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

Seventy-fifth Session
February 18, 2009

The Joint Subcommittee on General Government and Accountability of the Senate Committee on Finance and the Assembly Committee on Ways and Means was called to order by Chair Steven A. Horsford at 8:07 a.m. on Wednesday, February 18, 2009, in Room 2134 of the Legislative Building, Carson City, Nevada. The meeting was videoconferenced to the Grant Sawyer State Office Building, Room 4412, 555 East Washington Avenue, Las Vegas, Nevada. Exhibit A is the Agenda. Exhibit B is the Attendance Roster. All exhibits are available and on file in the Research Library of the Legislative Counsel Bureau.

SENATE SUBCOMMITTEE MEMBERS PRESENT:

Senator Steven A. Horsford, Chair
Senator Joyce Woodhouse
Senator Dean A. Rhoads
Senator Warren B. Hardy II

ASSEMBLY SUBCOMMITTEE MEMBERS PRESENT:

Assemblyman Mo Denis, Chair
Assemblywoman Kathy McClain, Vice Chair
Assemblyman Joseph M. Hogan
Assemblyman Marcus Conklin
Assemblyman Pete Goicoechea
Assemblywoman Ellen Koivisto

STAFF MEMBERS PRESENT:

Brian Burke, Principal Deputy Fiscal Analyst
Sarah Coffman, Program Analyst
Laura Freed, Program Analyst
Alex Haartz, Program Analyst
Barbara Richards, Committee Secretary

OTHERS PRESENT:

Dino DiCianno, Executive Director, Department of Taxation
M. Lynne Knack, Administrative Services Officer, Department of Taxation
Patrick Bowers, Budget Analyst, Department of Taxation
Dianne Cornwall, Director, Department of Business and Industry
Lon DeWeese, Chief Financial Officer, Housing Division, Department of Business and Industry
Robin Reedy, Deputy Director, Department of Business and Industry
Leslie A. Johnstone, Executive Officer, Public Employees Benefits Program
Jodi Stephens, Legislative Director, Office of the Governor
Roger Maillard, President, American Federation of State, County and Municipal Employees, AFL-CIO
Jim Richardson

Martin Bibb, Executive Director, Retired Public Employees of Nevada
Danny N. Coyle, American Federation of State, County and Municipal Employees, AFL-CIO
Renee Rampton
Nasser Daneshvary
Gregory Brown
Terry Hickman
Harold D. Shrader
Sandra Curtis
Alok Pandey
Shari Lyman
Candace Kant
Eugene Williams
Dennis Mallory, Chief of Staff, American Federation of State, County and Municipal Employees, AFL-CIO
Robin Blair

CHAIR HORSFORD:
We will start with the Department of Taxation's budget.

FINANCE AND ADMINISTRATION

TAXATION

Department of Taxation – Budget Page TAXATION-1 (Volume I)
Budget Account 101-2361

DINO DICIANNO (Executive Director, Department of Taxation):
The Department of Taxation is responsible for fair, efficient and effective administration of the tax programs of the State. We administer and collect 17 different taxes that are distributed to the General Fund, other State agencies and local entities. Along with the collection of revenues, we provide support and act as staff to the Committee of Local Government Finance which consists of local government entities and education. We also act as staff to the Nevada Tax Commission which is the policy board for the Department and the head of the agency. We provide staff to the State Board of Equalization which deals with property tax issues. We provide assistance to the county boards of equalization when they adjudicate cases involving property valuation appeals.

When revenues were beginning to decline, we realized there could be budget reductions to our agency. Anticipating budget cuts, the decision was made to hold nearly 30 positions vacant at the Department. We reduced travel expenses for auditors, revenue officers and commission meetings. We eliminated remodeling the Las Vegas reception area. We eliminated prior budget enhancements for office equipment, such as file cabinets, fax machines, etc. A one-shot appropriation approved by the 74th Legislative Session to replace personal computers, printers and network servers, on the Department of Information Technology (DoIT) replacement schedule was reduced and eliminated.

Our performance indicators show the results of the reductions and eliminations. We try to keep taxpayer reporting errors at 1 percent or lower, and we were experiencing almost 15 percent. The percentage of telephone calls responded to within a five-day period was dismal. Our goal was 100 percent. We accomplished 16 percent. That is an embarrassment. Response to taxpayer written inquiries was not within the 30-day period we had hoped to achieve. We realize we have to live within our budget. Our core work, on a monthly basis, is collecting and distributing the revenue, not only to the State's General Fund but to local governments. To do otherwise would put those local governments and the other State agencies at risk. We have experienced almost a 220-percent increase in the number of accounts; from 150,000 in 1995 to over 600,000 in 2008. This is a serious situation.

We eliminated some inflationary costs. We made adjustments to our Base Budget with respect to monies associated with our new computer system. There were decision unit M-160 reductions that we had to make for fiscal year (FY) 2006-2007 through FY 2008-2009 that were carried forward.

M-160 Position Reductions Approved in 07-09 – Page TAXATION-3

Working with the Office of the Governor, the Budget Division and the fiscal analyst we put approximately 24 positions back into our budget. We will eliminate 6.5 positions not critical at this time. To address the concerns of our dismal performance indicators, the Department envisions an establishment of a Taxpayer Telephone Call Center. The need and purpose for a call center is specific for one reason only: to provide taxpayer information. We need to educate the taxpayers to be compliant with the statutes and what we administer. The taxpayers need to understand their responsibilities to ensure better compliance in the future. In decision unit E-126 we are asking to reclassify ten auditor positions to ten tax examiners to establish a three-tier process for the Call Center.

E-126 Equitable, Stable Tax Structure – Page TAXATION-4

We will start by answering simple, straightforward calls from taxpayers like correcting names or addresses. As the issues escalate, the process will go to the highest tier dealing directly with revenue officers and auditors. We have been afforded the ability to maximize our Internet and technology. We were able to provide, in decision unit E-710, replacement equipment.

E-710 Replacement Equipment – Page TAXATION-6

In addition to decision unit E-126, in decision unit E-805, the ten auditors will be reclassified as tax examiners. We will have cost savings because auditors are a higher grade than tax examiners.

E-805 Classified Position Reclassifications – Page TAXATION-7

ASSEMBLYMAN GOICOECHEA:
With the response we had with the tax amnesty program, I am concerned about cutting additional staffing, even administrative staff. There should be a place to assign those employees. We need to do a better job through taxation. It does

not appear we are getting all the tax dollars collected. In looking at the overtime paid over the last biennium, plus the hours of compensation time, I do not think your Department can afford reductions in staff.

MR. DICIANNO:
I failed to mention that under the enhancement, additional reserves were obtained from the modified Governor's recommended budget. We are putting a budget analyst back in our government finance section and an auditor relating to the real property transfer tax. The tax amnesty program was the right thing to do at the right time. If we had not collected the $41 million through that process, it would have become an additional accounts receivable needing to be collected.

