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

Seventy-Sixth Session
February 23, 2011

The Assembly Committee on Ways and Means and the Senate Committee on Finance, Joint Subcommittee on General Government was called to order by Chair Marcus Conklin at 8:05 a.m. on Wednesday, February 23, 2011, in Room 2134 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).

ASSEMBLY SUBCOMMITTEE MEMBERS PRESENT:

Assemblyman Marcus Conklin, Chair
Assemblyman Paul Aizley, Vice Chair
Assemblyman Kelvin Atkinson
Assemblyman Tom Grady
Assemblyman Randy Kirner
Assemblyman John Oceguera

SENATE SUBCOMMITTEE MEMBERS PRESENT:

Senator Moises (Mo) Denis, Chair
Senator Ben Kieckhefer
Senator David R. Parks
Senator Dean A. Rhoads

GUEST LEGISLATORS PRESENT:

Former Assemblyman Bernie Anderson

STAFF MEMBERS PRESENT:

Mike Chapman, Principal Deputy Fiscal Analyst
Rex Goodman, Principal Deputy Fiscal Analyst
Laura Freed, Senior Program Analyst
Wayne Thorley, Program Analyst
Connie Davis, Committee Secretary
Cynthia Wyett, Committee Assistant

DEPARTMENT OF BUSINESS AND INDUSTRY B&I – REAL ESTATE ADMINISTRATION (101-3823) BUDGET PAGE B&I-141

Gail J. Anderson, Administrator, Real Estate Division, Department of Business and Industry (B&I), identified herself for the record and introduced Steven Aldinger, Deputy Administrator, Real Estate Division, B&I.

Ms. Anderson referenced the PowerPoint presentation (Exhibit C) for budget account 3823, the administrative account for the Real Estate Division, an umbrella agency that operated under the provisions of *Nevada Revised Statutes* (NRS) Chapter 645. The real estate related programs included those for Real Estate Broker, Broker-Salesmen and Salesmen Licensees, Property Management Permits, and Business Broker Permits. The largest program, Real Estate Broker, Broker-Salesmen and Salesmen Licensees had 27,450 licensees for fiscal year 2010 and with the addition of Property Management and Business Broker permit holders, a total of 30,632 licensees. Ms. Anderson noted a 6 percent decrease overall from fiscal year 2009 in the number of real estate program licensees.

Ms. Anderson provided information on the following programs:

- Appraiser Licensing and Appraisal Management Companies operated under NRS Chapter 645C and had 1,630 licensees, a decrease of 1 percent from fiscal year 2009.

- Inspectors of Structures operated under NRS Chapter 645D and had 384 licensees at the close of fiscal year 2010, a 17 percent increase from fiscal year 2009.

- Sale of Subdivided Land for the registration of project developments operated under NRS Chapter 119. A significant decrease in new registrations and amendments to registrations was seen from fiscal year

2008 to fiscal year 2010, and registrations were anticipated to remain flat although several new projects had been registered and renewals of existing projects continued.

- The Timeshare Act licensed timeshare sales agents and representatives and operated under NRS Chapter 119A. An overall licensing decrease of 18 percent was seen from fiscal year 2009 to fiscal year 2010, and a decrease of 31 percent was seen from fiscal year 2008 to fiscal year 2010.

Ms. Anderson noted that the economy had affected the timeshare industry, which, in turn, affected the revenue that budget account 3823 received as a fee from the industry.

Ms. Anderson pointed out that the negative economy had affected total overall licensing with a significant decrease from 45,568 licensees in fiscal year 2007. The total number of licensees decreased from 37,987 in fiscal year 2009 to 35,222 in fiscal year 2010, a 7 percent decline. A 19 percent decline was seen from 43,651 licensees in fiscal year 2008 to fiscal year 2010.

Chair Conklin noted that the fiscal year (FY) 2011 work program amount for Real Estate Administration Other Fund revenue totaled $1,585,376 for fiscal year 2011 while fiscal year 2010 actual revenue totaled $1,212,717. With fees and licensees decreasing, Chair Conklin asked whether it was anticipated that the work program amount for fiscal year 2011 would be below $1,585,376 and, if so, what the projection was for the year-end figure for the fee-amount changes.

Steven Aldinger, Deputy Administrator, Real Estate Division, B&I advised that the half dozen separate fees were reviewed individually, and he did not have a collective fee number with him.

Ms. Anderson reiterated that some decline overall was expected and indicated she would provide the collective fee number to the Subcommittee's staff following the meeting.

Continuing her presentation, Ms. Anderson advised that the Real Estate Administration budget included the Real Estate Commission and the Commission of Appraisers of Real Estate. Ms. Anderson said, "The Commissions heard cases or approved proposed settlement agreements involving licensees for possible imposition of discipline including fines, education, downgrade, suspension, or revocation of license."

Ms. Anderson further advised that all real estate and appraisal licensing fees were deposited to the General Fund while budget account 3823 received revenue from timeshare registration licensing fees and licensing and property management permits.

Ms. Anderson reported that for the past decade, timeshare revenues increased as new timeshare projects were developed. Timeshare revenue, at a high of $1,019,408 in fiscal year 2008, declined to $766,179 in fiscal year 2009 and further declined to $560,206 in fiscal year 2010. Ms. Anderson projected timeshare revenue to flatten at $530,000 for fiscal years 2012 and 2013.

Ms. Anderson reported that the Real Estate Administration budget had been negatively affected both by the declining fee revenue, particularly in the timeshare industry, and across-the-board General Fund budget reductions. In 2008 she said the account included 36 full-time employees. During the 2009 Legislative Session, four employees were eliminated to address General Fund reductions, and during the 2010 Special Session, three additional employees were eliminated because of the revenue shortfall.

Ms. Anderson advised that further reductions were necessary in preparing the budget within the agency's fiscal year 2010 appropriation cap minus the General Fund reductions that had been made.

Ms. Anderson provided the following information concerning decision unit Enhancement (E) 600:

> E600 eliminated eight full-time positions, one of which was vacant, and reduced one position to part-time. The eliminated positions were across all sections of the programs in Carson City and Las Vegas. Most notably, the Carson City Licensing Section would close with the loss of two positions, and all licensing functions would take place in the Las Vegas office. Licensing transactions could be accomplished either by mail, walking into the Las Vegas office, or electronically.

Assemblyman Aizley asked agency representatives to comment on the increased caseloads and workloads that would occur as a result of the recommended position eliminations.

Ms. Anderson responded that the agency's online pilot program for real estate licensing that began in July 2010 had seen monthly increases in utilization, and the agency was ready to add additional programs, which was anticipated to eliminate some of the workload. She explained, however, that duties including processing, fiscal reconciliation, and posting to the Office of the State Treasurer would continue to be needed.

Ms. Anderson pointed out that Las Vegas Compliance Section caseloads would increase because of the elimination of two investigator positions, a 50 percent reduction from several years ago and a 55 percent reduction from 2008 staffing levels. Ms. Anderson indicated that the agency would continue to become as automated as possible, and staff would "work hard" to cover all duties, but that delays in response time would, most likely, occur.

Chair Conklin asked agency representatives to comment on how the closing of the Carson City Licensing Section would affect new licensees and whether time delays would occur for licensee transactions processed through the mail.

Ms. Anderson indicated that although transactions through the mail were a standard practice for the agency, she was uncertain whether time delays would occur in the future. She said, however, that broker-office changes, or a broker-office closure and consolidation, for example, created intensive paperwork and was one of the challenges that had been discussed with the industry. Ms. Anderson said that industry representatives made some suggestions, and agency staff would continue to work through change processes with the industry as efficiently as possible.

Continuing her presentation, Ms. Anderson provided information on General Fund reductions in decision units E692, E950, E972, and E977.

> E692 eliminated one position and reduced two positions to part-time and reduced in-state travel and associated costs for two Commission meetings. One administrative assistant position was eliminated from the Projects Section in the Las Vegas office.

Ms. Anderson referenced an organizational chart (Exhibit D) that reflected the elimination of all administrative assistants, with the exception of administrative assistant licensing clerks from the Real Estate Division's Appraisal and Compliance Sections, and the Administrator's Office.

Ms. Anderson discussed the adverse impact on the Las Vegas Projects Section with the elimination of the Projects Section administrative aid, which reduced the Section from four full-time employees in 2008 to a 0.6 full-time equivalent (FTE) position, or an 85 percent reduction. The reduction would leave the Projects Section closed without staffing at least twice a week or possibly more because of sick leave or annual leave.

Additionally, Ms. Anderson reported that the reduction of two full-time positions to part time, one of which was a compliance/audit investigator in the Carson City office, would leave the office without an investigator at least twice a week and additional days when other leave was involved. Ms. Anderson also reported that the reduction to part-time for the administrative assistant, who was the coordinator for the Real Estate and Appraiser Commissions, would require the supervisor for the position to provide support to the Commissions.

Ms. Anderson advised that the proposed budget reduced the number of meetings for the Real Estate Commission from five to four and the number of meetings for the Commission of Appraisers of Real Estate from four to three. She said the Commissions would face "very full dockets" for the scheduled meetings especially with the caseloads the Real Estate attorneys had been "aggressively" working to address. A caseload of 160 pending cases six months ago was reduced currently to about 100 pending cases.

In response to concerns Senator Kieckhefer raised regarding agency locations and the elimination of administrative assistants, Ms. Anderson advised that the agency had one office in Carson City and one in Las Vegas. Ms. Anderson reiterated that only five administrative assistant licensing clerks would remain in the Las Vegas office.

Chair Conklin asked agency representatives to comment on how caseload, customer service, and response time would be affected by the proposed position eliminations in E692. Noting the reduction of a compliance/audit investigator position from full-time to part-time (0.6 FTE) as well as the elimination of a compliance/audit investigator in E600, Chair Conklin asked how many investigator positions would remain in the Compliance Section and whether the remaining investigators would be sufficient for the number of complaints filed against licensees.

