

**MINUTES OF THE
LEGISLATIVE COMMISSION'S BUDGET SUBCOMMITTEE
Seventy-sixth Session
January 25, 2011**

The Legislative Commission's Budget Subcommittee was called to order by Chair Steven A. Horsford at 8:39 a.m. on Tuesday, January 25, 2011, in Room 4100 of the Legislative Building, Carson City, Nevada. [Exhibit A](#) is the Agenda. [Exhibit B](#) is the Attendance Roster. All exhibits are available and on file in the Research Library of the Legislative Counsel Bureau.

SENATE COMMITTEE MEMBERS PRESENT:

Senator Steven A. Horsford, Chair
Senator Sheila Leslie, Vice Chair
Senator David R. Parks
Senator Moises (Mo) Denis
Senator Dean A. Rhoads
Senator Barbara K. Cegavske
Senator Ben Kieckhefer

ASSEMBLY COMMITTEE MEMBERS PRESENT:

Assemblywoman Debbie Smith, Chair
Assemblyman Marcus Conklin, Vice Chair
Assemblyman Paul Aizley
Assemblyman Kelvin Atkinson
Assemblyman David P. Bobzien
Assemblywoman Maggie Carlton
Assemblyman Pete Goicoechea
Assemblyman Tom Grady
Assemblyman John Hambrick
Assemblyman Crescent Hardy
Assemblyman Pat Hickey
Assemblyman Randy Kirner
Assemblywoman April Mastroluca
Assemblyman John Ocegüera

COMMITTEE MEMBERS ABSENT:

Assemblyman Joseph M. Hogan

STAFF MEMBERS PRESENT:

Michael J. Chapman, Principal Deputy Fiscal Analyst
Rick Combs, Assembly Fiscal Analyst
Rex Goodman, Principal Deputy Fiscal Analyst
Eric King, Program Analyst
Mark Krmpotic, Senate Fiscal Analyst
Cynthia Clampitt, Committee Secretary

OTHERS PRESENT:

Andrew Clinger, Director, Department of Administration
Heidi S. Gansert, Chief of Staff, Office of the Governor
Gustavo Nunez, P.E., Manager, State Public Works Board, Department of
Administration
Lorie Chatwood, Deputy of Debt Management, Office of the Treasurer

CHAIR HORSFORD:

There is much information to be presented over the next two weeks. These meetings are designed to provide a complete overview of the *Executive Budget*.

EXECUTIVE BUDGET OVERVIEW

ANDREW CLINGER (Director, Department of Administration):
I will provide a PowerPoint presentation ([Exhibit C](#)).

I will first discuss economic indicators in Nevada. Economic indicators include foreclosure filings rates, home price index, wage and salary disbursements, personal income, employment and unemployment. Nevada ranks last in all indicators with the exception of the home price index. The list of economic indicators on page 2 of [Exhibit C](#) ranks Nevada first in all indicators for the past 3.5 years. However, in this case, "first is worst."

Page 3 of [Exhibit C](#) compares the unemployment rates from November 2006 to November 2010. In 2006, Nevada had an unemployment rate of 4.4 percent

and currently has an unemployment rate of 14.5 percent. The rate is primarily attributable to loss of jobs in the construction industry.

Based on the employment trend from the 1930s to the present, Nevada is 403,000 jobs below the previous trend. The chart on page 4 of [Exhibit C](#) compares the dramatic changes in this economic downturn with those in 1982 and 1992.

Page 5 of [Exhibit C](#) shows Nevada 109,000 jobs below the trend in construction employment. There is nothing close in historic comparison to what is currently being experienced.

Page 6 of [Exhibit C](#) shows the inflation-adjusted gaming win which peaked in November 2006. The rate of decline at its lowest point was 38.1 percent. The recent monthly improvements in the gaming win are good news. With the rate of percentage drop, it will take years to achieve the peak level of November 2006.

The gaming drop is a similar story. It represents the amount of money played in the casinos. The rate of decline, when adjusted for inflation, is down nearly 35 percent from the peak. That gaming drop figure is nearly equal to January 1993.

Sales tax receipts are comparable with a 46.8 percent drop from the peak in December 2005. The lowest point occurred in January 2010. When the numbers are put into context with the peak point, it will take years to reach that level again.

Population growth is essentially flat when compared with population projections of 2.7 million in calendar year 2013. That is 0.6 percent greater than the population in 2007. There was a slight loss in 2009 but it is flat going forward to 2013.

The kindergarten through Grade 12 education (K-12) projection is 424,460 students enrolled in K-12 for fiscal year (FY) 2012-2013. There are 1,067 fewer students than were budgeted for in FY 2009-2010, representing a decrease of 0.25 percent. The enrollment for the Nevada System of Higher Education (NSHE) is essentially flat from FY 2009-2010 through FY 2012-2013.

The measures of economic well-being include the Temporary Assistance for Needy Families (TANF) recipients, Medicaid recipients, Supplemental Nutrition Assistance Program (SNAP) and the unemployed. The projections for the number of unemployed individuals are expected to decline in 2011, 2012, and 2013. However, SNAP and Medicaid recipients are expected to continue to increase through the current biennium. There is a lag between unemployment/employment and applications for TANF and Medicaid benefits.

The TANF benefits, when compared to 2007, are expected to experience an increase of nearly 80 percent. Medicaid caseloads compared to 2007 are projected to increase by 75 percent. The number of those receiving SNAP benefits is approximately three times the 2007 figures. These measures place extreme expenditure pressures on the budget. That will also be reflected in the growth in caseload numbers. The SNAP is primarily funded with federal funds, although the State is responsible for administration of the Program incurring staff resources.

ASSEMBLYMAN CONKLIN:

It is relatively traditional to see spikes in education during economic downturns. It is disconcerting to see relatively flat projections. Why has the Department of Administration (DOA), the Budget Office or NSHE chosen that level of funding? Is the flat projection driven by the funding shortage or by some other factors?

MR. CLINGER:

Normally, NSHE projections are made using formula funding to forecast funding needs based on a three-year weighted average. Because of the current economic conditions and the fiscal circumstances, NSHE chose not to use the funding formula to build their budget requests. As part of that, NSHE gave the Budget Office a flat forecast for enrollment.

ASSEMBLYMAN CONKLIN:

Did you or someone from your office ask NSHE why they chose not to use the former forecast procedure?

MR. CLINGER:

I had that discussion with NSHE, but do not recall the answer. I will obtain that information from NSHE.

CHAIR HORSFORD:

Please make the Subcommittee aware of the source of all projections.

MR. CLINGER:

We will provide that information.

The next slide lists a summary of some of the additional General Fund requirements we had as a result of the increased TANF and Medicaid items and the loss of federal funds. The American Recovery and Reinvestment Act of 2009 (ARRA) funds were used in the 2009-2011 biennium to balance the budget. The impact on the current budget is approximately \$450 million in lost federal funds. These funds must be replaced from the State General Fund or we must make budget reductions.

The \$450 million is broken into three components. It includes \$185 million for NSHE, \$72 million in the Nevada Department of Corrections (DOC) and the federal Medicaid assistance percentage. That percentage is being reduced. It is currently at 64 percent and projected to decline. The cost factor is impacted because the federal government will provide less funding for this program. The difference of \$190 million must be taken from State funds or through program reductions.

CHAIR HORSFORD:

Does the *Executive Budget* factor in the loss of ARRA funds or does it infer those funds no longer exist?

MR. CLINGER:

The *Executive Budget* factors in the loss of those funds. There is a decision unit in all Medicaid budgets to reflect the switch from the Federal Medical Assistance Percentages (FMAP) funds to State funds. It is clearly outlined in the *Executive Budget*.

CHAIR HORSFORD:

Is there a replacement for ARRA funds in the budgets of NSHE and DOC in the *Executive Budget*?

MR. CLINGER:

That is true for the DOC budget. It is not entirely true for NSHE.

CHAIR HORSFORD:

Is the loss of \$185 million from the ARRA funds reflected in the *Executive Budget*? Are the funds replaced, restored or noted as funding no longer available?

MR. CLINGER:

They are reflected in the *Executive Budget*. In the front of the *Executive Budget*, there is a summary of each department showing the source of all funds for that department and the total expenditure. For example, the DOC summary reflects a large increase in General Fund obligation because of the loss of federal funds.

CHAIR HORSFORD:

When Governor Brian Sandoval, in his State of the State address, noted there would be a 17.66 percent cut to NSHE, did that include the loss of \$185 million in ARRA funds?

MR. CLINGER:

The 17.66 percent reduction in overall spending for NSHE reflects the loss of ARRA funds. Without the loss of ARRA funds, the NSHE reduction would be less than 7 percent.

The caseload growth related to the measures on page 12 of [Exhibit C](#) in the TANF and Medicaid budgets is \$269 million. These are items specifically outlined in the *Executive Budget*. Most of the growth is within the Department of Health and Human Services (DHHS). There is \$244.6 million of additional need within the DHHS budget. The bulk of the additional need, or \$226.5 million, is within the Medicaid budget.

The State has done a good job of forecasting the caseload growth within Medicaid and the Division of Welfare and Supportive Services (DWSS) in the last three years. The DHHS received a new economist position two biennia ago. The addition of that position has had a positive impact on the accuracy of the forecasts. Staff from the Legislative Counsel Bureau (LCB), DHHS, the Department of Employment, Training and Rehabilitation (DETR) and the Budget Division meets monthly to review and refine the forecast.

The balance of caseload growth is found in the DHHS, Division of Mental Health and Developmental Services; DWSS; Distributive School Account (DSA), NSHE and DOC budgets.

The other consideration during development of the *Executive Budget* is the loss of local funding in K-12 through a combination of Local School Support Tax (LSST) and property tax reductions in the amount of \$440.8 million. The LSST reduction was \$194.5 million and the property tax reduction was \$246.3 million. We have worked closely with LCB staff in development of a joint forecast of property tax revenue that has been used for the DSA and debt service and debt capacity analysis for the Capital Improvement Program (CIP).

The *Executive Budget* includes a State General Fund appropriation of \$66 million for the interest that began accruing on January 1, 2011, on loans made to the State of Nevada from the federal government as a result of the depletion of Nevada's Unemployment Insurance Compensation Fund. The first payment on that interest is due in September 2011. The \$66 million is an appropriation request to pay the interest through both years of the biennium. The interest is forecast on an assumed interest rate of 4 percent. The total of additional requirements from the General Fund is \$1.23 billion due to the loss of federal and local funds and the increase in caseload growth.

Page 16 of [Exhibit C](#) shows a pie chart displaying total funding for the budget in the 2005-2007 biennium. It is made up of 24.6 percent federal funds, 38.6 percent General Funds and other smaller funding sources. The chart is a comparison between that biennium against the current biennium and the *Executive Budget*. Federal funds represented 30.1 percent and the General Fund represented 34.4 percent of the overall funding in the 2009-2011 biennium. The *Executive Budget* reflects a decrease from 30.1 percent to 28 percent in federal funds, due to the loss of ARRA funds. The General Fund portion is 34.9 percent.

