MINUTES OF THE LEGISLATIVE COMMISSION'S BUDGET SUBCOMMITTEE

Seventy-Seventh Session
January 30, 2013

The joint meeting of the Senate Committee on Finance and the Assembly Committee on Ways and Means was called to order by Chair Debbie Smith at 8:38 a.m. on Wednesday, January 30, 2013, in Room 4100 of the Legislative Building, Carson City, Nevada. The meeting was video conferenced to Room 4401 of the Grant Sawyer State Office Building, 555 East Washington Avenue, Las Vegas, NV. 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 Debbie Smith, Chair
Senator Joyce Woodhouse, Vice Chair
Senator David R. Parks
Senator Moises (Mo) Denis
Senator Ben Kieckhefer
Senator Michael Roberson
Senator Pete Goicoechea

ASSEMBLY COMMITTEE MEMBERS PRESENT:

Assemblywoman Maggie Carlton, Chair
Assemblyman Paul Aizley
Assemblyman Paul D. Anderson
Assemblyman David P. Bobzien
Assemblyman Andy Eisen
Assemblywoman Lucy Flores
Assemblyman Tom Grady
Assemblyman John Hambrick
Assemblyman Cresent Hardy
Assemblyman Pat Hickey
Assemblyman Joseph M. Hogan
Assemblyman Randy Kirner
Assemblyman Michael Sprinkle

COMMITTEE MEMBERS ABSENT:

Assemblyman William C. Horne, Vice Chair (Excused)
Assemblyman Steven J. Brooks (Excused)
Assemblywoman Marilyn Kirkpatrick (Excused)

STAFF MEMBERS PRESENT:

Mark Krmpotic, Senate Fiscal Analyst
Eileen G. O'Grady, Chief Deputy Legislative Counsel
Michael J. Chapman, Principal Deputy Fiscal Analyst
Alex Haartz, Principal Deputy Fiscal Analyst
Joi Davis, Senior Program Analyst
Laura Freed, Senior Program Analyst
Jennifer Gamroth, Program Analyst
Karen Hoppe, Program Analyst
Heidi Sakelarios, Program Analyst
Mark Winebarger, Program Analyst
Thomas Hutton-Potts, Committee Secretary

OTHERS PRESENT:

Amber Howell, Administrator, Division of Child and Family Services, Department of Health and Human Services
Michael J. Willden, Director, Department of Health and Human Services
Jeff Morrow, Administrative Services Officer, Division of Child and Family Services, Department of Health and Human Services
James R. Wells, Executive Officer, Public Employees' Benefits Program
Frank Woodbeck, Director, Department of Employment, Training and Rehabilitation
Dennis Perea, Deputy Director, Department of Employment, Training and Rehabilitation
Mark Costa, Chief Financial Officer, Department of Employment, Training and Rehabilitation
David Schmidt, Economist, Research and Analysis Bureau, Department of Employment, Training and Rehabilitation
Chris Nielsen, Executive Director, Department of Taxation

William R. Burks, Brigadier General, The Adjutant General of Nevada, Office of the Military
Jennifer McEntee, Administrative Services Officer, Office of the Military
Caleb S. Cage, Executive Director, Office of Veterans' Services

Chair Smith:
We will begin this meeting by hearing a budget overview from the Division of Child and Family Services (DCFS), of the Department of Health and Human Services (DHHS).

Amber Howell (Administrator, Division of Child and Family Services, Department of Health and Human Services):
The Division's mission statement is to provide support and services to Nevada's children and families in reaching their full potential.

The Juvenile Justice Services has partnered with The Children's Cabinet in implementing a pilot program designed to assist in transitioning youth from the Nevada Youth Training Center (NYTC) in Elko to complete services they need. There are 15 youth in the pilot currently.

Last biennium, 193 youths received either their high school diploma or general education diploma at the NYTC or at the Caliente Youth Center (CYC), which celebrated its fiftieth anniversary last year.

Strategic priorities in the Juvenile Justice Services include the enhancement of youth social skills development, reintegration and accountability as they move back into the community. The implementation of the Prison Rape Elimination Act standards remains a priority within juvenile corrections as well.