ASSEMBLYMAN GOICOECHEA:
The anticipated projection was $10 million to $15 million and we ended up with $41 million. That suggests tax dollars had been escaping us for a long time. There might be some other source of tax we are missing.

CHAIR HORSFORD:
Has the Department of Personnel concurred with the proposed classifications in decision unit E-805?

M. LYNN KNACK (Administrative Services Officer, Department of Taxation):
We have not contacted the Department of Personnel yet. This is in the Governor's recommended phase. After the Legislature has approved or altered our budget, we will send the requests for reclassifications to Personnel who will then either agree or recommend other classifications.

CHAIR HORSFORD:
If the positions are approved for reclassification, when would the Department be able to start them at the Call Center?

MS. KNACK:
After recruiting, processing applications and interviewing, we might be able to start within a month.

MR. DICIANNO:
Given our current economic situation, there should be no problem finding people looking for jobs.

CHAIR HORSFORD:
We want to make sure there is an effective recruitment plan for the centralized Telephone Call Center. Is this the best practice of revenue departments in other states? Is the projection of 50 calls a day for each position realistic? Has the Department selected the Telax system to host the Call Center? Is there customized or special training needed for the workers of the Call Center? There is no budget for that.

MS. KNACK:
It is realistic that each of the positions would be able to answer 50 calls a day. Currently, the tax examiners we have are answering on average 50 calls a day and they have additional responsibilities handling liens, abatements and various

other programs. With these ten people concentrating on just the Call Center, we should be able to respond to even more than 50 calls a day.

To answer your question about best practice in other states, I had the opportunity to observe the same type of setup with the state of Michigan. They have a somewhat more sophisticated system than what we are proposing but it worked very well. They were able to handle calls continuously during the day.

CHAIR DENIS:
How did you get to ten on the number of reclassifications?

MR. DICIANNO:
We looked at what we had available in-house, based on vacant positions. This is new for us. We want to try this to see if it works. It might need to be expanded at a future date, but this is a basis, a trial to get the call center going. We may need more staff in the future.

PATRICK BOWERS (Budget Analyst, Department of Taxation):
Telax was chosen after review by our information technology (IT) section. It afforded the least intrusive setup for the Department. We did not have to alter our IT system as a Web-based hosted answering service. Training will be done by Telax at our Department. Since we do not have to travel to receive the training, we did not request additional training funds for this system.

CHAIR DENIS:
Is this system going to need upgrades in the future? If so, are the upgrades included in the price?

MR. BOWERS:
The quote is based on a two-year fixed rate, per year, per agent. The quote we received from the vendor covers the current biennium. Increases would come within the next budget cycle if there is an increase from the vendor.

CHAIR DENIS:
Is there hardware associated with it or only software?

MR. BOWERS:
It is hosted by Telax. The hardware is serviced and provided by them. We interfaced through the Internet with our current computer system. We looked at three systems.

ASSEMBLYMAN HOGAN:
At the end of the two-year initial contract, will we be able to change systems if appropriate or will we be locked in?

MR. BOWERS:
We would evaluate the service provided by the vendor six to eight months prior to the next budget cycle. Because this Call Center would not be fully integrated into our computer system, we could easily switch to another vendor.

ASSEMBLYWOMAN MCCLAIN:
I would like to hear about the Streamlined Sales Tax (SST) project and the non-funding of the Technology Improvement Request (TIR).

MR. DICIANNO:
Nevada is a full member of the SST Governing Board. I act as the voting member for the State of Nevada. We requested a TIR. It was approximately $3 million to create an interface between our system and the centralized service provider system the Governing Board has approved. The U.S. Congress has not acted in allowing the states to collect sales tax from remote sellers. Therefore, we felt it would not be prudent to spend the $3 million if we cannot collect the taxes. We are waiting for Congress to allow the states that are part of the Governing Board to collect the remote sales taxes. A state must be compliant with the SST rules and regulations to share in the revenues. It is difficult to know what it would take from a funding standpoint, but it is a matter of timing.

ASSEMBLYWOMAN MCCLAIN:
The problem with the SST is the timing issue since we only meet every other year. If this is approved and we go ahead with the project, can we participate with the equipment we have?

MR. DICIANNO:
We would have to have that interface because of the amount of data flowing through the Internet. There is no other way to handle the data.

CHAIR HORSFORD:
Are the costs of this project still estimated at $3 million? The Department has indicated there is $20 million to $100 million in sales and use tax that could be collected when Congress finally acts on this.

MR. DICIANNO:
The cost estimate of $3 million is correct. The $20 million to $100 million estimate in sales and use tax was the result of a study done by the University of Nevada in Reno and Las Vegas. The study is a little dated. We are working with the University of Tennessee through the Governing Board to redo the study to determine how much revenue could be collected by the individual states. I think the estimate is reasonable, being conservative, because there may be an exclusion of small sellers with less than $5 million, such as on eBay.

CHAIR HORSFORD:
Could the Department be offering enhancements that are not the full TIR to help improve the voluntary compliance and increase collections?

MR. DICIANNO:
We are currently collecting from voluntary compliers who pay taxes associated with electronic commerce. We have established a system to collect, report and account for those taxes. We have approximately 2,000 voluntary electronic taxpayers. I do not believe we will get many more until this becomes a full-fledged process with large sellers.

CHAIR DENIS:
The estimate is $3.16 million to carry forward the TIR. When was that figure calculated? In an environment like we are in now, would that figure go up or down?

MR. DICIANNO:
The figure was calculated last year. I do not know if the figure would go up or down. I believe it is a fair estimation.

ASSEMBLYMAN HOGAN:
If the federal law is changed and we can start on this project, how much time would be involved?

MR. DICIANNO:
The vendor is anticipating we could go live in three to six months.

ASSEMBLYMAN HOGAN:
What causes everyone to comply with the states fully affiliated? Does the home state of the seller assume responsibility to enforce compliance?

MR. DICIANNO:
The Governing Board members each have one vote. If a state is not in compliance, the Board can remove that state. They would not be allowed to collect the monies.

SENATOR RHOADS:
Do you still have oversight of White Pine County? Is your agency taking over any other counties, and do you have enough staff to take care of the problem?

MR. DICIANNO:
We are still overseeing White Pine County's financial affairs. They are under severe financial emergency. We are working on an exit strategy with the County Commission to remove the Department and go to technical financial assistance. Our goal is to reach that by July of this year. We are concerned about some of the other local governments. There are a few issues concerning hospital districts. We can handle the volume currently. If it becomes more severe, our resources could be strained.

ASSEMBLYMAN GOICOECHEA:
How many states are participating in the SST Governing Board?

MR. DICIANNO:
There are 22 states right now. The good news is New York and California are participating states. California is in the process of legislation to conform to the streamlining agreement. That would be significant because California and New York are economically very large. It would provide substantial support to this effort.

CHAIR DENIS:
On Performance Indicator number 6, you show 78.6 percent of expected audits were performed. Are you able to meet your current audit workload?