Page 17 of [Exhibit C](#) is a comparison by two-year totals of the current biennium to the Governor's recommendations. The 2009-2011 biennial figures were adjusted for reductions made during the Twenty-sixth Special Session. These are not legislatively approved numbers. Thus, the comparison is between current spending levels and the Governor's recommendations. The loss of federal funds in the *Executive Budget* again reflects the loss of ARRA funds of nearly 15 percent which is a recurring theme.

The General Fund spending is a 6.44 percent decrease overall, or \$402 million over the biennium. The expenditures decrease by 7.95 percent, or \$1.44 billion from the current biennium.

Page 18 of [Exhibit C](#) is similar, but compares the *Executive Budget* to the 2005-2007 biennium. While the General Fund reflects an increase of 0.82 percent, overall spending has increased 11.53 percent due to the increase of federal funds when the 2005-2007 biennium is compared to the *Executive Budget*.

CHAIR HORSFORD:

Is the graph on page 17 of [Exhibit C](#) reflective of the changes during the Twenty-sixth Special Session that have not been legislatively approved?

MR. CLINGER:

That is correct.

CHAIR HORSFORD:

Do the other charts in your presentation make comparisons between the *Executive Budget* and legislatively approved revenue and expenditures?

MR. CLINGER:

The chart on page 18 of [Exhibit C](#) is adjusted for the Twenty-sixth Special Session as well. The 2005-2007 biennial numbers are legislatively approved.

CHAIR HORSFORD:

Are you stating the *Executive Budget* is 3 percent less than current spending, but it does not reflect the legislatively approved appropriations and expenditures in the 2009 Legislative Session? Why did you choose to use that as the benchmark when all the previous comparisons are based on legislatively approved funding? From a transparency standpoint, should the charts also reflect where the budget began in the legislatively approved budget?

MR. CLINGER:

The only page that compares to the legislatively approved budgets is the 2005-2007 biennial figures. It is easier to utilize those figures because they are readily available. The 2009-2011 starting point reflects the current level of spending. That is reflective of actions in both the 2009 Legislative Session and the Twenty-sixth Special Session.

If we were to compare the *Executive Budget* on page 18 of [Exhibit C](#), we would be required to extrapolate the actual expenditures in the 2005-2007 biennium. I did not prepare that information for this presentation.

Page 19 of [Exhibit C](#) reflects General Fund revenue for the 2011-2013 biennium beginning with the Economic Forum forecast of \$5.3 billion on December 1, 2010, and outlines revenue reallocations included in the *Executive Budget*. More than \$1 billion in additional revenue items have been included in the General Fund.

The first item is the room tax approved in the 2009 Legislative Session. The *Executive Budget* recommends continuation of the deposit of those funds into the General Fund, allowing those funds to be allocated to the K-12 budget for the next two years.

The second item is \$60 million from the net proceeds of the Minerals Tax. This is an extension from the bill that changed the mechanism for paying "net proceeds from" to a "prepaid" mechanism which is set to expire. If it is allowed to expire, almost no funds will be collected in FY 2011-2012. We recommend continuation of the "prepaid" model of net proceeds to ensure we collect those taxes in FY 2011-2012.

Next is the short-term auto lease tax. There is currently a 10 percent tax rate on short-term auto leases. Of that, 9 percent is currently deposited into the General Fund and 1 percent is deposited into the Highway Fund. The Governor recommends the 1 percent deposited in the Highway Fund be redirected to the General Fund, adding approximately \$8 million over the biennium.

The Judicial Branch receives 51 percent of the court administrative assessments. The remaining 49 percent is directed to the Executive Branch. After making allocations to all programs approved to receive these court administrative assessment funds, the Nevada Supreme Court deposits the unallocated court administrative assessment funds into the General Fund. This item requires no statutory change.

The Supplemental Account for Medical Assistance to Indigent Persons of \$39.4 million over the biennium is a continuation of the practice over the past three years of sweeping 2.5 cents of property tax into the Supplemental Account for Medical Assistance to Indigent Persons. The

Executive Budget recommends continuing that sweep in the upcoming biennium.

Currently, a \$2 assessment on every slot machine is directed to the problem gambling account. The *Executive Budget* recommends the assessment be reduced to \$1 and the remaining \$1, totaling \$1.5 million, be redirected to the General Fund.

The modified business tax for nonfinancial institutions relates to the current tier structure. The current structure is 0.5 percent on gross wages up to \$250,000 and 1.17 percent above that wage. The *Executive Budget* maintains the two-tier structure. The law is currently scheduled to sunset which would raise the lower tier to 0.63 percent. The *Executive Budget* maintains 0.5 percent on the lower tier and reduces the top tier to 0.63 percent. The cost to the State compared to the Economic Forum forecast is \$16.7 million over the biennium.

The last item on the list is the monetization of the insurance premium tax (IPT) projected to generate \$190 million in FY 2011-2012.

Total revenue allocations to the General Fund are \$513.3 million over the biennium, bringing the unrestricted General Fund revenue to nearly \$5.9 million.

ASSEMBLYMAN CONKLIN:

You have shown a couple of slides reflecting total revenue in government and all the revenue for comparison. With respect to General Fund enhancements, are these revenue increases or new revenue? That discussion does not change the amount of revenue on page 19 of [Exhibit C](#). All we have done is shift money from one place to another. Anytime you shift funding from one place to another, a policy choice is made, not about revenue, but about priorities. Is that correct?

MR. CLINGER:

That is not exactly true. If we did not make the adjustments, many of the funds would not be listed on page 19. For example, the net proceeds of the Minerals Tax is \$60 million of funding that would not be collected otherwise.

The short-term auto lease funds would be directed to the Highway Fund. Whether the choice is to build roads or care for children through K-12 and the DHHS, there is a greater priority to shift the funds that would have gone to road construction to the General Fund.

ASSEMBLYMAN CONKLIN:

Road construction, in the vocabulary of my constituents, equals jobs. In your vocabulary, the funds would be moved to another area that would not necessarily create jobs. It is a difficult choice; however, moving the funds represents a cut to certain funds because the State does not have the revenue to continue to fund both. Do you agree?

MR. CLINGER:

It is a matter of prioritizing where funds should be spent and prioritizing shifting funds from one place to another. That will be reflected again in other areas of the budget. We reduced the Highway Fund to fund other areas of the budget. The Nevada Department of Transportation (NDOT) requested a new dispatch center in Reno that would have cost \$25.5 million. The agency also requested \$7 million for a new airplane. When we juggle the overall resources and spending needs of the State, funds are shifted from one ledger to the other. Other items would not appear on the State ledger if these shifts were not requested.

ASSEMBLYMAN CONKLIN:

It would appear on some ledger. For example, the Supplemental Account for Medical Assistance to Indigent Persons is usually directed to county hospitals for reimbursement to care for individuals who are unable to pay for their medical care. The reality is, if we start taking funds away from the hospitals, they will charge patients who can pay higher fees to continue funding for their facility. The priorities on page 19 of [Exhibit C](#) are a difficult choice. However, they make a statement of the priorities within the *Executive Budget*.

MR. CLINGER:

Regarding choices and prioritization, the administration agrees completely. There are no easy decisions within this budget on either the revenue or expenditure sides of the ledger. It is a matter of prioritization of all resources available; not only the General Fund.

ASSEMBLYMAN CONKLIN:

In all fairness, the *Executive Budget* has chosen to include only one side of the ledger in its choices.

HEIDI S. GANSERT (Chief of Staff, Office of the Governor):

The budget does contain choices of priorities. We went to great length not to take revenue from the Highway Fund with the one exception. We want to keep expenditures down in the private sector to induce job creation. All the choices are difficult.

There are continuations of what the Legislature has approved over the past two years. When a choice must be made between education or human services, it results in spreadsheets as they appear in the *Executive Budget*. It is part of the strategy to help our economy rebound.

CHAIR HORSFORD:

Much of the funding appears similar, but they were items the Legislature chose to enact during the Twenty-sixth Special Session as short-term solutions recognizing that the economic condition at that time was worse. Now that we know how bad the economy is, we should be reviewing a more comprehensive solution.

ASSEMBLYMAN AIZLEY:

Is there a breakdown of the revenues by county of origin? I am not referring only to this presentation but throughout the budgets.

MR. CLINGER:

We have a breakdown by county for the property tax items. We will provide the information to you and your Staff.

ASSEMBLYMAN GOICOECHEA:

Does the Supplemental Account for Medical Assistance to Indigent Persons include the indigent accident fund?

MR. CLINGER:

Yes. It includes both funds for a total of 2.5 cents.

Page 20 of [Exhibit C](#) reflects the General Fund reallocations of \$513.3 million from the previous page. Instead of a 9-cent property tax reallocation in the current biennium being deposited into the General Fund, the *Executive Budget* recommends it be deposited into the two universities within Clark and Washoe Counties. The 9-cent property tax collected in Washoe County would be directed to the University of Nevada, Reno (UNR) and the 9-cent property tax

collected in Clark County would be directed to the University of Nevada, Las Vegas (UNLV). That would increase the NSHE budgets by \$121.3 million and make up a part of the General Fund reductions in those budgets. The other reductions in the General Fund represent the loss of ARRA funds.

SENATOR LESLIE:

Does the proposal include the community colleges?

MR. CLINGER:

The *Executive Budget* recommends those funds be deposited into the two university accounts. We are flexible on that idea. If the Chancellor's Office and the NSHE feel it is more appropriate to allocate those funds between community colleges and universities in those counties, we would be open to that discussion.

The IPT is approximately \$240 million annually. It is the third largest revenue source in the State. We propose to monetize the tax for the next four years. The State would receive \$190 million now with part of the revenue source dedicated over the next four years to repay that funding source.

We anticipate the funding would be issued late in 2012 with no return payments until 2014. It does not have an impact on the State debt capacity because these are considered revenue bonds paid from a dedicated source. The final maturity would be 2017. In review of the interest, total cost is estimated to be 2.7 percent over the life of the repayment. Interest paid would be approximately \$24.3 million over the four-year period.

Approximately 3.2 percent of the total General Fund revenue is represented by the monetization of the IPT.

CHAIR HORSFORD:

Does the budget propose to issue a revenue bond late in FY 2012-2013?

MR. CLINGER:

That is correct.

CHAIR HORSFORD:

Would the policy decision be made during this cycle with the bond not issued until late in FY 2012-2013? Do you have an idea, based on cash flow, when the bond would be issued?

MR. CLINGER:

That is correct. I do not have a specific time frame. However, given the fact we have built a 5 percent reserve into each fiscal year of the budget, it could occur in the last quarter of FY 2012-2013.

CHAIR HORSFORD:

Would any repayments be made in this budget cycle, in part, be because the bond would be taken late in the cycle?