The Desert Willow Treatment Center (DWTC), an inpatient psychiatric facility, just completed reaccreditation and received the best survey results since the opening of the facility in 1988. The entire staff has been trained in aggression replacement therapy, a program that manages the aggressive behaviors of youth in our facilities.

Additional strategic priorities are to provide mental health services for those who are either underinsured or uninsured and to improve and restore child functionality to prevent youth from entering the Juvenile Justice System and child welfare agencies. In the alternative, we will provide them services they need while they are committed to these programs with a focus on transitioning them out as quickly as possible.

The child welfare program was under a 2 year program improvement plan approved by the administration of the DCFS. Recently, a verbal notification was received that the program had passed, a significant accomplishment.

Differential response is an alternative plan to transitioning youth into the child welfare system. That plan focuses on permanency of residence for youth residing in the system.

We have expanded our telemedicine capacities to encompass the rural region. This assists us in performing forensic exams on rural child victims of sexual abuse to avoid unnecessary traveling and enduring multiple interviews.

We have expanded our financial assistance system to youth up to age 21 exiting foster care. We have developed strong oversight over psychotropic medicine for foster care children issues within Nevada.

We continue to strengthen safety practices and we have integrated a trauma informed focus into child welfare practices. We have redesigned our foster care system, improved our specialized foster care system and have made improvements to the timeliness and appropriateness of permanency planning.

The DCFS makes up 6 percent of the revenues within the DHHS with Medicaid representing the biggest portion. The amounts are evenly distributed between both fiscal years (FY) 2012-2013 and FY 2014-2015 with 50 percent of the funds originating from the General Fund.

Child protective welfare services takes up the majority of spending while urban child welfare agencies, the Juvenile Justice Service and children's mental and behavioral health services comprise the remainder.

The DCFS has identified that four of the eight core functions of government include an overwhelming focus on human services. Core functions are distributed equally from year to year.

We have more activities than other departments and divisions. Many of the programs are unique to the populations they serve. We did not lump these activities together under child welfare and juvenile justice, as this does not offer a clear picture of where funds are invested. Investments are in child welfare investigations, foster care, juvenile justice institutions or parole.

We have identified 14 objectives that are tied to the core functions. Child well-being is where most funds are based in child welfare integration budgets.

Page 15 of my handout (Exhibit C) shows how the entire process ties the core functions to the objectives, then to the activities, and, ultimately, to the impacted programs. Some of the activities are within multiple core functions, just as some activities are within multiple programs.

The chart on page 16 shows our full-time equivalent (FTE) positions for each program and whether FTE positions are being added, deleted or transferred. The Juvenile Justice Service budget is the most interesting of these due to the movement within this budget. All positions are currently working within their job classes. This was completed to comply with the Priorities and Performance Based Budgeting (PPBB), as each position must be tied to the proper budget account.

Funding by budget account is displayed on page 18, and includes the overall budget for the Division by budget account, the funding source, total number of FTEs, and details total biennial requests from the General Fund, federal funds and other sources.

Page 19 of Exhibit C describes caseload numbers for adoption and foster care within the child welfare agencies. The DCFS funds adoptions for the entire State.

The chart summarizes the total funds in the program under decision unit M-201 appearing in budget account (B/A) 101-3141, B/A 101-3142 and B/A 101-3229. Total costs per year are rolled into the biennial total.

HUMAN SERVICES

CHILD AND FAMILY SERVICES

HHS-DCFS - Washoe County Child Welfare — Budget Page DHHS-DCFS-28 (Volume II)
Budget Account 101-3141

M-201 Demographics/Caseload Changes — Page DHHS-DCFS-29

HHS-DCFS - Clark County Child Welfare — Budget Page DHHS-DCFS-30 (Volume II)
Budget Account 101-3142

M-201 Demographics/Caseload Changes — Page DHHS-DCFS-31

HHS-DCFS - Rural Child Welfare — Budget Page DHHS-DCFS-75 (Volume II)
Budget Account 101-3229

M-201 Demographics/Caseload Changes — Page DHHS-DCFS-77

Last Session, outside of adoptions, the urban child welfare agencies went to block grant formula for funding. The Governor's budget includes a continuation of the approximately $14.2 million for Washoe County and about $42.7 million for Clark County for the next biennium.

Foster care expenses are still tracked by the DCFS, unlike the local child welfare agencies. This budget shows the projected expenditures in foster care next biennium in decision unit M-202.

