

**MINUTES OF THE
SENATE COMMITTEE ON FINANCE**

**Seventy-sixth Session
February 10, 2011**

The Senate Committee on Finance was called to order by Chair Steven A. Horsford at 8:06 a.m. on Thursday, February 10, 2011, in Room 2134 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.

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

STAFF MEMBERS PRESENT:

Scott Edwards, Program Analyst
Rex Goodman, Senate Principal Deputy Fiscal Analyst
Mark Krmpotic, Senate Fiscal Analyst
Paul V. Townsend, Legislative Auditor
Madison Piazza, Committee Secretary

OTHERS PRESENT:

Kim R. Wallin, State Controller, Office of the State Controller
Mary Keating, Acting Chief Deputy Controller, Office of the State Controller
Michael E. Skaggs, Executive Director, Nevada Commission on Economic Development
Dana Bilyeu, Executive Officer, Public Employees' Retirement System
Tina M. Leiss, Operations Officer, Public Employees' Retirement System

CHAIR HORSFORD:

We will start with the budget overview by the State Controller.

KIM R. WALLIN (State Controller, Office of the State Controller):

I have submitted my testimony and an outline of my presentation ([Exhibit C](#)) and will be covering these items in greater detail as I go through the FY 2012-2013 budget presentation ([Exhibit D](#)).

ELECTED OFFICIALS

Controller – Controller's Office — Budget Page ELECTED-114 (Volume I)
Budget Account 101-1130

The mission of the Controller's Office is to advance accountability, continuity and efficiency in the State's financial operations.

The Controller's Office is the financial hub for the State. On average, over \$1.14 million per day in transactions are processed through the statewide accounting system, including vendors, payroll, deposits, and money transfers. It is very important that the integrity and safety of the Integrated Financial System is maintained. The amount of \$1.14 billion shown on page 5 of [Exhibit D](#) is incorrect. It should be "\$1.14 million."

The job responsibilities of the Controller's Office do not change with the budget fluctuations. We still have to prepare the Comprehensive Annual Financial Report (CAFR), pay the bills and collect debt. In fact, my Agency's service department has seen an increase in workload as other agencies eliminate their fiscal staff. It takes more work on our part to make sure things are accounted for and processed correctly.

Please refer to page 6 of [Exhibit D](#) for the summary of performance indicators. For the total percentage of debts collected under \$25,000, the target was 45 percent in FY 2009-2010. Although only 28 percent was collected, it was still an improvement over the 11 percent we were collecting. We did not achieve 45 percent, because there were some vacancies in our debt collection unit due to budget cuts. The average age of the debt turned over to us increased from 486 days to 803 days. With the passing of Assembly Bill (A.B.) No. 87 of the 75th Session, agencies submitted debts as

much as five years old. While we are still collecting old debts from agencies, the average age of those debts is down to 723 days.

If we staff our debt collection unit completely and automate the collection of data from the agencies, the average age of the debt will decrease and the percentages collected will continue to improve.

In our information technology (IT) area, we continue to track savings as a result of having State employees do our programming versus having to go to an outside contractor. Our office saved approximately \$600,000 in fiscal year (FY) 2009-2010 and we are projecting savings of \$450,000 in FY 2010-2011. In addition, my IT staff has been working on a project which will allow us to accept credit and debit cards from debtors to pay their debts online. When the Department of Motor Vehicles designed their online payment system 10 years ago, they hired a consultant at a cost of \$500,000. We are doing it in-house, without a consultant, and will realize a savings of \$500,000 on that project alone. Other agencies have asked if we can share this system so they can begin accepting payments online as well, which will result in greater savings.

SENATOR LESLIE:

Why is the performance indicator of the number of documents processed per full-time equivalent (FTE) employee, shown on page 6, projected to decrease so dramatically?

MS. WALLIN:

The reason for the decrease in the projection of documents processed for FY 2011-2012 is because we only accounted for ten months instead of one full year. We will be adjusting the projection and reporting to your staff with the corrections.

Page 7 of [Exhibit D](#) is the Governor's recommendation for budget account (B/A) 101-1130. The proposed budget cuts to decision units E-670, E-671 and E-672 present a number of problems for the Controller's Office.

E-670 5% Salary Reduction — Page ELECTED-115

E-671 Implement a Salary Freeze — Page ELECTED-116

E-672 Suspend Longevity for FY12 & FY13 — Page ELECTED-116

Because they will not receive merit increases or longevity, my staff, especially for those who are new to State service, and at the lower end of the pay grade, will see a 10 to 15 percent cut in pay. Employees who are at the very low end may qualify for public assistance.

State employees have not had any pay increases since 2009. Now they are facing another two years without an increase. Requiring employees to take a 5 percent pay cut, rather than a furlough day, will not improve customer service. With unpaid furlough days, at least employees can save money on day care and transportation. With the proposed plan to cut the amount of money they receive for their sick leave and vacation buyouts, employees will be more inclined to call in sick or go on vacation. Managers can plan for furloughs, but not sick days.

The Public Employees' Retirement System (PERS) will also be impacted because their actuarial assumption for the contribution percentage is based on employees earning 5 percent more than the Governor's recommended budget. As we know, employees in the State also share 50 percent of the contribution costs. Those within five years of retirement may decide to retire. The PERS makes their calculations on the basis of normal reasons for retirement rather than the mass exodus that occurred when the Public Employees' Benefits Program (PEBP) changed their plan.

Not only will there be a financial impact if employees choose to leave, but we will have a brain drain as well. Of my employees, 28.21 percent are in this five-year window. If this happens, our CAFR may not be done on time and there will be a significant chance of errors. As a result, we could have a qualified opinion, which means our financial statements do not comply with generally accepted accounting principles. This will cause our bond rating to deteriorate, resulting in millions and millions of dollars more in interest that we will have to pay on our bonds.

The Governor has said that his budget does not raise taxes for the citizens of Nevada, yet it seems that those who work for the State must pay a State income tax because of these pay cuts. If we need to cut wages, we should cut them by decreasing the hours employees have to work. If some managers say that it is hard to schedule furloughs, close the State down one day a month, with the exception of essential services.

Page 8 explains decision unit E-710 which requests \$12,081 in FY 2011-2012 and \$8,352 in FY 2012-2013 for desktop computers, monitors, a laptop and related accessories. The equipment is being replaced according to the Department of Information and Technology's (DoIT) recommended replacement schedule.

E-710 Equipment Replacement — Page ELECTED-117

Page 9 of [Exhibit D](#) shows decision unit E-711 for \$8,360 in FY 2011-2012 and \$5,560 in FY 2012-2013 for computer printers in accordance with DoIT's replacement schedule.

E-711 Equipment Replacement — Page ELECTED-117

Page 10 shows decision unit E-713 for \$17,168 in FY 2012-2013. This expenditure is for the backup batteries that are necessary to keep the statewide accounting system up and running in the event of a power failure. This is also completed according to DoIT's replacement schedule.

E-713 Equipment Replacement — Page ELECTED-118

Page 11 of [Exhibit D](#) shows the items eliminated from my budget by the Governor.

Page 12 is my request to have the positions of assistant controller and American Recovery and Reinvestment Act of 2009 (ARRA) reporting and accountability officer funded in decision unit E-690. Decision unit E-690 asks for \$225,758 in FY 2011-2012 and \$228,495 in FY 2012-2013.