MR. CLINGER:

Many variables are available. It could be structured so payments are made in FY 2012-2013. The bond could also be issued earlier in FY 2011-2012 and have payments in both 2012 and 2013. Also, the length of time could be changed. We chose a four-year payback and a five-year bond.

CHAIR HORSFORD:

Would this be similar to a home equity line of credit to pay for operational expenses? What are the future annual payments we would be committing a future Legislature to pay through 2017? It is similar to committing my children to pay for my home equity loan.

MR. CLINGER:

Four years of payments would begin in 2014 at an annual cost of \$53.6 million. It would pay back the \$190 million bond with \$24.3 million in interest over that period of time. This was not the Governor's first choice for a revenue item, but given the difficult choices we faced and the cuts that were originally anticipated for DHHS and education, it was necessary to protect services and the economy.

CHAIR HORSFORD:

Please explain the policy of committing a revenue source to issue bonds versus considering other sources of revenue. What is the justification for choosing this method? We would be issuing bonds, placing the State in increased indebtedness and increasing cost by \$24.3 million due to interest on repayment, for revenue already allocated. Using the earlier analogy, it is like taking a second

mortgage on my house to pay my bills. We have seen the consequences of that mindset which has placed individuals into bankruptcy.

How is this proposal by the administration any different?

MS. GANSERT:

The priority of this administration is to allow the economy to recover. To accomplish that, the administration held the line on taxes. This is not ideal. In the past, there have been other sources to balance the budget. We weighed making deeper cuts in education and DHHS versus using a piece like this as a last resort, late in the first year of the biennium. State revenues have come in higher than the Economic Forum projections so this process might not be needed. This is a small, 3-percent, piece of the budget. We cannot increase taxes on Nevada's citizens.

CHAIR HORSFORD:

It is a tax. It would be a tax on our children who will pay the debt through future legislative sessions in some other way.

Has this securitization been used in other states? How much of the IPT would be dedicated for this purpose?

MR. CLINGER:

We chose this revenue source with a \$240 million annual revenue stream and only \$53 million in debt service payments. The State receives 4.5 times that amount from this source. It has historically been a stable revenue source that has outperformed the Economic Forum's forecast. This item could be structured in a manner so that if the IPT revenues exceed the Economic Forum's forecast, the excess could be directed to earlier repayment of this obligation.

We worked with the Office of the State Treasurer to review different options including the Unclaimed Property Tax and other alternatives. We felt this was the best alternative.

CHAIR HORSFORD:

What portion of the IPT is being dedicated for this securitization?

MR. CLINGER:

The projection for the IPT in 2013 is \$243 million. Only \$53.6 million is dedicated to this item. The remainder would be deposited in the General Fund in the same manner it is done at present. There is no reserve requirement because of the coverage from this revenue source.

CHAIR HORSFORD:

Does this decrease by \$53 million in your projections?

MR. CLINGER:

The numbers we are presenting are only for the current biennium. That would not be reflected until the next biennium.

CHAIR HORSFORD:

We cannot commit a future Legislature for a bill we incur at this time. The administration has chosen to place the payment in the next biennium versus placing it into the current budget projections.

MR. CLINGER:

The Local Government Investment Pool (LGIP) has committed to a future payment in the past for a line of credit. This is no different than that situation.

CHAIR HORSFORD:

The LGIP began making repayment to the local governments within the same biennium and beyond. Your proposal does not begin repayment until the next biennium and that is questionable fiscal discipline.

MS. GANSERT:

This can be structured in different ways. The payment could be smaller over a longer period of time or it may not require the entire amount requested. This is a last resort piece that was placed in the budget. The 5 percent reserve must be maintained each year. The situation is not ideal but the intent is to allow the economy to recover as soon as possible.

MR. CLINGER:

The next item on page 20 of [Exhibit C](#) is a transfer from the K-12 excess bond reserves. The administration recommends transfer of \$212.5 million from the school districts' bond reserve accounts in each year of the biennium. The total

revenue reallocation or prioritization we have requested is slightly more than \$1 billion to the General Fund for offsetting General Fund needs.

The \$425 million in excess bond reserves is obligated in *Nevada Revised Statutes* (NRS) 350.020. It requires the school districts to maintain one year of debt service payment on their general obligation bonds or 10 percent of the outstanding balance on those bonds, whichever is less. The budget recommends we reduce the debt service requirement to six months. This would allow the \$425 million in bond reserves from 12 school districts to be transferred from the bond reserves to the school operating accounts. The funding would stay within the respective school districts to fund K-12.

ASSEMBLYWOMAN SMITH:

I have researched this proposal because I have requested a bill to reduce the bond reserves and transfer the excess into the account for school construction. That was the purpose of the funds as approved by the voters.

Do you have the analysis concerning the exact amount of bond reserve available? My research makes me concerned about the amount that is available to pay school district debt due to decreasing property taxes. What procedure would be necessary to transfer these funds? They are currently designated as construction bonds.

I am interested in the philosophy discussed for this request and that of Initiative Petition No. 1 (IP1) in which the voters approved funding for construction. Please provide both philosophical and technical research for this request.

MR. CLINGER:

I will provide the analysis performed by the administration. The funds in the reserve are not bond proceeds. We discussed the proposal with the Clark County School District because we originally considered use of the district's capital construction account. There was approximately \$7 million in that account at the close of FY 2008-2009. Those funds are bond proceeds which would create a tax consequence if they were used for operating costs.

The funds in the bond reserve accounts are based on the tax revenue collected and not restricted in use. The only change requested is a reduction in the level of the reserve.

ASSEMBLYWOMAN SMITH:

Not all are in agreement with that concept. Please provide further analysis for this request. Has the bond counsel approved this request?

MR. CLINGER:

We spoke to the bond counsel. Because the bonds issued by the school districts are general obligation bonds, there are no reserve requirements in the bond covenants. The bonds do not require a reserve because they are backed by an obligation from the school districts through property tax revenue.

ASSEMBLYWOMAN SMITH:

I am not asking about the requirement for bond reserves. I am concerned about whether those funds are to be used for construction or operating costs. School construction is needed and there are schools that need improvement. Construction translates to jobs.

MR. CLINGER:

The funds in the reserve accounts are not bond proceeds; they can be transferred to the operating accounts without violating bond covenants.

CHAIR HORSFORD:

Has the question on IP1 been answered?

MS. GANSERT:

The priority of this administration is to allow the economy to recover without requiring further taxes from the private sector. To accomplish that, we are continuing the previous Legislative practices for another two years. It may not flow directly into the DSA as it was originally intended, but it significantly reduces the decrease in education funds.

The bond reserve consideration does not affect any previously approved construction projects. The bond reserve is held because of statutes, not because of bond covenants. There are no other uses proposed for those funds at this time.

The legislation requiring the bond reserve account was enacted in 1997 because these are general obligation bonds.

ASSEMBLYWOMAN SMITH:

The only reason the funds have been kept in reserve is because of the legislation that requires a bond reserve account. It is not that the districts do not have construction needs for the funds in this account. They could not access it for construction because of the legislation. The reduction in the reserve for Washoe County would have a severe impact on its remaining fiscally sound, repairing of some of its older schools and creating jobs. I have collaborated with the bond counsel and the Nevada Taxpayers' Association to ensure we were all in agreement.

I am interested philosophically in whether we are sure the administration's proposal for use of the funds will revitalize the economy. Is there similar evidence from other states? Nevada has maintained a low tax environment on a national scale and that does not seem to have helped the situation. I am more concerned about how this impacts jobs.

MS. GANSERT:

When the bond reserves are used, they stay in the county of origin. They are funds outside the General Fund. We are considering an automatic trigger to replenish the funds using LSST funds. The LSST revenue is typically higher than projections. Those additional funds are usually reverted to the General Fund. We plan to allow those funds to replenish the bond reserve account without reversion to the General Fund.

ASSEMBLYWOMAN SMITH:

Prior to the redirection of funds, where was the 9-cent property tax revenue mentioned earlier allocated?

MR. CLINGER:

There are two portions of the 9-cent property tax appropriation. There is a 4-cent operating property tax in Clark and Washoe Counties. There is also a 5-cent capital rate. A portion of the 5-cent capital rate is currently directed to the Highway Fund. The administration is recommending the 5-cent capital rate be redirected into the NSHE budget.

ASSEMBLYWOMAN SMITH:

What is the total amount of funds to be redirected from the Highway Fund?

MR. CLINGER:

It is referenced in the front of the *Executive Budget*. The amount is \$36 million.

ASSEMBLYWOMAN SMITH:

Is there an additional \$8 million to be transferred?

MR. CLINGER:

That is correct.

ASSEMBLYWOMAN SMITH:

How does the \$121 million reallocated to the NSHE budget affect the percentage of reduction in the NSHE budget?

MR. CLINGER:

The 5-cent capital rate currently being deposited into the Highway Fund is \$34.6 million. The information is located on page Intro-31 of the 2011-2013 *Executive Budget*. There is a table for every department in that section. The table indicates the other funds for the NSHE increasing \$130 million or nearly 30 percent. A portion of that includes the property tax redirection. The negative \$187.5 million interagency transfer is the ARRA funds deposited in the Office of the Governor budget account and transferred to the NSHE.

ASSEMBLYWOMAN SMITH:

We hear different percentages quoted from different sources. The Governor's remarks in his State of the State message stated a 17.6 percent reduction. If the 5-cent capital rate funds were not redirected, the percentage of budget reduction would be much higher.

MR. CLINGER:

That is correct. If the \$121.3 million is not deposited into the NSHE budget, the 17.6 percent decrease would be much larger. That was part of the prioritization process.

ASSEMBLYWOMAN SMITH:

I understand. This process allows us to compare previous State support to current State support.

MR. CLINGER:

The figures on page Intro-31 of the budget detail the steps taken to arrive at the budget requests for NSHE and other accounts. They show the loss of the ARRA funds, the reduction in State funds, the addition of the property tax revenue, the total level of spending in the current biennium and the total level of spending projected in the *Executive Budget*.

ASSEMBLYMAN ATKINSON:

Returning to the 9-cent property tax reallocation; where is the 5-cent reallocation of funds from the Highway Fund directed? Is it directed to the General Fund?

MR. CLINGER:

In the *Executive Budget* the 5 cent portion of the 9-cent property tax currently being deposited into the Highway Fund is to be deposited into the NSHE accounts along with the 4-cent operating tax and the other piece is the capital rate.

ASSEMBLYMAN ATKINSON:

What happens to the Highway Fund?

MR. CLINGER:

It is a matter of prioritization. We made other reductions in the Highway Fund to make up for other fund losses.

ASSEMBLYMAN ATKINSON:

Is the Highway Fund short as well?

MR. CLINGER:

The Highway Fund ended FY 2009-2010 with a Highway Fund balance that is greater than \$100 million which is felt to be adequate.