Ms. Anderson responded that 3.6 compliance investigators would remain, two of whom were located in Las Vegas. Ms. Anderson explained that an E600 unit chief investigator position was vacated by retirement and filled through an internal recruitment leaving two investigators in the Las Vegas office and a 0.6 FTE position in the Carson City office. Ms. Anderson added that the chief would be required to supervise investigations and to take on an investigative caseload as well as other tasks associated with constituents and broker offices. Ms. Anderson agreed that increasing caseloads were a concern and reported that her staff prioritized their workloads on fiscal matters, such as money missing from trust accounts and bounced checks, and imposed administrative fines for technical violations. She also discussed the agency's current high-profile cases and reported that investigative information was shared with the Federal Bureau of Investigation on 22 cases that involved loan fraud, embezzlement, and commission skimming that occurred at the height of the real estate market in 2007. She advised that the agency had some ability, through an Advisory Review Committee, to negotiate settlements for review by the Commission.

Chair Conklin expressed concern for the proposed position eliminations, which he indicated might reduce the opportunity to ensure compliance with regulatory practices that protected the industry and Nevada consumers particularly at the point the economy began to recover. Chair Conklin indicated that on other issues, such as mortgage lending fraud, Nevada continued to be a center for the type of activity that made the state a dangerous place to invest money.

Senator Denis addressed the agency's performance indicators and noted that the number of investigations opened by the Compliance Section was projected to increase from 422 to 450. Senator Denis asked how the agency would be able to accommodate the increase in investigations with the proposed reductions in Compliance staff.

Ms. Anderson indicated that not all complaints were opened for investigation. She explained that the chief investigator reviewed the number of complaints filed to determine jurisdiction and then decided whether an investigation should be opened. She explained that the agency was short 1 investigator position that was kept vacant for salary savings and a further reduction of 1.5 positions was proposed. Currently the four investigators were each working on about 80 cases. Ms. Anderson commented that the investigators would be assigned cases and agency representatives would make decisions based on meeting the revenue shortfall and General Fund reductions and staying within the agency's appropriation cap. Additionally, she said she had attempted to protect program officers, who she identified as leaders and key decision makers. Ms. Anderson concurred that when the economy recovered, restoring staff to the Investigative Section would be her highest priority.

Senator Denis noted that with the projected increase in the number of investigations, employees were expected to do more with less and agreed that restoration of investigative staff should be a priority.

Chair Conklin recognized former Assemblyman Bernie Anderson as a member of the audience and as Chair of the Assembly Committee on Judiciary and Speaker pro Tempore prior to the 2011 Legislative Session.

Continuing her presentation, Ms. Anderson reported that decision unit E950 proposed transferring an administrative aid position from the Real Estate Administration account to the fee-funded Real Estate Education and Research account. The transfer was expected to relieve some of increased workload projected for the Las Vegas office. Ms. Anderson said that the administrative aid was familiar with licensing processes and would assist with answering phones for the Real Estate Licensing Section.

In response to concerns Chair Conklin raised concerning the proposed transfer and responsibilities of the administrative aid, Ms. Anderson explained that the position would assist callers by "answering questions and directing callers to resource locations, such as the Division's website, where forms could be located to complete processes." As previously indicated, she said the assistance would ease the workload and provide more work processing time for the Licensing Section staff. Additionally, Ms. Anderson reiterated that the administrative assistant was familiar with licensing processes.

Chair Conklin asked whether other benefits or efficiencies would be gained by the transfer, aside from General Fund savings.

Ms. Anderson advised that major benefit provided by the transfer would be to provide the Licensing staff additional time to work on processing licenses.

Chair Conklin indicated that subsequent to the meeting, Fiscal Analysis Division Analyst, Wayne Thorley, the Subcommittee's staff associate, would have some additional questions for the agency representative concerning the E950 transfer.

Continuing, Ms. Anderson reported that decision units E972 and E977 recommended transferring an accounting assistant position and an administrative services officer position to Business and Industry Administration as part of consolidating administrative services within the Department and also to help meet General Fund reductions.

Additionally, Ms. Anderson advised that decision unit E325 recommended an increase in authority to fund a modification of the Federal Financial Institutions Examination Council (FFIEC) annual national registry fee. The FFIEC annual national registry fee was "built into" the appraisal licensing schedule of fees and passed through from the state to the federal government. Ms. Anderson indicated that the increase in the national registry fee would be funded through an increase in appraiser licensing fees.

Senator Denis referenced decision units E972 and E977 that recommended transferring two positions to the Business and Industry Administration account and asked agency representatives whether the positions would be solely dedicated to the Real Estate Division or to all divisions within the Department of Business and Industry (B&I).

Ms. Anderson responded that it was her understanding the two employees would continue with their current functions in the Real Estate Division.

Bill Maier, Administrative Services Officer, Director's Office, B&I, concurred that the two positions would continue to support the Real Estate Division but would receive assistance from B&I staff to cover additional duties as well. Mr. Maier said that as a part of the Department-wide centralization process, accounts receivable staff would also be brought in to provide assistance. Additionally, Mr. Maier said that the B&I office was funded through an assessment from all of the divisions within the Department, and thus, the positions being transferred from the Real Estate Division would assist with work programs and budget development for all B&I agencies.

Senator Denis asked how the transfers would affect the workload of the remaining administrative staff in the Real Estate Division.

Ms. Anderson advised that the Real Estate Division's administrative staff would no longer perform any of the fiscal functions, which would be assumed by the Director's Office staff.

In response to Senator Denis, who asked how the reduction of work in the Real Estate Division would affect the Director's Office, Mr. Maier reiterated that the transfer of positions from the Real Estate Division was a part of the effort to consolidate Department-wide administrative services to meet General Fund reductions. Mr. Maier recalled that at one time B&I Department staff handled processing for the Real Estate Division and indicated staff would fall back into that pattern. Once processes were developed, he said that staff from other divisions would be brought in as well.

Continuing her presentation, Ms. Anderson referenced decision units E710 and E715 and said that maintaining functioning equipment was essential for all staff who worked in the Division's Web-based integrated data system, which included all sections and programs administered by the Real Estate Division. Ms. Anderson provided the following information concerning the E710 and E715 decision units:

- E710 recommended replacement of 2003 and 2005 printers, computer hardware, and associated software that were deferred from the previous biennium's replacement schedule.

- E715 recommended replacement of the Division's out-of-warranty servers critical to support daily operations that used the integrated data system and provided:

  - A Licensing database for all programs.
  - Compliance Enforcement case tracking for all programs.
  - Discipline tracking for all programs.
  - Support of online constituent transactions (license renewals) for all licensing programs.
  - Online public review of licensee status.

In response to Senator Denis' concerns regarding replacement equipment and software, Ms. Anderson advised that while the Division had replaced some of its hardware and software, the budget request recommended funding for equipment and software in accordance with the replacement schedule.

In closing, Ms. Anderson provided the following information on how the budget would be affected by the proposed reductions:

- The General Fund appropriation for budget account 3823 in fiscal year 2009 was $1.5 million and in fiscal year 2013 was projected at $692,000, a decrease of 53 percent.

- The Inspector of Structures Program had zero staff after having been reduced 100 percent during the 26th Special Session (2010).

- The Projects Section was reduced by 85 percent.

- The Compliance Section was reduced by 49 percent.

- The Licensing Section was reduced by 57 percent.

- The overall staffing of the agency would be reduced from a high of 36 in fiscal year 2008 to a proposed 15.8 FTE positions, a 56 percent reduction.

Chair Conklin noted that the Governor had recommended a supplemental appropriation of $317,092 in fiscal year 2011 because of a projected shortfall in timeshare licensing and filing fee revenue. He asked whether the Real Estate Division could use a source of funding other than from the General Fund to address the shortfall from the continued decline in the timeshare market. Additionally, he noted that over the past two fiscal years, actual timeshare licensing and filing fee revenue were below projections and asked what steps the Division had taken to ensure the problem did not continue to occur in the future.

In response to the question concerning timeshare licensing and filing fee revenue, Ms. Anderson advised that revenue had diminished from the time when new projects were being constructed or new units were being added to already-developed projects. Ms. Anderson reported that current projections were based on the receipt of $500 per year for each renewal of a permit to sell timeshares.

In response to the question concerning the availability of other resources, Ms. Anderson said that in the 26th Special Session (2010), a one-time transfer for fiscal year 2010 was made from the Common-Interest Communities account, budget account 3820, to the Real Estate Division's Administration account.

Additionally, Ms. Anderson advised that during the 26th Special Session (2010), $100,000 was "swept" from the Real Estate Recovery Account and $200,000 from the Real Estate Education and Research account to the General Fund. She reported that the number of Recovery Fund claims had quadrupled and might further increase during fiscal year 2011 because of claims against licensees. Ms. Anderson said that the Fund could not remain solvent if additional funds were removed.

Chair Conklin asked whether fee collections would be affected by the fewer number of Compliance staff available to regulate the industry.

Ms. Anderson attributed the decrease in the agency's revenue component and the number of overall licensees to the negative economy rather than to lack of staff. Ms. Anderson said, however, that the agency representatives worked closely with industry representatives on licensee accountability and to protect the public.

Hearing no further questions from the members of the Subcommittee, Chair Conklin closed the hearing on budget account 101-3823 and opened the hearing on budget account 101-3820.

DEPARTMENT OF BUSINESS AND INDUSTRY B&I – COMMON INTEREST COMMUNITIES (101-3820) BUDGET PAGE B & I-160

Gail J. Anderson, Administrator, Real Estate Division, Department of Business and Industry (B&I), identified herself for the record and introduced Steven Aldinger, Deputy Administrator, Real Estate Division, B&I, and Bill Maier, Administrative Services Officer, Director's Office, B&I.

Ms. Anderson provided a PowerPoint presentation (Exhibit E) on Common Interest Communities, budget account 101-3820, and reported that unit owners paid fees through homeowners' association registrations to the Office of the Ombudsman for Owners in Common-Interest Communities and Condominium Hotels. Ms. Anderson provided the following information:

- The ombudsman's duties included the compilation and maintenance of registrations of all homeowners' associations organized within the state.
- The office had 17 full-time equivalent (FTE) positions and a seven-member Commission for Common-Interest Communities and Condominium Hotels.
- There were 2,954 homeowners' associations in the state, which included 472,372 units, approximately 1 percent less than in fiscal year 2009, but up 5 percent from fiscal year 2008. With little new development, projections for increased numbers of associations and units were expected to remain flat.