MR. DICIANNO:
The performance indicator is based on the ability of an auditor to perform at least four audits a month. The complexity of the audits has become more significant especially with casinos and other large business entities. We have had an extreme amount of turnovers in auditors. We have basically become a training ground for auditors. To train an auditor to be proficient takes three to nine months. Once they are fully trained, they have the skill level that affords them the opportunity to work for the private sector and for local governments. We are lucky to keep them.

CHAIR DENIS:
On the average, auditor positions are billing $400,000 in outstanding taxes. If that number decreases, we are billing less. Is that correct?

MR. DICIANNO:
Not necessarily. Within our current computer system we have a discovery program. We interface with the Employment Security Division (ESD) with respect to the Modified Business Tax (MBT). We compare the wages reported to the ESD for unemployment insurance (UI) purposes to what the businesses report to us. It is a one-to-one comparison. The MBT is based upon those wages reported to the ESD. We send out a billing. That is an immediate accounts receivable billing.

There is no question that auditors are important and serve an essential function ensuring taxpayers are compliant. To say that auditors generate revenue is not accurate. Auditors generate a bill that becomes an account receivable subject to appeal. The appeal process could take three months to a year for a final determination. Then it becomes a collection issue for our revenue officers. Yes, they provide an essential function and yes, there is a potential amount of revenue associated with what they do.

CHAIR DENIS:
Would these ten requested positions help in this process?

MR. DICIANNO:
I believe it will. The whole point of having the Call Center is to educate taxpayers. If the taxpayers understand the requirements, they will automatically become compliant. It will not become an audit issue later because of a taxpayer not knowing the responsibilities. An audit could be severe, resulting in a significant hit to that business or taxpayer. By educating them through the Call Center, we teach them to be compliant up front which is a benefit because we collect the appropriate amount then and not years later.

CHAIR DENIS:
You indicated that you wanted to respond to taxpayer inquiries within 30 days. I believe that is what the *Nevada Revised Statutes* (NRS) require. Is the 30-day requirement realistic or does the NRS need to be changed?

MR. DICIANNO:
I believe 30 days is realistic. We need to respond to taxpayers as quickly as possible. The Call Center will help by getting the calls to the right individual. Hopefully, the performance indicator will improve.

CHAIR HORSFORD:
I would like to see new performance indicators for the Call Center that tie to some measurable benchmarks. We want to know if this is working or not.

MR. DICIANNO:
Absolutely, we will provide that.

CHAIR DENIS:
The warranty expired on the Storage Area Network (SAN). Have you extended the warranty?

MR. BOWERS:
The warranty was due to expire at the end of February. We purchased an additional one-year warranty for our SAN.

CHAIR DENIS:
One of the recommendations is to move to the DoIT SAN. Would you experience savings by moving to the DoIT SAN?

MR. BOWERS:
We do not have details on statewide savings. There are savings to the State, as a whole, by the larger agencies using the DoIT storage versus each individual agency using their own SAN.

CHAIR DENIS:
There does not seem to be much savings when you are charged by the DoIT and have to purchase equipment.

MR. BOWERS:
In the first biennium, the costs are nearly identical. We would not have an annual cost to the agency after the first biennium because the life of the equipment is five years and we purchased a five-year warranty. There are savings to the State over a longer period of time by consolidating these agencies using centralized storage.

CHAIR HORSFORD:
We will now hear from the Department of Business and Industry.

COMMERCE AND INDUSTRY

BUSINESS AND INDUSTRY

<u>B&I-Business and Industry Administration</u> – Budget Page B&I-1 (Volume II)
Budget Account 101-4681

DIANNE CORNWALL (Director, Department of Business and Industry):
We have 16 departments, including the Director's Office. The budget for the Director's Office is $1.1 million each fiscal year. We have 11 positions. Our sources of revenue are 2 percent General Fund and 77 percent assessment to the agencies we serve. The enhancement requests for this biennium were to increase the transfer from the bond program for Las Vegas Energy Partners, LLC (LVE) by $115,000 a year. That information will be covered when we do the Industrial Development Revenue Bond (IDRB) budget presentation. The transfer of the Director's office space in the Fairview building to the Division of Insurance will save approximately $18,000 a year. Post future expenses relate to the transfer of a used vehicle from the State Dairy Commission.

The Director's Office is a resource for all departments who report to us. We help them establish goals, oversee their responsibilities and make sure they meet their statutory requirements. We have standardized policies and procedures. We provide coordination with the Budget Division within the Department of Administration. A major factor we worked on is the budget issue. We have gone through several cuts. We have 39 different budgets that roll up through the Director's Office. We maintain consistent application of statutes, and we protect the public through regulations.

We have listed some performance indicators that are relative to the Director's Office in the handout given to you (Exhibit C). We project a maximum of ten days to close public complaints. Response time to the media is 100 percent. We meet weekly with the Office of the Attorney General and our personnel administrator to review all the grievances received from many of our 600 employees. The number of grievances has been reduced by 80 percent. We meet with our administrative division heads monthly to review their goals and objectives. As far as work programs and contracts, 95 percent must be reviewed within three days. Ninety-percent compliance was scheduled in agency technology projects successfully implemented.

We were going to eliminate 48.49 positions. However, we are going to restore 14 positions to the Division of Insurance needed to maintain their accreditation. Some of the major issues affecting the Department are: merger of the Manufactured Housing Division with the Housing Division; merger of the Division of Mortgage Lending with the Division of Financial Institutions; the elimination of all but two pieces of the Consumer Affairs Division; self-funding of the Local Government Employee Management Relations Board and self-funding of the Division of Insurance.

The biennium goals are to ensure adequate staffing and funding levels for all divisions within available resources and to ensure divisional compliance with consistent application of statutes, policies and procedures. We have been working with the Division of Mortgage Lending to improve their audit. We are trying to save money by getting more cost-effective space when current leases expire. We are continuing the development and implementation of technology to improve Department effectiveness and efficiency. We will develop an effective revenue monitoring program to measure income against expenditures.

CHAIR DENIS:
Why was the IDRB program not transferred back to the Director's Office prior to the start of the 2007-2009 biennium as indicated by the previous director during the 74th Legislative Session?

E-680 New Revenues or Expenditure Offsets – Page B&I-5

MS. CORNWALL:
The Director's Office chose to leave the IDRB program in the Housing Division because of the expertise of a bond specialist working there.

CHAIR DENIS:
Transfers from IDRB to the Director's Office are $243,000 in FY 2009-2010 and $245,000 in FY 2010-2011. You have half a million dollars going in but only $7,900 each year in administrative costs. How appropriate is using bond funds for this?

LON DEWEESE (Chief Financial Officer, Housing Division, Department of Business and Industry):
The IDRB program has resided primarily within the Housing Division. The Housing Division accesses the bond market quite frequently. The IDRB program may go entire years without accessing the bond market. It was determined in an agreement in 1983 that the Housing Division should retain the finances rather than keep the expenditures in the Director's Office. During the 1993 budget crisis, the General Fund appropriation to the Director's Office was diminished with an increase of fees from the IDRB program. The expertise was not transferred back to the Director's Office. For over 20 years, the Housing Division has been involved with this program.