CHAIR HORSFORD:

You estimated \$8 million would be drawn from the rental car proceeds and redirected from the Highway Fund to the General Fund; another \$36 million would be redirected from the property tax revenues. That is a total decrease of \$44 million in the Highway Fund. It is my understanding a bond has been obligated against those funds. Is that correct?

MR. CLINGER:

I spoke to Mr. Robert Chisel, Assistant Director, Administration Division, NDOT. He indicated these revenues have not been used to bond against.

CHAIR HORSFORD:

Would it be allowable for these revenue streams to be bonded against?

MR. CLINGER:

It is allowable, but they have not done that. The redirection will require the NDOT to prioritize its projects.

CHAIR HORSFORD:

If the NDOT bonded on a 10:1 bonding ratio, the amount would generate \$400 million of potential Highway Fund revenue. I do not know how many jobs that equates to, but when Senate Bill (S.B.) No. 5 of the 26th Special Session was passed, it was indicated that \$200 million in Highway Fund revenue would provide 2,000 jobs. It seems we are robbing the Highway Fund which could bond these funds and provide contracts to the private sector thereby putting people to work. I do not understand the rationale of moving funds that could help the economy grow and using them for operational expenses.

MR. CLINGER:

The portion of the revenues that were redirected from the Highway Fund caused a few of the items in their requested budget to be eliminated. The total of those items is \$35 million. They had requested a new dispatch center in Reno for \$25.5 million and a new airplane at a cost of \$7 million. Those items were eliminated in the *Executive Budget* offsetting some of the redirected amounts from the Highway Fund.

We reviewed total resources of the State and prioritized whether we can afford to approve construction projects or provide State services. The CIP will have only \$40 million in this biennium as well. These are difficult choices the Governor had to make. We directed the available revenue to areas we deemed had the greatest need without creating new taxes.

CHAIR HORSFORD:

I understand and fully respect that position. However, the removal of \$44 million from the Highway Fund, which could be utilized for bonding, is \$400 million in lost match funding for construction by my estimates. The

approval of S.B. No. 5 of the 26th Special Session placed \$200 million in the Highway Fund, creating approximately 2,000 new jobs.

Using your logic, if the Legislature took the denied items in the NDOT budget such as the new airplane, plus the \$44 million in redirected revenues, it would create nearly \$100 million that could be leveraged to \$1 billion to create new jobs. That would enable economic improvement in all these other areas.

Is the 4-cent property tax being redirected from the county operating accounts in Clark and Washoe Counties only?

MR. CLINGER:
That is correct.

CHAIR HORSFORD:
The universities are State functions. We have a State obligation to meet funding for those institutions. Why are we redirecting revenue from only 2 of the 17 counties in Nevada to fund a State function benefiting the entire State?

MR. CLINGER:
There is an economic benefit to Clark and Washoe Counties resulting from having the universities within their borders. There are 31 other states nationwide that support their universities and community colleges with local funding. This is not a unique recommendation.

CHAIR HORSFORD:
I do not disagree. My study discovered most of those states provide local support to community colleges because there is a direct nexus between community colleges and economic development. Universities are primarily research institutions and have a statewide impact.

The crux of the issue is that two counties would be paying the cost of a State function to meet the needs of all Nevada citizens. It is a redistribution of money from two counties to meet a constitutional State function.

MS. GANSERT:
One of the thoughts behind this decision was that it is an economic engine. As property values increase, so will those funds. For years, the NSHE has requested autonomy regarding tuition. We recommend they be given the

autonomy for tuition and a mechanism for growth within the communities where they exist. We wanted the universities to benefit from the growth in property taxes over the years as well.

CHAIR HORSFORD:

Taking the property tax from the county of origin means services are impacted in those counties at the local, rather than the State level. The administration is making a judgment that the State functions are more important than those local services. Impacts would be felt by social services, public hospitals or public safety. Have you consulted Washoe and Clark Counties to determine what level of services will decline as a result of the continued redirection of funding?

MS. GANSERT:

It is a continued redirection. The administration felt the counties currently do not have the availability of those funds; thus, those budgets already reflect the reduction. We have discussed this recommendation with the counties and advised them certain services would be more effectively served by local government than by State services.

CHAIR HORSFORD:

A portion of the \$425 million capital fund is used by districts to pay their obligations. Clark County School District (CCSD) utilizes the property tax, sales tax and some portion of the real property transfer tax to pay its obligations. All three of those revenue sources are declining. Will redirection of \$425 million in capital rate funds place school districts in a position whereby they may default on their bond rating affecting the State bond rating as well?

MR. CLINGER:

The administration had discussions with the CCSD and their bond counsel. The revenue streams that support the bond account are: property tax, real property transfer tax, room tax and a piece of the sales tax. The bond counsel indicated they need to restructure their bonds regardless of what actions the State takes due to decreasing revenue streams. Given the choice, the bond counsel agreed, although they would prefer to receive funds from the State. They would prefer the redirected funds be drawn from their bond reserve rather than their capital construction funds.

CHAIR HORSFORD:

Who provided that decision to the administration?

MR. CLINGER:

We spoke with the CCSD and their bond counsel via telephone conference call and with the Clark County Finance Department and their bond counsel.

CHAIR HORSFORD:

In the future, is there the potential that districts could default on their bonds as a result of this proposed recommendation? If districts are in a position where they cannot meet their future obligations, how would that affect their rating?

MR. CLINGER:

The bond counsel indicated to us that looking at their current revenue streams and the bonds currently outstanding, they needed to restructure their debt regardless of this proposal. If the Legislature approves this proposal, the bond counsel would take that into consideration in the debt restructuring process.

ASSEMBLYMAN ATKINSON:

What is the total amount of funding derived from the 4-cent operating tax diversion? Did anyone from the Governor's Office consult with either County to ascertain the impact of diversion of the 4-cent operating tax? The Counties have forecasted these funds in their budgets as well. The citizens of Clark and Washoe Counties pay the taxes and expect certain local services in return. Did anyone discuss this with the Counties?

MS. GANSERT:

The administration held outreach meetings with different municipalities. We made them aware of our philosophy that some of the services would be better provided by local entities. We did not discuss specific amounts of funding. This reallocation has been in effect during the past two years; therefore, the funds would not be reflected in their respective budgets currently.

ASSEMBLYMAN ATKINSON:

Did you discuss the 4-cent operating tax reversion?

MS. GANSERT:

We did not discuss the 4-cent tax. We did discuss certain services the State has provided in the past that could best be provided locally.

ASSEMBLYMAN ATKINSON:

It sounds like there are two different issues. One is the 4-cent operating tax and the other reallocation of services from the State to the Counties, making the total reallocation even higher.

MS. GANSERT:

The administration is continuing the reallocation that already exists. There are some additional services we believe the local governments can provide more effectively.

ASSEMBLYMAN ATKINSON:

That means the total will be higher at some point than simply a continuation of the 4-cent operating tax.

MS. GANSERT:

The total amount of funding to be redirected is higher than the current reallocation.

ASSEMBLYMAN ATKINSON:

Has the Governor's Office or his staff considered what will happen to services if we continue reallocation of funds pushing more services to the local level?

MS. GANSERT:

Mr. Michael J. Willden, Director, DHHS, will be reviewing those services in his presentation. Nearly all the services affected are DHHS functions. He has charts to show that local governments can either provide certain services or reimburse the State for the services.

We also have a list of significant addbacks. This budget was built taking great care for those who are most vulnerable and educational services. That information will be provided by the various departments as they introduce their budgets.

ASSEMBLYMAN ATKINSON:

I am concerned the amount of redirected funding will continue to increase. I am not sure how much more the local governments will be able to absorb.

MS. GANSERT:

The ballpark figure for redirected funds is approximately \$100 million in addition to what has already been allocated. The services affected are primarily DHHS services. An additional \$10 million would be redirected from the presentencing investigations area of the Department of Public Safety (DPS) budgets. This proposal was supported by the Legislative Committee for the Fundamental Review of the Base Budgets of State Agencies.

ASSEMBLYMAN AIZLEY:

When you used the term "tuition funds directed to the NSHE," were you referring only to out-of-state tuition or including all the per-credit-hour fees paid by students? Usually, the term "tuition" includes the per-credit-hour fees.

MR. CLINGER:

The student registration fees and the out-of-state tuition are all part of the 17.66 percent reduction overall.

ASSEMBLYWOMAN SMITH:

The Legislative Committee for the Fundamental Review of the Base Budgets of State Agencies discussed the presentencing issue as described by Ms. Gansert. However, that Committee, honoring the fact it is the responsibility of the Joint Budget Committees to hear and approve budgets, simply made a recommendation that the item move forward for consideration by the Joint Budget Committees. Ex Senator William J. Raggio and Assemblyman Conklin expressed concern about perceived conflicts in that area.

MR. CLINGER:

To clarify, the \$44 million from the Highway Fund and the bonding capacity goes back to what the Governor stated in his address. Difficult decisions have been made in the past. The legislatively approved budget for the current biennium redirected \$30 million from the Executive Branch's debt service account to help balance the budget. The same argument regarding bonding could have been made at that time.

CHAIR HORSFORD:

The decisions made during the Twenty-sixth Special Session were intended to be short-term solutions to the budget crisis. We now need a long-term plan to move our State forward. The Governor offered a number of methods to achieve

that goal. We disagree on this particular revenue source. Just because something was done previously does not mean it should be done again.

There needs to be more equity in our decisions. My point is that two counties are being disproportionately affected in a way that does not provide an equal private sector benefit.

MR. CLINGER:

Page 23 of [Exhibit C](#) displays the breakdown of the General Fund revenue sources by revenue type.

Page 24 of [Exhibit C](#) displays the proposals within the *Executive Budget*.

Page 25 of [Exhibit C](#) lists the General Fund appropriations by function. This compares the current level of spending as adjusted during the 26th Special Session to recommendations in the *Executive Budget*. It also reflects the percentage of change. The DHHS spending has increased 4.69 percent. The DPS would receive a \$30.1 million increase. The chart addresses only the General Fund. The reason for the increase is the need to replace \$72 million in State ARRA funds directed to the DOC which must be replaced with General Funds.

The Department of Business and Industry will experience a 2.1 percent increase due to the additional funds allocated in the budget for economic development. In addition, \$5 million was added to the Nevada Commission on Economic Development (NCED) account and \$10 million was allocated for the Nevada Catalyst Fund. Overall, General Fund appropriations in the *Executive Budget* compared to the current level of spending is a 6.44 percent reduction, or \$402 million.

Page 26 of [Exhibit C](#) displays where funding is currently appropriated in the current biennium: 38.8 percent allocated to K-12; 15.3 percent is allocated to NSHE and 29.3 percent is allocated to DHHS.

The increase in General Fund to DHHS, page 27 of [Exhibit C](#), displays recommendations from the *Executive Budget*. The DHHS budget increases by 32.8 percent, NSHE is at 12.7 percent, partially enhanced by the property fund revenues being deposited into NSHE. Page 27 includes only General Funds. None of the outside revenues are shown on this page.