E-690 Budget Reductions — Page ELECTED-117

The position of assistant controller performs functions critical to this office including acting as public information officer (PIO) and legislative liaison; administering the debt collection and *Nevada Administrative Code* (NAC) hearings; preparing reports to our citizens, except for the CAFR, and any special projects or research that our office may need.

The ARRA reporting and accountability officer is a critical position, responsible for providing the checks and balances necessary to ensure we are spending the

money properly. Nevada will receive an additional \$400 million until June 30, 2014. This money needs to be properly accounted for, the agencies need to be monitored to make sure they are not commingling funds and that they are providing the monitoring for their subrecipients that is required of them by the federal government. In addition, the federal government has decided that they now want all grants to report in this way and, in many cases, they have added new reporting requirements. The individual in this position has been assisting the agencies in preparing to report this way. There is no other office or agency that can perform this function. This position is also independent of the Governor's Office which means that you have real checks and balances.

CHAIR HORSFORD:

Can you explain what the individual in the ARRA position has been providing versus what is done by the individual in the Governor's Office? With respect to the continued compliance reporting that is required even in the closeout period, what is that final deadline for closing our ARRA?

MARY KEATING (Acting Chief Deputy Controller, Office of the State Controller):

The functions that I perform are mostly in the fiscal accounting area. I ensure that all the accounting required by the federal government and State accounting system is recorded correctly. I work directly with the agencies, ensure that they use the correct job numbers and track their reporting requirements. Each year they are required to file State single audit reporting forms which I make sure are correct. Every week we publish, on our Website, the activity of all of the grants that the State of Nevada has, excluding the Nevada System of Higher Education which has an outside accounting system. Currently I am working with internal audit on auditing those grants that fall below the single audits so that we are not duplicating any effort. In addition, I get inquiries from the press and other entities about how to account for things. When we met with the Governor's staff originally, their intent was to build their Website and monitor Section 1512 reports, which is the section of ARRA requiring agencies to do specific recording. I do not get into that, because I do not want to duplicate what they are doing. Those Section 1512 reports will be required until June 30, 2014. There is at least \$400 million that still needs to be brought in and expended, excluding unemployment. The unemployment portion of ARRA is about 50 percent and that is not included in the \$400 million that is due to us. I am busy all the time with the agencies, mostly in the auditing, accounting, and reporting requirements.

CHAIR HORSFORD:

The *Executive Budget* is proposing the elimination of the ARRA-funded position, effective June 30, 2011. We would essentially have no ARRA infrastructure to close out the requirements through June 30, 2014. We must address this issue in order to meet those obligations.

What functions are performed by the assistant controller position? How are those functions currently being performed?

MS. WALLIN:

My husband is currently acting as an unpaid intern and is trying to fulfill the duties of the assistant controller. He prepares my press releases and acts as my legislative liaison. We have farmed the reports to our citizens. No one is doing the intergovernmental dependency report.

CHAIR HORSFORD:

Is the position vacant?

MS. WALLIN:

Yes, it is.

CHAIR HORSFORD:

Please elaborate on the functions this position is supposed to perform.

MS. WALLIN:

This position acts as PIO and legislative liaison and prepares all the reports to our citizens, except for the CAFR. The position also administers all the NAC hearings and debt collection hearings. The position is also responsible for special projects and research. It is a very critical position.

As shown on page 13 of [Exhibit D](#), decision unit E-275, though not in the *Executive Budget*, is a request for funding of \$200,000 in FY 2011-2012 for an enhancement to our existing debt collection system. This enhancement will allow us to automatically extract the information from the agencies' systems, such as the Department of Taxation and Department of Employment, Training and Rehabilitation. This means that we can do debt offset at 60 days and start the collection of debts sooner which improves collections by 12.5 percent. Currently agencies have to submit their debts on our eXtensible Business Reporting Language (XBRL)-enabled spreadsheets which requires cutting and

pasting their information. This delays the submission of debts to our office. This enhancement will pay for itself through higher debt collections.

If we start collecting for the local courts, this will allow us to collect the data from their systems automatically as well. Because it is open-source technology, it is not as expensive to have them come into the system and use it. If we start collecting for the local municipalities and courts, we will charge a collection fee to cover our costs, much like the State of Kansas does.

Improving our collection efforts is a high priority of my office. In fact, this unit reports directly to me.

SENATOR LESLIE:

It appears that you requested \$213,272 and the Governor is recommending \$13,272. What is the remainder of the \$200,000 for?

MS. WALLIN:

That is for enhancement units E-710, E-711 and E-713.

CHAIR HORSFORD:

Where is the estimate derived from?

MS. WALLIN:

We consulted with experts in this field and they estimated this would be the cost.

CHAIR HORSFORD:

Is this customized software?

MS. WALLIN:

No, it is open-source software. In the near future, our staff will probably be able to do all our XBRL here in this State.

CHAIR HORSFORD:

Can you elaborate on what XBRL is?

MS. WALLIN:

XBRL stands for eXtensible Business Reporting Language. It is an open-source business reporting language that is used quite extensively by governments

around the world. The XBRL allows us to have access to data from different types of computer systems without having to have a specific program.

CHAIR HORSFORD:
How will this be operational?

MS. WALLIN:
Instead of agencies extracting the data from their system, we will map to the data in their computer system and extract it. There will no longer be human intervention which will both speed up the process and eliminate errors.

SENATOR DENIS:
Is anyone else in the State using it?

MS. WALLIN:
Not in the State of Nevada. Ohio is considering it and the City of New York has contacted us. The United States has been slow to adopt XBRL, for two reasons. First, it is open-source software and vendors cannot make much money on it; and second, it is very transparent. In the federal government, the Securities and Exchange Commission has their publicly traded companies report this way. Also, the Federal Deposit Insurance Corporation has been using it for their bank call reports for many years.

SENATOR DENIS:
Are there other applications for this in other agencies where we could be saving money?

MS. WALLIN:
Yes, there are. We want to use it in the grants reporting area. We did a pilot program with the Department of Agriculture two years ago to test the technology. What previously took two weeks was completed in less than a day.

[Exhibit D](#), page 14, shows decision unit E-276 which is not included in the *Executive Budget*. This is a request for \$50,000 in FY 2011-2012 to use XBRL to automate our single audit reporting process.

E-276 Best Use of Technology

The XBRL solution will streamline our operation while at the same time improving our internal controls and the integrity of the data.

Page 15 shows an example of the report the agencies are submitting to our office. Last year, there were over 700 active federal grants here in the State. In the last fiscal year, 54 percent of our State expenditures came from federal funds. Each agency spends a large amount of time cutting and pasting into spreadsheets or writing the information required for the report on a piece of paper.

Using this solution, we will be able to automatically pull the information from our data warehouse, eliminating most of the manual input. With the increased demands placed on Fiscal Division staff due to fewer employees, and the Governor wanting to do more in performance management, this would allow the Fiscal Division to spend more time analyzing data and performance measures which will save money.

Page 16 of [Exhibit D](#) shows all of the items that can be automatically reported with this solution. The highlighted items are the information that can be automatically generated from our accounting system. As you can see, agencies will only need to fill in the Data Universal Numbering System number, job number, name, title, contact information and department information.

