it is not unusual for the commissioners to actually do the work. They are preparing budgets, they are preparing codes, they are filling out grant applications. I bring this up because I think it is important for the Legislature to recognize this diversity and hopefully consider the need for flexibility when considering legislation.

All counties are dealing with revenue shortfalls, just like the state, and all counties perform core functions, which for the most part are mandated—public safety, courts, and care for indigents, to name a few. Counties are the safety net, and as such they provide for those who cannot provide for themselves and those who do not qualify for other assistance programs. I just want to emphasize the mandates on counties, and especially that those related to social services are an important issue for NACO.

As far as our activities are concerned, we spend much of our time researching and doing analysis of various policies at the federal and state level. We monitor federal and state regulations; we coordinate with various agencies at the state and federal level. We provide technical assistance to counties; we provide education and training to county officials and their staffs. We are a partner with the University of Nevada extended studies and provide a public officials workshop, which is also known as Public Officials Workshops: Education and Resources (P.O.W.E.R.). We have an annual conference that provides training, and we hold other forums. NACO is also represented on a number of boards or commissions, including four statutory boards: the Nevada Rural Housing Authority, the Nevada Commission on Nuclear Projects, the Board of Trustees of the Fund for Hospital Care to Indigent Persons, and the Committee on Local Government Finance. We are represented on a number of other committees, including the Southern Nevada Public Lands Management Act (SNPLMA) Partners Working Group, Question One Bond Advisory working group, and the Department of Health and Human Services Grants Management Advisory Committee.

The last thing we do is lobby. It is true we wear blue badges, but we are representing county governments, and hopefully you will view the county governments as your partners in providing services to the citizens of the state. I just want to say, before I turn it over to Mr. Henderson, on behalf of NACO we look forward to working with this Committee. I know that on a lot of our bills, the bills that are of interest to our members that come through here, we want to be a resource and a partner.

Chair Kirkpatrick:
I must have drilled it into everyone's head the first week that everybody is going to come to the table this time to make sure that all Nevadans benefit. Are there any comments or questions?

Wes Henderson, Government Affairs Coordinator, Nevada Association of Counties, Carson City, Nevada:
I would like to briefly touch on some of the issues facing Nevada's counties. The first one will not be a surprise to anybody: it is revenue and expenses. County revenues are declining; expenses are increasing. The counties are seeking ways to maintain a revenue level that is sufficient to provide services and, in some cases, mandated to provide.

We are being forced to reduce the quality-of-life services, such as library hours, parks, and maintenance, to make sure the essential services are provided for. Another issue facing counties is the challenge of economic development and employment in these rough economic times. Many of our counties have experienced a growth in their unemployment rates, which, of course, leads to the increased demand for social services, further stressing their budgets.

In your packet (Exhibit G) there is a map showing the percentage of lands in each county that is owned by the federal government. Each acre that is withdrawn by the federal government from multi-use has a negative impact on the counties. A lot of these lands are used for recreation; they are used for mineral development and geothermal. If the counties are not allowed to use lands for these purposes, obviously that affects their economies as well.

Every session the counties have come to this body and to the Senate with bill draft requests (BDRs) seeking authority to resolve specific issues. This year is no exception; there are several BDRs out there.

As Mr. Fontaine said, NACO strongly believes in partnership. This was the theme we adopted for our conference last year and also for this session. As part of our conference, there was discussion with several members of the Legislature, including Senator Lee, about the creation of a Commission on Inter-Governmental Relations. We are continuing to work with Senator Lee to introduce a BDR to create such a commission to take a long-range look at what level of government can best provide what services. We have also submitted our five allowed BDRs for this session. The topics of these BDRs include indigent defense and allowing for the evaluation of county managers and other county direct reports to be held in private with a report being made to the public. Other topics include providing for county approval prior to the granting of tax abatements, creating a funding resource for counties to pay for essential public safety and health services by imposition of an additional ad valorem tax, and seeking authority for the counties to sell naming rights for certain facilities, to abate graffiti, and to level civil penalties for code violations.

We are the staff of NACO. We do work with lobbyists hired by other counties, and we also have Mr. Hatfield, our former director, as a paid consultant. This concludes my remarks, and I would be happy to answer any questions.

Chair Kirkpatrick:
Are there any questions? Mr. Bobzien and then Mr. Settelmeyer.

Assemblyman Bobzien:
My understanding is that there has been a forward movement in recent months on the payment-in-lieu-of-taxes (PILT) issue. It is the first time that it has been fully funded since 1994. Could you comment on NACO's involvement with that achievement and maybe a preview of what it is going to look like on the ground?

Jeff Fontaine:
As far as NACO is concerned, it has been a top priority to get full funding for the authorized levels for payment-in-lieu-of-taxes. For those of you who may not know what PILT is, it is basically a payment by the federal government to counties for the federal lands that are in those counties. The theory is the counties cannot tax those federal lands and also that the counties have to provide certain services for those public lands, such as emergency services. For many years this issue has been a priority. This year Congress did finally approve full funding for PILT, and it goes forward for five years. Basically, in terms of dollars for Nevada's counties, it means about a 35 or 36 percent increase over the previous year's levels. Collectively, we are talking about $7 million or $8 million. It is obviously important for the counties.