Ms. Anderson reported that the 2009 Legislature authorized a new auditor position, but the position was vacant for most of fiscal year 2010 after the person who was originally hired resigned a few months after starting. The employee currently in the position, an experienced and highly qualified certified public accountant, during the first half of fiscal year 2011 conducted 34 field audits of registered homeowners' associations, 7 financial investigations associated with operating funds of homeowners' associations, and identified 22 delinquent associations for follow up and audits. A long-term goal was to visit all homeowners' associations in the state, both self-managed and managed by community association management companies. Ms. Anderson reported a positive response from representatives of both types of associations on the work performed by the current auditor. Additionally, Ms. Anderson advised that the most serious types of complaints lodged with the Compliance Section for the program concerned fiscal irregularities, incompetent fiscal management, embezzlement, and fraud.

Ms. Anderson reported that:

- Decision unit Enhancement (E) 326 requested additional funding authority for the auditor to travel to the north or other relevant parts of the state to conduct quarterly field audits.

- Decision unit E710 requested the replacement of two desktop computers and associated software per the state's recommended replacement schedule.

Ms. Anderson advised the Subcommittee members that the Common-Interest Communities program required legal interpretations on a daily basis and that she was continuing to work on securing funding for a dedicated deputy attorney general who would be located at the Real Estate Division office in Las Vegas. The legal counsel would prosecute cases before the Commission that had jurisdiction over licensees, community managers, board members and unit owners. Ms. Anderson indicated that the position would be funded entirely by fees and was hopeful that the request would be approved and presented as a budget amendment.

Ms. Anderson provided the following Office of the Ombudsman statistical data concerning notices of sales and foreclosures for nonpayment of assessments, an area she indicated that had seen significant growth over the past three years:

- Notices of sale received in fiscal year 2008 – 324

- Notices of sale received in fiscal year 2009 – 1,137
- Notices of sale received in fiscal year 2010 – 3,404
- Notices of foreclosure received in fiscal year 2008 – 45
- Notices of foreclosure received in fiscal year 2009 – 36
- Notices of foreclosure received in fiscal year 2010 – 122

Senator Denis noted that the performance indicator for the actual percent of complaints resolved when parties met with the ombudsman increased from the projection for fiscal year 2010. Senator Denis asked agency representatives to comment on what the percentage actually meant and indicated he preferred to see numbers that would more clearly define the workload rather than percentages.

In response, Ms. Anderson reported the following statistics concerning the voluntary Ombudsman's Conferencing Program:

- In fiscal year 2010, 58 percent of complaints were successfully resolved when parties met with the ombudsman–74 conferences were held and 231 conferences were offered.

Ms. Anderson clarified that 74 conferences were held between the ombudsman and complainants in fiscal year 2010, and 58 percent, or more than half of the complaints were resolved.

- In fiscal year 2009, 69 percent of complaints were successfully resolved when complainants met with the ombudsman–92 conferences were held and 298 were offered.

Ms. Anderson referenced a document entitled, "Budget Account 3820 Common-Interest Communities," that included additional statistical data for performance indicators (Exhibit F).

Senator Denis also noted that projections for the new performance indicators, "investigations completed within ninety days and training attendance growth" reflected percentages and again indicated he would prefer to see numbers rather than percentages.

Senator Denis noted the performance indicator for the "number of intervention affidavits received by the Division's Ombudsman's Office" had been projected at 327 for fiscal year 2010. He asked the agency representative to comment on the actual number of 264 affidavits filed with the Ombudsman's Office in 2010.

Ms. Anderson advised that the document entitled, "Budget Account 3820 Common-Interest Communities" (Exhibit F) included information concerning intervention affidavits. The intervention affidavit or the complaint was received and reviewed by the ombudsman whose role it was to facilitate a resolution between parties with homeowners' association-related disputes.

In response to Senator Denis' question concerning the performance indicator for "training attendance growth," Ms. Anderson reported that the ombudsman's office staff continued to offer education classes for owners governed by homeowners' associations and board members. She said staff had created a database of participants who received emails that promoted training to increase participation.

The following classes were offered by contracted instructors:

- In fiscal year 2009, 23 classes were offered, and 616 attended.
- In fiscal year 2008, 18 classes were offered, and 340 attended.

The following classes were offered by staff:

- In fiscal year 2010, 32 classes were offered, and 920 attended.
- In fiscal year 2009, 24 classes were offered, and 329 attended.
- In fiscal year 2008, 12 classes were offered, and 100 attended.

In response to Senator Denis, who noted only a 5 percent increase in training attendance projected for fiscal year 2012, Ms. Anderson indicated that staff was attempting to increase participation, and Commission members were recommending training classes as part of their disciplinary follow up.

Senator Denis also questioned the growth in noncompliant homeowners' associations and what effect the projected growth had on late fee revenue collected by the agency and budgeted at $15,000 in each year of the biennium.

Ms. Anderson responded that although noncompliant homeowners' associations might increase, the agency was interested in having the auditor identify delinquent accounts or nonregistered associations. She said progress had been made to ensure identification of those who should be under the registration and participating in the program.

Assemblyman Aizley asked whether the annual $3-per-unit fee was collected on empty units.

Ms. Anderson explained that fees were collected on units that had been sold but were not collected on those that were unsold. Additionally, Ms. Anderson advised that all fees were paid to master associations that had subassociations. She said that one of the auditor's duties was to reconcile reports received from master associations and subassociations to determine the actual number of units for which fees were received.

Hearing no further questions from the members of the Subcommittee, Chair Conklin closed the hearing on budget account 101-3820 and opened the hearing on budget account 225-1522, Tourism Development Fund.

ECONOMIC DEVELOPMENT AND TOURISM – TOURISM - TOURISM DEVELOPMENT FUND (225-1522) BUDGET PAGE ECON DEV & TOURISM-29

Larry Friedman, Interim Director, Commission on Tourism (NCOT), identified himself for the record and introduced Steve Woodbury, Chief Deputy Director, Administration, NCOT.

Mr. Friedman provided the following overview concerning the health of tourism across the globe and NCOT budget:

- The United Nations World Tourism Organization reported that global tourism "recovered strongly" in 2010, spurred by emerging economies in Asia, the Middle East, and the Americas. An overall increase of 6.7 percent to 935 million international tourist arrivals was seen in 2010.

- The U.S. Department of Commerce reported that United States travel and tourism spending grew at an annual rate of 8 percent in the third quarter, the highest rate since 2004.

- International visitation to the United States increased by 12 percent in the first eight months of 2010.

- According to the National Business Travel Association, a 4 percent increase in corporate travel was seen in 2010, and corporate travel was expected to rise another 7 percent in 2011.

- In Nevada, visitor volume was up in 2010, and travel spending was projected to increase by 2.6 percent to $46.6 billion.

- Although representatives of the Commission on Tourism (NCOT) were mindful of continuing unemployment and foreclosures, consumer confidence and spending were increasing, and modest growth in Nevada's travel industry was expected to continue.

- The NCOT received three eighths of 1 percent of statewide room tax to market Nevada's tourism product and increase travel to the state.

- The NCOT budget proposed to continue the following activities to "effectively expose" consumers and travel industry professionals worldwide to Nevada and to influence visitation:

  - Marketing
  - Media relations
  - Sales
  - Rural programs

- The Executive Budget proposed to transfer the Division of Museums and History and the Nevada Arts Council to the Commission on Tourism.

Mr. Friedman discussed the revenue that NCOT's activities produced for the General Fund. He pointed out that in 2010 the Commission's advertising alone generated $110 million in tax revenue. He said Commission representatives looked forward to a time when more than three eighths of 1 percent of room tax could be dedicated to promoting tourism in Nevada. In closing, Mr. Friedman advised the members of the Subcommittee that Commission representatives would continue working to increase visitation throughout the state, and although current efforts were successful, more could be done with additional funding. Mr. Friedman turned the microphone over to Steve Woodbury for presentation of the budget overview.

Steve Woodbury, Chief Deputy Director, Administration, Commission on Tourism (NCOT), expressed his appreciation to the Subcommittee's staff for their work on behalf of the budgets that were before the members.

Mr. Woodbury provided the following information:

- The NCOT was funded with three eighths of 1 percent of statewide room tax collections. Actual collections in fiscal year 2010 amounted to $13,842,014. Subsequent to the first overview presentation of NCOT budget, room tax projections were revised for fiscal years 2011, 2012, and 2013 because November and December 2010 actual collections were lower than projected.

- Current projections for room tax collections were:

  - $14,274,906 in fiscal year 2011, an increase of 3.1 percent
  - $14,685,395 in fiscal year 2012, an increase of 2.9 percent
  - $15,232,648 in fiscal year 2013, an increase of 3.7 percent

Mr. Woodbury provided the following information on expenditures beginning with Maintenance (M) decision units:

- M100 reflected statewide inflation costs.

- M101 reflected agency-specific inflation and requested additional funds in both years of the biennium to allow for anticipated postage increases to fulfill consumer requests for travel information.

- M150 decision unit by category:

  - Category 01 – Personnel – One-time costs for terminal annual leave payouts and adjustments for longevity pay and furlough leave were removed.

  - Category 04 – Operating – Annualized cost of press clipping and media-monitoring services that provided the ability to measure the results of media-relations efforts. There were reduced expenditures for off-site storage units, elimination of other one-time costs, and various routine adjustments.

  - Category 21 – Transfer to the Nevada Film Office Account – The transfer was decreased in each year of the biennium for adjustments in payroll.

  - Category 25 – Transfer of room tax dollars to the General Fund – The transfer was used to mitigate the General Fund shortfall for the current biennium. The removal of the transfer in M150 was offset by the amount of room tax needed to support the operations of the Division of Museums and History and the Nevada Arts Council.

- Ø Category 26 – Information Services – M150 included the removal of one-time equipment purchases and other schedule-driven adjustments.

- Ø Category 31 – Special-use category for marketing and contracts – The category included adjustments to several contracts that included an increase to the Commission's consumer fulfillment vendor contract based on projected consumer demand. The decision unit also included an adjustment to allow for frequency analysis in each wave of the Commission's advertising marketing effectiveness study and an increase in the sample used for the study.

- o The decision unit also provided for statewide tourism travel spending and an economic impact report.

- o M300 was related to fringe benefit rate adjustments.

Mr. Woodbury reported that decision units Enhancement (E) 230 through E235 transferred $3.78 million over the biennium from the Fund for the Promotion of Tourism to the various state museums and the Nevada Arts Council. The funds would be used to cover approximately half of the operational costs of the museums and the Nevada Arts Council.