CHAIR DENIS:
Since the administration of this program is in the Housing Division, why is the $500,000 going to the Director's Office?

MR. DEWEESE:
The administration of the program has always resided with the Director's Office. The technical underwriting and answering tax and bond lawyer questions have always been addressed through the Housing Division. The Housing Division is not involved in promoting the program. We are involved in the technical side of the actual bond issuance once an application is ready to be processed.

CHAIR DENIS:
The Housing Division is handling all the technical part of this program. Does that require money?

ROBIN REEDY (Deputy Director, Department of Business and Industry):
You are referring to the fees through the financing agreement as bond money which is not correct. This is a fee created to help the Director's Office become less of a drain on the public for the work it does. This is a major difference.

CHAIR DENIS:
The fee is allowable when you issue the bonds. We need to get a legal opinion to determine if the fees can be used for something other than this program. It appears that money going to the Director's Office is being used for other purposes than for this program.

MS. REEDY:
I can inquire further with bond counsels regarding the legitimacy of change in the use of the bond fees. The covenant of the bonds refers to the money going to the Director's Office.

CHAIR HORSFORD:
In the 74th Legislative Session, the Joint Subcommittee specifically asked the previous Director about this. Representations were made but not followed through. Why have not the functions been transferred as they were represented in the 74th Legislative Session?

MS. CORNWALL:
I was not aware of those representations and did not read the Legislative record. I felt that as the Director, and given the IDRB statutes, it should be put in the place where it could be administered in the most economical way.

CHAIR HORSFORD:
This needs to be part of the discussion before we close this budget. What are the primary functions for the Deputy Director of Programs now that required functions have been transferred to the Housing Division?

MS. CORNWALL:
The Deputy Director's functions are still to be involved with the IDRB, but to a lesser extent. It has become necessary that she administer the budget process. Again, with 39 budgets and the amount of work required, a substantial amount of time is spent by the process.

CHAIR HORSFORD:
With all the recommendations to merge and streamline, and the fact that the IDRB project is primarily administered by the Housing Division, it is time to look at the entire structure, including the Director's Office, to ensure the functions align with the positions as they are today. Will you provide that information to our staff?

MS. CORNWALL:
Absolutely. We will provide that information.

ASSEMBLYMAN HOGAN:
It would be helpful to have some measurement of the effort the Housing Division is devoting to this work. What accounts are they calling on to support the expenditures?

MS. REEDY:
We have asked the Housing Division to keep track of their efforts. Because the bond market is in such turmoil, this is probably not the best time for this. In time, we should get some accurate information.

CHAIR HORSFORD:
We will now move to the Industrial Development Bonds budget.

B&I-Industrial Development Bonds – Budget Page B&I-150 (Volume II)
Budget Account 101-4683

MS. CORNWALL:
As shown on the handout you received (Exhibit D), we administer the State's $252-million share of volume cap bonding authority for issuance of tax exempt private activity bonds. Current performance measures reflect the anticipation of no significant growth to this program largely because of the economic conditions. The industrial development bonds issued are projected to be $35 million in both project year one and project year two. The number of inquiries regarding the bond program for both project years is projected to be 25. We are keeping the projections flat. The projection for development bond volume cap allocated statewide in project year one is $131,047,500 and the same for project year two.

CHAIR HORSFORD:
What types of projects are currently under consideration in the upcoming biennium?

MS. CORNWALL:
We have three currently-funded projects: Tahoe Regional Planning Agency office for $11 million; the LVE for $100 million; and the Sparks Cement Plant for $6 million. We have three active programs: Mesquite Warehouse is less than $10 million; Methane Electrical Plant, Energenic, Las Vegas is $28 million; and Republic Waste for Landfill Expansion is $30 million. We have one pending application which is the Mesquite Expositions, a ball park, golf course and recreation complex, for $300 million in phases.

CHAIR HORSFORD:
On the ones who received funding, do we have an indication of how the bonds benefited the general community? How many jobs were each created for each specific project? Please provide this in writing to our staff for our Subcommittee to review.

CHAIR DENIS:
Why is the bond volume cap decreasing from $159 million in FY 2008-2009 to $131 million in the 2009-2011 biennium?

MR. DEWEESE:
The amount of bond cap directed to the State is set by U.S. Treasury regulations based on a pro rata share of the national population. The demographer for the State is projecting that overall population for Nevada will be diminishing over the next biennium.

CHAIR HORSFORD:
We will now hear from the Board of the Public Employees' Benefits Program (PEBP).

ASSEMBLYWOMAN KOIVISTO:
I need to disclose that I am a retired State employee and I participate in the PEBP.

LESLIE A. JOHNSTONE (Executive Officer, Public Employees' Benefits Program):
The current status of the program has been updated as of February. We are projecting the realized funding available will be about $12 million greater than the current work program. We remain conservative in our projections. We are approaching the largest claim months in the plan year, May and June. Page 6 of your handout (Exhibit E, original is on file in the Research Library) shows collections of retiree subsidy payments from local governments. There is an outstanding balance from the Las Vegas Metropolitan Police Department (Metro) of $670,335 of which $558,000 is past due. The amount of the late fees charged is in dispute. The Department argues that we do not have legal authority to assess those fees amounting to $433,000. They are also disputing any of the subsidies prior to July of 2005, amounting to $125,000. In our housekeeping bill, Senate Bill (S.B.) 103, we have some provisions we think will help our pursuit of those monies.

SENATE BILL 103*:* Revises provisions relating to the Public Employees' Benefits Program*. (*BDR 23-422*)*

We are in our fifth year of having our reserves fully funded. Our incurred but not reported reserve was fully funded for the first time in 2005. In 2006, we were able to establish a second reserve, referred to as the rate stabilization reserve. We have had excess reserves in every year since then. This will be a revolving kind of reserve, unless we have a bad claim year, because we include a margin for unexpected claims in our rates. We should generate the excess reserve and put it back into the rates every year.

On page 8 of your handout, the long-term liability for the retiree benefits are shown. This is evaluated by the actuary each year, pursuant to Governmental Accounting Standards Board (GASB) statements 43 and 45 and FY 2007-2008. This was the first formal valuation that was done. It was included in the notes of the financial statement. The total present value of those benefits, as of the close of FY 2007-2008, was $4 billion with an annual required contribution of $287 million.

There are three budget accounts (B/A) for PEBP. We will discuss B/A 625-1338 which is the operating budget as well as the budget that disperses the reimbursement for benefits. The other two accounts represent pass-through accounts for active and retiree subsidies.

SPECIAL PURPOSE AGENCIES

PUBLIC EMPLOYEES' BENEFITS PROGRAM

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

Page 10 of your handout summarizes the total budget for the PEBP including our reserves. The budget is dependent on many factors, one being enrollment.

When we have changes in policies causing decreases or increases in enrollment, the budget numbers will be affected.