M-202 Demographics/Caseload Changes — Page DHHS-DCFS-77

The Washoe County adoption caseload is projected to increase by 11 percent with an average adoption subsidy payment of $586 per month. The Clark County adoption caseload is projected to increase by 10.78 percent with an average adoption subsidy payment of $596 per month. Rural region adoption caseloads are projected to increase by 13.87 percent with an average adoption subsidy payment of $551 per month.

The only foster care caseload that the DCFS tracks is for the children in State custody. Three specific populations make up the foster care caseload. In the rural counties, foster care is projected to increase by 7.49 percent in this category.

Specialized foster care, or higher level care based upon behavioral issues, projects a 4.22 percent decrease.

In accordance with A.B. No. 350 of the 76th Session, youth are allowed to remain under court jurisdiction from 18 to 21 years of age and remain eligible for continued financial support, independent living services and assistance in transitioning to self-sufficiency. This program has existed for one-and-one-half years. This population is unique and a new concept for the child welfare agencies. Provisions for this are made in decision unit M-202 in B/A 101-3229.

Costs for population have been isolated and included in decision unit M-202. This population is our most difficult because the legal system, and statutes, infer that once they reach 18 years of age they are out of our care. However, they are far from being able to care for themselves on their own at age 18 years, especially after growing up in the foster care system. This is a safety net program and the additional financial support is there to assist them to transition more smoothly to adulthood.

On pages 25-29 of Exhibit C there is a brief overview of the funding for the State's juvenile justice facilities, the review of the NYTC by the Commission on Statewide Juvenile Justice Reform, as well as what the proposals are for the next biennium. There are four facilities within juvenile justice funding.

In the Youth Alternative Placement budget, B/A 101-3147, there are three county camps: Aurora Pines Girls Facility, China Spring Youth Camp and Spring Mountain Youth Camp. These are not State facilities; however, operations are partially supported with State funding. Douglas County pays a portion of the Aurora Pines and China Spring budgets. An assessment collected from 16 counties, minus Clark County, pays the additional portion of the assessment to operate the camps. Currently, 33 percent of China Spring and Aurora Pines expenses are funded with General Fund money and the State also contributes approximately $400,000 to the Spring Mountain Youth Camp.

HHS-DCFS - Youth Alternative Placement — Budget Page DHHS-DCFS-54 (Volume II)
Budget Account 101-3147

The NYTC, funded in B/A 101-3259, is for the 160-bed male-only facility located in Elko. During the 2011 Legislative Session, this facility was reduced by 50 beds to 110 beds. The DCFS employs the educational staff at the NYTC that operates the school and does not receive any Distributive School Account (DSA) funds to run the program. The NYTC has significant Capital Improvement Program projects pending the decision as to whether the facility is to remain open or not, totaling approximately $7 million.

HHS-DCFS - Nevada Youth Training Center — Budget Page DHHS-DCFS-94 (Volume II)
Budget Account 101-3259

Budget account 101-3148 funds the Summit View Youth Correctional Center (SVYCC), a 96-bed facility located in Las Vegas built to house the most difficult youth committed to the State for correctional rehabilitative care. This high security facility has locked cells, toilet basins in the cells and barbed wire fencing. It was closed in 2010 based on budget cuts. It was built through the Nevada Real Property Corporation and has an annual bond payment of approximately $1.5 million that the State must pay.

HHS-DCFS - Juvenile Correctional Facility — Budget Page DHHS-DCFS-56 (Volume II)
Budget Account 101-3148

The CYC, funded in B/A 101-3179, is a 140-bed coed facility comprised of 100 beds designated for males and 40 beds designated for females. The Lincoln County School District provides all educational services and receives DSA funding. Last biennium, the operating costs totaled about $8.5 million.

HHS-DCFS - Caliente Youth Center — Budget Page DHHS-DCFS-65 (Volume II)
Budget Account 101-3179

One of the most significant activities that occurred during the past year was the review of the NYTC. In April 2012, the DCFS contracted with an independent reviewer to assess concerns raised by the courts and to assist the DCFS in identifying the strengths and weaknesses of the facility and its operations, with an intended focus on the security and the safety of the overall facility. At the time of the review there were 88 youths, with a capacity of 110. The current inhabitants are amongst the worst delinquents and offenders in the State. The NYTC was built in the 1960s based on a correctional facility design from the 1930s. The plan emphasized placing youth in remote locations with the security of the facility being provided by the remoteness of the setting. Youth were to learn the value of work instead of continuing to pursue their delinquent behaviors.

