

**MINUTES OF THE MEETING
OF THE
ASSEMBLY COMMITTEE ON WAYS AND MEANS**

**Seventy-Sixth Session
February 14, 2011**

The Committee on Ways and Means was called to order by Chairwoman Debbie Smith at 8:08 a.m. on Monday, February 14, 2011, in Room 3137 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/76th2011/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 Debbie Smith, Chairwoman
Assemblyman Marcus Conklin, Vice Chair
Assemblyman Paul Aizley
Assemblyman Kelvin Atkinson
Assemblyman David P. Bobzien
Assemblyman Pete Goicoechea
Assemblyman Tom Grady
Assemblyman John Hambrick
Assemblyman Crescent Hardy
Assemblyman Pat Hickey
Assemblyman Joseph M. Hogan
Assemblyman Randy Kirner
Assemblywoman April Mastroluca
Assemblyman John Ocegüera

COMMITTEE MEMBERS ABSENT:

Assemblywoman Maggie Carlton (excused)

STAFF MEMBERS PRESENT:

Rick Combs, Assembly Fiscal Analyst
Mike Chapman, Principal Deputy Fiscal Analyst
Sherie Silva, Committee Secretary
Cynthia Wyett, Committee Assistant

Chairwoman Smith welcomed members, guests, and internet listeners to the meeting.

ECONOMIC DEVELOPMENT AND TOURISM
NEVADA COMMISSION ON TOURISM
BUDGET OVERVIEW

Larry Friedman, Interim Director, Commission on Tourism (NCOT), introduced Steve Woodbury, Chief Deputy Director in charge of administration. Mr. Friedman proceeded with a PowerPoint presentation ([Exhibit C](#)).

Mr. Friedman noted that the economic recovery in Nevada would likely be led by the leisure and hospitality sector. Tourism was the number one industry in Nevada. Of the 50 United States, Nevada was the most dependent upon tourism for its economy. He cited three figures from calendar year 2010 projections:

- Total travel spending in Nevada \$46.6 billion
- Number of jobs attributed to the travel industry 427,000
- Amount of state and local tax revenue generated by the travel industry \$2.4 billion

Mr. Friedman stated it was the Commission on Tourism's responsibility to generate revenue for the State of Nevada by increasing domestic and international visitation. The Commission was the only entity in the state responsible for the promotion of the entire State of Nevada, and it was funded 100 percent by room tax revenue. The Commission received three eighths of 1 percent of the room tax, which by statute was dedicated to the promotion of tourism.

In fiscal year 2010, Mr. Friedman continued, every dollar spent on advertising generated \$31 in state and local tax revenue. The Commission spent \$3.6 million on advertising, which generated over \$110 million in tax revenue for the state. Of that \$110 million, approximately 79 percent, or \$87 million, went to the State General Fund. Mr. Friedman said the Media Relations Unit generated \$52 million in free press globally.

Mr. Friedman reported about \$1.025 million was awarded in rural marketing grants, and the economic impact was \$171.3 million to the rural communities. Over 3,000 volunteers donated over 111,000 of hours of volunteer time to help make that economic impact possible.

Mr. Friedman stated the statistics cited were achieved by the Commission's marketing, media relations, sales, and rural programs staff. In the marketing area, advertising was done where consumers were exposed to the most media. Mr. Friedman referred to a graphic on page 13 of [Exhibit C](#), which displayed the sources of consumers' weekly and daily media consumption compared to NCOT's media mix during the winter. According to Google, over a 33-day period, approximately 727,000 people who were exposed to an NCOT online advertisement later visited an online travel agency. Mr. Friedman explained all of the Commission's agencies used the urban areas as gateways to the entire state and the fame of Las Vegas and the Las Vegas Strip to draw attention to all that Nevada had to offer.

Moving to the Commission's Media Relations Unit, Mr. Friedman reported the unit had obtained \$52 million in free press using the following strategies:

- **Familiarization Tours.** The unit worked with both domestic and international journalists, bringing them to the state to experience first-hand the marvels of Nevada. Arrangements were recently made for complimentary airfare and lodging for two German journalists to visit Elko; the visit generated \$69,958 worth of free press from the journalists.
- **News Media and Travel Writers.** The unit provided photographs, promoted stories, gave interviews, and wrote press releases.
- **Social Media.** The unit developed websites and blogs and attended traditional trade shows to promote stories or solicit writers to produce stories on Nevada.

Mr. Friedman said in fiscal year 2010, NCOT contacted more than 20,000 sales and industry partners while attending trade shows. A survey was then conducted of individuals who Commission staff had met with from February 2009 through June 2010, which revealed that 81.1 percent of the respondents were able to book business because of the contacts made with NCOT staff. Sales and industry partners also conducted familiarization tours. With limited marketing dollars for international opportunities, Mr. Friedman said the Commission worked with key international travel companies to develop tours and itineraries to increase exposure. During a recent visit of ten travel

professionals from Mexico, their evening stays were hosted by hotels in Reno and Tahoe. Their skiing, rentals, and meals were also hosted.

Mr. Friedman reported the Commission's rural programs involved six territories throughout the state, five geographic and one cultural (Indian); Las Vegas was a single territory and the Reno-Tahoe area another. Rural programs referred to all of the communities in Nevada, with the exception of Las Vegas, North Las Vegas, Henderson, Reno, and Sparks. Mr. Friedman said the Rural Roundup, which had an average attendance of 250 tourism professionals and volunteers, had been held for 21 years. The conference offered the rural areas a continuing education opportunity to maximize their marketing dollars.

Mr. Friedman reviewed other individual successes of the Commission:

- Generated free press in publications such as AAA and Trailer Life.
- Worked with marketing partners, including Southwest Airlines and the television game show, Jeopardy.
- Added new sales packages with American Express, Mexico City, the United Kingdom, and the Travel Channel, to name a few.

In regard to the budget, Mr. Friedman reiterated the Commission was funded with three eighths of 1 percent of the statewide room tax collections. The actual revenue received in Fiscal Year (FY) 2010 was \$13.8 million, and the forecast for the next biennium included year-over-year increases of 3.2 percent in FY 2012 and 4.5 percent in FY 2013. He said the projections factored in construction schedules, new rooms coming on line, property closures, average daily room rates, occupancy rates, visitor volume, and room nights occupied.

Mr. Friedman said the biennial budget contemplated transferring the Division of Museums and History, as well as the Nevada Arts Council, to the Commission on Tourism and directed room tax dollars from the Fund for the Promotion of Tourism to support approximately half of the operational costs of the new divisions. The Commission's budget also included transfer in of four positions from the Division of Museums and History and two positions from the Department of Cultural Affairs Director's Office.

Continuing, Mr. Friedman said the budget included an Enhancement (E) decision unit to take advantage of upcoming opportunities, which included hosting the Go West Summit, the International Pow Wow, and the National Tour Association convention, all located in Las Vegas. He said the Commission would not only assist in the hosting of the conventions and related tours, it

would also conduct familiarization tours for the travel professionals during their visit.

Mr. Friedman recalled that during the 75th Legislative Session (2009), cutbacks in advertising were necessary because of the decline in room tax revenue. As room tax revenue started to rebound, the Commission had expanded campaigns in key markets, including television advertisements in Los Angeles and San Francisco. He said the proposed biennial budget included funds to be able to continue television ads in those key markets within driving distance.

Finally, Mr. Friedman said the budget included routine adjustments for inflation, annualized costs, minor revisions to existing contracts, and replacement equipment.

Assemblyman Conklin asked for clarification of the figures reflected on pages 6, 7, and 8 of [Exhibit C](#). He assumed the production of \$110 million in tax revenue was tourism related; he asked whether that amount was the change year-over-year.

David Petersen, Senior Research Manager, Commission on Tourism, replied the figures came from an ad marketing effectiveness study which measured the effect of the Commission's domestic advertising. He explained the individuals who saw, recalled, or were exposed to the advertising visited Nevada, thereby substantiating the positive effect of the advertising on their decision to visit.

Assemblyman Conklin asked whether the figure was for advertisement in a given year. Mr. Petersen replied the \$110 million was based on the two methods of advertising used from November 1, 2009, through January 31, 2010, and April 1, 2010, through the first week of July 2010.