We will not have to reenter the information. Since it comes automatically from our accounting system, we do not have to spend time manually verifying the numbers. This will improve the integrity of the information we send to our auditors.

Because it is open-source technology, we will be able to share the taxonomy and the solution with local governments, helping them to automate their processes.

E-255 Economic Working Environment

Page 17 details decision unit E-255, which is for a legal research assistant and not in the *Executive Budget*. I am asking for \$59,787 in FY 2011-2012 and \$60,060 in FY 2012-2013.

The request for this position was made by our Deputy Attorney General (DAG), because his office could not handle the filing and renewing of judgments and bankruptcies. The Attorney General assigns a DAG to the Controller's Office but the individual is assigned to other agencies as well.

Due to limited funding, I would be willing not to fill this position, and would add this responsibility to the assistant controller, if the position were restored to my budget.

We believe that this position, whether assigned to the assistant controller, or a separate position, will more than pay for itself through increased collections.

CHAIR HORSFORD:

Please work with our staff to prioritize the positions and functions necessary for the success of your office.

MS. WALLIN:

Page 18 of [Exhibit D](#) shows current initiatives and future reporting obligations. Our office will continue working to automate our debt collection system which will lead to increased collections and an awareness of outstanding debt.

By the end of March, we will be able to begin accepting credit cards on our Website to pay debts. Thanks to my staff, we were able to do it internally and saved money.

On January 1, 2012, all state and local governments making more than \$100 million in payments to vendors must start withholding 3 percent from each vendor. We will have to start issuing them IRS form 1099. There have been several attempts to repeal this withholding rule. If this legislation is not repealed, we will need additional resources in order to comply with the law. The Governor removed an accounting assistant II from our budget. That position will need to be restored if we have to do the 3 percent withholding.

Page 19 shows my vision for the future. As a professional accountant, I have some great plans for the office. Because of the budget problems facing the State, it is important to collect all of the monies due to us. It is important that we create a centralized repository for debt collection and accounts receivable throughout the State. The CGI Group's debt collection study found that the more successful states in debt collection were those that were centralized.

My staff will continue to act as management consultants to the agencies, using performance indicators and performance management to identify waste and inefficiency. We will continue to offer world-class customer service.

In an effort to create efficiencies in our State's operations, we are working with various agencies to establish standardized grant reporting which will allow us to use an XBRL solution.

Page 20 shows my ideas on how we can save money in the State which would free up resources for education and other needed services for our citizens. One idea would help Nevada businesses join with the State to create much-needed jobs.

SENATOR CEGAVSKE:

I am interested in your ways to save money and data mining. I saw that it was with Medicaid, and I am interested. When you request bids, is it always put out on a Request for Proposal (RFP)?

MS. WALLIN:

Yes, it is standard. When we did an XBRL program, we put it out with an RFP. We have three outside collection agencies and would like to add two more. The RFP process takes about a year to find someone. In debt collection, we want to change them out more quickly if they are not performing.

MS. KEATING:

We are working with the Department of Administration's Purchasing Division. In much the same way that the Women, Infants & Children USDA Special Supplemental Food Program has agreements with grocery stores, the RFP's would go to the State Board of Examiners for approval which allows us to add more vendors. It creates competition, weeds out the vendors that are not working and adds in those that are going to work hard.

SENATOR CEGAVSKE:

Please provide more detail about Medicaid. Are there other suggestions or solutions out there?

MS. WALLIN:

Data mining for Medicaid is a tool that many states are starting to use to cut down on abuse and waste. Some places use data mining in workers'

compensation audits to ensure that they do not overpay the providers. Maybe this is something we can do for Medicaid. We have checks and balances on our system for Medicaid, but we determine what will be checked. It would allow us to not only look across data laterally and vertically, but cross cut the data as well. For example, a provider could submit a bill three times for a Magnetic Resonance Imaging and we would not catch it if it was under the \$350 ceiling. Or if someone gets an x-ray in two consecutive weeks, that will not be caught. Yet with data mining you catch those things. We started working with the Department of Health and Human Services in April, then we adjusted for requirements of the Health Insurance Portability and Accountability Act of 1997. A vendor has offered to do a free, three-month study to determine whether we have made improper payments. This company has done work in the State and found that 60 percent to 80 percent of the overpayments in the workers' compensation area were caused by 8 percent to 10 percent of the providers. If we could end that in Medicaid, we could share some of the savings with the providers, and still have savings for the State.

The Legislative Counsel Bureau performed an audit about three years ago. They reviewed 200 of the highest paid invoices and discovered \$19 million in improper payments.

CHAIR HORSFORD:

Please move forward to your Debt Recovery account.

Controller – Debt Recovery Account — Budget Page ELECTED-120 (Volume I)
Budget Account 101-1140

MS. WALLIN:

This B/A was created from A.B. No. 87 of the 75th Session, Section 7.3. The money in this account can only be used to support the debt collection efforts of my office and we must get approval from the Interim Finance Committee (IFC) to spend it. As of the end of June 2010, there was \$79,822 in the account and we currently have \$138,000.

Money in this account is from the 2 percent fee we charge and any interest we receive on installment sales. We also deposit General Fund monies we collect.

We did not have enough experience earlier to project what percentage of our collections, after A.B. 87 No. of the 75th Session, would be General Fund

monies. Based on our experience this year, I would estimate that the balance in the account by the end of FY 2010-2011 will be approximately \$200,000 and \$375,000 by end of FY 2011-2012.

Our projection was based on General Fund money. However, since the agencies learned this is federal money, we have to reevaluate this. It gets very complicated when we are collecting monies that are part federal, and part State.

CHAIR HORSFORD:

We want to look at the whole budget, and the General Fund is a part of that. For some agencies, it is mostly federal money, while in others, it is mostly General Fund money. Considering you are dealing with all of it, how does that get reconciled?

MS. WALLIN:

When we collect federal dollars, we take one-half and send one-half back to the agency. Theoretically, the agency is supposed to send the money back to the federal government. The Department of Education had a debt of over \$500,000 that was owed to the State since 2003, and there had been no activity on it. With the new outside collection agencies, we started collecting \$17,000 each month. The Department of Education said it was federal dollars, not General Fund money. We have given it back to them, but are waiting on the proper documentation showing that they have to pay it back to the federal government.

CHAIR HORSFORD:

Federal funds are usually a disallowed cost. If you have a grant, they just take it out of your current or future grant. If you collect the money, that is supposed to be returned as well.

MS. WALLIN:

In cases where I am unsure, I have asked the agencies to provide me with documentation to show they will pay it back to the federal government.

CHAIR HORSFORD:

Please meet with our staff on your priorities of those positions.

The next hearing is the Commission on Economic Development. I had a conversation with the Governor's Office and was advised that some of the

budget will change based on the agreement among Legislative leadership to work with the Governor on some reorganization. I do not think this budget accurately reflects all of those discussions, because they are still ongoing. I want to make clear to the Senate Committee on Finance that there will be adjustments and an amendment along with an opportunity to hear the revised proposal.