The review found that the committed offenses were deemed appropriate for placement at the NYTC and certainly qualified as seriously delinquent. The design and its conversion to a secure facility will likely be cost prohibitive. The NYTC is not a secure facility in the sense that it is not architecturally, or hardware, secure.

The report noted strengths at the NYTC such as the facility contains a highly trained and experienced staff, operates a fully accredited school and encompasses an excellent vocational program. The evaluator also felt that the staff had strong control of the group, even when the population had its high 1:12 staff-to-youth ratio. Policy and procedures for reporting abuse and neglect were also shown to be thorough.

The report recommended the NYTC become a member of the National Compliance Data Base System so it can input Performance-based Standards (PbS) information and compare outcomes to national data. An additional recommendation was that Nevada should pursue contracts with private providers who have the resources to contain and treat the occasional individual who is unable to assimilate into a normal correctional setting.

Weaknesses noted by the report were that the NYTC was built to be environmentally secure because of its remoteness; however, this has now been compromised by its proximity to a major highway. Facility doors are not locked, cameras are not installed and staffing numbers are not sufficient. Nevada should review the role the NYTC is to play in the State's correctional future.

The DHHS Director, Michael J. Willden, and I attended the Commission on Statewide Juvenile Justice Reform with the intent of becoming active members. Chaired by Justice James W. Hardesty and Justice Nancy M. Saitta, the commission includes Juvenile Court judges, district attorneys, parole and probation officers, members of the Attorney General's Office and Nevada State legislators.

The Commission's objectives are to recommend reforms in the juvenile justice system with emphasis on regionalization. The Commission's eight recommendations are listed on page 28 of Exhibit C.

Changes to the Governor's recommended budget were made for FY 2014-2015 in response to the independent review of the NYTC and the recommendations of the Commission.

Budget accounts for the SVYCC, the CYC and the NYTC are now all in decision unit E-225 of B/A 101-3148. This provides the financial flexibility necessary to operate the three correctional facilities based upon the needs of the youth committed by the courts. This deletes multiple budget accounts and creates fluidity amongst the three facilities.

E-225 Efficient and Responsive State Government — Page DHHS-DCFS-57

This includes 60 beds at the NYTC representing a decrease of 50 beds. The savings would be reinvested to reopen the SVYCC in October 2013. The funding includes up to 50 correctional beds. A Request For Proposal (RFP) is being released to find a private vendor capable of reopening the SVYCC. The planning phase is designed to begin with 35 youth and add youth over the next 2 years until full capacity of the 50 beds is attained.

The RFP, scheduled for release in February 2013, will ask potential vendors to propose a dollar amount per bed, per day that would be charged to the DCFS and a proposal on how they plan to address the annual bond payment that the DCFS pays.

The DCFS will become a partner of the John D. and Catherine T. MacArthur Foundation. We have isolated the necessary funds, as the cost per institution is $13,000. Enrollment is important because this allows measurement of outcomes of the State's institutional practices and for achieving consistency across Nevada.

The Governor's budget also included $650,000 from the General Fund to be added to B/A 101-3147. This represents the Aurora Pines and China Spring facilities and reduces the amount that county probation departments are paying.

The DCFS requests one FTE position as a quality control specialist to monitor the day-to-day operations at the SVYCC. This position will reside within the facility to maintain constant oversight of the operations.

Senator Kieckhefer:
How do we adequately budget for the reopening of the SVYCC when the RFP, that will give us the daily rate for these kids, is still unknown? How do we combine three budgets for three facilities into one budget account? How does this work while we are educating the students at the NYTC, but not the students at the CYC, along with the outside vendor for the SVYCC? It sounds like we will be funding multiple pools of money that all require different levels of service. I understand the flexibility argument, but I do not think this maps out well.

Ms. Howell:
We desire to stay within the same existing category restrictions. Beds are by budget account, education is in another budget account or another category. This increases the fluidity among the numbers of beds purchased.