Assemblyman Conklin asked whether the Commission had reported a similar statistic in the previous legislative session, and Mr. Petersen responded that it had. Assemblyman Conklin asked whether the statistic was tracked as part of the agency's performance indicators. Mr. Petersen replied it definitely was included in the performance indicators.

Assemblyman Conklin noted that, according to the Fiscal Division, The Executive Budget included expenditures of approximately \$4.8 million from reserves, but the year-end biennium reserve amount was supposed to be \$1.1 million. He assumed a significant increase in room tax revenue was anticipated to account for the increase and asked for clarification of the increase in reserve funds.

Steve Woodbury, Chief Deputy Director, Commission on Tourism, replied there were two extra months of revenue in one year of the current biennium because of a change in accounting for the room tax. The agency had also underspent during the last biennium, leaving more reserve than had been anticipated. He added increases in the room tax revenue of 3 percent the first year and 4.5 percent the second year of the biennium were also anticipated. Mr. Woodbury said he would be happy to work with the Fiscal staff to verify the figures.

Assemblyman Conklin observed an 8 percent increase in room tax would be necessary to reach the \$4.8 million reserve amount. He asked Fiscal staff to provide further information.

Rick Combs, Assembly Fiscal Analyst, Fiscal Analysis Division, said the current 2011 work program included a reserve of \$1.1 million, and he asked whether that figure was still the projection or whether a higher reserve was predicted for fiscal year (FY) 2011.

Mr. Woodbury replied the projection was still \$1.1 million for FY 2011, and the reserve balance at the end of FY 2013 would be \$2.8 million.

Mr. Combs remarked that part of the reason for the discrepancy was the Commission had to cut its budget in the 2009-2011 biennium. The expenditure levels were reduced to a point that if they were left at that level in the base budget for the 2011-2013 biennium, and the room tax revenues were projected to increase in The Executive Budget, additional revenue beyond what was in the base budget would be generated. At some point, if the Commission did not increase its expenditures and did not tap into the reserve, a larger reserve would result.

Assemblyman Conklin said he understood, but he would prefer to see an accounting of the calculations, as it was a substantial amount of money, approximately \$6.5 million or a 10 percent increase over current spending.

Assemblyman Hambrick said he recently attended a conference with the Las Vegas Convention and Visitors Authority (LVCVA), and he was told 2010 was a dismal year, but 2012 was predicted to be a very good year. He asked whether the Commission believed an increase in Las Vegas would ripple throughout the rest of the state.

Mr. Friedman replied the Commission's predictions were more conservative than the most recent numbers for Las Vegas, but Rossi Ralenkotter,

LVCVA President and CEO, recently spoke about the improvements and the future for Las Vegas.

Assemblyman Hambrick asked whether Mr. Friedman would speculate on how the increase would affect the Reno-Tahoe area and the rural counties.

Mr. Friedman said if the financial climate and domestic markets improved, more tourists would not only be visiting Las Vegas, but there would be discretionary income for them to visit Reno-Tahoe and the rural areas of the state. He said the Commission used Las Vegas as a gateway to the state, in particular for the international visitors, who were also expected to increase visits to Las Vegas.

Assemblyman Bobzien expressed concern with the proposed transfer of the Nevada Historical Society and the Division of Museums and History and asked whether there was risk associated with the transfer. For instance, he asked, were there any existing grant streams that required some degree of autonomy for the Cultural Affairs agencies?

Mr. Friedman replied Mr. Bobzien's concerns needed to be addressed. The Commission had been meeting with Michael Fischer, the Acting Director of the Department of Cultural Affairs, and Susan Boskoff, Executive Director of the Nevada Arts Council. The Commission thought the consolidation was a palatable idea because the institutions were part of Tourism's product. Marketing of the museums and some of the Arts Council activities could only be increased by being under one agency. So far the discussions with the Arts Council had included federal programs for which the Council would have to match funding. One of the concerns was that the Council had been receiving transfers from the Commission on Tourism, and if the Commission's budget was decreased, the transfers to the Council could be decreased and the burden of less money would be shared.

Assemblyman Bobzien affirmed the matter was an ongoing discussion; he asked Mr. Friedman to keep the Committee apprised. Mr. Friedman replied the discussion should be ongoing with or without the consolidation of the agencies.

Mr. Friedman then moved to budget account (BA) 1523, Tourism Development, which was currently funded only with certain special license plate revenue and interest earnings. He said the Commission hoped to resume funding for the program as room tax revenues continued to rebound.

The final budget account, Mr. Friedman continued, was BA 1530, Nevada Magazine. He asked Janet Geary, the magazine's publisher, to review the budget.

Janet Geary, Publisher, *Nevada Magazine*, reviewed the magazine's budget proposal for the 2011-2013 biennium ([Exhibit D](#)). She explained the mission of the *Nevada Magazine*, as the publishing arm of the Commission on Tourism, was to promote tourism by educating the general public about the state and foster awareness and appreciation of Nevada's heritage, culture, history, and natural beauty. The mission was accomplished through the bimonthly magazine, which was distributed through paid subscriptions and newsstand sales.

Ms. Geary said *Nevada Magazine* also published *Events and Shows*, an entertainment magazine distributed throughout the state, with 75,000 distributed each month at McCarran International Airport and another 30,000 distributed to other locations, including the Reno-Tahoe International Airport, welcome centers, AAA offices, and free-rack distribution. The publication included statewide listings of things to do while visiting Nevada. Ms. Geary said *Nevada Magazine* also published a historical calendar and the *Nevada Visitor's Guide*.

Continuing, Ms. Geary said *Nevada Magazine* was formed, under statute, as a nonprofit enterprise fund. Revenue was generated primarily from advertising sales and subscriptions. Other sources of revenue were the sale of the historical calendar and the Commission on Tourism for the production of the *Nevada Visitor's Guide*. Because advertising in the magazine was determined by the health of the tourism industry, Ms. Geary said there had been a slight downturn in revenue. However, she added, expenses had been kept in line with earned revenue for the past two years, and the same was expected for the next two years.

Ms. Geary reviewed the activities and achievements of *Nevada Magazine* over the past two years:

- 2011 was *Nevada Magazine's* 75th anniversary, and in celebration, a 192-page special edition was being offered to the subscribers and sold on newsstands.
- The magazine had increased its presence on the Web, mainly with Twitter and Facebook: photo galleries, blogs, and Web extras were viewed by thousands of visitors each month.
- Newsstand sales had increased with the addition of several different venues, including Nevada CVS Pharmacies, Whole Foods, and Scolari's.

- Staff attended events throughout the state to promote the Tour Around Nevada series, which highlighted a town in each of the last 12 editions.
- Booths were placed at many trade shows and tourism events, and the publisher and editor appeared on numerous radio and TV programs to promote the magazine.

Continuing, Ms. Geary said *Nevada Magazine* continued to reinvent itself. To keep up with the trend toward online viewers, the magazine had partnered with a new company, LasVegasEventsAndShows.com, to offer a choice of online advertising. A new waiting room program would place a copy of *Nevada Magazine* in over 2,000 professional waiting rooms throughout Nevada and California. Additionally, the magazine now had access to 5 million email addresses to provide information directly to potential Nevada visitors. The email addresses could also be used to solicit new subscriptions.

Ms. Geary said the *Events and Shows* publication was being revamped to be more user-friendly, and distribution was being increased to include hotel concierge desks, taxis, and rack locations in Las Vegas.

Chairwoman Smith asked for questions from the Committee; there were none. She thanked Ms. Geary for her presentation.

ECONOMIC DEVELOPMENT AND TOURISM
COMMISSION ON ECONOMIC DEVELOPMENT
BUDGET OVERVIEW

Michael E. Skaggs, Executive Director, Commission on Economic Development (NCED), referred Committee members to [Exhibit E](#), "Commission on Economic Development Agency Overview and Budget Presentation." He explained the Commission was appointed by the Governor and consisted of six members: two from Clark County, two from Washoe County, and two from the rural counties. The Lieutenant Governor served as the Chair, and the agency reported to him, as well as to the Governor. The Commission met monthly to discuss such items as incentive packages and marketing plans.

Mr. Skaggs stated NCED was responsible for the State Plan for Diversification. When the agency was created by Governor Bryan in 1983, its charter was to promote and encourage nongaming employment as a larger percentage of the statewide labor force. Referring to page 4 of [Exhibit E](#), he noted the peak level of gaming employment was over 22 percent in 1992, and it had decreased to a low of 16.3 percent in 2008, although it rose slightly in the last two years.