COMMERCE AND INDUSTRY

ECONOMIC DEVELOPMENT AND TOURISM

Economic Development – Commission on Economic Dev — Budget Page ECON
DEV & TOURISM-1 (Volume II)
Budget Account 101-1526

MICHAEL E. SKAGGS (Executive Director, Nevada Commission on Economic Development):

I will be referring to the handout entitled Agency Overview and Budget Presentation ([Exhibit E](#)). I will give you an overview of the Agency, review the four budget categories, and then talk briefly about new funds and where those might be applied.

Please refer to page 2 of [Exhibit E](#) for the composition of the current Commission. It is chaired by the Lieutenant Governor and consists of six Commissioners: two Commissioners from Clark County, two Commissioners from Washoe County and two Commissioners from rural counties. We have offices in Carson City and Las Vegas, where we provide service and access to the programs that the Agency conducts for the benefit of the citizens. We also utilize an affiliated network of development authorities. In the case of the rural authorities, they are designated by county government. They are pretty much an economic and a community development entity, so they provide a very broad range of local services. It is good because it gives us a presence in each county in the State. The two metropolitan development authorities are more oriented towards marketing. Some of the fund transfers reflect that as we go through the presentation. Each odd-numbered year we have a requirement to present the State plan for the diversification of the economy. Since this Agency was formed, one of the key indicators has been gaming employment as a percentage of total employment, which is shown by the chart on page 4 of [Exhibit E](#). Although nongaming employment has been declining since peaking at

21.8 percent, we have had an increase recently and it stands at 16.8 percent. That is the key measurement of the Agency, because of this mission of diversification.

Page 5 of [Exhibit E](#) shows the Program Narrative Highlights from FY 2009-2010. We have development in cities for companies that either come to the State, are new to the State, or are expanding in the State; there are 40 of those projects so far. About 1,500 jobs have been created at an average hourly wage of \$20.27. We pay close attention to those acute barometers. For access to the incentives, major indicators are average wage, the number of jobs to be created and then finally the amount of capital investment in the State.

With respect to the Nevada Film Office, there has been more competition for film. We have found a market opportunity in television which we continue to exploit, whether it is reality shows or game shows. The Office facilitated more than 700 registered film and media projects which infused more than \$172 million into the State.

In the Community Development Block Grant program, the federal funds from the U.S. Department of Housing and Urban Development (HUD) to the rural communities in the State is \$6.69 million. We have more applications than that, and use a peer review process to make those investments. It is one of our more beneficial programs in terms of improving the communities for the benefit of economic development.

In the Procurement Outreach program, the strategies that have performed for us in the last few years, despite the sluggish and erratic economy, have been our work to reach out to existing businesses and facilitate their expansion. It has produced approximately 16,000 jobs through connecting Nevada companies to government contracting opportunities. Procurement Outreach clients reported contract awards totaling over \$800 million.

Page 5 of [Exhibit E](#) shows the last budget category, Global Trade and Investment. The federal government has remarked that doubling exports could be a way to reignite this economy. This continues to be a critical area.

We are approximately two years through a renovation of the Agency. Most of the assets of the Agency have been moved into business development because of the unemployment we continue to confront on a daily basis. On page 6 of

[Exhibit E](#), the strategies are listed. The first strategy involves retaining and expanding existing businesses in order to create jobs. This is the way we produce about 80 percent of the jobs in the State that fall within our targeted sectors.

If we can help an existing business facilitate an expansion by introducing them to funding sources or marketing opportunities, it is a wise investment of our funds. Start-up companies are an important part of this economy. They will become increasingly important in the discussion of how the application of technology affects the formation of companies in Nevada.

Another strategy is to attract both film and the relocation of businesses to the State of Nevada.

Finally, we have the community development strategies to make our communities competitive in a global economy.

On page 7 of [Exhibit E](#) is a chart that shows unemployment by county. Lyon County has severe unemployment of 17 percent; Nye County has 16 percent unemployment. Our efforts are directed every day to combat this issue.

On page 8 we start with the review of the budgets. There are two operating divisions and two federally funded initiatives within the Agency.

Budget Account 101-1526 is funded just under \$2 million for the current biennium. The proposed increase will raise it to about \$3.9 million. The core business development recruitment activities conducted under this budget category generate an exponential return to Nevada's economy. The Agency prepared economic impact analyses to assist 40 companies to begin or expand operations in Nevada. In FY 2010-2011, ten companies have added \$135 million in investments.

We provide Nevada companies with a market opportunity to sell their goods. Federal funds, specific to agriculture, are available for these trade missions. We work with food products, food enhancements and agricultural goods. There are many markets for onions and alfalfa, but particularly for food additives. That has produced about \$13 million in new international sales for those companies.

Exports continue to be a major part of our economy and economic base and we see that continuing in the future with even more federal emphasis.

CHAIR HORSFORD:
What do you mean by international sales?

MR. SKAGGS:
We help Nevada companies that make sales offshore to new customers. For instance, we will take representatives of food additive companies to Europe to a trade event. The metric we use to define success is how much sales activity was booked by taking those companies offshore. The companies pay for their own travel; we make the arrangements for the show.

CHAIR HORSFORD:
Is the purpose of the show for them to sell products and goods?

MR. SKAGGS:
Yes, it is.

CHAIR HORSFORD:
How is the \$13 million quantified?

MR. SKAGGS:
It is quantified by review of the companies themselves. They find out what the sales gains from a trip were, and then we accumulate that over the two years of all the companies at the show. We also debrief them at the end of each show to see what their ultimate sales were.

CHAIR HORSFORD:
How are those businesses that participate in these sales missions selected?

MR. SKAGGS:
We use the databases of companies in those industries. We make them aware of the opportunity and the price, and then they subscribe to the show. Once we get enough of a concentration, we are able to execute the show.

CHAIR HORSFORD:
Give me some examples of the types of shows these businesses have attended.

MR. SKAGGS:

The last show we went to was in Switzerland. The companies work out of a booth. They arrange appointments with people interested in talking with them about sales. We set appointments all day so the companies can entertain buyers one on one.

CHAIR HORSFORD:

Can you provide our staff with a list of those sales missions from the inception of the program? Please provide a list of those businesses that have participated since the Commission began facilitating this.

I would like to commend the Commission on the economic impact contributed by those 40 companies. My district has a solar manufacturing company, which is the first in Nevada, and is planning to expand its facilities. They are providing many direct jobs to Nevada workers at multiple levels of the career spectrum. These are the types of success stories that your Commission has been involved with.

SENATOR RHOADS:

When you are trying to attract businesses to Nevada, is education ever a factor in deciding if they come here?

MR. SKAGGS:

The skills in the workforce and the level of education always come up. The company wants to find employees who already know their line of business. One reason we ask for training dollars is to close that skill gap. Because we are not a manufacturing state, we need to be able to provide that training to educate our citizens.

On page 9 of [Exhibit E](#) I would like to draw your attention to the pass-throughs for FY 2010-2011, FY 2011-2012 and FY 2012-2013. These are legislative mandates that have occurred over time and we want to bring these into strategic alignment with the initiatives and goals of the organization.

The Nevada Film Office is shown on page 10 of [Exhibit E](#). This has been one of the most successful film commissions in the United States, with a return on investment ratio of 107:1 for revenues received versus budget dollars allotted. These are not General Fund, but room tax dollars. This is a transfer of funds from the Nevada Commission on Tourism to this budget. Since the nature of the

business is attracting film, it is the same strategy employed in attracting business, which is the reason it resides at the Commission on Economic Development.