Assemblyman Settelmeyer:
The map you provided of Nevada showing the federally-owned property in each county does not bring up the reality of the remainder of the ownership. You show about 1.6 owned by the tribes, .4 by the local entities, and another .4 by the state itself. In some of the counties such as Douglas County, the tribe, through its federal- and tribal-owned properties all managed by the Bureau of Indian Affairs, actually counts for sometimes nearly 15 to 20 percent of the county. I want to point out to my colleagues that some of the things we do in the form of regulations, even regarding water, do have an interesting impact by pushing development or other matters to the tribe, which then has absolutely no regulatory controls, including water.

Chair Kirkpatrick:
We are all going on a field trip to Washington, D.C., because you all want to keep bringing the federal lands issue into this Committee.

Assemblyman Goedhart:
I would like to say that I hail from "the federal-occupied territory of Nye." I did want to say, in Nye County we have 98.1 percent federal lands we do not own or control. We also have seen some of the long-term ramifications and impacts of what the Southern Nevada Public Land Management Act of 1998 (SNPLMA) is doing. SNPLMA has raised $3 billion in the last three years. Some of that has gone toward recreational opportunities and purchasing lands within rural Nevada. They took real estate dollars at the peak of the market and used them to buy what they call an environmentally-sensitive area which is usually the best land with access to water. These acquisitions have actually exacerbated the problems of the rural counties that are trying to utilize their basic land and water to be able to craft a self-sustainable tax base for their communities.

Chair Kirkpatrick:
Does anyone have a question opposed to a statement?

I am the one who has the bill to get rid of local government lobbyists. What is your role as a lobbyist? Are you evaluated by each county? Is there a major board? I am not sure everyone here understands the structure you represent and who is on it.

Jeff Fontaine:
The Nevada Association of Counties has a governing board which consists of a county commissioner from each of the 17 counties. In addition to that, we have nine other members on the board who represent the affiliate associations of county officials. We also have officers: president, president-elect, vice-president, and past-president. That is the structure. It is the governing board, through a legislative committee, that develops our bill draft requests (BDRs). The legislative committee meets weekly to talk about various bills, and we develop positions.

Chair Kirkpatrick:
Does anyone else have any questions or statements? [There were none.] At this time I would like to invite up Mr. Fraser with the League of Cities.

J. David Fraser, Executive Director, Nevada League of Cities and Municipalities, Carson City, Nevada:
To my left is one of our lobbyists, Dan Musgrove. Dan has been representing local governments for the past six sessions. We have been working with Neena Laxalt this session also.

You should have each received a handout (Exhibit G). The League of Cities was started in the 1940s by a group of mayors who came together and said there must be a way we can speak with a common voice. They began to meet, and eventually in the 1950s the League was officially incorporated and organized as a quasi-governmental nonprofit entity. The second slide of our presentation lists our members. I should have thanked NACO. They are a good partner to us, and I thank you for having us. We see ourselves as teammates, both with the state and with the counties because we serve the same people. If you look at who our members are, you will likely see your own community mentioned.

We represent cities from the size of Caliente to the size of Las Vegas and every size in between. The league does a lot of different things, and I will not belabor each of them. We do a lot of things in terms of research, in terms of helping train local officials, and we also sit on statewide boards and committees, such as those of the Department of Transportation, Department of Business and Industry, and the Secretary of State's Office. We also appoint many positions on statewide boards. The statute designates that the league will appoint members to many of those listed and others.

We also lobby. We do legislative advocacy mostly at the state level, but we also do some at the federal level as well. In fact, I sit on the National Board of Directors of the League of Cities representing Region A, which is the West Coast. So we get involved with Washington as well. We also do several public recognitions and scholarship programs.

If you turn to page 3 in our handout, it gets right into who we represent, and that is cities. The authority that cities were organized under is primarily in Chapters 266 and 267 of the *Nevada Revised Statutes* (NRS), which indicate that we will provide services such as public safety, utilities, streets, parks, sidewalks, and drainage.

On top of page 4, to demonstrate the diversity of our members, we put in some statistics comparing the City of Las Vegas to the City of Wells. You see that Wells has a population of 1,657; whereas Las Vegas has nearly 600,000 in population; Wells covers just over six square miles, and Las Vegas covers 133 square miles; Wells' budget is just under $1.4 million, and the City of Las Vegas' is $532 million; and there are two schools in Wells compared to 103 schools in Las Vegas. Our members vary widely. We have big cities, we have small cities, we have medium-sized cities, and they provide the services that are shown on the next slide.

When you talk about funding our essential services, we are heavily reliant on sales and property taxes. Those taxes are heavily affected by growth in both directions. As the state is seeing fiscal problems, the local governments are as well. Largely, we are dependent upon the same cycles to assist us. If you look at the next slide on page 5, you see it compares the state to local government. In both cases, 75 to 80 percent of our budget costs are personnel costs. Interestingly, while more than one half of the state's expenditures fund schools, more than one half of cities' expenditures fund public safety.