In response to downsizing the NYTC and the reopening of the SVYCC, we have performed an analysis to determine the amount of funds that would be saved and when the funds would be available. Ramping down on July 1 creates 3 months of savings, allowing us to ramp up and use those savings to purchase beds.

Michael J. Willden (Director, Department of Health and Human Services):
Historically, the three institutions have had three separate budgets. If one institution underspends, the funds are refunded to the General Fund or if one institution seeks to add staff, or more resources, there is no way to obtain funds for that facility. We would not seek the authority to move monies, without consulting the Interim Finance Committee. This is to avoid situations

where judges cannot place youths at the proper level, based upon the availability of beds. We cannot place a child in need of maximum services at the medium, or lower level, for the same reason we cannot place youths in need of a minimum level of service into a maximum level environment based on overcrowding or the lack of availability.

Assemblyman Sprinkle:
I appreciate the request for granting your Division the ability to have that flexibility. I want to see this in subcommittee as it raises my attention when we propose to lay off 29 people and then talk about privatizing the very same services. Please let me know where I can obtain that full report so I can review it. The review of the NYTC sounds like they were pleased with what the staff was doing and now we are talking about laying off 29 people and privatizing the operation. I really want to hear more about this when you return to subcommittee.

Ms. Howell:
The 29 positions being eliminated are currently vacant. Our overtime costs are significant due to those 29 positions being vacant. We have 12 teachers currently, yet, if the facility population is cut in half, we obviously will not need that many. We must keep enough teachers in specific topics to maintain accreditation.

Senator Goicoechea:
Did we have a contract with the Elko County School District to provide instruction?

Mr. Willden:
Last Legislative Session we opened a dialogue, but it did not work out with the Elko County School District. We continue to fund the staff out of our budget and maintain our own school.

Ms. Howell:
A graph on page 30 of Exhibit C shows the CYC experienced an 18 percent decrease in its census in FY 2011-2012.

On page 31 of Exhibit C the graph of the NYTC census by region indicates a 15 percent decrease in FY 2011-2012 and a 17 percent decrease in

FY 2012 -2013, with an overall decrease of 29 percent. Fewer youth have been committed to the NYTC in the past years.

The DWTC is a 58 bed children's psychiatric hospital in Las Vegas. The occupancy rates, average nurse vacancy rates, average psychologist and clinical social worker vacancy rates are shown on page 32 of Exhibit C.

The DWTC is accredited by the Joint Commission on Accreditation of Health Care Organizations and the Bureau of Health Care Quality and Compliance (HCQC) and is allocated only enough positions to remain at 100 percent census when all positions are filled. If positions become vacant, we must reduce our census so as to not compromise the safety of the children. We have had some difficulties in the past year in having to partially fill certain positions and in retaining employees.

Page 33 of Exhibit C describes enhancement unit M-501 in B/A 101-3646. While we were struggling with compliance to the census, we were inspected by the HCQC and cited for failing to have registered nurses (RN) physically present on duty at all times in every unit. The acute unit was closed based on the lack of RN positions. We need four additional RN positions or it will be necessary to close the entire unit indefinitely.

HHS-DCFS - Southern NV Child & Adolescent Services — Budget Page DHHS-DCFS-118 (Volume II)
Budget Account 101-3646

M-501 Mandates — Page DHHS-DCFS-121

Senator Kieckhefer:
If a youth experiences an acute episode, where are they taken now assuming that they are uninsured?

Ms. Howell:
The DCFS is only one of the providers of these kinds of services in Las Vegas. There are two alternative providers: Montevista Treatment Center and Spring Mountain Treatment Center, both located in Las Vegas.

Senator Kieckhefer:
As private facilities, do they accept uninsured youth?

Jeff Morrow (Administrative Services Officer, Department of Health and Human Services):
The DCFS has category 16 funds which are mental health placement funds budgeted for the placement of uninsured children under care. We are contracted with both of these hospitals for the children of Las Vegas when we are not able provide services.

Ms. Howell:
Page 34 of Exhibit C shows the technology investment requests (TIR) in the DCFS's budgets.

In B/A 101-3143, enhancement unit E-710 is to replace the DCFS computers, including software, and decision unit E-720 is for the purchase of new Avatar equipment in information technology system software.