Senator Denis asked agency representatives to comment on how the transfer of the Division of Museums and History and the Nevada Arts Council would enhance the Commission on Tourism's mission that promoted Nevada as a tourism and travel destination.

In response to Senator Denis, Mr. Woodbury said that transferring the Division of Museums and History and the Nevada Arts Council to NCOT was "a part of a unique solution" to resolve the problems associated with "unique economic times for the state," and the agency embraced it. He pointed out that NCOT currently promoted cultural tourism and museums and with recently increased communication with the representatives of the two entities, additional ways were being discovered to better market and promote their events.

In response to Senator Denis' inquiry concerning whether the transfer appeared to be a good fit, Mr. Woodbury said it was because museums and cultural affairs products, particularly in rural Nevada, were already marketed by NCOT. Mr. Woodbury indicated that the protection of the room tax for promotion and to generate revenue and visitors for the state was one of NCOT's concerns but reiterated that the transfer would be embraced.

Senator Denis noted the recommended room tax revenue transfers and asked whether sufficient funding would exist to meet the one-to-one state match requirement for the Nevada Arts Council to receive the federal State Partnership Grant from the National Endowment for the Arts.

In response to Senator Denis' inquiry, Mr. Friedman said the match requirement had been a concern for the Arts Council, but in a recent meeting, a key Arts Council staff member mentioned a solution to the problem. Mr. Woodbury pointed out, however, that a decline in room tax would be a shared decrease with all of the agencies that received funds from room tax.

Senator Denis asked whether sufficient funding existed, going forward, for all of the agencies that would be within NCOT.

In response to Senator Denis' inquiry, Mr. Friedman advised that room tax projections reflected that funding would be sufficient to fund the agencies within NCOT.

Mr. Woodbury indicated there was concern that the transfer would decrease the agency's reserve funding. He said, however, that if reserve funding was removed and actual expenditures and revenue from room tax remained flat, funding could continue at that level indefinitely.

Mr. Woodbury provided information concerning the following Enhancement (E) decision units:

- E251 increased the fee for the representative office in China to match the current year's budget authority as well as contract authority. The current contract was level-funded for the next biennium, and plans going forward called for the China office to be level-funded.

- E252 brought the Commission's marketing and advertising authority up to fiscal year 2010 authority that allowed the Commission to take advantage of opportunities to host major events. The Commission would host three significant tourism industry events in Nevada that included the Go West Summit, the National Tour Association Convention, and Pow Wow, one of the largest international travel shows in the world. The NCOT would partner with the Reno-Sparks Convention and Visitors Authority, the Las Vegas Convention and Visitors Authority, and rural partners to produce familiarization tours for attendees of the events. Additionally, the decision unit allowed the Commission to continue a television advertising campaign in San Francisco, Los Angeles, Reno, and Las Vegas.

- E500 and E501 reduced General Fund appropriations for six positions that were being transferred from the Department of Cultural Affairs.

- E670 through E672 related to salary reductions, salary freezes, and suspension of longevity pay.

- E710 requested the purchase of routine replacement equipment, associated peripherals, and software.

- E900 and E901 transferred six positions and associated costs from the Department of Cultural Affairs to the Commission of Tourism. The positions included: the Division of Museums and History administrator, two administrative assistants, a budget analyst, a public information officer, and a personnel analyst. Representatives from NCOT were currently working with representatives of the Budget Division and the Department of Personnel on a request for an information technology position and also to review and ensure classifications were correct.

Senator Denis asked whether NCOT was only considering an information technology position or whether a budget amendment for a new position was forthcoming.

Mr. Woodbury advised that Commission representatives were working with their budget analyst, and if the request was approved, a budget amendment to include the position in the Commission's budget would be submitted.

In response to Senator Denis' inquiry concerning NCOT's current information technology positions, Mr. Woodbury advised that the agency had one full-time technology position and a webmaster. The Department of Cultural Affairs had two full-time information technology positions and a part-time contractor. Mr. Woodbury said that after meeting with Cultural Affairs staff and on-site visits, the need for additional work stations and another technology position was warranted.

The presentation was concluded and hearing no additional questions, Chair Conklin closed the hearing for budget account 225-1522 and opened the hearing on budget account 530-1530.

ECONOMIC DEVELOPMENT AND TOURISM – TOURISM – NEVADA MAGAZINE (530-1530) BUDGET PAGE ECON DEV & TOURISM-41

Steve Woodbury, Chief Deputy Director, Commission on Tourism (NCOT), provided the following presentation for the *Nevada Magazine* budget.

Mr. Woodbury reported that the economic times were challenging for *Nevada Magazine* and although the budget remained flat, revenue authority was increased from advertising and subscription sales. The increases were the result of new initiatives *Nevada Magazine* had undertaken to increase circulation and revenue.

Senator Denis expressed his appreciation to agency representatives for the *Nevada Magazine* performance indicators, which were reflected in numbers rather than percentages.

There were no questions from the members of the Subcommittee. Chair Conklin closed the hearing on budget account 530-1530 and opened the hearing for budget account 625-1338 – Public Employees Benefits Program (PEBP).

PUBLIC EMPLOYEES' BENEFITS PROGRAM PEBP – (625-1338) BUDGET PAGE PEBP-1

James R. Wells, CPA, Executive Officer, Public Employees' Benefits Program (PEBP), identified himself for the record and introduced Kateri Cavin, Operations Officer, PEBP, and Jon M. Hager, Chief Financial Officer, PEBP.

Mr. Wells provided the following PowerPoint presentation (Exhibit G) concerning the Public Employees' Benefits Program (PEBP):

- The Public Employees' Benefits Program provided health insurance for medical, prescription drugs, dental, life, long-term disability and a variety of voluntary products to approximately 43,000 participants and covered approximately 72,000 lives when dependents were added.

- While about 59 percent of participants were state employees including those from the Nevada System of Higher Education (NSHE), Public Employees' Retirement System (PERS), Legislative Counsel Bureau (LCB), and boards and commissions, PEBP also covered about 8,400 state retirees, over 200 active employees from about a dozen small local governments, and over 9,000 nonstate retirees, who joined PEBP prior to November 2008.

- Of the 17,400 retirees, about 9,400 were Medicare retirees for whom Medicare was the primary insurer for medical expenses but not for prescription drugs, dental, or life insurance. The remaining 8,000 retirees were not yet eligible for Medicare. Of the 9,400 Medicare-eligible retirees, about 300 were not eligible for Part A Hospital benefits because they did not pay into Medicare during their working careers and were not eligible through their spouse. Additionally, he said that some of the 8,000 early retirees would not be eligible for Part A Hospital benefits in the future.

- The PEBP was made up of three budget accounts:

  - Budget account 625-1338—PEBP Operations
  - Budget account 680-1368—Retired Employees Group Insurance
  - Budget account 666-1390—Active Employees Group Insurance

Mr. Wells provided the following information concerning revenue sources and expenditures for the fiscal year 2011 PEBP budget from his PowerPoint Presentation (Exhibit G):

Slide 4 - Page 2 - Budgeted and Projected Income for Fiscal Year 2011

- 52 percent of funding would be received from state subsidies for active employees and retirees.

- 30 percent of contributions would be received from state employees and retirees, nonstate employees, and nonstate employers.

- 1 percent from all other revenue would be received from interest, drug rebates negotiated by the pharmacy benefit manager, and Medicare Part D subsidies.

- 17 percent of revenue for 2011 would be received from funds carried forward from prior years.

Budgeted and Projected Expenses

- 51 percent of revenue would be expended on self-funded claims.

- 22 percent of revenue would be expended on fully-insured products that included HMO premiums, life insurance, and long-term disability.

- 23 percent of the budget was set aside in reserve for incurred but not reported (IBNR) expenditures, funded catastrophic reserve expenditures, and excess reserve to reduce future premium increases to both the employer and employees.

- 3 percent of the budget would be expended on self-funded administration that included the cost of PEBP networks, third-party administrator, pharmacy benefit manager, wellness provider, and the large case-management program.

- 1 percent would be expended on operating expenses for the PEBP office.

Slide 5 - Page 3 - Fiscal Year 2011 Projected Revenue:

- Contributions were projected to decline by $19,124,338 over the course of the fiscal year because of the departure of two of the largest nonstate employers, the Clark County Health District and the White Pine County School District.

- The increase in All Other revenue of $5,646,685 was because of larger than projected prescription drug rebates and Medicare Part D subsidies.

Slide 5 - Page 3 - Fiscal Year 2011 Expenditures:

- Savings in Self-Funded Claims of $3,774,637 and Fully Insured Products of $6,747,632 were projected to occur because of lower-than-anticipated enrollment.

- Savings in Self-Funded Administrative costs of $4,789,486 were projected to occur because of enrollment and renegotiated contracts.

Slide 6 - Page 3 - Reserve Funding by Fiscal Year from 2000 through 2011:

- The incurred but not reported reserve (IBNR) had been fully funded since 2004, and Catastrophic Reserve had been fully funded since 2006.

- The PEBP was projected to end fiscal year 2011 with a fully-funded IBNR, a fully-funded catastrophic reserve, and as of February 2, 2011, approximately $32.5 million in excess reserve funding.

- The average daily payment for medical and dental claims amounted to approximately $711,000.

Slide 8 - Page 4 - Governor's 2011-2013 Recommended Budget for PEBP

The Governor recommended $969.4 million for the 2011-2013 biennium for operations and reserve funding. Reserve funding was projected to decrease because of funding that would be used from the excess reserve over the course of the 2011-2013 biennium.

Slide 9 - Page 5 - Sources of Income

- 51 percent of revenue for the 2011-2013 biennium was projected to be provided through state subsidies.

- 27 percent of income was projected to be provided through contributions.

- 2 percent of income was projected to be provided from all other sources.

- 20 percent of funds were projected to be carried forward from fiscal year 2011.

Expenditures

- 48 percent of costs were projected for self-funded claims of which 7 percent would be set aside for Health Savings Account (HSA) and Health Reimbursement Arrangement (HRA) contributions for employees and retirees to use for their medical coverage.

- 17 percent of funding projected for reserves for the 2011-2013 biennium, reduced from the 23 percent in fiscal year 2011, was reflective of using excess reserve amounts.

Slide 10 - Page 5 - Funding by Decision Units

- The base budget for the biennium was projected at $942.4 million.