We discussed restoration of cuts in the *Executive Budget*, when the agencies presented their budgets, and further cuts were requested. Page 28 of [Exhibit C](#) lists some of the restored budget items included in the budget of the new administration. One restored item that has received much attention is the personal care services, at a General Fund cost of \$55 million over the biennium.

Other restorations include TANF assistance for \$8 million, and the welfare caseworker budget item at \$7.8 million General Fund. This is related to the earlier charts showing the growth in food stamps, Medicaid and welfare needs. Case workers are needed to intake and process the applications in a timely manner. Page 28 is not an all-inclusive list. The total restoration to the General Fund for the DHHS budget is \$119 million.

SENATOR LESLIE:

We continued the small options for autism in the Division of Aging budget, but the Self-Directed Autism Program in one of the other divisions is eliminated.

MR. CLINGER:

You are correct. The Self-Directed Autism Program has been eliminated in the *Executive Budget*.

SENATOR LESLIE:

A large number of families currently receiving State services for autism will no longer receive them if the Self-Directed Autism Program is eliminated.

MS. GANSERT:

Mr. Willden will discuss this in more detail, but the explanation given to the administration was that all the families within that Program are receiving other services. Two other programs related to autism were continued. A .50 full-time equivalent (FTE) position was added to manage one of those programs.

SENATOR LESLIE:

We will discuss the elimination of certain autism funding in further detail when hearing the DHHS budget.

There has been discussion regarding the optional Medicaid services concerning whether it is better to hear, see or eat. It appears vision services have been eliminated.

MR. CLINGER:

I do not recall whether that item is in the budget.

ASSEMBLYWOMAN SMITH:

For clarification, when you refer to restoration of funds, are you speaking to restoration from the original agency recommendations? Or, are these items that had been previously cut from the budget?

MR. CLINGER:

The items listed on page 28 of [Exhibit C](#) were recommendations submitted by the Agency to meet their performance measures. We have restored these items in DHHS that were originally eliminated in the Agency budget requests.

ASSEMBLYWOMAN SMITH:

The term "added back" is probably a better way to phrase this action. Were some of these items added back to the budget through the use of Tobacco Settlement funds which will reduce funding for other programs?

MR. CLINGER:

We considered Tobacco Settlement funds which was a recommendation of the Committee for the Fundamental Review of the Base Budgets of State Agencies to save General Fund revenue. Consequently, a portion of the Tobacco Settlement funds was reallocated to enhance the General Fund, enabling funding for other services.

CHAIR HORSFORD:

Mr. Clinger and Ms. Gansert, I will need your help to ensure that as we begin the budget hearing process by agency, what we review is the total funding requested from all revenue sources. The Committee for the Fundamental Review of the Base Budgets of State Agencies made a policy decision. We are looking at the entire budget, not the sum of all the parts. Priority decisions have already been made by the Executive Branch from non-General Fund sources. The Legislature needs to make the same considerations. We will need all revenues budgeted from State, local and federal sources. Please identify the funds that are restricted and in which we have discretion.

MR. CLINGER:

We can assist with that full disclosure. The beginning of the *Executive Budget* contains a summary for each department indicating all funding streams for each.

SENATOR CEGAVSKE:

What is the remaining balance in the Tobacco Settlement fund and how are those funds currently being used?

MR. CLINGER:

When Mr. Willden gives his presentation, it will include a spreadsheet that tracks all Tobacco Settlement fund receipts and their distribution.

ASSEMBLYMAN HICKEY:

Given the fact that education appears to be one of the top priorities of the Governor's Office, have cost efficiencies been reviewed within the DHHS? It is the one area of the budget that has been allowed an increase to generate federal matching funds.

MR. CLINGER:

When the DHHS budgets are presented, several decisions have been made to generate cost savings. They are not budget reductions. The Agency is operating more efficiently. That is the case throughout the entire budget.

Page 29 of [Exhibit C](#) lists county participation for services. These are services in the *Executive Budget* that require county participation to support the cost of services. All of the items on page 29 are within the DHHS budget. Required county participation decision units within the budget result in a General Fund savings of \$76.5 million.

SENATOR LESLIE:

Has the total impact to the counties been established and can you give the Subcommittee that total?

MR. CLINGER:

The impact to the counties is \$107 million consisting of services requiring county participation or services eliminated that benefit the counties. The other cost to the counties is the redirection of property tax funds which is a continuation of the 9-cent tax and the Indigent Accident Fund. The grand total is \$267 million; only \$107 million of that is new reductions to the counties.

SENATOR LESLIE:

The \$5.9 million shown for the Mental Health Courts on page 29 of [Exhibit C](#) which proposes the county provide services are not court costs. These are

treatment funds for the severely mentally ill, including their housing, medications, case coordination and other services. This would be the first time in my memory, and perhaps the first time in State history, when the county would pay for treatment of severely mentally ill individuals. Is that your understanding?

MR. CLINGER:

I am not aware of the history of these services or their funding stream.

SENATOR LESLIE:

All the individuals served by the mental health courts qualify to be served within the mental health system. We would now require the county to fund services for which they have not historically been responsible. Have you had that discussion with the counties? If we are talking of about a total impact of \$267 million by July 1, 2011, that is a tremendous cost shift to the counties with insufficient discussions. We will need to hear about the trickle-down effect from county representatives.

MR. CLINGER:

The actual amount of new costs is \$107 million.

SENATOR LESLIE:

The continued redirection piece must be included for a total cost of \$267 million.

MR. CLINGER:

I would argue that the counties have managed these cost decreases within their current budget cycle. It is not an additional decrease in their revenue.

SENATOR LESLIE:

The original decrease was authorized as a short-term solution and now the *Executive Budget* would make those cost shifts permanent.

CHAIR HORSFORD:

The logic of continuing certain practices from the past, such as redirecting revenues, was short term in nature. You are continuing the reduction in the modified business tax, but not continuing any of the other short term decisions that were made. That is why the Legislature must look at every decision unit and decide what makes sense at the present time.

MR. CLINGER:

Certain choices were made throughout the budget. While we chose to continue certain items, whether the redirection of property tax or other one-time decisions, it is about trying to make the best choices to establish budget recommendations within the existing resources.

CHAIR HORSFORD:

Are these choices not ultimately taxes to local constituents?

MS. GANSERT:

The basic premise we utilized was to try to keep as much revenue in the private sector as possible to help the economy rebound at the fastest rate possible. These are choices we have made. We reviewed the budget to determine where the services were most appropriately provided. Some items were eliminated.

In some cases, multiple services were being provided so one portion was reduced or eliminated but there were other services already being provided. We are balancing human services and education to allow the economy to rebound as quickly as possible.

We met with many local governments and found them to be seeking creative solutions. Counties are looking at collaborating with other entities to provide administrative functions. We need to rethink government and how best to provide services at a high level for lower costs.

ASSEMBLYMAN ATKINSON:

I agree with the Chair. The Governor's administration is not talking about taxes, but these things are, in reality, taxes because someone has to pay, especially when there is no additional funding available.

MR. CLINGER:

The list on page 30 of [Exhibit C](#) specifies programs being eliminated that will impact the counties. The total impact is \$30.5 million. When pages 29 and 30 are added together, the impact to the counties is \$107 million over the biennium.

ASSEMBLYWOMAN CARLTON:

How many positions will be lost with the elimination of the presentence investigator?

MR. CLINGER:

Seventy-eight FTE positions would be eliminated.

ASSEMBLYWOMAN CARLTON:

Does that mean 78 individuals will be laid off, or will those individuals be reassigned?

MR. CLINGER:

There would be 78 FTE layoffs. Potentially, if the district court decides to assume these functions they will want staff with experience; thus, the courts may hire these individuals.

ASSEMBLYWOMAN CARLTON:

Would there be no guarantee of new positions within the court system?

MR. CLINGER:

That is correct.

ASSEMBLYWOMAN CARLTON:

My impression is that many of the cuts and sacrifices we were going to make in the budget were intended to avoid layoffs.

MR. CLINGER:

We have attempted to maintain positions where possible. Of the 25,000 State positions in the budget, we have tried to eliminate layoffs wherever possible. We will work with the employees in positions that are being eliminated to ensure they are considered for open positions. Mr. Willden has over 300 vacancies at this time in the DHHS.

SENATOR KIECKHEFER:

Have you ascertained that these programs will continue and the counties can absorb these functions? For instance, youth are directed from the system to youth camps. Is the expectation the counties will assume these functions or will the programs ultimately be eliminated at the county level at some point?

MR. CLINGER:

That would become the choice of the counties. They will need to go through their budget process and prioritize their spending and resources to cover their needs.

MS. GANSERT:

Many times State funds are a piece of total funding. The youth camps are funded by approximately one-third State funds. There is a mix of funding in many instances from State, county and federal funds.

SENATOR LESLIE:

Have you considered that the counties choose to eliminate the youth camps because they cannot afford them, then those youth may be committed to State institutions? The proposed budget eliminates many beds in the State institutions, leaving less space than is currently available.

MS. GANSERT:

We attempted to ascertain what could be eliminated or transferred to local jurisdictions. Mr. Willden will have further details on that portion of the budget.

SENATOR DENIS:

If funding is reduced at the State level for programs such as the youth camps, does that have an impact on the match required for federal funding?

MR. CLINGER:

I do not have that analysis. Mr. Willden may have that information. I will research that situation for the Subcommittee.

SENATOR DENIS:

It is an important consideration.

ASSEMBLYMAN GOICOECHEA:

Local governments anticipated some of these budgetary needs. The bottom line is local governments must have tentative budgets by April 21, 2011. We need to move ahead on such items as quickly as possible.

MR. CLINGER:

Page 31 of [Exhibit C](#) is the Child Welfare Block Grant for Clark and Washoe Counties. The *Executive Budget* includes \$14.25 million each year for Washoe County. This compares to \$14 million made available in FY 2010-2011. Clark County would receive \$42.75 million in the proposed budget compared to \$41.3 million in FY 2010-2011.

The *Executive Budget* recommends \$7 million for incentives. If the Counties meet certain benchmarks, they would be eligible for additional funds. Mr. Willden will have further details for this proposal.

Page 32 of [Exhibit C](#) details the overhaul of the NCED. The budget would increase funding for the NCED by \$5 million. A plan is being developed which is not currently in the *Executive Budget*. Funds were earmarked in the budget for that process. We included the \$5 million with an additional \$10 million in the Nevada Catalyst Fund to provide incentives for new businesses in their final decision to come to Nevada. With unemployment at 14.5 percent, we need new businesses to come to the State to create additional jobs.

ASSEMBLYWOMAN SMITH:

Is the Nevada Catalyst Fund designed as a loan or as a grant?

MS. GANSERT:

It would be in the form of a grant. We are not considering tax incentives. Development of the process is still under way.

ASSEMBLYWOMAN SMITH:

Will this be a revolving fund?