Economic Development – Nevada Film Office — Budget Page ECON DEV &
TOURISM-10 (Volume II)
Budget Account 101-1527

We recruit this type of business because of the amount of money that is brought in daily. For a film, it is \$125,000 a day; if it is a television series, \$60,000; and for a 60-second commercial, \$100,000 a day. Currently we are working on production studios to solidify our case as a base for film. Because we have the infrastructure to support these films, and can train the crews for the films, we are making some breakthroughs. A film is like a start-up business, in that millions of dollars have to be raised before you begin filming. By marketing cost-efficient ways to produce a film, Nevada will become more attractive to the industry.

Under the current reductions, we will be losing two 0.5 FTEs, but we will still have sufficient staff to continue an aggressive mission.

Page 11 of [Exhibit E](#) shows the funds that are distributed from the State General Fund and the federal HUD fund. The Community Development Block Grant program funded \$6.69 million in grant monies to 63 projects in 21 rural communities. This is more than building water and sewer lines; we facilitate community leadership training so the rural communities can write their own future plans.

Economic Development – Rural Community Development — Budget Page ECON
DEV & TOURISM-16 (Volume II)
Budget Account 101-1528

Page 12 of [Exhibit E](#) shows the Procurement Outreach Program's budget overview. There is an investment of \$90,000 from the General Fund. For every dollar invested, Nevada receives \$4,511 in the form of new contract awards. This initiative allows us to diversify businesses in the State. This buys anything from pencils to automobiles, and it shows businesses that they can become vendors for the government.

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Economic Development – Procurement Outreach Program — Budget Page ECON
DEV & TOURISM-23 (Volume II)
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CHAIR HORSFORD:

The State Purchasing procurement process is too cumbersome for the average small business that wants to do business with the State. We could get more value out of retooling the process than spending \$90,000 on outreach to encourage people to apply. I recently looked at an RFP; a business may decide not to fill out a lengthy RFP with such tight specifications.

MR. SKAGGS:

This is federal contracting.

CHAIR HORSFORD:

My point is that we do not do a good job of State contracting. We refer people to the federal government like they are supposed to fix our problems. I find it interesting that people complain that the federal government is spending money, yet we keep sending businesses to them to get jobs. I want to do this in Nevada.

MR. SKAGGS:

The concerns of this program about the indirect rate are listed on page 13 of [Exhibit E](#). We may see some changes that could decrease this funding. We are currently monitoring this information and we hope to bring you a more firm update in the future.

CHAIR HORSFORD:

We will bring you back once we have more details on the proposal.

Next we will hear the budget for the Public Employees' Retirement System (PERS).

SPECIAL PURPOSE AGENCIES

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

PERS – Public Employees' Retirement System — Budget Page PERS-1
(Volume III)
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DANA BILYEU (Executive Officer, Public Employees' Retirement System):

Before I go into the contribution rates, I would like to talk about the returns in the investment portfolio for the pension fund. The low point of the market was March 6, 2009. Since that time we have made \$9 billion in the investment markets. In fact, \$500 million of that investment return is directly attributable to decisions made by the Public Employees' Retirement Board and implementation decisions that were made by the staff of the retirement system. We have enjoyed recovery since the bottom of the market going forward; at \$24.7 billion, we are actually at the highest level that the pension fund has ever achieved. At the low point in the market, we were a little above \$15 billion.

An investigation has revealed that approximately 2,000 State workers will be eligible to retire on June 30, 2011. That number is a little high. The school district employees who are fully eligible to retire on June 30, 2011, is a little over 3,600. If we see a surge in retirements, there is a potential flow through to the pension fund. I have addressed this issue with the Committee on prior occasions. The surge in teacher retirements after the closing of the PEBP program to local government workers caused an approximate loss of \$266 million to the pension fund. I just want to make the Legislature aware of this potential flow through, so you can take it into consideration should decisions be made that would cause an exodus from the work force.

I will be referring to a handout, NVPERS, that I have provided for the Committee ([Exhibit F](#)). By statute, contribution rates change with the first full reporting period after July 1 of each odd-numbered year as determined by the previous even year's valuation. Therefore, the valuation for the 2010 plan year will affect contribution rates beginning July 1, 2011.

Page 2 of [Exhibit F](#) shows the Employer Pay Pre-Tax Contribution program. The first line indicates our current contribution rate for both the regular member fund, 21.5 percent, and the police/fire member fund, 37 percent. The 2010 actuarial rate is 23.63 percent for regular members and 39.77 percent for police/fire members. The next line shows the difference between the current rates as established and what the new actuarial rate is. This shows what is needed to meet the funding schedule for the system. Fully 82 percent of public

employees participate in the regular member fund and, of those, about 85 percent participate in this particular program. The total rate will be 23.75 percent for regular members. The employees are responsible for one-half, and one-half is paid by the employer. The shared rate between employer and employee is 11.875 percent which translates to a 1.125 percent pay reduction for State workers to share in the cost of funding their retirement.

CHAIR HORSFORD:
Where do you get the 1.125 percent?

MS. BILYEU:
The difference between the 21.5 percent they are currently paying and the new rate of 23.75 percent is 2.25 percent. Dividing 2.25 in half is 1.125 percent.

CHAIR HORSFORD:
Is that taken directly out?

MS. BILYEU:
A salary reduction of an additional 1.125 percent will be made to pay the employees' portion of the increase in the rate.

CHAIR HORSFORD:
Is this in addition to the Governor's proposal to reduce pay by 5 percent?

MS. BILYEU:
That is correct.

CHAIR HORSFORD:
That is a salary reduction of 6.125 percent under the Governor's recommendation?

MS. BILYEU:
That is for employees in the employer-pay program. For those that participate in the employee/employer paid program, which is the after-tax contribution program, it is slightly more expensive because they have a right to refundability.

Page 3 of [Exhibit F](#) shows the Employee/Employer After Tax Contribution Plan program. This is available to State employees, some local government employees and all public agencies created after 1991. Approximately

18 percent of the employees participate in the employee/employer after tax contribution plan. The same rounding mechanism applies. Under the statutory rate, both the employer and employee pay 11.25 percent into the program. The new evaluation plan came in at 12.26 percent; the difference between those two rates is 1.01 percent, so we will round down to 12.25 percent for both employer and employee. The same approach is used for the police/fire member fund.

CHAIR HORSFORD:
How much of an increase is that?

MS. BILYEU:
It is a 1 percent increase for both the employer and the employee.

CHAIR HORSFORD:
For those employees who are in the employee/employer plan, their rate of take-home pay will be reduced by 6 percent, that includes the 5 percent. Will those who are in the employer pay contribution plan have their take home pay reduced by 6.125 percent?

MS. BILYEU:
That is correct.