Mr. Skaggs said the agency had different program measurements, but the percent of the gaming labor force was primary.

Vice Chair Conklin asked whether the agency collected data on the relationship between the gaming industry and residual industries that came to Nevada because of gaming. He wanted to know whether the decrease in the number of businesses in the state was attributable in part to the downturn in gaming and whether many of the existing companies would still be in Nevada without the gaming industry.

Mr. Skaggs said the agency did not gather that data because it was difficult to determine whether a business was dependent on gaming. Although a supplier's clientele could likely include gaming, it could also include many other sectors of business.

Vice Chair Conklin said he was interested, because the gaming industry and businesses dependent upon gaming would be largely influenced by the world economy rather than the local economy.

Mr. Skaggs understood Mr. Conklin's line of questioning, noting that one of the sectors currently being affected by the downturn in gaming was programmers. Obviously, the gaming industry required programmers, but those skills were also very valuable in digital media for an entirely different audience. He said the state's efforts in film making were definitely geared toward the birth and growth of a digital industry, and there were many individuals in gaming with the required skills set who were now looking for another opportunity. Mr. Skaggs concurred with Vice Chair Conklin that gaming was interwoven throughout the state's economy, but trying to separate it cleanly and distinctly was difficult.

Mr. Skaggs moved to page 5 of [Exhibit E](#), "Program Narrative Highlights: Fiscal 09-10."

- **Business Development.** Mr. Skaggs said the past two years had been a difficult time to attract businesses to the state. The agency prepared economic impact analyses to assist 40 projects to obtain incentives from the state. Collectively, the projects represented \$838 million in new capital investment in the state and creation of 1,572 new jobs at an average hourly wage of \$20.27.

Mr. Skaggs said the state did not incentivize companies unless they met two of three measures: the amount of their investment in the state, the number of jobs they will create, and the average wage of the state. The state pursued foundational industries, which were the base economy of

the state, because payrolls at that level of wage supported disposable income, which in turn supported retailers, automobile sales, and other businesses. He reiterated the state's efforts were focused on the foundational industries, and the average wage rate was instrumental in everything the agency did and every decision it made.

- **Nevada Film Office.** Mr. Skaggs said there had been a slowdown in film making. Every state in the country decided to give incentives to support film making, and they have pursued the industry vigorously. However, film making continued to be an important business for Nevada. Last biennium, 700 registered film and media projects were conducted in the state, which infused more than \$172 million of sales into the state. He explained the primary beneficiaries of the film industry were the entities that supplied a film company with services and products when on site: catering companies, forklift suppliers, and lighting specialists, for example.

Assemblyman Hickey remarked he assumed that some of the contacts and relationships with the 40 new companies were developed by the local development agencies. He asked how the expansion, budget and otherwise, of NCED would help in the relationship with the local agencies.

Mr. Skaggs responded that all of the 40 projects resulted from contacts by the local development agencies. With regard to the budget expansion, he explained four new initiatives would be undertaken with attached marketing funds that would produce projects for the local development agencies to site. He said once a business was contemplating a site, the project was turned over to the local development authority to finalize; every economic development project flowed through a local development authority.

Assemblyman Aizley said he had heard the motion picture business, including videos, was previously at \$100 million and now it was at \$20 million. He asked whether the numbers were valid.

Mr. Skaggs replied the \$20 million represented the loss in business: sales had dropped from \$100 million to approximately \$80 million.

- **Community Development Block Grant.** Mr. Skaggs explained block grants were federal funds that flowed through the U.S. Department of Housing and Urban Development (HUD) agency, and the Commission on Economic Development was responsible for conducting the vetting process for rural projects. The state investment was small, but it was needed to administer the federal funds. He noted in fiscal year 2009-10, the

program strengthened rural Nevada with \$6.69 million in allocations to improve infrastructure and prepare communities for economic development opportunities.

- **Procurement Outreach.** Mr. Skaggs remarked the Procurement Outreach program probably saved the state's life over the past two years. The program involved contracting with the federal government and was run through the defense logistics agency. Over the past biennium, clients reported contract awards totaling \$812 million, which represented gainful employment of 16,257 Nevadans. Mr. Skaggs said at the beginning of the economic downturn, many Nevada businesses were totally dependent on private markets, with most being Nevada markets. When the downturn started, the businesses lost their customers, and many were on the threshold of going under. The Commission was able to alert businesses to the opportunity of selling to the federal government, which purchased everything from automobiles to pencils. By opening new markets, the businesses grew and produced over 16,000 jobs through expansion. Mr. Skaggs said expanding companies already in the state would always be a fundamental strategy of the Commission on Economic Development.
- **Global Trade and Investment.** Mr. Skaggs explained Nevada currently had a relatively small global presence. Some funding was received from a federal program that helped the state export agricultural goods, and the Commission staff worked on and cultivated direct investments by foreign entities in Nevada. He said the Commission trade representatives would take a group of companies from Nevada to a trade show opportunity offshore. They would set booths up, and appointments would be arranged for the companies to meet with buyers from Europe or other areas to sell goods. Mr. Skaggs said this function had enabled Nevada companies to generate \$13 million in offshore sales over the last biennium.

Mr. Skaggs said everything the Commission did was in some way based around four economic-development-strategy fundamentals:

- **Retention and expansion of existing business to create jobs.** When the Commission entertained a new company that was looking at opportunities in Nevada, part of the strategy was to arrange meetings with existing companies in the state. Mr. Skaggs said prospective companies before making their decision wanted to know whether Nevada companies were making money and what the relationship was between local and state governments. It was important that existing businesses were satisfied

with the support they were receiving from the state and local jurisdictions. Mr. Skaggs said this strategy not only created jobs, it was a foundational piece to ensure the state had the business base to attract new companies.

- **Start-up facilitation of “basic industry” companies exporting 50 percent of product or services to create jobs.** Mr. Skaggs said when companies sold their product in another state or globally, the revenue coming back to the state represented new money, which was how the economy would grow. One of the tests companies had to meet before receiving assistance with incentives was that they were selling 51 percent or more of their product out of state.
- **Attraction: Film and business recruitment to create jobs.** Mr. Skaggs said the state courted companies, whether a film, technology, or manufacturing enterprise, to come to the state.
- **Community Development: Making communities competitive in a global economy.** Mr. Skaggs said attempts were made to make communities competitive so they could attract new investment. Because of renewable energy, there had been a lot of activity in the rural areas in the last two years, which was a boon for the rural areas of the state.

Referring to a map on page 7 of [Exhibit E](#), “Unemployment by County,” Mr. Skaggs noted the highest unemployment rate in the state was in Nye and Lyon Counties, while six counties were faring better than the rest of the state with rates below 9.1 percent. In the metropolitan areas where the concentration of jobs was higher, Washoe County’s unemployment rate was 12.8 percent and Clark County’s was 14.1 percent.

Mr. Skaggs continued with a presentation of individual budget accounts within Economic Development and Tourism.

ECONOMIC DEVELOPMENT AND TOURISM
COMMISSION ON ECONOMIC DEVELOPMENT (101-1526)
BUDGET PAGE ECON DEV & TOURISM-1

Michael E. Skaggs, Executive Director, Commission on Economic Development, explained that the available funding for economic development, less pass-through funds, was under \$2 million for the current biennium. With the proposed program enhancements, the operating budget for fiscal years 2012 and 2013 would increase to \$3.9 million. The core business development

activities conducted under this budget category would create an exponential return to Nevada's economy in the forms of:

- Job creation and retention.
- Business retention, expansion and location.
- Increased flow of "new money" into the state's economy through goods and services sold outside Nevada's geographic borders.

Mr. Skaggs again emphasized the importance of helping companies to sell their products offshore. Companies had to diversify their marketplace and be engaged in selling outside the state and the country.

Mr. Skaggs noted that the General Fund appropriation in budget account (BA) 1526 for fiscal year 2011 was \$4.564 million, and the Governor's recommendation in the 2011-13 Executive Budget was \$6.8295 million in each year of the 2011-2013 biennium. He explained BA 1526 included a number of pass-through items, which were legislative mandates earmarking funds for different organizations and programs. The balance available for economic development activities each year of the biennium would be \$3.922 million, with the addition of four full-time equivalent (FTE) positions.