HHS-DCFS – UNITY/SACWIS — Budget Page DHHS-DCFS-32 (Volume II)
Budget Account 101-3143

E-710 Equipment Replacement — Page DHHS-DCFS-37
E-720 New Equipment — Page DHHS-DCFS-37

Enhancement unit E-711 in B/A 101-3179 is for the upgrade of the internal telephone system, radio site and battery systems at the CYC.

E-711 Equipment Replacement — Page DHHS-DCFS-69

The B/A 101-3229 contains enhancement unit E-721 for the replacement of video equipment for the DCFS Elko office conference room and decision unit E-722 is for the addition of two phone lines in the Fallon office.

E-721 New Equipment – Page DHHS-DCFS-82
E-722 New Equipment – Page DHHS-DCFS-82

Enhancement unit E-711 in B/A 101-3259 will replace the telephone communication system at the NYTC.

E-711 Equipment Replacement— Page DHHS-DCFS-97

In B/A 101-3281, enhancement unit E-730 is a request for funding to improve the security system for the Northern Nevada Child and Adolescent Services campuses.

HHS-DCFS - Northern NV Child & Adolescent Services — Budget Page DHHS-DCFS-108 (Volume II)
Budget Account 101-3281

E-730 Maintenance of Buildings and Grounds — Page DHHS-DCFS-114

Funding requested in decision unit E-730 in B/A 101-3646 will improve the security system on the Southern Nevada Child and Adolescent Services campuses.

E-730 Maintenance of Buildings and Grounds — Page DHHS-DCFS-126

The enhancements and reclassifications we have discussed have been embedded into the Governor's strategic priorities either as an enhancement to encourage efficient and responsive state government or within the safe and livable communities sectors.

Within B/A 101-3229, we are asking for four family support worker positions, one for each district office in Pahrump, Elko, Fallon and Carson City. We also request two mental health counselor positions and two new motor pool vehicles, as we do not have enough vehicles for our existing staff.

Included in B/A 101-3281 is a statewide parent management training program. It consists of a curriculum for training parents to look for symptoms in children released from our psychiatric hospitals or family learning homes.

We have a Washoe County Children's Mental Health Consortia. We request, through enhancement unit E-351 of B/A 101-3281, a group treatment intervention program in Washoe County. In addition, E-351 of B/A 101-3646 requests a mobile crisis unit in the Las Vegas area of Clark County.

E-351 Safe and Livable Communities — Page DHHS-DCFS-112

E-351 Safe and Livable Communities — Page DHHS-DCFS-124

Assemblywoman Carlton:
Under B/A 101-3281, please furnish more information and clarity regarding the conversion of a psychiatric nurse.

Ms. Howell:
This position has been a contracted position for the past 8 years. There are personnel regulations and restrictions stating that we are not to continue using federally funded contract employees that provide a necessary service to the State, if the position is defined as needed.

Assemblywoman Carlton:
Will the position remain as a psychiatric nurse?

Ms. Howell:
Yes. In the M-425 decision units, we have deferred maintenance requests in for the CYC and for both of our children's mental health sites. For the CYC in B/A 101-3179, we need to make basic repairs and install a new hot water system. The children's mental health sites requests in B/A 101-3281 and B/A 101-3646 are for the same repairs. In addition, a generator needs to be removed from the DWTC.

M-425 Deferred Facilities Maintenance — Page DHHS-DCFS-67
M-425 Deferred Facilities Maintenance — Page DHHS-DCFS-110
M-425 Deferred Facilities Maintenance — Page DHHS-DCFS-121

Page 37 of Exhibit C is a summary of budget cuts from the 2011-2013 biennium so that the Committee has an idea of what occurred in the last Session. In B/A 101-3229, we eliminated a mental health counselor, an administrative assistant and eight family support worker positions. We also implemented rural county child protective services assessments. The Governor's recommended budget does not include a proposal to reverse those assessments.

In B/A 101-3259 there was a reduction in beds from 160 to 110, and the elimination of multiple positions.

The most significant reductions were the juvenile justice budget accounts which eliminated detention reimbursement costs to counties, community corrections block grants, the design and implementation of new specialized room and board payments and the implementation of a youth parole assessment in all counties. The Governor's recommended budget does not propose the reversal of any of these; however, the budget does include about $650,000 for the Aurora Pines and China Spring budget to offset the amounts that local probation departments were paying.