Again, where sales and property taxes are an important state revenue source, they are really the primary revenue source for cities.

I am not going to talk about each of the cities because you heard from a lot of them and you are going to be hearing from more. I will, however, use Las Vegas as an example of cities' expenditures and revenues. Page 6 shows pie charts. Every city's expenditure pie would look very much the same as this: 69 percent of expenditures goes to public safety, judicial, and public works while 31 percent goes to things like general government, culture and recreation, and economic development. The revenue pie shows how much of the revenue-source stream the city council controls—13 percent—and you see 87 percent is controlled by the state in the form of consolidated taxes, property taxes, franchise fee, licenses, and permits. The city council really has discretion over only 13 percent of the cities' revenues, such as charge of services, fines, and forfeitures.

On page 7, we took an example from the north, Sparks, and an example from out east, Elko, to show you that all of the cities are similarly funded and have similar percentages on their expenditures. I pulled these off by way of example. Again, you will be hearing from the cities individually.

Chair Kirkpatrick:
Does anyone have any questions? One of the biggest complaints I have heard in the last three weeks—and the complaints come from both business individuals, large and small, and from constituents—is that the fees that cities charge are very inconsistent. I receive complaints from all over the state. The east is probably the nicest about it, but the north and south are beside themselves. Is there any consistency in the fees? Do you know how cities set those fees? Can you give me any background or can you find out for me?

David Fraser:
I would be happy to get some background information on that. Suffice it to say, the statutes do indicate the cities have certain responsibilities and outline the cities' ability to pass ordinances necessary to provide those services. Again, there would be some variety among the cities and those fees.

Dan Musgrove, representing the Nevada League of Cities, Carson City, Nevada:
What you need to understand is all of those fees would have to go through a public hearing process. One of the things that the Legislature has done in previous sessions is pass what are called "business impact statements." If any local government is going to do something that has an impact on business or their constituents, they have to put out a report and go through the public hearing process. Then those elected officials, with public input, will set and assess those fees. Granted, I am sure that there are inconsistencies across all of the municipalities, but the key is, there is a public process. I think we have to be accountable to our constituents. The Legislature has done a good job in forcing us to be more responsive to our citizens by the business impact process.

Chair Kirkpatrick:
Are there any other questions?

Assemblyman Aizley:
When you talk about cities, are you limiting yourself to the boundaries of the cities and not the areas around them? For example, there are a lot of parts of the state that are not represented in any of these cities, including the Las Vegas Strip.

David Fraser:
That is correct. We represent the cities which have the corporate boundaries. The Nevada Association of Counties would represent a lot of those unincorporated areas.

The fact is that we are teammates in providing these services. One thing that is interesting is that the state has needed to address its budget concerns and has done so by holding special sessions twice in the last calendar year. Cities meet every two weeks, so we are going through the same process as you are, but doing it more often. To address the budget crisis the cities have implemented hiring freezes, and reprioritized or delayed CIP projects, voluntary separations, and necessary program reductions or eliminations.

Page 9 shows budget reductions already taken by Nevada cities, and they would be in the range of 10 to15 percent. These numbers are as of December; because the cities meet every two weeks and take steps all the time to address these issues, these numbers are probably out of date as of this moment. This gives you some idea of steps that have already been taken by cities. Bottom line, because of the elastic nature of our revenue sources, the cities are right there with you. We are feeling the same things you are, we are affected by the same cycles you are, but more importantly we serve the same people that you do. We just want you to know we are here for you, and we want to be a resource to you. We want to help in finding solutions, because when you get calls from constituents they are our constituents also.

Chair Kirkpatrick:
That is very true, and a lot times we have to remind ourselves we all represent the same folks. Does anyone else have any other questions? [There were none.]

Thank you, and I look forward to seeing both of you at the table most of the session, if not all. Is there any public comment? [There was none.] Is there anything from the Committee? Today is the last day for your personal BDRs.

Our staff is so efficient that they already got us the answer to the question on PEBP Board financial disclosures. The board members do not have to disclose anything; they make less than the $6,000 requirement.

With that, I am going to close the meeting. Meeting adjourned [at 10:41 a.m.].

RESPECTFULLY SUBMITTED:

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Cheryl Williams
Committee Secretary

APPROVED BY:

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Assemblywoman Marilyn K. Kirkpatrick, Chair

DATE:______________________________________

EXHIBITS

Committee Name: Committee on Government Affairs

Date: February 9, 2009 **Time of Meeting: 9 a.m.**

Bill	Exhibit	Witness / Agency	Description
	A		Agenda
	B		Guest List
	C	Michael E. Skaggs, Nevada Commission on Economic Development	Presentation
	D	Lindsay Anderson, Nevada Commission on Economic Development	Handout
	E	Leslie Johnstone, Public Employees' Benefits Program	Presentation
	F	Jeff Fontaine, NACO	Presentation
	G	David Fraser, Nevada League of Cities and Municipalities	Presentation