MS. GANSERT:

That is not the intent.

CHAIR HORSFORD:

This is a concept that is still being developed. For the record:

Because my support of this approach is some reorganization of our present structure and our approach and our strategy, I was very disappointed NNDA [Northern Nevada Development District] placed an ad in California just this week that criticized the new Governor in California and said to those businesses, "Come to Nevada, because we have no business tax." I am not going to fund any money for economic development if that's our message or our approach. I've told that to those stakeholders. That ad was placed last week. I feel that's a breach of an agreement or an understanding that we need a new way to position and market Nevada. We can't market us as the place to come for free while we're gutting education. I've got to get that on the record. I know

they are probably listening. I am watching every step that they are doing right now with the funds that they have.

MS. GANSERT:

The administration is looking forward to working with the Legislature on this concept and on accountability measures. The accountability measures will allow us to track use of the funds and to determine the return on our investment.

CHAIR HORSFORD:

The Governor and the Assembly Speaker share the new approach concept. We feel the current strategies are not working.

MR. CLINGER:

Page 33 of [Exhibit C](#) is the "Silver State Works" approach. The *Executive Budget* includes \$10 million over the 2011-2013 biennium. This is a program being developed between DHHS and DETR. The intent is to get individuals back to work through hiring incentives, on-the-job training and community service. Mr. Willden and Mr. Larry Mosley, Director, DETR, will explain in further detail.

Page 34 of [Exhibit C](#) describes the 20 or more agency mergers and consolidations within the *Executive Budget*. The DOA has been merged with several other departments. The Department of Information Technology and the Department of Personnel (DOP) will become divisions of the DOA. These were recommendations from the Fundamental Review of the Base Budgets of State Agencies. In addition to that recommendation, we recommend the Division of Buildings and Grounds merge with the State Public Works Board (SPWB) to become one division under the DOA. The State Library and Archives will be reallocated from the Department of Cultural Affairs as a division within the DOA.

Some of the personnel functions currently provided within various State departments will be centralized. They include the personnel services for the DOA, the DOP, the Department of Taxation, the Department of Education, the Department of Business and Industry and the Department of Agriculture. Those functions will be provided from a new division titled the Human Resource Management Division within the DOA. We will use a phased approach for centralization of functions. This is phase one and over the next two years

I anticipate we would return to the 2013 Legislature with further centralization efforts.

The *Executive Budget* merges the Renewable Energy and Energy Efficiency Authority offices with the State Energy Office. The public is confused as to which energy program performs which functions. There are efficiencies by merging these entities.

The budget recommends merging the Housing Division and the Manufactured Housing Division within the Department of Business and Industry.

The functions of the Department of Cultural Affairs have been relocated into different departments. The budget proposes moving the Division of Museums and History and the Nevada Arts Council to Nevada's Commission on Tourism. The Office of Historic Preservation will be moved to the Department of Conservation and Natural Resources which eliminates the need for an additional cabinet-level director position. The staff have either been transferred to the new divisions or eliminated in the process.

The administration recommends the pollution control and weights and measures functions within the Department of Agriculture be merged into the Department of Motor Vehicles (DMV). The intent of the restructuring is to make functions more efficient.

The budget proposes to consolidate DPS's Traffic Safety, Bicycle Program with NDOT's Bicycle Safety Program within the NDOT. This was a clear duplication of services.

The budget recommends combining the Office of Consumer Health Assistance with the Office for Minority Health in DHHS.

An additional merger is currently being evaluated and the consolidation is not included in the *Executive Budget*. It is the merger of the back office functions within NDOT, DMV and DPS. This would include functions of accounting, budgeting and personnel services.

ASSEMBLYWOMAN SMITH:

That is a huge budget amendment. It needs to be provided to our staff as quickly as possible. How will those budgets be reviewed and approved? The

Subcommittee needs to ensure legislative authority is not given away through these budget consolidations.

MR. CLINGER:

This will not become a budget amendment. It is in the planning process.

ASSEMBLYWOMAN SMITH:

How could those changes be made without a budget amendment?

MS. GANSERT:

The administration is evaluating the efficiencies to be gained by this consolidation. This is a project for the 2013-2015 budget. It may result in greater efficiency.

MR. CLINGER:

The DOA spent a large amount of time working with all the agencies using organizational charts and considering each of the functions. We identified overlapping services.

The *Executive Budget* includes a recommendation for a 5 percent salary reduction for all Executive Branch employees and for K-12 and NSHE staff as well. The savings is \$380 million over the biennium from the General Fund. When other funds are included, the total savings is \$453 million.

CHAIR HORSFORD:

I understand the Executive Branch and the NSHE have the capability to make that reduction. The K-12 system is a matter of contract negotiations with those employee groups. Those cuts may or may not equate to a 5 percent payroll deduction.

MR. CLINGER:

The budget proposes to reduce funding to the DSA and NSHE budgets by 5 percent. The salary reduction is a district-by-district decision regarding contract negotiations.

CHAIR HORSFORD:

Is the 5 percent salary reduction in addition to the 5 percent per-pupil funding reduction in the K-12 system?

MR. CLINGER:

The 5 percent salary reduction, with all other reductions in the DSA budget, equates to a 5.2 percent reduction in basic support.

CHAIR HORSFORD:

Why are contributions to the Public Employees Retirement System (PERS) included in the overall reduction?

MR. CLINGER:

The contribution to PERS is included in the overall reduction. It includes salary reductions, freezing of merit increases and longevity pay in the DSA equating to the 5.2 percent reduction in basic support.

CHAIR HORSFORD:

Those reductions need to be broken down further because the numbers do not add up. According to my preliminary calculations, the cuts are far beyond your estimated savings of \$453 million.

MR. CLINGER:

We can supply the Subcommittee and staff information on how the budget calculations were made.

CHAIR HORSFORD:

The DSA and NSHE budgets are the largest part of the budget. Do you have this information today?

MR. CLINGER:

This hearing is a total budget overview and as we get into budget specifics we can provide that information.

CHAIR HORSFORD:

These budgets represent 33 percent of the General Fund budget which necessitates consideration of the entire Joint Committee. The standing subcommittees must understand the calculations and make recommendations, but this figure directly affects every classroom in the State of Nevada.

MR. CLINGER:

That figure is calculated through the DSA workbook and your staff has that information. We will provide any additional information requested.

CHAIR HORSFORD:

How can a 10 percent reduction in take-home pay for teachers result in a 5.2 percent reduction in K-12 support?

MS. GANSERT:

When discussing education, we use both basic support and total support. The basic support figure has been reduced by 5.2 percent. The total support, including block grants and local revenues, is reduced slightly more than 9 percent. There are many components to be considered.

CHAIR HORSFORD:

Is the reduction based on current level of support for K-12, not the legislatively approved support?

MR. CLINGER:

The *Executive Budget* is based on the basic support funding approved during the Twenty-sixth Special Session, or the current level of spending.

CHAIR HORSFORD:

The 2009 Legislature included the ARRA funding under the legislatively approved budget, not the funding of the Twenty-sixth Special Session. How is that factored?

MR. CLINGER:

The *Executive Budget* was developed using a base of the level of support approved during the Twenty-sixth Special Session. No ARRA funds are included.

CHAIR HORSFORD:

Are you telling this Subcommittee that the 5.2 percent number the administration is using reflects only State support as approved by the Twenty-sixth Special Session and does not include the level of support from ARRA funds that were authorized in the 2009 Legislative Session?

MR. CLINGER:

The administration is comparing the basic support funding in FY 2011-2012 as included in the *Executive Budget* to the basic support funding in FY 2010-2011 as approved during the Twenty-sixth Special Session. The ARRA funds were allocated in FY 2008-2009. We did not compare basic support in FY 2008-2009 to basic support in FY 2011-2012.

CHAIR HORSFORD:

What would the percentage of reduction be if compared to the FY 2008-2009 funding?

MR. CLINGER:

We can provide that information for the Subcommittee.

ASSEMBLYWOMAN SMITH:

Perhaps the easier way to discuss the budget at this time is to simply refer to the specific cuts recommended in the K-12 budget. It is difficult to reduce the complexity of the Nevada Plan and the Legislative Bureau of Educational Accountability and Program Evaluation to percentage of budget reduction.

In the DSA budget, a 5 percent reduction in salary is being passed on to the school districts. A reduction in PERS funding is passed to the school districts. The step increases received by teachers of \$140 million over the biennium will be suspended. Moving class-size reduction, full-day kindergarten and several other smaller funds into a single account, and then reducing the single account, would be passed on in the form of a grant.

The amounts being reduced are \$140 million, \$130 million and \$100 million in total reductions to the K-12 budget. In addition, the total budget would be reduced in the single account by eliminating certain programs. Is that correct?

MS. GANSERT:

That is correct. From a philosophical standpoint, the administration tried to look at all school district employees and make their compensation more comparable to how other State employees are paid. Currently, State employees are expecting a 5 percent pay reduction. They also pay one-half of the contribution to PERS for their retirement. The school districts currently pay the full contribution to PERS for their employees. We understand that is a considerable change so we propose phasing in the change by requiring school district employees to pay 0.25 percent of their PERS contributions. Salaries have been frozen for school district employees as well as all other State employees.

Both State and local governments contribute to the total funding for education. The local government contribution from sales tax and property tax was short approximately \$440 million. The spreadsheet for the DSA encompasses all the changes to salary computation and the decreases from all funding sources.

The net was a decrease in basic support of approximately 5.23 percent and the decrease in total support was more than 9 percent.

ASSEMBLYWOMAN SMITH:

Much of this is semantics. Are we in an environment where there is no other choice than to reduce teacher salaries to this degree? That is the bottom line. I want to articulate the magnitude of the reductions to K-12.

What is the reduction in the block grant program for class-size reduction?

MR. CLINGER:

The reduction to the block grant program is \$18.7 million. In the category funding stream for class-size reduction, it is \$343.7 million reduced by \$18.7 million for a total of \$325 million.

When we talk about basic support, we are talking about the basic support guarantee not including the categorical funds.

ASSEMBLYWOMAN SMITH:

Is the funding still being reduced by \$18.7 million in addition to all the other fund reductions?

MR. CLINGER:

That is correct. When the categorical funds are added together, the basic support per-pupil funding is \$4,918. When all other funding sources are added, the per-pupil funding becomes \$7,000 each. That is a 9.29 percent reduction because of the reductions in the categorical funds.

ASSEMBLYWOMAN SMITH:

I have heard the Governor say he wants to end social promotion at the end of Grade 3, but I see this as a change in the current class-size reduction for Grades 1, 2 and 3 as well as full-day kindergarten. Those are the first four years of a student's school life, yet we will make the end point more difficult.

The block grant fund has been promoted as providing more local control, when in fact the school districts will apply to the State to receive the funds.