On page 11, we have a different view of the Governor's recommended budget. The total for the biennium is $915 million. We broke this out between the sources and uses. On the sources side, the State subsidy makes up about 43 percent of our funding. The contributions include the payments made by the participant, as well as the non-state entities for subsidies for their retirees. On the uses side the operating budget is 1 percent of the total, the cost of running the agency and the actuaries. We are dependent on projecting accurately the self-funded claims which make up almost 60 percent of our expenditures. Fully insured products are 22 percent which are Health Maintenance Organization (HMO) premiums and life insurance.

On page 12, we have divided the Governor's recommended budget into major areas of change. The Base Budget was derived from what we expended and received in FY 2007-2008. The maintenance categories of decision units reflect changes in enrollment, medical inflation and contract rates.

On the funding by decision unit type on page 12, in the reduction area, we have a reduction of$143 million in State subsidy and an increase in contributions. It is a cost shift from the State to the participants.

On page 13, we have a similar layout for the expenditures, the other part of the equation, with shifting plan costs to the participants. In the past, benefits paid by the plan would now be paid by the participants.

On page 14 is a summary of the reserves that are included in the budget. We have the rate stabilization reserve, incurred but not reported. It is important we maintain these reserves at the actuarially recommended levels.

On page 15, we have the charts explaining what went into the maintenance budget. That was before any reductions by the PEBP Board or the Governor's recommended budget. With the Governor's recommended budget, we will need to revisit these projections. The projections are for the maintenance of the current program.

On page 16, the major cost drivers are the medical and prescription claim trends on the maintenance budget. We see an increase of 9 to 9.5 percent each year for the upcoming biennium. Dental claims increased 6.5 percent. The insured product inflation is assumed to be about 10 percent a year.

Decision unit E-660 was a proposal from the PEBP Board, based on the target we asked for and received from the Budget Office last June. We needed to participate in the reductions. We do not receive General Fund monies directly. The Budget Office recommended that in building our budget, we hold the subsidy the same for the next biennium. We looked at both the plan design and the subsidy structure.

E-660 Program Reductions/Reductions to Services – Page PEBP-4

Page 20 shows a high-level summary. We were given a target of $480 million in State subsidy which amounted to about a $50-million reduction over the biennium compared to continuing the program at its current plan design and current subsidy level.

Page 21 shows the changes the PEBP Board recommended to meet that budget target. This was split between cost shifts and plan design changes. On the cost shifts side, the largest savings of $23 million came from reducing the subsidy percentage. The allocation of Medicare Part D, subsidy between the plan and the retiree recognized that since introduction of the Part D subsidy in 2006 we have passed those costs directly to the Medicare retirees. We commingle the prescription costs and should share in the revenue associated with Medicare prescription costs. With the Governor's recommended budget we would need to modify the revenue estimates because we would not be eligible for this Medicare Part D subsidy. We also proposed a limitation on future retiree subsidies. The PEBP Board approach was that anyone retiring July 1, 2010 or later, having less than 15 years of service, would not receive a subsidy. Currently the subsidy goes from 5 years of service up to 20 years or more.

On the plan design changes side, the PEBP Board agreed to remove the health assessment questionnaire (HAQ) and incentives. In 2006 the HAQ and incentives were implemented so that people would get more engaged in their wellness program. The incentives were generous: a 50-percent reduction in deductible and an increase in the dental benefits. After more experience, we realized the incentive was much richer than needed. We eliminated the incentive for policy reasons as well as the budget which saved about $12 million over the biennium. We also looked at the deductible. The actuaries indicated to save money quickly, two large sources would be the shifting in the premium or an increase in the deductible. We currently have two deductible levels, $500 for the individual and $1,000 for the family, or $2,000 for the individual and $4,000 for the family. When we were deciding how to increase the deductibles to the amount we needed to save to meet the Budget Office target, the high deductible became unrealistic. The Board's conclusion was to collapse the self-funded plan into one deductible level. To balance to the target, that came in at $725 for the individual and $1,450 for the family. It is a significant increase in the deductible level. That policy change saved about $4 million over the biennium. Another long-term policy that the PEBP Board agreed to was instituting an indexing of the annual out-of-pocket maximums and deductibles on medical, dental and pharmacy. This saves about $1 million in the biennium.

Decision Unit E-661 contains changes in the active employee subsidies. On page 23 we show the Spending and Government Efficiency (SAGE) Commission recommendation. The Governor's recommended budget lowered the subsidy to 75 percent for actives and dependents which saved $50 million, in addition to the PEPB proposal, which is displayed on page 24.

E-661 Program Reductions/Reductions to Services – Page PEBP-5

Page 25 summarizes the numbers aspect on the assessment on a per-position level and the composite cost reimbursed by the current subsidy for actives. The average is 90 percent but will be reduced to 75 percent under the Governor's recommended budget.

The State subsidy would be eliminated for all Medicare retirees starting July 1, 2009, whether they are currently retired or a future retiree. For current non-Medicare retirees, it would be reduced by 50 percent over a two-year period. No one retiring after July 1, 2009, will receive a subsidy. The non-State retirees would be impacted in a similar fashion. When A.B. No. 286 of the 72nd Session was implemented in 2003, it said that the non-State employer should subsidize their retirees at the same level as the State subsidizes their retirees.

On page 27 there is a graph of the State subsidy required to maintain the retirees' current plan design, subsidy levels, changes made by the PEBP Board, changes made in decision unit E-661 and the actual funded level.

Page 28 is similar to what was shown for the actives. The difference is the base subsidy is only for the non-Medicare retirees retiring before July 1, 2009.

Page 29 shows the history on the percentages of subsidy paying for the cost for actives and their dependents and retirees and their dependents. We have sample rates showing what would be the result of the changes.

Page 30 summarizes, in numerical fashion, the changes made for the actives and the retirees. Overall, it is a 21-percent reduction for actives in State subsidy and a 60-percent reduction for retirees from maintenance.

The next few pages show impact on the rates. These rates are not final. The actuary did the calculation as if the Governor's recommended budget had gone through and we were adopting the rates now. We show employee only and employee plus spouse because they are the cheapest and most expensive coverage tiers we have. All of the current rates for plan year 2009 are the low-deductible plan and the self-funded Preferred Physician Organization (PPO). Most participants enroll in that plan. The rate goes up 5 to 8 percent, reflecting medical trend as a cost increase, and the savings included in the PEBP Board proposal. The State subsidy is reflecting the Governor's recommendation for actives at 75 percent. The dependents of actives are currently subsidized at about 75 percent. The real impact is on the employee.

Page 32 is for current non-Medicare retirees or anyone retiring before July 1, 2009. This is the first year of a two-year reduction. The Governor's recommended budget has reductions of 25 percent the first and second year. All of the retiree charts we are showing are for the base years of service calculation which is 15 years of service.

Page 33 shows the information for the Medicare retirees, more significant because there would be no State subsidy. We would also forego the Medicare Part D subsidy.