Mr. Skaggs said a positive activity for the Commission on Economic Development (NCED) this fiscal year was a process called The New Nevada Taskforce, which was a gathering of public/private entities to consider what could be done to positively affect the economy quickly and build on some of the state's indigenous resources. He then reviewed NCED's current plan (page 14 of [Exhibit E](#)) for using new funding in the 2011-2013 biennium, if approved by the Legislature:

- **Technology Commercialization**
 - Ø An assets and liabilities study was conducted in 2010-11 of resources that can support new entrepreneurial enterprises. The NCED needed to turn its attention to filling the voids in the system and connecting to the federal research presence in the state.

Mr. Skaggs said funding was available in the state to support new entrepreneurial enterprises, and professional services were available to support them as they grew. Now the state had to recruit support services that were not available. One of the major services needed was financing; there was no venture fund presence in the state. The state needed an attraction plan based around professional services and making financing available to grow technology enterprises.

Mr. Skaggs explained every venture fund had a dedicated bias. Some were dedicated toward bioscience, renewable energy, or aerospace and defense and others toward totally different areas. He said the business segments were specific because once investors understood the industry they would be comfortable investing.

- Ø Invest in a technology commercialization study to pursue the technologies in the state to build the economy in other areas.

Mr. Skaggs said much discussion had centered on renewable energy, but there had been little mention of opportunities in bioscience. The state had a medical school, along with several private foundations engaged in the medical and science areas. Other industry sectors which should be pursued included renewable energy and homeland security and national defense, which were interrelated. With the presence of several defense installations in the state, there was an opportunity for firms to grow their missions and their business.

- Ø Engage in a campaign of public relations and direct outreach to be heavily focused on the Pacific Coast because of the massive presence of entrepreneurial support, infrastructure, and finance.

Mr. Skaggs said a lot of the opportunities were going to fall in line with the state's solicitation in California, particularly in technology. California excelled in the technology development, including Pell Technology, and Nevada would be concentrating on recruitment of those assets.

Assemblyman Conklin observed that one of the reasons California had spurred its technology growth was the massive amount of educational resources, including labs and research platforms at the university level, particularly in the northern part of the state at Davis and Berkeley. He asked how much leverage Nevada would have if a business was looking for resources that Nevada did not provide, but California or another state did.

Mr. Skaggs replied some federal investments in Nevada could be a path for the state to develop technology at a fairly rapid rate. He said the first resource would be federal land and private research opportunities; there were more in Nevada than he had thought. The state's universities were in the early stages of pursuing those resources.

Assemblyman Conklin asked whether Mr. Skaggs believed federal and private monies would invest in a university system for which funding was being cut. He was concerned that federal and private donors would not be willing invest in

something in which the state was not willing to invest. Mr. Skaggs replied that would obviously be a problem.

- Ø Add a Technology Commercialization Specialist to advance the job and investment potential of the technology sectors.

Mr. Skaggs explained the position would work specifically in the area of technology commercialization to recruit funds and private-sector organizations. There was some pent-up money in the state on the private side that was looking for investments. The specialist would also be involved in marketing. Mr. Skaggs added the state would need its own marketing analyst to help vet the ideas and companies to make sure there was a chance for success.

- Ø Outreach to the federal delegation to create a joint strategy with state economic development.

Mr. Skaggs was not pleased as an agency with the relationship with the federal delegation. He did not believe they had been engaged enough, and the state would need to engage them in a much more aggressive manner toward the goal of creating jobs. The NCED recently sent a team to Washington to ask each member of the Nevada delegation to assign the state a staff member for economic development to provide an accessible conduit. Mr. Skaggs said collaboration at the federal level would be necessary to be successful in economic development efforts.

- **Domestic Business Development**

- Ø The NCED planned to expand its business recruitment campaign to a national scope through a focus on Site Selector Consultants.

Mr. Skaggs explained NCED historically had not had a lot of marketing money, and activities had been restricted to California. However, as the state moved to the next level of trying to attract manufacturing, it needed to take its initiative to the Midwest and the East Coast.

Mr. Skaggs said the demographics in the country were changing. The East Coast was losing population, and the West Coast was gaining population—that would not change. The West would continue to see an influx of consumers; they would bring business and have business needs. He said the state had to tap into the stream of eastern and Midwestern companies that were seeking to have a western footprint to serve the growing population.

Mr. Skaggs said that within the next month, there would be announcements from two companies moving to Nevada, and they would employ a considerable

number of people. He wanted to fund a representative to travel to the Midwest and East Coast to present Nevada's case to the site selectors. There were about 20 site selectors who were of significant influence to the industries the state was pursuing, and NCED would need to make an aggressive outreach effort to them in their location to attend trade shows of the cluster industries on the East Coast, and to bring the site selectors to Nevada for meetings with the legislative leadership, the elected officials, and the business community. It was amazing how many individuals had never been to Nevada.

- Ø With the new federal goal of doubling exports in the next few years, a new emphasis would be placed on supporting the growth of manufacturing in the United States.

Mr. Skaggs stated exports meant supply chain—physical logistics, as well as manufacturing. Companies were planning to pull back their foreign operations and increase manufacturing stateside to control the quality of products for export around the globe. The United States had a worldwide reputation for the good quality of its products, and there were great opportunities occurring in foreign countries.

Referring to Mr. Skaggs' testimony concerning a representative to make calls on different businesses and industries in the Midwest and eastern United States, Assemblywoman Mastroluca asked whether the representative would be an employee of NCED or a contract worker through another company. Mr. Skaggs replied the proposal was for a new employee to report to the NCED deputy director, who led the Business Development Team.

Assemblywoman Mastroluca asked how the position would be evaluated. Mr. Skaggs explained a lead was defined as a project for which the amount of investment and employment were known and one that had an established timeline. There were two measurements for this type of position: the number of solid leads and the number of leads that escalated to a prospect and a visit to the state.

Assemblywoman Mastroluca asked Mr. Skaggs to explain the relationship between the responsibilities of NCED and the Lieutenant Governor. Mr. Skaggs replied as chairman of the Commission, the Lieutenant Governor often had meetings with NCED staff on various issues, and he was engaged in meetings with new companies and consultants. He said an elected official was beneficial in keeping the relationships with consultants at a very high level.

Assemblyman Hickey said the Governor had recommended that Mr. Skaggs' position become a cabinet-level position, which would require weekly meetings.

He asked how Mr. Skaggs viewed that relationship. Mr. Skaggs replied the recommendation was still in the deliberation stage, but daily communication between the Governor's Office and NCED was necessary.

- **Nevada Business Expansion**

Continuing with his presentation, Mr. Skaggs stated that through the export and procurement programs, a lot of gains had been made in expanding local companies. As part of the expansion of Nevada businesses, he wanted to develop a national outreach program that would emphasize exporting and government procurement and include financing, targeted funding sources, workforce needs, and innovation. Because companies were busy and did not understand the network system to access these opportunities, NCED needed to approach them with the information on opportunities to help them grow. Mr. Skaggs said the outreach could be done through the development authorities and with existing staff, and no new positions would be required.

- **Defense Industry Expansion**

- Ø Organize defense businesses into a working organization using the National Defense Industrial Association's national model.

Mr. Skaggs stated the defense industry would be an excellent sector for expansion and job creation. He recalled that when there was a recent threat to close some of the military bases in Nevada, specifically in Hawthorne, there was no organized manner of reacting. Some last-minute action saved the Hawthorne base and kept it intact, and currently there were more missions going on there than most people knew. He noted the terrain was similar to that of Afghanistan, and there were other military entities besides the Army in Hawthorne.

Mr. Skaggs said NCED planned to form a chapter of an organization called the National Defense Industrial Association, which was an integration between smaller suppliers and major anchor businesses in the defense industry to create more jobs. It would be essential to create an optimum business environment for defense contracting companies by removing any barriers faced by existing Nevada companies while helping to attract new employers to the state. Mr. Skaggs wanted NCED to be much more engaged and learn about opportunities early on.

In a related issue, Assemblyman Bobzien said any sort of interface with the Department of Defense (DOD) on a site-specific basis in the state might give NCED the opportunity to engage DOD on its expressed concerns related to renewable energy projects around the state. Although DOD was a major player

in renewable energy in the state, it had also expressed concern with airspace, proximity, and similar problems. He wondered whether the expansion of the defense industry would provide another forum to address those issues as well.