MR. CLINGER:

The block grant funding proposed in the *Executive Budget* is not an actual grant. It is an allocation formula to allocate those funds to the school districts. The school districts do not need to apply for the funds. An allocation formula has been developed and funds have also been set aside for low-performance schools. The administration has structured a funding formula for schools that are performing well and those that are performing poorly.

ASSEMBLYWOMAN SMITH:

That philosophy was used in the past, but has been deleted from the budgets.

CHAIR HORSFORD:

As a courtesy, I called the Governor's Office on January 24, 2011, to express my objections to the depth of the reductions in the education budgets. In his remarks, the Governor said, "It is time we be straightforward and transparent with the severity of the problem." To accomplish that, the Legislature and the Governor's staff need to work from the same set of figures. I sense some gamesmanship in the numbers provided based upon the benchmark. We have to agree on a mutual starting point.

The per-pupil allocation approved by the 2009 Legislature was \$5,395. That ranked funding in Nevada as forty-sixth in the nation. With the proposed budget as presented, there is a \$477 per-pupil reduction compared to the legislatively approved funding. The administration is using the per-pupil funding approved during the Twenty-sixth Special Session. That was a short-term solution based on the circumstances. Do we need to fund at the full amount as a legislatively approved level? Perhaps we do not, but we need to start with where we are at ranking forty-sixth among all states. Based upon the proposed \$4,918 per-pupil rate, we will have the lowest rate of per-pupil funding in the Nation. How can we get to a point where we are all working from the same base figures? We do not need to understate the problem. The people of Nevada know how bad the economy is.

MS. GANSERT:

We were using the figures of what is currently being spent. For FY 2009-2010, the per-pupil spending was \$5,200. For FY 2010-2011, the per-pupil spending was \$5,191. The administration realizes those figures were intended as a temporary fund, but they are the funding that is currently being provided. That was our starting point.

It was not about being misleading or trickery; it was about what is currently being spent and what is proposed to be spent in the future. All the reductions have been difficult. That is why the administration turned to the bond funds to see if funding from the unused bond fund reserves could be used to mitigate budget reductions. Education is very important, as is health and human services.

We can provide a spreadsheet reflecting allocation from 2007 forward. The administration was trying to reflect biennium-to-biennium what is being spent to what is proposed for the next biennium.

CHAIR HORSFORD:

Do you understand my concern that those calculations only tell part of the story?

MS. GANSERT:

I do understand. I had not considered the matter from that perspective. I recognize there is a difference. Our calculations reflect the reality of today.

CHAIR HORSFORD:

When I speak, I will begin with the 2009 legislatively approved allocations. This is a reduction of \$477 per pupil to the amount in the recommended budget of \$4,918 per pupil.

We must now decide the single correct set of numbers to use as the benchmark going forward. The impact of the reductions since the Twenty-sixth Special Session has resulted in increased classroom size and some teachers have been laid off. We used the ARRA funds in FY 2008-2009 to keep teachers working. The State of Nevada received a special grant specifically allocated to school districts to keep teachers working. The ARRA funds will no longer be available. However, the *Executive Budget* makes a comparison based on all revenues, including those that are no longer available.

The legislatively approved figures of 2009 are a basis to work from. At a minimum, that level of funding would be needed to maintain Nevada's place at 46th in spending in the Nation. I am not judging which method is correct, but we all need to work from the same baseline.

MS. GANSERT:

We needed that clarification. The administration is working from the current budget.

CHAIR HORSFORD:

The current budget includes \$300 million of ARRA funding to the local school districts that will no longer be available and a one-time grant directly allocated to those districts for teacher salaries. Your baseline uses current level of funding that will no longer be available. That will have a disproportionate effect beyond what the administration has presented.

MS. GANSERT:

Please clarify the \$300 million figure you quoted.

CHAIR HORSFORD:

I drew the amount from memory. The point is that the ARRA funding of 2009 and the direct grant awarded from the federal government to the districts for teacher salaries are gone. When one looks at the total revenue available to districts, they are losing the federal fund sources at the same time the administration is proposing a \$477 reduction in per-pupil spending from the legislatively approved budget. The totality of the impact means 40 students in a classroom, teacher layoffs and the elimination of the gifted and talented programs.

Those cuts are too deep.

MR. CLINGER:

Page 36 of [Exhibit C](#) explains the statewide salary freeze, including merit increases, which will save \$205 million in the General Funds over the biennium. In addition, the *Executive Budget* recommends the continued suspension of longevity payments saving \$6.9 million in General Fund over the biennium.

Page 37 of [Exhibit C](#) describes position eliminations and layoffs. The current number of authorized positions is slightly less than 25,000 including those in the NSHE budget. The *Executive Budget* eliminates 824 positions with a worst-case scenario of 361 positions. Of the 824 positions to be eliminated, there are 361 incumbent employees who could be laid off. The administration will work with employees targeted for layoff to assist them in being placed in

other positions. The end result of layoff positions should be much smaller than 361 positions.

SENATOR LESLIE:

Do the 824 position eliminations include the NSHE layoffs? If the NSHE budget is reduced by 29 percent, there will be more than 824 layoffs.

MR. CLINGER:

The 17.66 percent reduction to the NSHE budget does not include any position eliminations in that system.

SENATOR LESLIE:

It is not that the administration is intentionally misleading people, but there will be many more layoffs once the NSHE positions are included.

MR. CLINGER:

The administration has been transparent in its media briefing. We stated the layoff number did not include NSHE positions.

SENATOR LESLIE:

You did not make that statement today. The public will look at this testimony and think the situation is not so bad.

MR. CLINGER:

I agree.

SENATOR LESLIE:

It appears 10 percent of the mental health workforce will be eliminated. That boils down to about 40 individuals. It would be useful in the budget hearings if we could have that type of analysis. We are no longer freezing positions or not filling positions; we are eliminating positions. Nevada does not have a great reputation for funding mental health and cutting 10 percent of the workforce is dramatic.

MR. CLINGER:

We have a spreadsheet that lists all positions to be eliminated and every possible layoff we have identified. They are listed by budget account and by decision unit. We will provide the spreadsheet to your Staff.

A bill draft request is being submitted to remove the minimum textbook expenditure requirement to allow school districts greater flexibility in expenditure of appropriations consistent with the block grant. The *Executive Budget* includes \$20 million in FY 2012-2013 for a teacher performance pay program. It would be directed to teachers who excel based on student achievement.

The *Executive Budget* includes a one-time \$10 million appropriation to the Kenny C. Guinn Millennium Scholarship Fund. Based on the current projections, with no changes in policy to the program, the program will be solvent through 2016.

CHAIR HORSFORD:

That is an important budget item. Why is it being included in K-12 budgets?

MR. CLINGER:

It is a part of the overall education budget structure. It will not be directed to K-12. It is a one-time allocation to the Kenny C. Guinn Millennium Scholarship Fund.

ASSEMBLYWOMAN SMITH:

I am glad to see the pay-for-performance funding. However, we had a similar appropriation in 2007 that was subsequently removed from the budget. The education system did not get to implement the plan before the funding was withdrawn.

MR. CLINGER:

The loss of the ARRA funds to the NSHE brings the total reduction to NSHE budgets to 17.66 percent.

CHAIR HORSFORD:

Does that reduction factor some methodology for tuition increases?

MR. CLINGER:

These figures do not include any tuition increases. It is based on the tuition as submitted by the NSHE and approved by the Board of Regents.

CHAIR HORSFORD:

What is the tuition approved by the Board of Regents?

MR. CLINGER:

It is essentially flat from the current biennium. If the current surcharges authorized in FY 2010-2011 are added, the registration fees for the next biennium tuition funding is flat. It is an increase from the current tuition, but if the current surcharge is added, it is a flat tuition in the next biennium.

CHAIR HORSFORD:

Is NSHE continuing the 5 percent increase approved in the last biennium?

MR. CLINGER:

They are continuing the 5 percent increase. However, instead of calling it a surcharge, it will become a part of the baseline registration fee.

ASSEMBLYWOMAN SMITH:

Part of the difficulty in agreement on the percentage of reductions is whether we are talking about total funding or just State support.

MR. CLINGER:

The percentage of 17.66 reflects all the funds currently received by NSHE in their State operating funds, including all funds currently being provided as adjusted by the Twenty-sixth Special Session, for the current biennium. In addition, NSHE receives enterprise funds that are outside of the State budget process.

ASSEMBLYWOMAN SMITH:

We will continue the discussion when NSHE presents its budget overview. For example, if ARRA funds are considered versus State support, it increases the amount of reduction.

MR. CLINGER:

The 17.66 percentage includes the loss of ARRA funds. That is the final percentage.

CHAIR HORSFORD:

The administration is using a different starting point.

MR. CLINGER:

That is correct. The administration starts from the current level of spending. If you compare the budget against the 2009 legislatively approved budget, the

percentage will be much different. We can make the adjustment and provide the adjusted percentage.

CHAIR HORSFORD:

The Governor indicated in his State of the State address that despite the 17.66 percent reduction in funding, the Board of Regents has the option of bringing tuition and fees more in line with fees in other Western states. I expressed my concern regarding what we are using as a comparison with other states such as by state or by peer institutions. The UNLV and UNR need to be compared with their peer institutions. California has high costs for their students but their institutions include the University of California, Los Angeles and the University of California, Berkeley.

MS. GANSERT:

When we were discussing tuition in other Western states, the administration primarily considered other Western Interstate Commission for Higher Education (WICHE) institutions. The Chancellor and the Board of Regents indicated Nevada tuition ranked approximately 15 percent lower than other WICHE institutions. The ARRA funds were approximately \$185 million. Some of the colleges within the NSHE have opted to differentiate tuition and provide a set-aside fund for those students needing financial assistance. While the NSHE as a whole has not addressed increased tuition, individual colleges have made those changes.

CHAIR HORSFORD:

I appreciated the Governor's recognition that if tuition were increased, a set-aside fund would be needed to assist needs-based students.

Does the 17.66 percent decrease in funding for higher education include the administration's plan to redirect the 9-cent property tax funds in Washoe and Clark Counties?

MR. CLINGER:

The 17.66 percent decrease reflects the Governor's recommendation that the \$121 million in property tax be included as a revenue source for NSHE.

CHAIR HORSFORD:

That changes the formula for funding higher education. Currently, only two institutions will receive that funding. It complicates the funding structure which is currently identified by institution.

MR. CLINGER:

The overall reductions to the institutions were made proportionately. We made reductions and replaced General Fund allocations with the property tax revenue.

CHAIR HORSFORD:

The county property tax is higher in Clark County than it is in Washoe County. The property tax received in Clark County is \$49 million each year whereas Washoe County property tax revenue is \$11 million annually. There are 15 counties who would pay nothing for support of higher education. That is not equitable.

MR. CLINGER:

It is proportionate to each institution's overall spending. The UNLV will receive a higher portion of property tax funding from Clark County than UNR will receive from Washoe County. The reductions to the institutions were done equitably.