- The maintenance budget reflected what it would have taken to maintain the current plan design and subsidization structure, which would have resulted in an increase of $164.6 million.

- The enhancements for the budget related to the implementation of the wellness plan.

- The reductions represented the Public Employees' Benefits Program (PEBP) Board plan design changes, the changes in state subsidies, employee and retiree contributions, salary reductions, and the state subsidy for part-time employees.

Slide 11 - Page 6 - Expenditures by Decision Units

- Base budget expenditures were projected at $942.4 million.

- The $164.6 million projected for expenditure in the Maintenance decision units reflected the decrease in excess reserve funding offset by increases for catastrophic and IBNR reserve funding.

- Reserve reductions related to changes in the PEBP plan design.

Slide 13 - Page 7 - Enhancement (E) Decision Units

- The E400 decision unit related to the Live Well, Be Well Prevention Plan for which the Governor recommended $410,059 in fiscal year 2012 and a decrease of $7.5 million in fiscal year 2013.

- The E660 decision unit related to PEBP Board plan design reductions for which the Governor recommended a decrease of $55.1 million for fiscal year 2012 and a decrease of $75.2 million in fiscal year 2013.

- The E670 decision unit related to a 5 percent salary reduction for which the Governor recommended a decrease of $112,104 for fiscal year 2012 and a decrease of $113,973 for fiscal year 2013.

- The E671 decision unit related to suspension of merit salary increases for which the Governor recommended a decrease of $26,347 for fiscal year 2012 and a decrease of $63,543 for fiscal year 2013.

- The E672 decision unit related to suspension of longevity pay for which the Governor recommended a decrease of $7,425 for fiscal year 2012 and a decrease of $8,675 for fiscal year 2013.

- The E710 decision unit related to replacement equipment for which the Governor recommended $48,035 for fiscal year 2012 and $54,592 for fiscal year 2013.

Slide 12 - Page 6 - Base and Maintenance (M) Decision Units

- The adjusted base budget for fiscal years 2012 and 2013 was projected at $471 million.

- The M100 decision unit for statewide inflation was projected to decrease $64,818 in fiscal year 2012 and $128,163 in fiscal year 2013.

- The M101 decision unit adjustment for self-funded claim and fully insured product inflation was projected at $78.9 million for fiscal year 2012 and $117.2 million for fiscal year 2013.

- The M102 decision unit reflected adjustments to the IBNR and catastrophic reserve funding based on the actuarial evaluations completed by the PEBP consultant. The funding was projected to decrease $10.5 million in fiscal year 2012 and $21.9 million in fiscal year 2013.

- The M160 decision unit eliminated an information technology position that was currently vacant for a projected savings of $54,666 in fiscal year 2012 and $55,553 in fiscal year 2013.

- The M200 decision unit reflected changes in PEBP enrollment and in-migration between health maintenance and preferred provider organizations.

- The M300 decision unit reflected fringe benefit rate decreases of $4,743 in fiscal year 2012 and $36,382 in fiscal year 2013.

- The M501 decision unit projected adjustments of $7.6 million for fiscal year 2012 and $16.2 million for fiscal year 2013. The adjustments reflected federal health care reform mandates that included the coverage of children to age 26, elimination of life-time and wellness caps, and potential cost shifting from Medicare retirees to other segments of the population.

Slide 13 - Page 7 - Enhancement (E) Decision Units

- The E275 decision unit recommended $28,036 in fiscal year 2012 and $22,657 in fiscal year 2013 to house the PEBP servers at the Department of Information Technology (DoIT) Facility.

- The E400 decision unit for the Live Well, Be Well Prevention Plan recommended $410,059 in fiscal year 2012 and projected savings of $7.5 million in fiscal year 2013. The plan included costs for administration offset by reduced claims expected to be seen by healthier participants in future years.

- The E660 decision unit reflected the PEBP Board plan design changes projected to save $55.1 million in fiscal year 2012 and $75.2 million in fiscal year 2013.

- The E661 decision unit reflected a cost shift in premium payments and was revenue-neutral.

- The E670, E671, E672, and E673 were decision units that related to salary reductions, suspension of merit salary, and suspension of longevity pay.

- The E710 decision unit recommended $48,035 in fiscal year 2012 and $54,592 in fiscal year 2013 for replacement equipment.

Slide 14 - Page 7 - Governor's Recommended Reserve Funding for Fiscal Years 2011 and 2013

- The Governor's recommended reserve level reflected that $88 million and $78.7 million for fiscal years 2012 and 2013, respectively, would have been required to maintain the PEBP budget.

- o Changes to the plan design reflected reductions in the IBNR (incurred but not reported) reserve level and increases in the catastrophic reserve level. While the IBNR reserve level was reduced specifically because of plan design reductions, the catastrophic reserve funding was based on the volatility of the plan design changes and thus reflected an increase over the biennium.

- o A new reserve level for Health Reimbursement Arrangement (HRA) accounts reflected the liability to the plan for amounts that were carried over by participants to use in future years.

- o The excess budgeted reserve funding level of $35.3 million seen in fiscal year 2011 was scheduled to be used over the two years of the biennium in equal increments. The chart reflected that the excess funding level would be reduced to $17.6 million in fiscal year 2012 and to zero in fiscal year 2013.

In response to Chair Conklin's question concerning the volatility of the plan design changes, Mr. Wells advised that the volatility that could result from the plan design changes for the catastrophic reserve funding was reflected in red across the graph in slide 14 (Exhibit G).

Although plan design changes had not yet been addressed in depth, Chair Conklin said that when the changes were discussed, the Subcommittee was interested in hearing information concerning the number of other states that had initiated plan design changes and the volatility they had experienced with those changes.

Slide 15 – Page 8 – Enrollment Projections

- o The number of PEBP enrollees including active state employees, early retirees, and Medicare retirees totaled 43,647 for fiscal year 2010.

- o Projected enrollment for fiscal year 2011 was expected to decrease to 43,171.

- o Projected enrollment for fiscal year 2012 was expected to increase to 43,416.

- o Projected enrollment for fiscal year 2013 was expected to remain flat at 43,686 participants.

- PEBP enrollment had increased since July 2005 by 26.5 percent while staffing levels were maintained at 32 full-time equivalent positions, one of which was being kept vacant for salary savings.

<u>Slide 16 – Page 8 – Assumptions for Maintenance (M) Budget</u>

- Assumptions for the M102 and M105 decision units were reflected on slide 16. The fiscal year 2012 and fiscal year 2013 columns represented the amounts that PEBP consultants projected would be expended for medical inflation and medical utilization changes during the next biennium.

- The fiscal year 2012 and fiscal year 2013 columns labeled w/FHCR reflected how federal health care reform (FHCR) would increase medical claims by about 2.5 percent in each year of the biennium and decrease Medicare medical costs by 1 percent.

- Prescription drug claims were projected to increase by 1.5 percent because of federal health care reform.

- Dental claims were projected to remain at 4.5 percent.

- HMO Premiums were projected to increase by 2.5 percent because of federal health care reform.

- The PEBP proposed budget included a fully funded IBNR and catastrophic reserve at a 95 percent certainty level that was sufficient to maintain the solvency of the plan over the long term.

- The proposed budget for the upcoming biennium focused on the changes to the plan design with anything left over being passed on by way of increased premiums. While premiums for the PPO were not projected to increase, the premiums for the HMO plan were projected to increase.

<u>Slide 18 – Page 9 – State Subsidy Enhancement (E) 660</u>

- Slide 18 provided information concerning the state subsidy target, which the Department of Administration directed PEBP to maintain at the fiscal year 2011 level. To do so, the per participant per month assessment for active employees had to remain at the $680.84 level, and the retired group insurance budget had to remain flat at the $37.7 million fiscal year 2011 level.

- o Based on projected enrollment excluding COBRA participants and adjusted for new hires, the $680.84 per person, per month, aggregated assessment provided PEBP with $418 million for the biennium, and doubling the $37.7 million for retired employee group insurance (REGI) for the two years totaled $75.5 million for a total of $493.5 million for the biennium.

- o The Governor's Office and the Department of Administration permitted PEBP flexibility in moving money between years and between active employees and retirees as necessary to reach the target amount.

Slide 19 – Page 10

- o Information on slide 19 reflected the $75.5 million for the retiree subsidy, and $418 million for the active employee subsidy that totaled $493.5 million in revenue.

- o Medical inflation, enrollment growth, plan utilization, and costs associated with federal health care reform, the cost to maintain the current plan design, and state subsidization percentages would have resulted in $587.7 million in revenue required from the state subsidy leaving an $85.2 million shortfall. Initially the shortfall was projected at $111.2 million, but the $85.2 million shortfall was reflective of a better-than-projected experience in the first six months of the plan year.

Slide 20 - Page 10 – Summary of Subsidy Savings

- o Slide 20 summarized subsidy savings and plan design changes proposed for the 2011-2013 biennium.

Mr. Wells noted that the continued inflationary increases, experienced by PEBP, which "significantly exceeded the consumer price index," required a long-range strategy to keep PEBP solvent and sustainable.

Additionally, Mr. Wells said that the funding shortfall required difficult decisions by the PEBP Board that would ultimately result in changes to the behaviors of participants because without changing those behaviors, the cost to the plan would have continued to increase for participants and taxpayers.

The following provides information on plan design changes:

- The PEBP approved a change to replace the current PPO plan with its $800 deductible and copayments with a PPO high-deductible health plan.

- Coverage for plan components would be changed, and coverage for spouses and domestic partners, who had or were eligible for other employer-based coverage, would be eliminated.

- Reductions were made to the dental benefits.

- Fully insured supplementary coverage would be reduced.

- A mechanism that would offer individual Medicare plans to retirees who were Medicare eligible was introduced.

- Premiums would be shifted from the state subsidy to participant contributions.

Senator Denis asked the agency representative to discuss the replacement of the PPO plan with a consumer-driven health plan and how consumers, who were at the lower-end of the salary range, would be able to afford the cost of a high-deductible plan.

Mr. Wells advised that PEBP proposed to contribute funds to Health Savings Accounts (HSA) and Health Reimbursement Arrangement (HRA) accounts that participants could use to pay for a portion of high-deductible costs. Additionally, he said that employees would be provided the opportunity to add funds to their accounts through payroll deductions.