Mr. Skaggs replied a contract was entered into with the Nevada Institute for Renewable Energy Commercialization (NIREC) to work with the defense industry, specifically the Nellis Air Force Base, Creech Air Force Base, and Naval Air Station Fallon, concerning any conflict arising with the growth of that industry. A previous conflict with Tonopah over a planned installation near the test range was resolved by the Office of Energy and the project was still moving forward.

- **Global Business Development**

- Ø The NCED would increase global business outreach to open new markets for Nevada businesses to export all goods, not just agricultural products, which was a current limitation.

Mr. Skaggs said many companies in the state needed more support in exporting their products, including the opening of technology, aerospace, and automotive markets. Export reports reflected huge gains every month. The NCED would increase the number of industry-specific offshore trade shows conducted for Nevada businesses.

Continuing, Mr. Skaggs said one of the challenges in global business development was transmitting website materials to foreign countries. There needed to be a way to pay the international representatives on a project basis when doing work at the request of NCED. Funds were included in the budget to authorize project funding on a case-by-case basis for the representatives.

Assemblyman Goicoechea noted that with the passage of Proposition 2 in California, known as the Prevention of Farm Animal Cruelty Act, the state had only scratched the surface as far as the ability to export agricultural products. Pershing and Lyon Counties were considering bringing a large segment of California's poultry industry into Nevada. He did not want to lose focus on a \$3.5 billion agricultural industry that was already in place.

Mr. Skaggs concurred that Nevada had a good export market for agricultural products; there were a lot of food-processing companies in Nevada, and agriculture continued to support a large portion of the state's population.

Continuing, Mr. Skaggs noted that the annual Consumer Electronics Show in Las Vegas had an international attendance of 25,000. The proposed budget included funds for NCED to attend. It was an expensive undertaking, but the

state needed to have a presence at the show to expand markets for electronics businesses.

Mr. Skaggs pointed out that in presenting the proposed biennial budget for NCED, he had provided strategies that had marketing included in each specific area. The budget included a request for an additional position for the specific function of managing tradeshow and recruiting Nevada companies to sell their products offshore.

- **Rural Manufacturing Workforce**

- Ø The NCED would launch a campaign for every county to use a National Manufacturer's Association template to interest K-12 and post-secondary students in manufacturing careers.

Mr. Skaggs said the workforce in Nevada did not include workers with skills and experience in manufacturing. Most people with manufacturing experience had already gone back to work. The NCED would launch a campaign for every county to use a National Manufacturer's Association template to expose K-12 and community college students to the opportunities in manufacturing careers. He said the 2011-2013 biennial budget contained funding for local "Dream It. Do It." materials and outreach to educational institutions, which was intended to help students understand the career opportunities in Nevada.

Mr. Skaggs reviewed the other categories of the NCED budget:

- **Personnel:** Add four FTE positions previously described.
- **Travel:** Increase out-of-state and in-state travel to accomplish the expanded programs, which was necessary for the agency to become more aggressive.
- **Training:** Provide technical training in economic development for new personnel.

Vice Chair Conklin affirmed NCED was requesting four new positions, and the base salary for each was \$77,500. He asked Mr. Skaggs whether the salaries were high enough to retain the type of personnel who would be effective in their respective roles.

Mr. Skaggs replied the local development authorities consistently paid higher salaries than NCED. He would have to provide training to the new employees because of the lower entry salary, and it would be difficult to recruit for the positions, even in these economic times. It was a unique skills set that was in high demand because of the current economic climate.

Vice Chair Conklin asked whether Mr. Skaggs had included anticipated turnover in the budget, noting turnover was costly. Mr. Skaggs agreed turnover was costly, but he had not included it in the budget. He had no indications there would be turnover, but it could happen. He added NCED had an outstanding economic development staff. He had the opportunity to fill five positions over the last biennium, and all were found through a search of the economic development program at the University of Nevada, Reno, and the private sector.

Vice Chair Conklin observed budget account 1526 included \$4.7 million in additional General Fund money, and he questioned why the decision was made to enhance NCED's budget rather than leverage the funds down through the local economic development authorities.

Mr. Skaggs responded there would be opportunities in all of the NCED accounts to involve the local development authorities in the areas of marketing and personnel. It was important for NCED to support the development authorities to ensure they were successful because they delivered the product at the local level. The state program had eroded to a point that, unless it found an aggressive way to carry forward the plan for diversification, too many entities would be running their own programs and there would not be enough collaboration toward one goal. That was the reason he was working toward centralization.

Vice Chair Conklin asked whether there was overlap between what NCED and the local authorities were doing. Mr. Skaggs replied that his office communicated directly with the local authorities concerning NCED efforts in an effort to avoid duplication. At a certain level, every project would be shifted from NCED to the development authority for local implementation.

Vice Chair Conklin speculated that \$5 million was not enough funding to cover the activities NCED would like to undertake with the aggressive plan as outlined. For instance, \$925,000 had been added to global business development over the 2011-2013 biennium, and with the exception of procuring the Olympic Winter Games, he was doubtful much more could be accomplished with that amount. He observed that nothing in The Executive Budget was added without being subtracted elsewhere, and the fundamental question was whether the return on investment in NCED's budget would be greater than the return on investment in the budget area from which the amount was subtracted.

Mr. Skaggs appreciated the Committee's dilemma. However, NCED had the opportunity to focus funds toward reducing the state's unemployment. He said substantial strides had been made with the \$1.46 million for economic

development in that area. With actual program money to carry forward the missions, NCED could help reduce the 190,000 unemployment figure. He said inroads had been made in marketing with staff bringing in multiple projects. However, every time he thought NCED was getting on solid footing with the global economy, it seemed to go back to sleep for a couple of months and then wake up again. It was difficult to make projections without knowing whether the global economy was on its feet. The NCED had signed deals that were not yet public, which Mr. Skaggs saw as a real commitment by the public sector that it had to serve this market.

Vice Chair Conklin stated he agreed with Mr. Skaggs, and he was not trying to diminish the value of economic development. He also believed there was an enormous amount of investment coming in the near future. But the reality for Nevada was that investment, if not met with the state's investment for a sustainable future for infrastructure, such as telecommunications, roads, education, and workforce development, would be a short-term investment for Nevada. Assemblyman Conklin said there needed to be a balance between what NCED and other parts of government were doing to ensure that people who invested in Nevada invested for the long-run, not for the short-run.

Noting that Mr. Skaggs had discussed reducing the unemployment in Nevada by bringing in jobs, Vice Chair Conklin asked whether NCED had performance indicators relative to the additional money being spent. Mr. Skaggs replied the indicators were being developed, and he would share them with the Committee when they were completed.

Vice Chair Conklin asked what NCED's timeline was to complete its proposals. Mr. Skaggs replied the proposals could be completed by July 1, 2011. He said the majority of the investments were to expand activities that were working and to add new activities to the mix. Technology commercialization would take more effort than the other areas, but the global outreach, defense industry, and recruitment programs were just being expanded.

ECONOMIC DEVELOPMENT AND TOURISM
NEVADA CATALYST FUND (101-1529)
BUDGET PAGE ECON DEV & TOURISM-22

Michael E. Skaggs, Executive Director, Commission on Economic Development (NCED), explained the Catalyst Fund was a proposed new discretionary grant program designed to bolster efforts to attract new businesses and assist in expansion of existing businesses. It would be administered by a nonprofit corporation that would determine starting points, entry levels, how the funds were disbursed, and who would disburse the money. Because that body was

not yet in place, he would have to bring further information to the Committee at a later date.

Vice Chair Conklin stated NCED was asking for \$10 million with no plan, and that would be difficult to approve. The Committee would need details as soon as possible.

ECONOMIC DEVELOPMENT AND TOURISM
NEVADA FILM OFFICE (101-1527)
BUDGET PAGE ECON DEV & TOURISM-10

Michael E. Skaggs, Executive Director, Commission on Economic Development (NCED), referred to page 10 of [Exhibit E](#) and reviewed the positive outcomes and economic effects of the Nevada Film Office:

- The Office produced an exceptional return on investment—an approximate 107-to-1 ratio for revenues received versus budget dollars allotted.
- Calendar year 2010 showed a return on investment of 121 to 1, which was an indicator for fiscal year 2011.
- An average motion picture created a daily economic benefit of \$125,000.
- A television series or reality programming had a minimum daily economic benefit of \$60,000.
- A 60-second commercial created a daily economic benefit of \$100,000.
- Nearly 700 productions in the state, including 7 major motion pictures, had been served by the Nevada Film Office, generating more than \$172 million in revenue to Nevada during the last two-year period.