The employer pay contribution plan is misunderstood, in that it is a cost-sharing program. Employer pay was introduced in the 1970s because it is less expensive than the after-tax contribution plan because of the right of refundability. The original implementation required individuals to take salary reductions, or give up a promised pay raise. Since then, any time our rate has changed, our employers are required to certify to us how they are implementing that cost-sharing mechanism from year to year. In 2009, the Legislature, in reforms to the pension fund, included a provision that requires us to post those certifications to the Website. When our rates go into effect in July, we will post the certifications for all the public employers, showing how they have implemented that rate. Since the inception of employer pay, the State has always used straight salary reduction. I asked my staff how the school districts had implemented the last rate increase, to see if there was a uniform approach. It is a mixed bag even among the school districts. Many of our school districts did salary reductions the last time. The other opportunity is to negotiate in lieu of a pay increase. In essence, the employer agrees to the pay increase and then

offsets it by the amount they are going to pay to the pension fund. Either way, it is a 50 percent cost share to the employees. People see this happening when our rate goes down, as it did in 2005. When the rate goes down, if our employers have negotiated that in lieu of a pay increase, they must give it back to the individual members if they do not return it to us. This ensures they have paid exactly 50 percent back to their employees.

SENATOR KIECKHEFER:

For every State employee on employee/employer pay, it will cost the State another 1 percent of their salary. For everyone on employer pay, it will cost another 1.125 percent of their salary. What is the total dollar figure, in terms of the General Fund, that we must contribute to PERS in order to absorb this?

MS. BILYEU:

It is difficult for us to determine the General Fund cost. We do not see where the budget codes come into play, whether it is a federally funded position or a special licensing board type of position. All we see is the full contribution that comes into the system. Our retirement board attempted to look at the cost of employer pay and used about 60 percent General Fund appropriation, making the 1 percent cost differential about \$9 million. It is hard for us to see beyond those general contributions and what the source funding is for them. The Department of Administration could probably provide a more accurate number for you.

CHAIR HORSFORD:

Please provide us with some information regarding social security.

MS. BILYEU:

When the Social Security Act was passed in 1935, there was controversy about whether the federal government could tax individual public treasuries of the states and the municipalities. Since that time, they have decided to open it on a voluntary basis to states and municipalities. Nevada declined to do so. Before 1983, states and municipalities were able to enter and exit the program freely, but after the 1983 reform, if you were in the social security program, you were locked in. The reason Nevada has decided not to participate in this program is because it is more expensive to combine both social security and a defined-pension plan, rather than pay for it outside of social security.

CHAIR HORSFORD:

Do you know the rate of contribution to social security for those employers who do?

MS. BILYEU:

It is 12.4 percent; 6.2 percent from the employee and 6.2 percent from the employer. There is also a Medicare cost from the Federal Insurance Contribution Act.

CHAIR HORSFORD:

Under our current pension program, we were given a benefit that did not exist anywhere else. Under social security in the private sector, there is a contribution of 6.2 percent on both sides. When you put that into your equation for regular members in the split, it seems equitable, between what we do in the public system and what is done in the private system. I get e-mails from teachers and public safety personnel saying they do not have the benefit of social security and they rely on this program. If we take the program away, it is too late for them to participate in the social security program.

MS. BILYEU:

We have looked at states that offer social security, as well as those that do not, because we wanted to see where we fit in the mix. We aim to spend our human resource dollars as efficiently as we can to provide the benefit package that will be an incentive to attract and retain individuals into our workforce. We are always trying to ensure that we have a program that aids in that human resource function.

Those in the private sector, who do not participate in programs outside of social security, have a matching contribution requirement of 12.4 percent. It tends to be a sliding scale in the private sector, so it is hard to do that. They might match the first 3 percent to a certain amount and then the next 3 percent on a 50 percent basis. We use a round number of a 4 percent match, so it totals 12.4 percent plus a 4 percent match. For the employee that is an additional 8 percent, for a total contribution cost for retirement security of about 22 percent which is very similar to our program.

We cost share differently than other nonsocial security states, because we require that 50 percent cost share go back to the employee. That is significantly higher than most states. The average employer cost for a nonsocial security

state is about 14 percent, with the employee's portion of that being about 8 percent. As a combination cost it is more expensive than what we provide. If you look at the states that participate in social security, the first 12.4 percent of the contribution goes directly to the federal government. The employer's cost is another 10 percent, and then there is the employees' contribution on top of that. The total cost to provide the retirement benefit in social security eligible states is about 27 percent of pay. We believe we are extremely efficient in delivering that human resource.

CHAIR HORSFORD:

Please provide us with copies of what you are reading from, and come before the Committee with exact figures.

SENATOR CEGAVSKE:

Do you know how many states provide social security? Can we have a comparison of what states do, and show the benefit amounts?

There has always been a rumor that there is no money left in the pension fund. I wonder if you could elaborate more about the funds.

MS. BILYEU:

There is a misunderstanding about the way pension funds work. We are currently funded at about 70 percent, so we have 70 cents on the dollar of what is a projected future liability of the system. When we consider pension funds, we think about the dollar amount that has to come out of the plan each year to pay the benefits, and are we also making a payment to retirement, which is an unfunded piece of those liabilities. Unfunded liabilities are created by investment returns. When you have losses against your investment return assumption, you have created an unfunded liability. The unfunded liability has grown, and that is because of the recessionary market. Are we on schedule to make payments to pay that off? The answer to that is yes. The current amortization period for our unfunded liability for the regular member fund is 25.6 years.

There was a negative 15.8 percent return in 2009. Because of how conservatively we invest, our negative return is not as bad as others. This process is managed and responsibly funded over time. The Moody Report has Nevada rated very highly for the dedication of State and local governments, because we are always within 93 percent to 95 percent of the actuarial-required

contributions. The trust fund is at about \$24.7 billion. Recent publicity has focused on two reports by economists who assume that if there will not be any contributions coming into the system, there is not going to be any investment return. If you remove the fact that we are within 93 percent to 95 percent of the actuarial-required contributions, and that we have \$24.7 billion in the trust fund, then measure when all the pension funds are supposed to run out of money, that is how the economists come to that conclusion.

A study done by the Kellogg Graduate School of Management indicated that Nevada was one of five states that would not run out of pension fund money. After making adjustments in their assumptions, they have a projected date of 2037 before we run out. That assumes no investment return and no additional contributions are coming into the system. The study looked at the trust fund, and determined when it will run to zero based on its liabilities.

SENATOR PARKS:

As a retiree and a recipient of PERS, my situation might assist you in understanding the system. On a monthly basis, a check for \$83 after the deduction from my Medicare, is deposited to my bank account. Had I also worked in the private sector, I would have qualified for full social security benefits. Because of the Windfall Elimination Provision, I do not qualify. Otherwise, had I worked in the private sector, I would get social security and whatever retirement program might have been offered to me.

SENATOR KIECKHEFER:

The comparison between social security and our retirement system is difficult because our retirement system is a pension designed to fund retirement and social security does not fund retirement.

SENATOR DENIS:

The assumptions are that there will be no additional investment into PERS and that there would be no money from the investment, is that correct?

MS. BILYEU:

Yes, that is correct. We asked about the methodology of these studies, about how they have arrived at the assumptions they are using. However, they have not disclosed them to us. I am unsure as to why they use the assumptions they do.

We went to the market approach in the early 1980s. Since its inception, the annualized return on investment for Nevada PERS is 9.5 percent. There are times that we are not making that, but the Board does its best to watch the market. I would say we are one of the most conservatively invested pension funds in the country.

To comment on Senator Kieckhefer's point, social security was not meant to be a retirement program. It was a prevention of poverty program. The traditional thought on retirement securities is the three-legged stool: social security, employer-based pension and personal savings. In Nevada, it is a two legged stool, it only provides two of the three components.