Mr. Wells reported that the PEBP Board had opted for a significant change to the way benefits were delivered with a shift from a "one-premium fits all" plan toward a "cafeteria style" of benefit delivery. The change provided for lower premiums and allowed participants to choose the benefits they preferred. At the same time PEBP was able to add money to participants' HSA or HRA accounts to pay for the cost of the deductibles or premiums.

Slide 21 – Page 11 – Summary of Subsidy Savings

Slide 21 provided a total subsidy savings of $85.2 million for the following decision unit components:

- The high deductible health plan (HDHP) provided a savings of$11.4 million.
- The changes to medical components and spouse eligibility provided a savings of $13.4 million.
- The changes to the dental plan were not projected for savings because the PEBP Board added some of the dental benefits back to the plan in January.
- The supplementary fully insured products provided savings of $7.5 million.
- Transitioning Medicare retirees to the individual market Medicare exchange program provided savings of $22.2 million.
- The subsidy shift from state subsidies to employer and retiree contributions would save $30.7 million, most of which was attributed to those participants remaining on the HMO program.

Senator Kieckhefer asked whether it was possible, within the format of the plan, to capture the subsidy savings by the listed decision-unit components to maintain the PPO plan rather than shifting to a high-deductible plan.

Mr. Wells indicated that the decision units were, for the most part, stand-alone components. He advised, however, that there were some changes, such as in the individual market Medicare exchange program that became cumulative. Mr. Wells pointed out, for example, that if Medicare retirees were not being transitioned to individual market exchange programs, the savings for medical components and spouse eligibility would change.

Slide 22 – Page 11 Enhancement (E) 660A – High Deductible Health Plan

- The PPO plan would be structured as a high-deductible plan. The plan proposed to increase the annual deductible in the participant only coverage tier from $800 to $1,900.

- The participant plus dependent tiers for family deductible would be increased from $1,600 to $3,800 and for an individual family member from $800 to $2,400.

- A participant who reached the $2,400 deductible would move to the coinsurances.

- The plan changes proposed to decrease coinsurance, or the amount the plan paid after reaching the deductible, from 80 percent to 75 percent of in-network covered expenses.

- The plan changes included a proposal to increase the annual out-of-pocket maximum cost for participant only coverage from $3,700 to $3,900 and increase costs for a family from $7,400 to $7,800.

Mr. Wells explained that there would be no individual family member out-of-pocket maximum under the proposed high-deductible health plan. Under the existing plan, the out-of-pocket maximum was a coinsurance, out-of-pocket maximum and thus, the actual total out-of-pocket costs could be significantly higher under the existing plan than under the proposed plan. Additionally, participants would have access to wellness benefits, which would be fully covered and not subject to the deductible.

- The estimated subsidy savings for transitioning to the high-deductible health plan was estimated at $41.1 million for the biennium.

Slide 23 – Page 12 – E660(A) PPO High-Deductible Health Plan

- The Health Savings Account (HSA) and Health Reimbursement Arrangement (HRA) account were available for PPO participants but not to HMO participants because HMOs were not considered high-deductible plans.

- The PPO high-deductible plan would provide for annual contributions to an HSA or HRA account.

- The PEBP would place an annual contribution of $700 in either an HSA or HRA account for an employee only.

- An annual contribution for a family would include $700 for the employee and $200 per dependent up to a maximum of three dependents, or a maximum of $1,300 for a family.

- The money from an HSA or HRA account could be used to offset doctor visit expenses. A participant would incur $1,200 out-of-pocket costs after the $700 placed in an HSA or HRA account was expended, which was the gap between the $700 and the $1,900 deductible represented by the change to the high-deductible health plan.

- A subsidy of $29.7 million for the biennium was the estimated cost to place money in the HSA and HRA accounts, which would "net out" to provide a subsidy savings of $11.4 million.

Senator Denis asked the agency representative to explain how the plan design changes would affect state employees in lower pay grades.

Mr. Wells explained that $700 would be placed in an HSA for employees at any pay grade, which would be used prior to encountering an out-of-pocket cost of $1,200. Employees would also be provided the opportunity to place their own funds in an HSA through a pretax payroll deduction plan. A zero dollar deductible plan, for example, could be gained for a $100 a month cost minus the tax benefit depending on the employee's tax bracket.

Senator Denis pointed out, however, that a greater sacrifice would be incurred by an employee earning $30,000 than by an employee earning $80,000.

Mr. Wells indicated that it was important to keep in mind an $800 deductible existed in the current plan and a $1,200 deductible in the new plan, an increase of $400 over the course of the year. Mr. Wells explained that inflation indices built into the current plan would have increased the deductible on July 1, 2011, to $900 or $950.

Mr. Wells advised that the plan design changes provided "first dollar coverage not available under the existing plan." He indicated that there were plan participants who fell within three ranges, individuals who did not use services often, individuals who used services at the mid-range level, and individuals who used services at the catastrophic level. Mr. Wells pointed out that the plan most benefited participants who did not use services often and those who used services at the catastrophic level.

In response to Senator Denis who asked how a family rather than an individual would benefit, Mr. Wells advised that the new plan would benefit a healthy family slightly more than the family at the mid-range and a cost of $1,900 for a catastrophic event in which the plan paid a benefit in excess of $50,000.

In response to questions Senator Denis asked concerning employee pretax payroll deductions to an HSA, Mr. Wells explained that the tax implications for the HSA were based on individual tax brackets. Using a monthly payroll deduction of $100, as an example, Mr. Wells indicated that the HSA payroll deduction for a lower-salaried employee in a lower tax bracket would cost closer to $100 than it would for an employee in a higher tax bracket who would pay less.

Senator Denis asked whether employees would be required to track their medical expenses to itemize their federal tax deductions because of having an HSA.

Mr. Wells advised that the plan change required filing an Internal Revenue Service (IRS) 1040 long form because an additional form associated with filing taxes for the HSA account had to be attached to the IRS form. Mr. Wells advised that tracking medical expenses would not be required by plan participants using an HSA because at the end of each year, the third-party administrator would send participants a form summarizing their medical visit information. The information would be available to the third-party administrator because plan participants would receive a debit card that would be swiped at the close of each doctor visit.

Chair Conklin pointed out that employees with limited assets who currently used the 1040A or 1040EZ "short form" would be forced to use the long form. Chair Conklin asked whether PEBP representatives had considered the hidden costs associated with the plan changes, such as employees having to pay for accounting services to prepare the long form.

Mr. Wells indicated that the only difference individuals, who usually filed a short form, would encounter in filing the long form would be to add the information provided by the third-party administrator. He said the itemization lines on the long form could be omitted. Additionally, Mr. Wells pointed out that for those who paid an accountant to file a long form, adding the form from the third-party administrator would not be a cost factor.

Chair Conklin discussed the volatility of the potential unintended consequences of the new plan and asked whether there had been discussion concerning the probability that plan participants would put off doctor visits and create a cost liability for the system once an illness became a major event. He pointed out that under the current plan, participants could visit the doctor for a $20 copayment while the new plan provided a larger cost that could not be averaged because of the various employee salary ranges and tax brackets. Chair Conklin asked whether any of the factors he had mentioned were measured in the long-term projections for the PEBP liability.

Mr. Wells advised that the Chair's points had been examined and were among the reasons that the Wellness Program screenings, which were covered and not subject to a deductible, would continue to be offered. Medical screenings currently capped at $2,500 included colonoscopies, mammograms, and flu shots that would continue to be available to plan participants to assist in the prevention of illness. Mr. Wells said, however, that the federal Patient Protection and Affordable Care Act expanded wellness benefit coverage and eliminated the ability to impose a cap on costs that had driven the volatility of the plan design changes.

Chair Conklin noted that it appeared the expansion of services and elimination of a cap would require additional reserve funding. Additionally, the Chair asked whether the experience of other states with similar plans had been researched.

Mr. Wells indicated that PEBP actuaries had evaluated the requirements of the federal health care reform act concerning the expansion of wellness benefits and elimination of the cap. Based on actuarial evaluation, the catastrophic reserve increased from $33.3 million to about $39.2 million. Additionally, Mr. Wells advised that the actuaries had reviewed other state government clients for comparison purposes.

In response to Chair Conklin, who asked whether there were other states with a high-deductible plan, Mr. Wells said that Indiana had a high-deductible plan.

Assemblyman Kirner advised that the high-deductible plan was a concept that had been around for many years and that several municipalities in Nevada had those types of plans.

Mr. Wells indicated that the Carson City School District had been on a high-deductible health plan for several years and a municipality in southern Nevada, the name of which he could not recall, was on a high-deductible health plan.

Mr. Wells indicated that Indiana had been on a high-deductible plan for about five years, and the health-savings account tool had been around since the early 2000s.

Chair Conklin noted that the self-funded, high-deductible plan was expected to save the state between $12 million to $15 million, which was money that would not be spent for health care. Chair Conklin asked why less would be expended for health care when health care costs were increasing.

Mr. Wells pointed out that the current plan with the $800 deductible $20 copayment would have increased and a higher premium would have been necessary. Mr. Wells advised that with the state subsidy projected to remain at the fiscal year 2011 level, PEBP's only resolution was to shift costs to the participants.

Chair Conklin asked whether the cost shift might prevent some plan participants from receiving the help they needed and encourage healthy participants to buy less expensive insurance, on the open market, leaving the state with a smaller risk pool but with the same frequency and severity of claims.

Mr. Wells pointed out that if under the current plan, premiums had increased to $100 a month for healthy participants who normally would not spend a $100 a year, those individuals would have gone to the open market and bought a "significantly" less expensive catastrophic plan. Mr. Wells indicated that the high-deductible plan benefited healthy people because the premium was lower and provided an HSA to cover first-dollar costs and provided the ability to set aside pretax money for additional health care costs.

Assemblyman Kirner asked whether the $700 in the HSA, if not used, could be rolled over from year-to-year and used at some point in the future.

Mr. Wells advised that the $700 in the HSA would roll over from one year to the next and pointed out, for example, that if the $700 rolled over for two years, the participant would be close to having a zero-dollar deductible without putting any money of their own money into the HSA.

Chair Conklin expressed concern regarding the high-deductible plan and indicated the reality was that consumers did not think in terms of long-term budgeting strategies for health care. He pointed out, for example, that an administrative assistant who earned $30,000 a year subject to a 5 percent salary reduction would not set aside funds to pay for $9,000 in insurance premiums. Chair Conklin further indicated that the more likely scenario was that consumers would pay out-of-pocket costs when onset with an illness if the $700 in the HSA had been expended.