On page 34 we have the Medicare Part B only recipients. We have typically treated the retiree who does not have Medicare Part A but only Medicare Part B as a Medicare retiree. This would be different under the Governor's proposal. They would be rated with the Medicare retiree but they would be eligible for some subsidy, at a reduced level, if they retire before July 1, 2009.

Page 35 is a high-level summary of the impact on GASB. The total present value of the benefits in the current year is $4 billion. That is reduced to $1 billion under the Governor's recommended budget. The annual required contribution goes down to $66 million. There is an error on the chart. The contributions are in the millions, not thousands, as shown. There is a 75-percent reduction in both those classifications as a result of the Governor's Budget.

I will skip the next several pages having to do with B/A 680-1368 which is the pass-through account for the retiree State subsidy, on pages 36 and 37.

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

We have a similar pass-through in B/A 625-1390 for the active employee group insurance. Their decision units are shown on pages 38 and 39.

Active Employees Group Insurance – Budget Page PEBP-15 (Volume III)
Budget Account 625-1390

The PEBP housekeeping bill is not the implementation of the Governor's recommended budget. This is the PEBP's request to add clarifying language of two bills, S.B. No. 544 of the 74th Session and S.B. No. 547 of the 74th Session. They also want stronger language in our effort to collect monies owed from the Metro. The PEBP Board approved extending the plan year by four months. We have delayed the rate-setting process until June 2009 when we know the subsidy and policy changes approved through this process. Some of the excess reserve will be allocated to defray the cost of the delay.

CHAIR DENIS:
We want to understand the rationale for active employees taking a subsidy decrease while active dependents' subsidies would remain the same at the current rate.

JODI STEPHENS (Legislative Director, Office of the Governor):
We looked to the federal system for that information.

CHAIR DENIS:
Why was the flat subsidization rate for all active tiers chosen?

MS. STEPHENS:
I will get the information on that issue for you.

CHAIR DENIS:
Is there a reason an active employee subsidized rate is, on balance, lower than other public entities in Nevada but a retiree health insurance subsidy is higher?

MS. JOHNSTONE:
We have a long history of subsidizing at the current levels. We look at different plans and surveys. Culture and demographics go into the subsidy percentages. We established the percentages in 2006. It was based on history. There have been many discussions and policy changes about the years of service subsidy levels for retirees that have made it more favorable for State retirees than for

other jurisdictions. We are about average on the active subsidy levels when compared to other Nevada public employers.

CHAIR DENIS:
Are you familiar with cost shifting measures other Nevada public entities or states have taken?

MS. JOHNSTONE:
Probably the most active cost shifting has been with the retirees, just like in the private sector. There are local jurisdictions that have more restrictive retiree benefits and A.B. No. 286 of the 74th Session caused more of that to happen. For instance, Clark County's Teachers Health Trust limited their retiree benefits when it was put into an HMO product. It encouraged, through plan design, a lot of retirees to join PEBP. We have a long history of providing the exact benefits to the retirees as to the actives.

CHAIR DENIS:
The Governor recommends elimination of all subsidies for employees who retire after July 1, 2009. How many employees eligible to retire in the next three to five years might retire early because of these reductions?

MS. STEPHENS:
I do not have those numbers. We expect some will be expedited. I will get those for you.

CHAIR DENIS:
We need to understand the impact. A lot of the budgets are based on different people being in different positions. Which departments would be most affected by retirements? We need to know how much experience we might lose as a result of these people retiring. When do you think you will have this information?

MS. STEPHENS:
We will get this information to you by the end of the week.

ASSEMBLYWOMAN MCCLAIN:
I am concerned about the Part D subsidy we are losing. Is it still in the budget?

MS. JOHNSTONE:
That is about $3 million of revenue that has not been credited against the plan in the past. It has been passed directly to the retirees. It magnifies the impact on the Medicare retirees because it was used to reduce their costs. There are two tests the federal government applies to get that subsidy. The first one is called a gross test which asks if the prescription benefits are equivalent to or better than Medicare Part D requirements. We would pass that test under this plan. Then there is a net test which asks if the employer is paying the same proportionate share the government pays under Medicare Part D. We would not pass that.

ASSEMBLYWOMAN MCCLAIN:
Are we losing more money that is not accounted for yet?

MS. JOHNSTONE:
Correct. It is about a $1 million impact on the State subsidy under this plan.

ASSEMBLYMAN CONKLIN:
In addition to Mr. Denis' earlier request, I would hope any analysis the Division does recognizes that some people eligible to retire will leave. We would like to know the contingency plan. It should include the cost of experience lost which is usually two to three times the annual wage amortized over a certain number of years. How many people will have to replace the ones leaving to have equal services back to the community? We would like to know the cost associated with this to make sure it is in the budget.

ASSEMBLYWOMAN MCCLAIN:
Is there an amendment coming to address this issue?

MS. JOHNSTONE:
All of our budget amendments on this will be in on Friday. I have nothing further to discuss.

CHAIR HORSFORD:
You have done a great job in your presentation. We also want to recognize and thank the wonderful people who have provided service to the State over the years.

I would like a show of hands, here and in Las Vegas, of those in favor of the Governor's recommended budget, and then those against the budget proposal please raise your hand. If you would like to speak, keep your hand raised.

ROGER MAILLARD (President, American Federation of State, County and Municipal Employees, AFL-CIO):
I will be reading my written testimony (Exhibit F) and relating some of my past history pertaining to my public employee health care affordability and what it has meant to me. I turned 65 in July of 2003 and went on Medicare. In August of 2003, one month later, I suffered a major medical emergency, perforating my intestine. I spent the next 89 days in the hospital, 63 in intensive care. I lost 80 pounds due to sepsis. My life was saved because I could afford to lose the weight. This was followed with 21 days of inpatient rehabilitation and three months of outpatient care. I had numerous issues requiring expensive procedures. I went from having the last rites to being able to walk into this room under my own power. The total cost was $683,000 of hospital and rehabilitation. Medicare paid $546,000. PEBP paid $133,000 and I paid $3,500, the maximum out-of-pocket expense. If not for Medicare being the primary and the PEBP being secondary, I would have had to pay $136,000. Paying what is being proposed in premiums would be problematic. Medical inflation is far greater than the cost-of-living increases.

My second story deals with my involvement with the proposed plan in premium changes. I have attended about 90 percent of all PEBP meetings since 1981. In the spring of 2008, staff presented to the PEBP Board the new plan year with changes incorporating the Governor's $53-million budget cut. The proposal included cost shifting, which are premium increases, and the plan modifications just outlined. My group and other retiree groups were disheartened but recognized the reality of the situation and went along with the proposal. After the first of the year, the PEBP Board got another $90-million budget cut. This is the straw breaking the retirees' backs. I feel the retirees and actives have given their pound of flesh and resent the attempt to make us give up two more pounds.

JIM RICHARDSON (Nevada Faculty Alliance):
The severity of these proposed cuts have contributed greatly to the formation of an informal coalition. I am also speaking for a number of other people, including the Nevada Faculty Alliance (NFA), the American Federation of State, County and Municipal Employees, AFL-CIO (AFSCME) group, the Nevada State Education Association (NSEA) and the Police Protective Association (PPA).