The average benefit from the regular member fund is \$2,486 a month, or nearly \$29,000 per year. This includes both components, social security and an employer-sponsored benefit. The police and fire fund averages \$4,000 a month, or \$48,000 per year. It is a little higher because average salaries are higher.

SENATOR DENIS:

Is it possible that the fund could run out of money in 28 years?

MS. BILYEU:

From a legal perspective, I would say it could not. If there is a liability, we are required to fund it. In Nevada, since the inception of the program, we have never had a time where employers have taken a contribution rate holiday, or made no payments into the program to fund the normal cost of the benefit.

CHAIR HORSFORD:

Can you explain the impact on the proposal that requires teachers to pay their own retirement directly? My understanding is that it is an additional 5 percent on top of the 5 percent pay reduction.

MS. BILYEU:

I am not familiar with that proposal, but from the pension fund's perspective, we already have equal cost sharing. My understanding is that the total amount allocated to the Distributive School Account (DSA) is reduced by 25 percent of our contribution rate, which is a little over 6 percent. It is up to the employers to negotiate how they are going to do that. There would not be an additional payment to the pension fund on that basis, because we are already receiving the full contribution cost, and it is 50 percent employee allocated, and

50 percent employer allocated. The funding mechanism itself is what would be reduced.

CHAIR HORSFORD:

The PERS Board has recommended the reduction of 6.1 percent for those in the employee/employer pay program, or 6 percent in the after-tax program, plus the 5 percent reduction. If there was a district that did not address the shortfall or cut, could teachers in that district have an additional 5.7 percent deduction from their pay on top of these other adjustments?

MS. BILYEU:

The contribution rate of 23.75 percent will be divided between the employee and the employer. The employee pays 11.875 percent either through a pay reduction, or in lieu of an equivalent pay increase. The other half of that will be paid by the employer. Of the 23.75 percent total contribution rate, the amount that was provided to the DSA on the employees' portion of that is 25 percent less than the total contribution rate. Because we already have cost sharing, this would be outside the scope of the contribution rate to the system. It provides fewer human resource payroll dollars to the school districts to negotiate with their teachers. The total reduction of 5 percent, plus 6 percent, would go to us, so you have 11 percent less in the payroll category for discussions and negotiations.

CHAIR HORSFORD:

We need to have a discussion on that piece at some point in this process. What are the impacts if that contribution does not come back to PERS? Or, are you saying they have to make at least their portion of their allocated contribution, to avoid creating an additional liability for PERS?

MS. BILYEU:

No. The statutory requirement is to receive the full amount. If we do not receive it, that constitutes an extension of credit to the individual participating in the employer/employee plan which is prohibited by the *Nevada Constitution*.

CHAIR HORSFORD:

What happens if a local school district does not agree in the negotiation process to meet their 11.875 percent match?

MS. BILYEU:

There is a provision in the Public Employees' Retirement Act requiring PERS to report the district to the Department of Taxation if they do not make a payroll obligation. The district would have to go through a specific process for failing to meet the obligations of the local government. There have been some instances in the past where employers were unable to make those payroll obligations, and we were required to refer them to the Department of Taxation.

SENATOR KIECKHEFER:

Do Executive Branch State employees have 11.25 percent of that salary deducted as the employees' contribution to PERS? However, teachers' salaries are not reduced and the district makes 100 percent of that contribution into PERS on their behalf. The argument that is made on the cost sharing is that the teacher's salary should be 11.25 percent higher, is that correct?

MS. BILYEU:

If an employer has always negotiated a contribution to PERS in lieu of an adjustment to the salary, you are correct. If it is a mixed bag, there are times when our rate goes up and you will have a negotiated salary reduction. Employers are entitled to select which of the mechanisms they are going to use to finance the employees' portion.

The State actually has two pay schedules for the two different contribution programs. One is based on employer contribution, the other on an after-tax contribution. The difference between them is the difference in the rates.

SENATOR KIECKHEFER:

When we talk about an Executive Branch State employee salary, we talk about it as before that 11.25 percent is reduced. Are salaries different?

MS. BILYEU:

It depends on which school district you are speaking about, but that is the case. When looking at State salaries, you can see the exact differential between the two. The 50 percent cost share exists for every individual. It just depends on how the employers have chosen to use the mechanisms in the statute.

Nevada PERS is a public agency that is outside of the budget act. Our staff is paid as if they were classified state employees, but they actually are not. When the Governor recommended a 5 percent salary reduction for State employees,

the Department of Administration asked if they could make those adjustments to our staff as well. We agreed, because we are paid the same as State employees. They could not make that adjustment in decision unit E-849 of B/A 101-4821 which contains salaries associated with the executive staff of the pension fund. Decision unit E-849 builds back the salaries as if the furlough was going to sunset. We do not want to be treated any differently than our staff. What ends up occurring for the State employees, and therefore for our staff, should be included in this decision unit as well.

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E-849 Non-Classified Salary Adjustments – Page PERS-4

TINA M. LEISS (Operations Officer, Public Employees' Retirement System):
The System is a non-General Fund agency. Revenue for the System's administrative budget is from transfers from the trust funds on a per capita basis for each member and benefit recipient. These revenues are derived from employer and employee contributions received from the 183 public employers and 103,000 active members participating in the System.

Of those 183 public employers, the State represents about 16 percent of our covered population and the Clark County School District is about 30 percent of our covered population. The administrative fees that fund this budget come from all 183 public employers and will be based on their population base.

The System's overall proposed budget for FY 2011-2012 and FY 2012-2013 is a decrease from the FY 2009-2010 authorized budget. The FY 2011-2012 proposed budget is about a 7.8 percent reduction from what we were authorized to spend in FY 2009-2010, but is a 2.1 percent reduction from FY 2009-2010 expenditures. The proposed FY 2012-2013 budget is a 6.6 percent reduction from the FY 2009-2010 budget and a 0.9 percent reduction from FY 2009-2010 expenditures. The per capita fee in FY 2010-2011 is \$3.10 for the regular member fund and \$3.27 for the police/fire member fund, down from \$3.97 and \$4.25, respectively, for FY 2009-2010.

CHAIR HORSFORD:

Can you please elaborate on the per capita fees?

Ms. LEISS:

The administrative budget, the working capital remaining from the prior fiscal year and the proposed expenditures from the budget are added together. That number is then divided by the number of existing members, active and inactive, and retirees. Those administrative expenses are divided by that count of retirees. The administrative budget is divided by those per capita numbers, and we transfer that money from the trust fund on a monthly basis to fund administrative expenses.

We also participate yearly in a benchmarking service. As we are the only public pension system in the State of Nevada, we like to measure our performance service levels and costs nationally and globally against similar public pension plans. We are generally at the median level for service to members and beneficiaries, and we are near the top of our peers for the workload. We have calculated that our staff is responsible for 31 percent more work per FTE than the median national peer public pension system. Our total administration cost per active member and beneficiary is about 22 percent lower than the median public pension system in the Country.