Mr. Skaggs said the performance metrics were very good, and it was interesting to see the daily economic benefit of a motion picture at \$125,000. He remarked that some Committee members had been helping NCED as it considered possible film incentives. He questioned whether incentives were necessary to expedite the film industry in the state and stated he would not be submitting an incentive proposal. As some members were aware, other states were currently having problems with incentives, and several had decided to invest in film as a major industry. However, Mr. Skaggs thought film was similar to a technology company: the film would cost \$100 million, but a state

incentive might reduce the cost to \$70 million. If state money was available, it would be easier to pursue the industry.

Mr. Skaggs believed in Nevada the solution would be to determine how to provide production studios. The NCED was currently having conversations with municipalities that owned vacant facilities regarding the prospect of allowing companies to use the space for minimal rent. The film companies would then have access to facilities to use for production while they were filming on location.

Chairwoman Smith appreciated the work NCED had done in the area of incentives. One of her frustrations was the film companies did not take into consideration how much cheaper it was to do business in Nevada to begin with: there was much talent here and there was no state income tax.

Mr. Skaggs agreed with Chairwoman Smith, noting that in some states, such as New Mexico, film companies imported film crews, lighting crews, set crews, and even the catering from Los Angeles. Nevada had the assets and infrastructure in place because of its entertainment industry. He said NCED had been having discussions with Oscar Goodman, Mayor of Las Vegas, who was making contacts with the film industry in an attempt to open new channels of communication. Mr. Skaggs believed NCED would be able to build a case for the film industry without using incentives.

Assemblyman Bobzien said he shared the concerns and frustration with members of the film industry and its perceived lack of incentives in the state. Companies did not have a clear understanding of the overall advantages of doing business in Nevada. He was also concerned with the fact that the current trend was toward other forms of entertainment such as video games, which were directly connected to the film industry. Nevada was the gaming capital of the world, and perhaps the Film Office should be joining with other economic development agencies in thinking forward to the next generation of entertainment. There would be other opportunities. He asked whether the Film Office would head in that direction.

Mr. Skaggs replied it would; the visual media industry was obviously where entertainment was moving. It was a way to produce film of a higher quality at a lesser cost. He noted that Switch Communications in southern Nevada had the server to support the massive data needed to support these types of production activities. Carson City and Reno both had appetites for film and had programmers with the required skill sets; if a person could program a video for a slot machine, he could program a movie. Mr. Skaggs said because of northern

Nevada's proximity to the Bay Area, there were many untapped powerful connections.

Assemblyman Aizley had been concerned about the film industry issue. He asked what the negatives were that kept film makers from coming to Nevada. Mr. Skaggs replied the major reason was incentives; money was the only reason.

Vice Chair Conklin noted there was an implied statement made in the NCED budget because \$190,000 was being cut from the Film Office budget over the next biennium, even though there had been discussion about how important it was and the many opportunities. Mr. Skaggs said the reduction was because the Film Office was funded with decreasing room tax revenue.

Vice Chair Conklin recalled discussions that room tax revenue was now rising, but the Film Office funding was being decreased. He asked how the funding reduction would affect the ability of the agency to advertise and enhance its credibility to film, movie, music, and other production industries.

Mr. Skaggs said the plan to use existing vacant structures for production and promote the opportunity could be done with the proposed budget. It was a much more entrepreneurial and focused way of doing business in reaction to the funding situation.

Vice Chair Conklin remarked he was not satisfied with the answer, but he respected it.

ECONOMIC DEVELOPMENT AND TOURISM
RURAL COMMUNITY DEVELOPMENT (101-1528)
BUDGET PAGE ECON DEV & TOURISM-16

Michael E. Skaggs, Executive Director, Commission on Economic Development (NCED), explained the agency received a small General Fund appropriation for the purpose of disbursing the U.S. Department of Housing and Urban Development (HUD) Community Development Block Grant (CDBG) funds, using the peer-review process, and satisfying the HUD requirements for expenditure of those funds.

Vice Chair Conklin noted that out-of-state travel had been eliminated from the budget, and he asked what the effect would be on the agency. Margene Stenger, Director of Administrative Services, Commission on Economic Development, replied most of the out-of-state funds had been used for training

employees, and the agency hoped to use training funds for travel in the next biennium.

Referring to NCED's performance indicators for 2010, Vice Chair Conklin noted 25 CDBG requests had been projected, but there were actually 46 requests, and of the 46, 38 were funded. In fiscal year (FY) 2012 and FY 2013, the projection was 37 requests with 22 to be funded. He assumed a large percentage of the funding was federal, and federal funds were below the 2010 level. He asked the rationale for the reductions.

Des Craig, Director, Community Development Block Grant, Commission on Economic Development, replied that in the past, the CDBG program received an average of 25 applications per year. The number received and approved increased in 2010 because of additional funding from the American Recovery and Reinvestment Act of 2009 (ARRA). The projected number of requests was higher in FY 2012 and FY 2013, because the applicants would have the opportunity to submit two applications per year; in past years, they were restricted to one. However, the funding from the federal government would not increase, which would probably result in 22 to 24 applications ultimately being approved.

ECONOMIC DEVELOPMENT AND TOURISM
PROCUREMENT OUTREACH PROGRAM (101-4867)
BUDGET PAGE ECON DEV & TOURISM-23

Michael E. Skaggs, Executive Director, Commission on Economic Development (NCED), explained the Procurement Outreach Program used federal funding budgeted at \$444,951 for both fiscal years of the next biennium, with a General Fund appropriation of \$64,846 in fiscal year 2012 and \$67,342 in fiscal year 2013.

Margene Stenger, Director of Administrative Services, Commission on Economic Development, said when the budget was originally prepared, the federal government had indicated the state could claim a higher indirect rate. Since then, it was learned the indirect rate would drop from 90 percent to 77.25 percent, which would require more General Fund.

Vice Chair Conklin asked whether the lower indirect rate would mean a shortfall in the agency's biennial budget. Ms. Stenger replied the General Fund would need to increase approximately \$30,000 each year. She would provide Fiscal staff with a detailed accounting.

Assemblywoman Mastroluca understood that in addition to the change in the indirect rate, the state could no longer charge a fee to businesses that signed up for the program. She asked whether the loss of fees had been calculated into the budget.

Ms. Stenger said fee collections averaged approximately \$10,100 annually by charging new companies \$50. The federal government had indicated the state could no longer charge that fee for offset; the cost to the agency would be about \$10,000 per year, which had been included in the budget.

Vice Chair Conklin asked whether a budget amendment or a work program revision would be coming from the agency. Ms. Stenger replied that if the reduction took place as indicated, personnel would have to be cut. She explained the agency had received new figures from the federal government after the biennial budget was completed. She would work with the Budget Division on a budget amendment.

PUBLIC EMPLOYEES' RETIREMENT SYSTEM (101-4821)
BUDGET PAGE PERS-1

Dana Bilyeu, Executive Officer, Public Employees' Retirement System (PERS), introduced Tina Leiss, Operations Officer, Public Employees' Retirement System.

Ms. Bilyeu explained the Public Employees' Retirement System was a consolidated trust and a qualified defined-benefit, cost-sharing pension plan. There were 183 public employer participants in the program, and the state comprised approximately 16 percent of the total employees. The plan covered all public employers in all jurisdictions from the Battle Mountain General Hospital to the Clark County School District, the largest participating employer.

Ms. Bilyeu wanted to discuss the trust itself as the economy was coming out of the recessionary period. She noted that the markets themselves were typically the lagging indicators of recovery, which flowed through to the pension trust and to the return numbers for the portfolio. The market reached the bottom on March 6, 2009, and since that time, another \$9 billion had been earned, which was a 55 percent return. Of that return number, \$500 million was directly attributable to decisions that were made by the Public Employees' Retirement Board: an enhancement of the underlying return that the markets were going to provide and the rebalancing tools the PERS staff put into place.