CHAIR HORSFORD:

The reductions were done equitably, but the replacement revenue source is disproportionate.

ASSEMBLYMAN CONKLIN:

The suggestion has been made that NSHE may increase its registration and tuition fees to cover the shortfall. The shortfall for the biennium is approximately \$280 million. Student registration and fees for the biennium is \$410 million. Tuition and fees would need to be increased for current students by approximately 70 percent. If Nevada's tuition is 15 percent lower than other states in the region and we raise the fees to maintain the current level of funding, how is that a shared sacrifice?

MS. GANSERT:

The administration has not proposed an increase in tuition. The Board of Regents makes the decision regarding tuition rates. It has been contemplated that tuition would need to increase by 70 percent. Their intent is to change their model of delivery and identify more efficient means of service.

The reason the property tax revenue is moved directly to the universities, rather than into the General Fund and then to the institutions, is to allow the institutions to grow as the economy grows. During the interim, four colleges have reviewed and changed their tuition. They also instituted a set-aside fund

for needs-based scholarships. The Board of Regents will have difficult decisions to make. Neither the administration nor the Board of Regents has considered whether they would increase tuition to offset the entire reduction in revenue.

MR. CLINGER:

The *Priorities and Performance Budget* is a new publication representing many hours of labor. This important budget tool completely changes the method in which the budget is presented. The additional volume of the budget includes an informative format. It breaks the spending for State agencies into activities, institutes ranking and, where possible, provides outcome measures for those activities. Much more labor is needed in regard to performance measures. Over the next two years, we will develop the process further. This publication can change the focus of the budget discussions from looking at line items of how many personal computers or fax machines are being requested. It begins to look at the processes, the desired outcomes, the costs to achieve the outcomes and whether the process is being done as efficiently as possible. There is also an online version of this publication.

The document begins with a list of all activities performed by the Executive Branch with a dollar amount associated with those activities. In addition, the activities are ranked high, medium or low. More detail is then presented for each department. All activities are listed and can be sorted by the rankings, funding sources or in other ways. They can be downloaded into spreadsheets. Caseload data is included for each activity.

CHAIR HORSFORD:

We will now move to the CIP and State Public Works Board (SPWB) overview.

STATE PUBLIC WORKS BOARD

GUSTAVO NUNEZ, P.E. (Manager, State Public Works Board, Department of Administration):

We received a memo from the Legislative staff dated January 12, 2011, requesting certain items to be covered in the overview presentation for the SPWB. Our presentation ([Exhibit D](#)) includes responses to all items requested by your staff.

CHAIR HORSFORD:

Please provide a synopsis of the amount of funding available and the requests for expenditures. The representative from the Office of the State Treasurer can report the status of the State debt capacity and the factors causing the decrease in the amount of debt.

LORIE CHATWOOD (Deputy of Debt Management, Office of the Treasurer):
I have provided the Subcommittee with a packet explaining how the State arrived at its current debt capacity ([Exhibit E](#)).

Page 5 of [Exhibit E](#) lists all programs that currently have authorization under the 17-cent ad valorem property tax. It lists the programs subject to the limit specified in the *Constitution of the State of Nevada* and those that are not. Natural resource programs are the largest group not subject to the constitutional debt limit.

Page 6 of [Exhibit E](#) reflects the State's debt capacity. The bonding capacity is constrained in two ways. The constitutional debt limit states the outstanding debt cannot be greater than 2 percent of the assessed valuation of the State. The chart compares the decrease in the assessed valuation of the State in 2007 at \$137 billion with the 2010 assessment at \$95 billion. As of the end of 2010, the State had approximately \$490 million in debt capacity.

Page 8 of [Exhibit E](#) lists the property tax revenue projections between FY 2005-2006 and FY 2010-2011. First, the State must have bonding capacity as specified in the Constitution. Secondly, the State must have the revenue to pay its debt. The tax rate between FY 2005-2006 and FY 2010-2011 is 17 cents per \$100 of assessed valuation. The chart on page 8 shows the historical revenue data. In FY 2009-2010, revenues were \$186 million. The projection for FY 2010-2011 is \$144 million, or a decrease of 22 percent. These projections were made by a committee composed of individuals from the Nevada Department of Taxation, DOA and LCB. The latest projections were from a meeting in held December 2010.

Page 9 of [Exhibit E](#) is the forecast of projections for changes in assessed valuation and the differences in revenue collections.

The second assumption is that if the 17-cent property tax is maintained and not increased, the allocation between the Question 1 (Q1) program and the non-Q1

programs would change. The rate would remain at \$0.155 cent for all other programs and \$0.145 cent for the Q1 program between FY 2010-2011 through FY 2013-2014. Projections extended beyond that time increase the allocations to pay for the current debt incurred in the Q1 program.

It is estimated the future bonding cost will be at 6 percent. The State has historically had a better percentage. It is the assumption that the State credit rating will be maintained at AA1 and AA plus for tax-exempt bonding and fixed rate debt.

For best practices, the State maintains a minimum of six months' reserve balance of the next year's debt service, called the Consolidated Bond Interest and Redemption Fund reserve balance. That practice has allowed the State to pay the current bond debt despite the decrease in property tax assessed value without accessing a loan from the General Fund.

The result of the affordability analysis for the upcoming biennium is \$29 million. Of the \$29 million allocated in the *Executive Budget*, \$1,376,821 is designated to complete CIP for 2009 CIP projects. The remaining \$27,133,179 is proposed for the 2011 CIP projects. Department of Cultural Affairs historic preservation bonding is proposed at \$490,000.

MR. NUNEZ:

As stated by the Office of the Treasurer, part of the funding for the 2011 CIP will be derived from general obligation bonds. The bonding capacity is \$29 million. Historic preservation is proposed at \$490 million representing three projects.

We reserved \$1.376 million to complete the 2009 CIP. The 2011 CIP is \$27.78 million in general obligation bonds. The remaining capacity is \$54,581.

It is requested that \$11.6 million be reallocated from the 2009 CIP into the 2011 CIP, bringing the total for this biennium to \$38.7 million.

Non-State funding sources are listed on page 44 of [Exhibit E](#). They include funds from Q1, slot tax revenue, Highway Fund, federal funds, and funds from the Division of Risk Management, DOA, for a total of \$22,381,973.

Page 45 of [Exhibit E](#) lists 2009 CIP projects included in the \$27 million bonding capacity for 2011. We request the projects listed be reauthorized. In discussions with the Office of the State Treasurer, it is in the State's interest to reauthorize these projects to provide a 20-year finance period. A one and one-half-year period has already been lost. By the time of the next bond sale to complete projects, the State will have lost two years. If the projects are not reauthorized, the finance period would be reduced to 18 years. Including the design and bid phases, even more could be lost.

Approximately 200 CIP agency requests for projects were received for the 2011-2013 biennium. The SPWB follows NRS 341.191 in the development of the CIP. Projects requiring more than \$10 million are scheduled to receive funding over two biennia. The prioritized list is reflected in the *Executive Budget*.

The pie chart on page 47 of [Exhibit E](#) shows the distribution of agency requests. The CIP was prioritized based on life safety and code issues; critical maintenance; statewide maintenance and additional critical projects. Additional critical projects funding would be drawn from reallocated 2009 CIP funds. The project to be reallocated is Project 09-C02a, construction of a 36-bed child and adolescent hospital. The DHHS recommends cancelling construction of this project. Their premise is to care for existing facilities before new construction to enhance capacity.

Project 09-C02a – 36 Bed Child & Adolescent Hospital

Fire and life safety is always the agency's highest concern. We ensure all facilities have operable fire alarm systems. Sprinkler systems are prioritized and installed as funding allows. The order of priority is:

- Dormitories and institutionalized wards of the State
- Museums
- Others

Museums are second in priority after life safety, because historical items destroyed by fire cannot be replaced.

Page 50 of [Exhibit E](#) reflects the Governor's recommendation, by department, for the reallocated funds. The largest project is the completion of the core upgrade at the Southern Nevada Correctional Center.

Page 51 of [Exhibit E](#) is a pie chart reflecting the Governor's recommendations by department and cost.

Page 52 of [Exhibit E](#) lists other funds and State funds distribution requests totaling \$61 million.

Page 53 of [Exhibit E](#) lists life safety code project issues requesting \$4.1 million.

Page 54 of [Exhibit E](#) lists critical maintenance project requests. The primary projects are for heating, ventilation and air-conditioning. There were other critical projects that could not be accomplished within current funding levels.

Page 55 of [Exhibit E](#) lists the requested statewide maintenance projects. The Statewide Paving Program was not included as they did not reach the level of criticality for the limited funding available.

A small amount of funding is requested for Americans with Disabilities Act emergency upgrades. Those would include complaints filed with the U.S. Department of Justice.

Page 56 of [Exhibit E](#) lists additional critical projects. There are many projects that are badly needed, but are not included in the recommendations due to the State's current bonding capacity. Some financial funding should be considered for potential emergencies. We may make it through this biennium without deferred maintenance due to the economic climate, but it will increase the future needs.

Page 58 of [Exhibit E](#) explains how the SPWB implemented the provisions of S.B. No. 395 of the 75th Legislative Session.

The Facilities Condition and Analysis group visits and inspects State buildings. With training and coordination with the State Fire Marshal Division of DPS, and the creation of a "punch list", the SPWB staff can also conduct annual fire marshal inspections. A report will be generated and provided to the State Fire Marshal. This will add efficiency to the process.

Page 64 of [Exhibit E](#) reflects how the SPWB completes deferred maintenance projects and the rate the backlog is being maintained. It is new information we can produce from our reports. The rate at which we are completing deferred maintenance and the backlog rates are clearly parallel. The increment in projects completed increased by \$39 million over the period from January 2006 to January 2011, while the backlog only increased to \$47 million. Much of the backlog reflects inflation rates, not the amount of existing backlog. This report will be produced and analyzed annually. Hopefully, the level of future funding will not drop the State so far behind that it will be faced with closure of facilities.

Does the Subcommittee wish further details at this time on the proposed consolidation within the DOA?

CHAIR HORSFORD:

That is important information that can be discussed as the standing subcommittees discuss budget details. Facilities and maintenance is critical to the operation of the State.

With no further business before the Subcommittee this meeting is adjourned at 12:06 p.m.

RESPECTFULLY SUBMITTED:

Cynthia Clampitt,
Committee Secretary

APPROVED BY:

Senator Steven A. Horsford, Chair

DATE: _____

Assemblywoman Debbie Smith, Chair

DATE: _____

EXHIBITS

Committee Name: Senate Committee on Finance/Assembly
Committee on Ways and Means

Date: January 25, 2011

Time of Meeting: 8:30 a.m.

Bill	Exhibit	Witness / Agency	Description
	A		Agenda
	B		Attendance Roster
	C	Andrew Clinger	DOA Power Point
	D	Gustavo Nunez	SPWB Power Point
	E	Lorie Chatwood	Packet from State Treasurer