Assemblyman Aizley asked whether PEBP guaranteed employees the $700 for the next twenty years through retirement.

Mr. Wells advised that the intent was to continue the employer-plan contributions into the future, although he said there were no guarantees concerning the number of years the $700 contribution could be continued. Mr. Wells said, however, that that there was some optimism that the plan would encourage behavior changes that would contribute to better health for participants and more involvement with doctors concerning medical procedures, tests, and best alternatives.

Senator Denis asked the agency representative to comment on the possibility that the plan design changes would force state employees in lower pay grades to seek health insurance assistance, such as Nevada Check Up. Additionally, he asked for information on the number of employees, who had children enrolled in Nevada Check Up.

Mr. Wells advised that state employees were currently not eligible to participate in Nevada Check Up. He said, however, a recent change to the eligibility determination indicated state employees could participate in Nevada Check Up. Mr. Wells reported that discussions on state employee access to Nevada Check Up had just begun between representatives of the Division of Health Care Financing and Policy and PEBP.

Senator Denis asked whether state employees would qualify for Nevada Check Up based on their income level.

Mr. Wells advised that eligibility requirements for the program included salary and household size for which information was being gathered from the Department of Personnel.

Chair Conklin asked the agency representative to comment on the overall drop in utilization in the past year and whether it was indicative of a statistical anomaly or a result of the plan design changes approved in 2009.

Mr. Wells advised that the utilization report for the calendar year reflected a "phenomenal experience" with significantly fewer acute hospital admissions and emergency-room admissions, situations he indicated that could not be controlled and were not expected to continue. Mr. Wells reported that PEBP's total billed charges before discounts, copayments, or coinsurance were down $40 million from the previous year and that the dollar amounts associated with the drop in utilization was far beyond what could have been expected from plan design changes.

In response to Chair Conklin who asked whether member changes might have contributed to the drop in utilization, Mr. Wells advised that the membership had become slightly older, which would be expected to increase utilization.

Senator Kieckhefer asked for information concerning the shift in participation from preferred provider organizations (PPO) to health maintenance organization (HMO) plans and the reason HMOs continued to be offered.

Mr. Wells indicated that a slight shift in participation from the PPO plan to the HMO had been seen primarily in northern Nevada. He explained that the HMO in northern Nevada currently had a $250 deductible that was proposed to be eliminated to a zero-dollar deductible as part of a cost blending of the two premiums. Additionally, Mr. Wells explained that one of the reasons the HMO was not eliminated was that participants liked the plan, there were few complaints, and it provided an option for those who wanted to pay a higher premium but not the $15 or $20 copayment for doctor visits.

Mr. Wells indicated that although some adverse selection had occurred, the participant selection between the HMO and the PPO plans was not significantly damaging. He indicated that the premium for the HMO plan for a participant and a spouse in the south was $106 per month less expensive than the PPO plan and had better coverage.

Senator Kieckhefer asked whether estimates were available on the cost of the HMO plan.

Jon Hager, Chief Financial Officer, PEBP, identified himself for the record and advised that in March 2010, PEBP was faced with a decision on whether to discontinue the northern Nevada Hometown Health HMO and move the participants to the PPO. Mr. Hager explained that HMO participants tended to be slightly more expensive and because there was some volatility in the way the benefits were structured, PEBP actuaries expected a $12 million cost increase to the PPO plan by moving the participants from the HMO. Additionally, he said HMOs were typically slightly better at containing costs because they did not allow out-of-network costs.

Mr. Wells continued his presentation:

<u>Slide 24 – Page 12 – E660(A) – Health Savings Account (HSA)</u>

- A Health Savings Account (HSA) was an interest bearing or investment account established by the employee and administered by a bank. Health Savings Accounts were owned by the employee and could be taken with them at retirement or separation from employment. Health Savings Accounts did not have a maximum balance limit and could carry over into perpetuity.

- An HSA was to be used as a tax-exempt account to pay for qualifying health-care expenses, such as doctor visits, lab tests, diagnostic tests, prescription drugs, coinsurance, dental procedures, and vision exams. Use for nonqualifying expenses resulted in taxes and penalties to the account holder.

- Contributions could be made by either the employee or the plan.

- Maximum combined plan and employee contributions for the 2011 calendar year were $3,050 for employee-only coverage and $6,150 for a family of two or more.

Additionally, Mr. Wells advised that:

- Health savings accounts were only allowed for high-deductible health plans, which the Internal Revenue Service defined as an individual deductible greater than $1,200 and a family deductible greater than $2,400.

- Copayments would not allow individuals to qualify for an HSA.

- An individual with an HSA could not have additional coverage, such as Medicare, TRICARE, or tribal health care (Indian Health Service).

- An individual could not be covered by a spouse who had a non-high-deductible plan and be eligible for an HSA.

Slide 25 - Page 13 – E660(A) Health Reimbursement Arrangement (HRA)

The HRAs, established on behalf of an individual, assisted in paying for qualifying health care expenses such as doctor visits, lab tests, diagnostic tests, prescription drugs, coinsurance, dental procedures, and vision examinations.

The HRAs were:

- Regulated by the IRS.

- PEBP-owned and PEBP-funded.

- Participant contributions were not allowed.

- Not portable – if participants left the plan, the balance of funding was returned to PEBP.

- Funds that could be used for tax dependents, such as spouse's or children's qualifying healthcare expenses.

- Could be carried over from year to year—maximum carryover limitation would be set by the PEBP Board.

- Tax exempt.

Slide 26 – Page 13 – E660(B) – Other Medical Plan Changes

Other changes to the medical plan estimated to save $4.4 million for the biennium included:

- o Elimination of lab testing at hospitals, except for preadmission, urgent care, emergency room care, and in-patient admissions.

- o Reduced coverage of temporomandibular joint (TMJ) disorder from 80 percent to 50 percent.

- o 90-day supply of certain maintenance drugs from a retail pharmacy.

Assemblyman Aizley asked whether a 90-day supply of maintenance drugs would cost three times that of a 30-day supply or whether participants would benefit from the bulk purchase.

Mr. Wells explained that, under the new plan, participants would not pay a copayment for prescription medicine. Rather, they would pay for the cost of the prescription for 90 days at the discounted rate negotiated between the pharmacy benefit manager and the drug chains.

- o Annual vision examinations subject to a deductible, but vision hardware, such as glasses and contact lenses, were eliminated.

- o Removal of "or as needed" from preventive wellness benefit to limit wellness benefits to those approved by the Centers for Disease Control.

In response to questions Senator Denis asked concerning HSAs and HMOs, Mr. Wells advised that funds from an HSA could be used to purchase glasses or contact lenses and HMOs included vision plans.

<u>Slide 27 – Page 14 – E660(B) – Other Medical Plan Changes</u>

Other changes to the medical plan estimated to save $9 million for the biennium included:

- o Elimination of coverage for a spouse or domestic partner with other employer-based coverage. The open-enrollment form would include a section to certify that a spouse or partner did not have access to other employer-based coverage.

<u>Slide 28 – Page 14 – E660(C) – Dental Plan Changes</u>

- o Increase dental deductible from:
  - $50 to $100 per individual

- $150 to $300 per family

- o Decrease maximum benefit from $1,500 to $1,000 per person
- o Maintain four routine cleanings per year
- o Maintain existing network and discounts
- o Reduced costs would decrease participant premiums

In response to a request from Chair Conklin, Mr. Wells moved his presentation ahead to slide 37.

Slide 37 – Page 19 – Enhancement (E) 661(F) Subsidization Changes

Mr. Wells advised that E661(F) shifted costs in premiums from state subsidies to employees.

The Board recommended the following changes for a subsidy savings estimated at $30.7 million over the biennium:

- o Establishment of a standardized differential for dependents and plans
- o Creation of a single, blended "statewide" HMO rate

Mr. Wells explained that a pay differential existed in the HMO plan selection between southern and northern Nevada. He said, for example, two administrative assistants at step 1 in southern and northern Nevada with HMO coverage paid different rates for the same coverage. Employees in southern Nevada paid less for their HMO coverage than employees in northern Nevada, and the Board recommendation created equitable treatment for their monthly premiums.

- o Participants had the choice between paying lower premiums with higher out-of-pocket costs for the preferred provider plan (PPO) or higher premiums with lower out-of-pocket costs for the HMO plan.

Senator Denis asked whether the increased premiums for southern Nevada employees subsidized the premiums for those northern Nevada employees only on the HMO plan and not the PPO plan.

In response, Mr. Wells confirmed that the rates were not blended between the HMO and PPO plans. He explained that enrollment was projected for the HMO plans to create a single, blended "statewide" HMO rate.

Slide 38 – Page 19 – E673 – Subsidy for Part-time Employees

- Reduce subsidies for employees working between 50 percent to 74 percent (0.5 full-time equivalent (FTE) to 0.74 FTE) to 60 percent of the full subsidy effective July 1, 2012.

- Subsidy savings estimated at $1.6 million for fiscal year 2013.

Mr. Wells advised that 60 percent of the full subsidy would result in PEBP receiving less state subsidy dollars and part-time employees paying a higher percentage of their monthly premium.

Slide 39 – Page 20 – Average State Per Participant Per Month (PPPM) Costs

Mr. Wells reported that costs for active employees and non-Medicare retirees were commingled under the provisions of the *Nevada Revised Statutes* (NRS). He attributed the differences between the employees and the non-Medicare retirees to the coverage of dependents. Mr. Wells advised that actual costs for active employees were significantly lower than the cost for non-Medicare retirees, which resulted in a subsidy of the non-Medicare retirees by the active employees. He said that the cost for the active employee per participant per month (PPPM) was $657 while the rate for the non-Medicare retirees was $977.

Slide 40 – Page 20 – Total Self-Funded Paid Claims by Age Group (Calendar Year 2010)

Mr. Wells explained that the chart in slide 40 reflected the per-member claims for age groups from under the age of 1 to 65+. The chart showed that claims for children under the age of 1 and adults between the ages of 55 and 64 were significantly higher than the average percentage.

Mr. Wells moved from slide 40 to slide 43.