The proposed budget contains no new programs, positions, or projects. The Base Budget as adjusted for maintenance, includes those items necessary to administer the trust fund and to fulfill the fiduciary duties owed to all members and beneficiaries of the System. Significant expenses that I would like to highlight in the Base Budget are those for actuarial service and our external audit services as well, required client communications and notices, existing satellite counseling offices and the disaster recovery site.

CHAIR HORSFORD:

The Segal Company, which does actuarial evaluations, was contracted for around \$2 million. How much do we pay them, what do they do, and why do we need them?

Ms. LEISS:

The Segal Company is paid about \$365,000 per year. They run the annual actuarial evaluation using the data on all of our members and beneficiaries and

calculate the contribution rate and our liabilities using all of our assumptions, so that we can monitor that on an annual basis.

MS. BILYEU:

The Segal Company is also our benefits consulting firm. When proposals come to the Legislature on various benefit structure changes, they compute the cost of implementing certain things. In addition to evaluations, they compute the costs of implementation, long-term benefit studies and they also provide advice for us on the Internal Revenue Codes.

CHAIR HORSFORD:

Does the System anticipate any future increases in retirement contribution rates beyond this biennium based on the evaluation that the Segal Company has performed?

MS. BILYEU:

The 2010 evaluation contains language indicating that rates would potentially go up again in the next biennium based on the smoothing in of the losses from the recessionary period. It does not contain an assumption for investment growth for that period of time. The Segal Company puts a very conservative provision within the actuarial evaluation to make sure we are aware as we make these contribution changes.

MS. LEISS:

Another item we want to highlight is \$120,000 in litigation expenses. While we are unsure as to what they will be in the new biennium, they will probably equal what we spent in the Base Budget. There are two ongoing benefit litigation cases the System must defend.

The budget also includes a decision unit proposed by the Retirement System. This is decision unit E-275, to maximize Internet and technology; this includes necessary software upgrades and maintenance for the pension processing system. The success of our prior IT projects is one of the main reasons we can administer this system for less than the national average, with fewer employees than the national average. This category only includes the necessary upgrades to the system itself and the various applications. The main reason for this is because our operating system on the servers is Windows 2000. We need to upgrade to Windows 2008 because of support security issues. We also need to upgrade the various applications to make sure they are compatible. Security is

very important because of the amount of data we keep on our employees and retirees. There are also some minor amounts for hardware replacements due on end of life for workstations, routers and switches. The workstations include the Carson City office, the two Las Vegas offices and the disaster recovery site.

E-275 Best Use of Technology — Page PERS-2

Three additional enhancement units are E-670, E-671 and E-672.

E-670 5% Salary Reduction — Page PEBP-15

E-671 Implement a Salary Freeze — Page PEBP-15

E-672 Suspend Longevity for FY12 & FY13 — Page PEBP-16

These were added by the Department of Administration to implement the Governor's recommendations on State classified salaries.

We also administer two minor budgets: one for the Legislators' Retirement System and one for the Judicial Retirement System. Both include staff time, actuarial and audit fees.

CHAIR HORSFORD:

I will read a question from a constituent:

Why did Nevada not permit employees hired before 1983 to opt in to Medicare? I worked 31.5 years for the State of Nevada, I did not work long enough in the private sector to accumulate the required 40 quarters necessary to qualify for Medicare. I am currently working part time and hopefully will have significant earnings each year to accrue the required 40 quarters. Even with this additional employment, I will need to work until I am 66 years old to qualify for Medicare. I understand you can't fix what was a past oversight, but at least an explanation of why I was denied this opportunity would be appreciated.

MS. BILYEU:

A federal opt in was established in 1986 which required participation by public employees beginning in 1986. I am not familiar with why they were outside of Medicare, but I am willing to look into it.

CHAIR HORSFORD:

Mr. Townsend will now give us an update on our State offices.

PAUL V. TOWNSEND (Legislative Auditor, Legislative Counsel Bureau):

I will go over the packet containing our audit summaries ([Exhibit G](#)). I would like to emphasize the importance of the money committees to the audit follow-up process in assuring that audit recommendations are implemented. Over the last two years, we determined cost reductions or enhanced revenues totaling about \$76 million based on prior audits.

The packet contains a table of contents where we list audits that we issued during the biennium, and cross referenced them with the *Executive Budget*.

The way the packet is organized, you will have an audit highlight which will be followed by a 60-day plan or a copy of the 6-month report. These are critical documents in the audit follow-up process. After an audit is issued, the agency has 60 working days to submit a plan of corrective action on how they will go about implementing the recommendations. Six months after that, the Department of Administration, through its Division of Internal Audits, will go to the agency, perform a review and issue a report on the status of the recommendations. The report goes to a public meeting of the Audit Subcommittee of the Legislative Commission and the agency will be asked to comment on the reasons why the recommendations have not been implemented.

One example is on page 11 of [Exhibit G](#), the Motor Pool Division audit. This audit primarily focused on low-use vehicles driven less than 6,000 miles per year. We identified over 70 vehicles that are used so seldom that they should be eliminated at a savings of approximately \$1.6 million in future cost reductions. We also reviewed the fuel monitoring procedures and discovered many vehicles had very low mileage compared to the amount of fuel that was purchased, indicating the possibility of abuse.

Last Session, the Legislature had some concerns regarding contracts with consultants, and passed A.B. No. 463 of the 75th Session. This required us to do an audit in this area. We found that there were some specific areas and problems associated with the contracting of current and former employees. Some employees contracted directly, or through employment services agencies were paid at a considerably higher rate than they earned as a State employee.

We also found some instances where the rate was very reasonable compared to what they had made. There was also a narrow definition of the term "consultant," so little information was provided to IFC as was required by A.B. No. 463 of the 75th Session. This audit just came out in December 2010, so the 60-day plan of corrective action is not due until March 8, 2011. The Director of the Department of Administration convened a task force to review these issues. I believe some of their conclusions will be included in that corrective action plan.

SENATOR CEGAVSKE:

Are we still using some of the people where we had found abuse?

MR. TOWNSEND:

I am still awaiting the results from the task force, and some of these items were forwarded to the Attorney General. I do not have any new information for you at this time.

On page 43 is an audit that was requested from the chairs of the money committees. There were concerns that the Department of Agriculture was misaligning its resources to compensate for revenue shortfalls incurred by various programs in the Department. We found that there were positions that were not in proper alignment in the amount of about \$550,000. These issues involved employees who provided services for programs other than where their payroll costs were recorded.

On pages 44-46, you will see the Agency's corrective action plan for dealing with the four recommendations. We believe they are taking an appropriate approach. I know Fiscal Division staff will also be looking at this throughout the Session.

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CHAIR HORSFORD:

Seeing no further business before the Committee, we will adjourn at 10:27 a.m.

RESPECTFULLY SUBMITTED:

Madison Piazza,
Committee Secretary

APPROVED BY:

Senator Steven A. Horsford, Chair

DATE: _____

EXHIBITS

Committee Name: Committee on Finance

Date: February 10, 2011

Time of Meeting: 8:00 a.m.

Bill	Exhibit	Witness / Agency	Description
	A		Agenda
	B		Attendance Roster
	C	Kim Wallin, State Controller	Testimony
	D	Kim Wallin, State Controller	Budget Presentation
	E	Michael Skaggs	Agency Overview and Budget Presentation
	F	Dana Bilyeu	PERS
	G	Paul Townsend	LCB Audit Report