Ms. Bilyeu said the annualized return since the inception of portfolio accounting for PERS in 1983 was 9.5 percent despite the recessions and downturns of the market. The current fiscal-year-to-date return number for the portfolio was

18.2 percent as of February 11, 2011, but the most important number would be as of June 30, 2011, which would affect the future actuarial valuation. She wanted to highlight for the Committee the fact that the investment portfolio was enjoying the recovery, and the stock and bond markets were recovering.

Ms. Bilyeu next moved to an explanation of the contribution rate mechanism based upon the actuarial valuation as of June 30, 2010, which was performed by an independent actuary. The June 30, 2010, valuation affected the contribution rates for the biennium beginning July 1, 2011. She explained the valuations included a determination of the liabilities of the plan and the contribution rates needed to fund the system on an actuarial reserve basis, meeting all of the assumptions, including the funding period and the funding policy of the Retirement Board.

Continuing, Ms. Bilyeu said several areas were analyzed during the course of the actuarial valuation, including plan design, member demographics, and economic assumptions. By statute, contribution rates changed the first full reporting period after July 1 of each odd-numbered year, as determined by the previous year's valuation. Therefore, the valuation for 2010 would affect the rates going forward.

Ms. Bilyeu referred to a handout ([Exhibit F](#)) that discussed the contribution rates. She explained the rates for the Employer Pay, Pre-Tax Contribution Plan (EPC) were displayed on page 2 of the exhibit. Approximately 90,000 of the 102,594 employees in the system participated in the regular fund, and 82 percent of those individuals participated in the pre-tax contribution program. Approximately 12,300 members participated in the police/fire fund, and nearly 85 percent of those members participated in the pre-tax contribution program.

Ms. Bilyeu explained the EPC was a shared contribution plan in which employees paid half the contributions on a pre-tax basis, so their salaries were reduced by a cost-sharing mechanism. Employees of local governments had the opportunity to negotiate for EPC by foregoing equivalent pay increases.

Ms. Bilyeu reviewed the 2011 Contribution Rates for the Employer-Pay, Pre-Tax Contribution Plan:

	<u>Regular Members</u>	<u>Police/Fire Members</u>
Existing Statutory Rate	21.50%	37.00%
2010 Actuarial Rate	23.63%	39.77%
Difference	2.13%	2.77%
Rate Effective 7/1/2011	23.75%	39.75%
Shared Rate Between Employer and Employee	11.875%	19.875%

Ms. Bilyeu explained the rate increase of 2.25 percent for regular members under the EPC would be split equally between the employee and the employer: 1.125 percent to the employee and 1.125 percent to the employer. Therefore, in addition to the 5 percent salary reduction proposed in The Executive Budget, there would be an additional salary reduction of 1.125 percent for state employees.

Continuing, Ms. Bilyeu said the rate for police/fire members would increase by 1.375 percent to the employer and 1.375 percent to the employee. Rates in the police/fire fund were more volatile because of the smaller number of employees in the fund and the relative funded status of the program.

Ms. Bilyeu reviewed the calculations for the contribution rates for the employee/employer after-tax contribution plan as of July 1, 2011.

	<u>Regular Members</u>	<u>Police/Fire Members</u>
Existing Statutory Rate	11.25%	19.00%
2010 Actuarial Rate	12.26%	20.265%
Difference	1.01%	1.265%
Rate Effective 7/1/2011	12.25%	20.25%

Ms. Bilyeu reported approximately 18 percent of the members participated in the after-tax contribution plan. The chief differentiating factor for the program was refundability of employee contributions if the member terminated public service and elected to withdraw his contributions. Refundability was the reason the rate was higher than the pre-tax program, which had no refundability option.

Ms. Bilyeu said the rate would increase by 1 percent for regular members, which would be matched by the employer. The matching rate for police/fire members would increase by 1.25 percent. The same factors affecting the police/fire fund in the EPC were also affecting this program: a smaller pool of participants resulted in more volatility.

Ms. Bilyeu wanted to discuss one budget category for the Committee's consideration, decision unit Enhancement (E) 849. She explained PERS was not a state agency—its duties and responsibilities affected all levels of government. However, PERS staff was paid as if in the state classified service. When the Governor made his adjustment to the proposed Executive Budget for the 5 percent reduction, the Department of Administration contacted PERS and asked whether the same reduction could be applied to its classified-like employees, and PERS agreed it could. Because neither the Department of Administration nor the System had authority to implement the salary reduction, it was included as an enhancement in E849. Ms. Bilyeu said the executive staff

of PERS had asked that they be treated the same as its line employees, so whatever determination was made by the Legislature regarding salaries, PERS employees expected the same to be applied to them.

Ms. Bilyeu asked for questions from the Committee, and there were none. She then turned the presentation over to Tina Leiss, the Operations Officer for the Public Employees' Retirement System, who made the following presentation:

The System is a non-General Fund agency. Revenue for the System's administrative budget is from transfers from the trust fund on a per-capita basis for each member and benefit recipient. These revenues are derived from employer and employee contributions received from the 183 public employers and 103,000 active members participating in the System.

The System's overall proposed budget for fiscal years (FY) 2012 and FY 2013 is a decrease from the last biennium. The proposed FY 2012 budget reflects a 7.8 percent reduction from the FY 2010 authorized budget, and about a 2.1 percent reduction from actual FY 2010 expenditures. The proposed fiscal year 2013 budget reflects a 6.6 percent reduction from the fiscal year 2010 authorized budget, a 0.9 percent reduction from the actual fiscal year 2010 expenditures. The per-capita fee that funds the administrative budget for fiscal year 2011 is \$3.10 for each member of the regular fund and \$3.27 for each member and beneficiary in the police/fire fund, down from \$3.97 and \$4.25, respectively, for fiscal year 2010.

The Retirement System performs a benchmarking service each fiscal year, as it is the only public pension system in the State of Nevada, with one minor exception. The System had no way to measure itself against other agencies within the State of Nevada, so it engaged in a benchmarking system that compares its service level and costs against other United States and national public pension systems to get an idea of how it compares in its service level and costs. In the last performance measurement, it was found that staff was responsible for 31 percent more work per full-time employee than the median U.S. peer public pension system of similar size and structure. The System's total administration costs, as measured per active member and beneficiary, are 22 percent lower than the median U.S. peer public pension system.

The proposed budget contains no new programs, positions, or projects. The base budget, as adjusted for maintenance, includes those items necessary to administer the trust fund and fulfill the fiduciary duties owed to all members and beneficiaries of the System. Expenses contained in the administrative budget include amounts for actuarial and external audit services, required client communications and notices, either by federal law, state law, or basic trust principles. We have two existing satellite counseling offices in Las Vegas in addition to our main office in Carson City and our disaster recovery site, which is a fully replicated site in the event of disaster. The budget also includes amounts for legal expenses, as we did not zero those out from the 2010 budget, because we have two ongoing litigation benefit cases that we anticipate will not be resolved until sometime either during this biennium or further out. As they are benefit cases, we do have a fiduciary duty to defend them vigorously. We also have the amounts necessary for the information technology services, as we do retain very sensitive financial information on all public employees and retirees. Of course, our information technology system is extremely important to us, and the security of that is extremely important to us.

The proposed budget includes two enhancement decision units that were actually proposed by the Retirement Board itself:

- E275, Maximize Internet and Technology, which includes amounts necessary for software upgrades and maintenance for the pension processing system. This enhancement unit almost entirely is composed of an upgrade from Windows 2000 to Windows 2008 for the servers of the pension processing system and all related upgrades for every application in the pension processing system so they will be compatible with the Windows 2008 upgrade to the servers. The unit also includes some smaller amounts for the necessary hardware replacements based on end-of-life cycle, as determined by the vendor's schedule.
- The other enhancement unit, E849, has already been discussed by Ms. Bilyeu. I also wanted to bring your attention to the other enhancement units, E670, E671, and E672, which were added at the System's approval by the Department of Administration to reflect the changes to the classified staff of the state and to mirror those for our staff as well.

The System also has two minor budgets: one for the Legislators' Retirement System and one for the Judicial Retirement System. The two budgets consist of staff time to administer those two systems, actuarial services for those two systems, and external audit services for those two systems.

I would be happy to answer questions on the budget.