Slide 43 – Page 22 – Active Employee Rates for Fiscal Year 2012 Effective July 1, 2011

Mr. Wells pointed out that the rates reflected in slide 43 were scheduled for approval by the PEBP Board on February 24, 2011.

The following participant premium changes were provided for the preferred provider organization (PPO) plan:

- Employee-only increased by 17 cents from $43.73 in fiscal year 2011 to $43.90 in fiscal year 2012.

- Employee and spouse decreased by $80.44 from $278.84 in fiscal year 2011 to $198.40 in fiscal year 2012.

- Employee and children increased by $10.18 from $81.53 in fiscal year 2011 to $91.71 in fiscal year 2012.

- Employee and family increased by $51.09 from $195.14 in fiscal year 2011 to $246.23 in fiscal year 2012.

Mr. Wells advised that a portion of the increase for employees and children or families was the cost of covering children up to the age of 26, and the projected cost was spread only between categories that covered children.

The following participant premium changes were provided for the HMO plan:

- The northern Nevada HMO rates currently at $64.69 for an employee only in the north and $54.81 for an employee in the south would both increase to $116.57 on July 1, 2011 (fiscal year 2012), an increase of $51.88 for an employee in the North and $61.76 for an employee in the south.

Mr. Wells advised that the HMO plan had no design changes and indicated that the PEBP Board on February 24, 2011, would be asked to consider removing the $250 deductible that would provide a zero-dollar deductible HMO choice. Mr. Wells said that removing the $250 deductible would ensure a differentiation in the premiums that would prevent an adverse selection. He also indicated that the $75 difference between the PPO plan and the HMO plan for an individual provided a good indicator of maintaining equity between the two plans.

- o The HMO participant premium in the north for employee and spouse decreased, but it increased for employees in all other categories because of the decrease in the percentage of state subsidies and some subsidization of the north by the south.

Slide 44 – Page 22 – State Retirees Non-Medicare Rates

Mr. Wells advised that slide 44 reflected the participant premiums for non-Medicare state retirees with 15 years of service. The following information provided the changes for non-Medicare retirees' premium payments for the PPO plan:

- o The premium for retiree only increased by $2.99 from $217.71 in fiscal year 2011 to $220.70 in fiscal year 2012.

- o The premium for retiree and spouse decreased by $182.08 per month from $722.01 in fiscal year 2011 to $539.93 in fiscal year 2012.

- o The premium for retiree and children increased by $20.70 from $298.79 in fiscal year 2011 to $319.49 in fiscal year 2012.

- o The premium for retiree and family increased by $96.27 from $542.49 in fiscal year 2011 to $638.76 in fiscal year 2012.

Mr. Wells pointed out that the rates for the northern Nevada and southern Nevada HMO plans were blended and had a larger effect on southern Nevada retirees, who outnumbered the retirees in the northern part of the state.

Mr. Wells indicated he had concluded his presentation for the Public Employees' Benefits Program, budget account 625-1338.

Chair Conklin advised that budget account 680-1368 for Retired Employees Group Insurance and budget account 666-1390 for Active Employees Group Insurance would be heard by the Joint Subcommittee on General Government in a subsequent meeting.

Chair Conklin closed the hearing on the Public Employees' Benefits Program, budget account 625-1338 and opened the hearing to public comment.

PUBLIC COMMENT

Martin Bibb, Executive Director, Retired Public Employees of Nevada, identified himself for the record and indicated his remarks were pertinent to the Medicare Exchange, a service to which PEBP recommended moving state Medicare retirees to select a secondary health insurance plan.

Mr. Bibb pointed out that discussion was needed concerning moving the Medicare retirees to the Medicare Exchange service, the concept of the service, and options available for retirees. Although pleased about the provision of funding through a health reimbursement arrangement, Mr. Bibb expressed concern regarding the "current and the long-range funding adequacy" of the health plans and hoped for an opportunity to discuss the Medicare Exchange service at the next budget hearing.

Chair Conklin provided assurance that the Medicare Exchange program would be a topic of discussion in a soon-to-be scheduled hearing for the Retired Employee Group Insurance budget.

Jim Richardson, J.D., Ph.D., representing the Nevada Faculty Alliance, University of Nevada, Reno, expressed his appreciation for the opportunity to testify before the Subcommittee on the Public Employees' Benefits Program, budget account 625-1338.

Dr. Richardson acknowledged that the state faced difficult times and that the PEBP Board had done its best given the limitations placed on it by budget constraints. In the interest of the long-term solvency of the PEBP plan, Dr. Richardson asked the record to reflect that the Nevada Faculty Alliance officially requested the Subcommittee's consideration of additional funding for the Benefits Program.

Dr. Richardson noted that there were no increases to the subsidy levels for the current biennium from the previous biennium. He pointed out that the plan would have gone through four years without increases in the face of medical inflation and other factors that had significantly driven costs, which led to the proposed cost shift to participants. Dr. Richardson expressed concern for those state employees on the lower end of the salary scale throughout the state that might be forced to "simply" give up their insurance coverage because of the high-deductible plan change.

Additionally, Dr. Richardson indicated the possibility of latent consequences associated with the estimated subsidy savings of $1.6 million by the change in the coverage for part-time employees. He pointed out that all state agencies including the Nevada System of Higher Education (NSHE) were attempting to "scrape by" during the current financial crisis. He said that one way of getting by with less was to hire part-time employees who were willing to work for lower wages if they received health insurance benefits. Dr. Richardson doubted a subsidy savings of $1.6 million would be realized because he said state agencies would have to pay employees higher wages.

Dr. Richardson expressed his support of the health savings account (HSA) and the health reimbursement arrangement (HRA) concept and urged the Subcommittee to also support the idea. He said that, in a sense, the HSA and the HRA were the best part of the recommended changes and would encourage participants to be more careful with their health care and to set money aside to help pay for their health care.

Dr. Richardson also indicated he would welcome the opportunity to discuss the Medicare Exchange service when the hearing for the Retired Employee Group Insurance budget took place.

Chair Conklin indicated the opportunity to discuss the Medicare Exchange service would be provided.

Ron Bratsch, a state employee representing the American Federation of State, County and Municipal Employees, (AFSCME) AFL-CIO, Local 4041, appeared before the Subcommittee to express concern regarding the plan design changes recommended for the Public Employees' Benefits Program.

Mr. Bratsch discussed a personal medical emergency he faced in 2009 and the imminent danger to his life if he had put off seeking medical attention because of a high-deductible cost in his health insurance plan. Mr. Bratsch pointed out that the plan changes could cause costs to increase for the state because employees who put off going to the doctor because of the high-deductible cost would, most likely, use more sick leave hours. He also expressed concern regarding the additional costs involved in seeing specialists and undergoing laboratory tests that would rapidly use the funds placed in a health savings plan. Additionally, Mr. Bratsch indicated there were many low-salaried state employees who would be unable to afford setting aside additional funds to place in a health savings account. He further indicated that the changes might force some employees into bankruptcy because they could neither afford the cost of the health plans nor huge medical bills as they occurred.

Aldo Vennettilli, Area Field Services Director, American Federation of State, County and Municipal Employees, (AFSCME) AFL-CIO, appeared before the Subcommittee to ask the members to use caution and to carefully consider the plan changes before making any decisions. He indicated that the cost shift to employees who could not afford it would ultimately be returned to the state when employees resorted to using emergency rooms to address their medical needs.

Additionally, Mr. Vennettilli asked Subcommittee members to review the rates for non-Medicare state retirees on page 22, slide 44 (Exhibit G), which reflected a 100 percent increase to retirees.

Susie Giurlani, Business Process Analyst 2, Employment Security Division, Department of Employment, Training and Rehabilitation, expressed her thanks to legislators and the PEBP Board for their work during, "a difficult and challenging time."

Ms. Giurlani, however, defined the difficulty her family faced as "tremendous." She said she and her husband were fortunate to be employed by the state and had never taken their employment for granted. She said, however, furloughs, a decrease in benefits, and reductions in longevity reduced their income by $600 a month.

Ms. Giurlani expressed concern that with the plan changes, she would be unable to pay for her son's insulin to treat his diabetes. She said a vial of insulin cost $430, and her son used 11 vials in three months. Ms. Giurlani pointed out that on July 1, 2011, her family would pay $2,200 in out-of-pocket costs for her son's insulin and $3,400 out-of-pocket costs for medication for her husband who was also a diabetic. Ms. Giurlani defined the plan as punitive for individuals with health problems and indicated she was being punished because she chose to hire on with the state almost thirty years ago believing she would have reasonable health care coverage.

Ms. Giurlani asked the Subcommittee to carefully consider the high-deductible plan changes and the proposed salary reduction for state employees that she said would ultimately hurt Nevada families.

Chair Conklin expressed his thanks to Ms. Giurlani for her testimony and for her service to the state. He indicated that the legislative members would take her message to heart as they tackled the difficult issues before them.

Chair Conklin reiterated that the Retired Employee Group Insurance budget account 680-1368 and Active Employees Group Insurance budget account 666-1390 would be scheduled for a hearing in the near future.

There being no additional comments or matters before the Subcommittee, Chair Conklin closed the hearing at 11:09 a.m.

RESPECTFULLY SUBMITTED:

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Connie Davis
Committee Secretary

APPROVED BY:

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Assemblyman Marcus Conklin, Chair

DATE: ___________________________

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Senator Mo Denis, Chair

DATE: ___________________________

EXHIBITS

Committee Name: Assembly Committee on Ways and Means/Senate Committee on Finance Joint Subcommittee on General Government

Date: February 23, 2011 **Time of Meeting: 8:05 a.m.**

Bill	Exhibit	Witness / Agency	Description
	A		Agenda
	B		Guest List
	C	Gail J. Anderson, Administrator, Real Estate Division, Department of Business and Industry	PowerPoint Presentation Budget Account 3823 Real Estate Division
	D	Gail J. Anderson, Administrator, Real Estate Division, Department of Business and Industry	Real Estate Division Organizational Chart
	E	Gail J. Anderson, Administrator, Real Estate Division, Department of Business and Industry	PowerPoint Presentation Budget Account 3820 Common-Interest Communities
	F	Gail J. Anderson, Administrator, Real Estate Division, Department of Business and Industry	Handout Budget Account 3820 Common-Interest Communities
	G	James R. Wells, CPA, Executive Officer, Public Employees' Benefits Program	Public Employees' Benefits Program PowerPoint Presentation