I want to make some general comments. I have given you copies of my testimony (Exhibit G). The PEBP plan is actually an average plan. It is a little more generous than some local governments in terms of retirees. That is deliberate to help compensate for the lower pay of State employees. The changes being recommended are quite dramatic. This would lower our comparative position in relation to other local governments and other states in this region. State employees' pay is considerably less than local government employees in this State when you look at classified service. The Administration presented a study showing the average difference in wages was 38 percent between local governments and State employees in over 100 classifications in Clark and Washoe Counties. Plans to further cut or limit salaries for State employees will make this more problematic.

We think the GASB issue and the liability associated with it is something of a red herring. There is a chart in your handout I prepared by going to the Governor's recommended budget for this current fiscal year. I used a 30-year time period calculating 3-percent inflation rates over that time period and no caseload growth. These four functions, the Department of Health and Human Services, Kindergarten through Grade 12, the Nevada System of Higher Education and the Department of Corrections totaled $250 billion over the next 30 years.

The federal government requires GASB liability to be calculated. That $4-billion liability over the life span of current employees should be comparable to the liabilities associated with other major functions. Last Session, you put into place a structure to deal with the GASB liability. We supported the establishment of the trust fund to start pre-funding. If you totally pre-fund the GASB, the total liability over the time period drops to about $1.6 billion. There is about $25 million in that trust fund. You also passed A.B. No. 196 of the 74th Session allowing any revenues that accumulate over the revenue cap. Any of those excess revenues could be used to help fund this trust fund.

We also are concerned that most of the cuts being made focus on active employees and retirees. The Public Employees' Retirement System (PERS) recommendations are focused in the future and talk about new hires. These current employees and retirees have made lifetime decisions to retire. Senate Bill No. 544 of the 74th Session encouraged thousands of local government employees to retire because they thought they would get a subsidy.

I am particularly concerned about Medicare retirees. It does not make sense to be so punitive toward people who have acquired Medicare eligibility. That is a real killer for us in higher education as we try to hire mid-career people to build up our departments. I think it will affect State agencies too. Anyone hired from another state is Medicare eligible. We have to tell them, during the recruitment interview, that we will not give them a subsidy. If the Governor's recommendations pass, you will see many retiring in four months. If they do not retire then, why should they ever retire? If they are going to lose their health benefits by retiring, why not keep working for the rest of their life?

The PEBP Board made some tough decisions by cutting over $50 million in what is going to be required to keep the plan at the current level of service. We are supportive of what the PEBP Board did, but some of the other draconian recommendations about cutting off subsidies do not work.

MARTIN BIBB (Executive Director, Retired Public Employees of Nevada):
I have prepared written testimony (Exhibit H) and will hit the highpoints of my testimony.

We have more than 9,000 dues-paying members of the Retired Public Employees of Nevada (RPEN). We believe that makes us the second-largest group of dues payers in the State. We staunchly oppose the Governor's proposal regarding the funding of PEBP which we believe is an extreme change. We do not think it is well thought out and believe it affects a lot of lives. We believe this proposed budget would devalue long-term service. If I understand the numbers correctly, we are recommending some Medicare retirees could pay several hundred dollars more a month out of pocket. We think that it is punitive. A number of folks retire from public service and then go to work in the private sector, expressly to build up quarters of coverage for Social Security, which in turn saves this plan money. They would actually be punished by losing this subsidy. We find this unacceptable.

I have covered this plan for 19 years. Our members have attended meetings over those years. This is not something that came up by virtue of a struggling economy and budget crisis. It is something that has been their concern since they were active employees and particularly since they became retirees. That participation has shown us you need to take a cautious approach to these decisions. By contrast, the basis for which this budget is being offered are recommendations that were made in December 2008. Retirees cannot turn back the clock and return to work in many cases. The proposals are permanent and drastic cuts that will remain long after the economy returns to normal. We think that is poor thinking.

These are disproportionate cuts for retirees. It is a 60-percent reduction in subsidy for them in comparison with 21 percent for actives. We recognize today's worker is tomorrow's retiree and that is why all groups are represented here today. There was a detailed four-year study this Legislature approved. It was A.C.R No. 10 of the 72nd Session. We think some of the recommendations reported back to the Legislature in that important study still bear review and consideration. This health plan needs to be preserved in a reasonable fashion. If that is not done, as the old adage goes, "pay us now or pay us later." The payment later is always more expensive. If folks lose their health insurance by virtue of decisions made today, the costs could affect taxpayers as a whole and not merely the individual who may be without insurance.

DANNY N. COYLE (American Federation of State, County and Municipal Employees, AFL-CIO):
I would like to concur with the remarks made by Mr. Maillard, Dr. Richardson and Mr. Bibb. I was employed by the State for 31.5 years and have been retired for over 13 years. We are always asked to step up to the plate, but we feel we have been at bat all the time. We have been dodging spit balls, but the ones thrown by this Administration have been the worst I have ever had to swing at.

RENEE RAMPTON:
I am a member of the Board of the Clark County Retired Teachers Association. I went back to college in my 40s, got my degree and became a school teacher. Shortly before my retirement, at the age of 70, my ex-husband passed away. I was eligible for a widow's compensation but it was taken away when I retired. I receive nothing from the Social Security Administration. My monthly retirement pay is $3,000 less than my teacher's salary. It has been a struggle, financially. I have subsidized by taking out a homeowner's loan. It is not a happy thing to think you are now going to charge me more money for my insurance.

NASSER DANESHVARY:
I have been teaching and researching economics for 19 years at the University of Nevada, Las Vegas (UNLV). I am currently the chair of the Faculty Senate at the UNLV, representing more than 2,200 faculty and staff. I will be reading from my prepared testimony (Exhibit I).

I am here to express concerns and request considerations of some alternative to the proposed cuts to the PEBP. The current executive proposal would essentially mandate a 4- to 6-percent out-of-pocket increase for employees. This is a significant salary reduction, especially hurting faculty and staff and their families at the lower end of the salary scale. The proposal calls for a reduction and elimination of premium subsidies for retirees. More importantly, for the future of education in Nevada, and as expressed in a recent letter from David B. Ashley, President of UNLV, (Exhibit J), the proposed changes would cause the loss of highly qualified faculty and staff. They would create a significant obstacle to our ability to recruit and retain the best qualified faculty and staff.

According to leading economic research on health care costs, the recommended changes most likely would not produce the desired savings. Many higher-paid senior faculty members will continue with regular employment rather than retire. The State will end up paying higher salaries than might be paid to a potential replacement. The one-year pay difference between a senior and a junior faculty member, currently $60,000, will cost the State more than the cost of 20 to 25 years of subsidized health benefits for a retiree. The proposed short-term cost saving solutions most likely will not produce any savings but will cause hardship and reduced quality of higher education in Nevada.