Assemblyman Kirner asked why the Public Employees' Retirement System did not manage the deferred compensation plan. Ms. Bilyeu replied because PERS was an umbrella organization for all 183 public employers, it did not have specific duties assigned for any individual employer, so the state's deferred compensation plan was mirrored among the various local governments: they would have their own. She said because PERS owed the fiduciary obligations and the funding of the program, the pension fund was attributable to everyone; the PERS could not assume a single item for an individual employer.

However, Ms. Bilyeu continued, the Legislature granted the opportunity to open the Retirement Benefits Investment Fund in the 75th Legislative Session, which was a program for employers to participate collectively with PERS to fund their other postemployment benefit obligations. The fund was approaching \$100 million, and there were five participating employers, but more employers were anticipated to come into the program. Ms. Bilyeu said there was an opportunity for PERS to do things on a more global basis, but not for individual employers.

Chairwoman Smith asked Ms. Bilyeu to provide the Committee with the latest data on the critical labor shortage program.

Ms. Bilyeu replied the critical labor shortage program created by Assembly Bill No. 555 of the 71st Session (2001), actually sunsetted, and a new program was established through passage of Assembly Bill No. 488 of the 75th Session (2009). The new program was much more restrictive, with a number of requirements that employers must fulfill before they were allowed to hire positions for a critical labor shortage: they must make findings on the record, and they had to document the amount of recruitment done prior to seeking to fill a position with a retiree. Ms. Bilyeu said the total number of positions filled under A.B. 488 since the inception of the program in July 2009 was 103; 85 were related directly to education, 1 being a university position and the other 84 school district positions. There were approximately 10 in the senior judge program for either district courts, the Supreme Court, justices of the peace, or municipal senior judges to fulfill conflict cases; the remainder were general-jurisdiction-type employees.

Chairwoman Smith asked when the peak number occurred; she speculated that the number had to be higher when the economy was booming and teachers were being hired.

Ms. Bilyeu recalled the peak was about 600 positions under the prior program. She would be preparing a report for the Legislature showing the amount of response from the employers, and the supporting documentation provided before seeking to employ a retiree.

Chairwoman Smith wondered what the interest might be from state employees to retire, considering the recent and upcoming changes for public employees—furloughs, possible salary reductions, and benefit changes—and how the System might be affected.

Ms. Bilyeu replied the System had also been considering that possibility. She recalled when the Public Employees' Benefits Program was closed to local government retirees, absent the active workforce coming to that program with them, an additional 1,000 teachers retired in the month of September prior to the close of the program, which caused a \$266 million loss to the pension program. The PERS became very concerned if there were potential activities that may cause a surge in retirement. Ms. Bilyeu had staff run the numbers for fully eligible state employees as of June 30, 2011: 2,100 state employees and 3,600 teachers would be fully eligible to retire as of June 30, 2011. In addition, a small component could also become eligible to retire with purchase of service. From a retirement cost perspective, the number was fairly significant.

Ms. Bilyeu explained when patterns of retirement did not match the assumptions used to finance the program and actions changed the patterns, losses in the program would occur. Individuals would make decisions whether to retire based on the economics of their own personal situations, which was only one component of the scenarios compiled by PERS. Most eligible employees' average compensation periods were likely behind them, there would not be further increases in their benefit, and salaries were being reduced, all of which would be factors in their decision-making. The other two components would be employees' payouts for their annual and sick leave. A 5 percent salary reduction would affect those payouts.

Chairwoman Smith remarked the Committee's Fiscal staff should also consider how the payouts would affect the State General Fund. She wondered whether the PERS counselors anticipated the increase in retirees in 2005 when Senate Bill No. 485 of the 73rd Session (2005) was passed.

Ms. Bilyeu replied from a workload perspective for the System, September was always the largest month for retirements because teachers retired at that time, so PERS always staffed up for September. Because the PERS workload was cyclical, overtime was usually required. When the teacher retirements occurred in 2005, the Legislature granted PERS an overtime budget for that fiscal year to process the retirements ahead of time to meet the obligation of the System, as required by statute, that if an application was received by the 15th of the month, the retiree would receive a check from PERS that same month.

In the current situation, Ms. Bilyeu said the workload would depend how retiring employees notified their employers as to their termination from active service and how PERS would process them. She anticipated there would be a significant workload increase over a very short period of time.

Chairwoman Smith asked whether the counselors could predict the number of potential retirees based on their initial contacts with employees. Ms. Bilyeu replied she had spoken to the administrative analyst who oversaw the benefit estimate process, and she indicated inquiries and contacts had increased significantly in the past month. Members in the plan also had an opportunity to calculate benefits on the website. Therefore, not all potential retirees scheduled a counseling session, although it was encouraged.

Chairwoman Smith requested that Ms. Bilyeu keep the Committee and Fiscal staff informed during the session concerning the potential number of retiree and workload problems.

Assemblyman Kirner remarked that the Public Employees' Benefits Program (PEBP) had made significant changes which would go into effect in July. He asked whether the changes would affect the System.

Ms. Bilyeu replied it was difficult for the PERS staff to correlate proposed changes in PEBP with activities of the pension fund. System staff had discussed the fact that incentives to retire might actually be offset by potential costs for retirement healthcare. She was not sure how the two would work together, but certainly it would be part of the decision-making process for the employees. She noted the problem was not just the cost for the active employees, but there were also concerns with coverage for the retired state workers.

Assemblyman Kirner said he had been interested in the Public Employees' Retirement System for some time, and he noted this was the third increase in the last four biennia and the numbers had increased by 50 percent.

Ms. Bilyeu replied the contribution rates for the regular fund decreased in 2005; the trend went in both directions. With regard to the contribution costs into the program, the increases were not associated with actual normal costs of the accrual of the benefits, which had remained static from year-to-year since the late 1990s. Between 15 percent and 16 percent of the cost of the contribution rate was considered normal cost of the benefits. The change in the contribution rate was directly related to activities in the market cycles: the contribution costs had to go up when the unfunded liability went up, and the unfunded liability went up primarily when there were market losses. As the unfunded liability was reduced, components of the contribution rate would trend downward as well.

Chairwoman Smith thanked Ms. Bilyeu and her staff for their presentation.

Rick Combs, Assembly Fiscal Analyst, recalled that during the presentation of the Commission on Tourism's budget overview, Assemblyman Conklin had questioned how the Commission was able to fund a portion of the costs for the Division of Museums and History while the revenues from room tax were not increasing. Mr. Combs clarified the main reason was that in the current biennium, as a General Fund budget reduction measure in the 75th Legislative Session, the Commission on Tourism was required to transfer approximately \$5.6 million in room taxes from its budget to the State General Fund. The Governor's recommendation was to take that transfer to the General Fund out of the base budget, which had the effect of increasing the reserve level in that account in the base budget. The decision units in that account were then funded through reductions to reserve. He referred Committee members to the base budget in the Tourism Development Fund, budget account 1522, which reflected an increase in the reserve because the Governor's recommendation no longer included the transfer to the General Fund. In lieu of transferring room tax revenue to the General Fund, the Governor had recommended funding a portion of the costs of the Division of Museums and History with the freed-up room tax revenue. Mr. Combs said whether considered a reserve reduction or a transfer of room tax revenues, the reserve was made up of room tax revenues, so it was the basically the same either way.

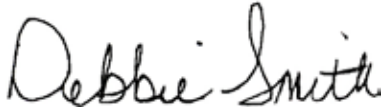
There was no public comment.

Chairwoman Smith declared the meeting adjourned at 10:36 a.m.

RESPECTFULLY SUBMITTED:

Sherie Silva
Committee Secretary

APPROVED BY:



Assemblywoman Debbie Smith, Chairwoman

DATE: _____

EXHIBITS

Committee Name: Committee on Ways and Means

Date: February 14, 2011

Time of Meeting: 8:08 a.m.

Bill	Exhibit	Witness / Agency	Description
	A		Agenda
	B		Sign-In Sheet
	C	Larry Friedman, Interim Director, Commission on Tourism	PowerPoint Presentation
	D	Janet Geary, Nevada Magazine	2012-2013 Budget Proposal
	E	Michael Skaggs, Executive Director, Commission on Economic Development	Agency Overview and Budget Presentation
	F	Dana Bilyeu, Executive Officer, Public Employees' Retirement System	July 2011 Contribution Rates