GREGORY BROWN:
I also teach at the UNLV and am representing the UNLV Chapter of the Nevada Faculty Alliance (NFA) and the Faculty Senate. I brought a copy of the

resolution passed by the Faculty Senate (Exhibit K) which expresses our concerns about the importance of health care benefits to our faculty, with respect to recruitment and retention. I am also presenting some calculations on the impact to public service workers due to proposed cuts to the PEBP (Exhibit L).

TERRY HICKMAN (Executive Director, Nevada State Education Association):
There are thousands of retired teachers and support professionals who, on the promise of the State of Nevada, retired. Now it is being changed. Let it be very clear we oppose the Governor's recommendations. We believe these to be draconian cuts and will impact our retirees.

HAROLD D. SHRADER:
I am a retired public employee and a member of the RPEN. I would like to highlight some of my written testimony (Exhibit M). The SAGE Commission's report of December 30, 2008, described the PEBP health care subsidies as generous to Nevada retirees unlike retirees from most private sector employment. This is erroneous when applied to Medicare-eligible retirees. Most private sector retirees eligible for Medicare do not pay for their Medicare Part A premium of $443 a month. Most of that amount is really a subsidy. Many Nevada retirees have not paid 40 quarters of the Medicare tax and neither did their public employers on their behalf. Without a health care subsidy, the State's Medicare-eligible retiree subsidies are less than the public sector's subsidies.

SANDRA CURTIS:
I am a member of NSEA, retired. Most of us make a plan when we retire. We plan our resources, how long they will last and we divide it by how long we think we will last. Hopefully, it comes out even. For the Governor to balance his budget on the backs of people who need it the most, our retirees, is unconscionable.

ALOK PANDEY:
I teach at the College of Southern Nevada (CSN), and am State president of the NFA. Our faculty and staff always share the burden, financial or otherwise. We gave up our 6-month merit increase when this budget crisis began. In this proposal, we are asked to cut our salary by 6 percent and also accept a severe cut in our health plan. New hires who come to Nevada with young families make a small salary. Cutting the subsidies will affect those families drastically. Until 2001, I was the only breadwinner in my family. I would not have been able to carry this kind of burden. These health benefits at the time of retirement were anticipated when we were hired. There are consequences of the Governor's recommended budget. Some of us will retire within four months which will cause a severe problem in the senior faculty level. It will be more difficult to find new faculty and researchers for the State of Nevada.

SHARI LYMAN:
I am a professor of economics at CSN. I am the Chapter president of NFA for CSN. I have been a Nevada resident for over 40 years. I have been a State employee in many different respects over the last 19 to 20 years. Education is extremely important to me as I know it is important to you. All of our State programs are important. I find it tragic the proposed *Executive Budget* focuses on Nevada education and Nevada State workers, active and retired, to bail out

the State of Nevada using targeted, regressive taxes. In the case of higher education, we do not have retirement benefits. We have investment accounts. They are not stable at this time. The budgets for our institutions are at risk. Education in our State is at great risk. Trying to correct the budget crisis by using educators and other State workers, active and retired, is unconscionable. It is short sighted and creates a chronic and persistent problem. It devalues, demoralizes and creates an inadequate system for all of us. We ask your Subcommittee and all policy makers to understand this targeted, regressive group of taxes proposed by the Governor is wrong.

CANDACE KANT:
I am a member of the NFA and am speaking on behalf of the retired higher education faculty. After 33 years, as a member of the faculty at CSN, I retired. For those 33 years my employer, the State of Nevada, established and maintained the expectation there would be a State subsidy for my health care insurance premiums at retirement. I do not receive a State pension. Higher education faculty pay into a 403(b) retirement plan which is subject to the fluctuation of the markets. We have all seen what has happened to the markets in the past six months. I am not eligible for social security. Since I was hired before 1984, the State has not purchased Medicare coverage for me. The only benefit I receive from the State is the subsidy of the health care insurance premiums. These recommendations, if passed, would remove all State subsidies from retirees who are eligible for Medicare. The State subsidy would be reduced by 50 percent for those retirees who are not eligible for Medicare. This would increase premiums more than ten times what they are presently. These higher premiums will mean that retirees might have health insurance, but they cannot use it. It would be difficult for retirees to pay for preventative health care needed. Their conditions would go undiagnosed until advanced when treatment is expensive. It is difficult for retirees to obtain other health coverage due to preexisting conditions. We recognize the State faces severe budget challenges. We do not ask to be exempt from the belt-tightening needed, but we fear the consequences of the draconian cuts to the PEBP.

EUGENE WILLIAMS:
I am representing myself and my wife. I am a member of the RPEN and AFSCME. My wife and I are both retirees from the State of Nevada. I had outside jobs in my career and managed to get Medicare credit. My wife never did. When she turns 65, if this proposal goes through, we are not sure if she will be able to afford any kind of Medicare coverage. She has diabetes and a private insurance policy would cost $1,200 to 1,400 a month. I am asking for your best wishes.

DENNIS MALLORY (Chief of Staff, American Federation of State, County and Municipal Employees, AFL-CIO):
I want to go on the record saying we also oppose the Governor's recommendations. One thing that has not been said is that the average salary for the retired State employee, contrary to some of the reports we have seen, is around $30,000 a year. These cuts would further minimize that amount. These cuts, with the cost of pharmaceutical drugs, are going to determine whether they live or die because there are drugs out there keeping some of our retirees alive and functional. We are attacking a very vulnerable group in our society.

ROBIN BLAIR:
I am a retired teacher from Winnemucca, Nevada and president of the USEA-R which is retired teachers from all counties except Clark and Washoe Counties. I have one point to make. I have ovarian cancer, in remission right now. If these cuts in our benefits go through, I will be unable to pay the premiums and because of this preexisting condition I will not be able to get other insurance.

SENATOR RHOADS:
There are three things the Subcommittee needs to know: how do we fix it, what will it cost and where will we get the money?

CHAIR HORSFORD:
Thank you to everyone who came to testify today. This Subcommittee is charged with reviewing this particular budget and there are difficult choices to be made. My recommendation is to stay engaged, involved and watch the process. We have been getting your e-mails and correspondence. It is important that your voice is heard. Ultimately, we need to make a decision. The Governor provided one approach. We have the ability, legislatively, to provide a different approach. The prospectives offered today help provide information for us to make the best decisions possible for the State of Nevada and for its citizens.

CHAIR DENIS:
I want to thank everyone who came out. It is important for us to hear the concern. We are concerned also. We will do our best to find a solution that works.

ASSEMBLYWOMAN KOIVISTO:
As a retired State employee, I want to condense what was said. When these folks were hired, contracts and promises were made. It is incumbent upon us to live up to those promises.

CHAIR HORSFORD:
Thank you all again for your attendance and testimony. We have no further business and this meeting is adjourned at 10:56 a.m.

RESPECTFULLY SUBMITTED:

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Barbara Richards,
Committee Secretary

APPROVED BY:

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Senator Steven A. Horsford, Chair

DATE:_____________________________________

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Assemblyman Mo Denis, Chair

DATE:_____________________________________