Chair Smith:
Prior to this budget and this biennium, there were previous cuts. You are referring to the most recent cuts. We have already talked about SVYCC, for example, in the Special Session. I want to make it clear that we have had more cuts over the 5 years prior to this budget.

Ms. Howell:
As shown on Page 38 of Exhibit C, the Division was approved for an approximately $3.6 million TIR project. We contracted with the business, Integrating Factors, and they performed an entire assessment of our existing Unified Nevada Information Technology for Youth (UNITY) system, which resulted in it being defined as difficult to navigate and not user friendly. The UNITY system is a hindrance to the work we do.

The update designed a new presentation layer that is accessed through a Web portal featuring a data warehouse which presents a format of statistical enabling data filtration processes for improved data-analyzing purposes. We contracted with QA Technologies in 2012, and it is anticipated that this project will remain within budget and will be completed successfully.

A.B. No. 580 of the 76th Session allowed the DHHS to divert money from the Medicaid budget account for basic skills training for the pilot program of 70 children. There are 30 children each from Washoe and Clark Counties and 10 children from rural Nevada. Pending pilot success, we will come before the money committees in the 2015 and 2017 Sessions to request General Fund support for further funding, provided the pilot has a positive outcome. In total, there are 580 children in this population. We are prepared to continue phasing in additional youths should the money become available.

In 2009, the U.S. Department of Health Administration for Children and Families opened a 5-year review to monitor and evaluate Nevada's child welfare system. The administration offered a list of findings that are to be addressed and as part of the review process the DCFS was to create a Performance Improvement Plan. The DCFS developed the plan, processed every detail within the plan and, we are happy to say, that we have successfully passed.

The Wraparound In Nevada for Children and Families (WIN) program serves our child welfare custody youth with multiple and complex problems. During FY 2011-2012, the Washoe County Children's Mental Health Consortia sponsored a pilot project to transition in the juvenile justice population. The WIN serves Washoe, Clark and the rural Counties and is now available to juvenile justice and special education populations. We have been able to define increases in individual functionality in the emotional and behavioral impairment categories. We have also seen decreases in school suspensions and absences, restrictiveness of youth's living conditions as well as the numbers of arrests and detentions. Outcomes have been good and we plan to expand this program even further.

Chair Smith:
This is one of our most difficult and important budgets to get through as it affects our youth and many questions will come up in the budget hearings. Congratulations on the successful Performance Improvement Plan.

We will now hear the budget overview from the Public Employees' Benefits Program (PEBP).

James R. Wells (Executive Officer, Public Employees' Benefits Program):
The PEBP strives to be an innovative health benefit program. The PEBP believes that protecting the participant from catastrophic health care expenses is core to the program. The Agency believes that personal responsibility is a cornerstone to the health and welfare of its participants. The PEBP commits to providing tools to assist participants in managing their health care resources. We commit to maintaining transparency regarding the operations and finances of the plan. The Agency commits to a clear communication of program design to all stakeholders. The board members and staff possess managerial and financial expertise in the health benefits industry.

Among the groups that qualify as eligible participants are active State employees including the Nevada System of Higher Education (NSHE), the Legislative Counsel Bureau, the Public Employees' Retirement System (PERS) and all the boards and commissions making up the State employee group; and any State retiree either at the time they retire or if they return during an open enrollment period. However, as of last session, employees may only have one break in their continuous service. After they retire, and they do not take retiree benefits, they can re-enroll only once during their retirement.

Non-State active employees, and the retirees of participating local governments, may also participate in the PEBP. There is a group of retirees from nonparticipating local governments that must maintain their enrollment following November 1, 2008.

Please refer to page 8 of (Exhibit D) of the PEBP presentation, which shows actual enrollment for FY 2011-2012 and the projected enrollment for the FY 2014-2015 budget request. Projections indicate that enrollment will remain flat over the next biennium with approximately 40,000 participants. Enrollment peaked at just under 44,300 participants in April 2009, and has declined by 9 percent since that time. The enrollment of State employees peaked at 26,530 in June 2008 and has been decreasing ever since. Projections indicate that the trend will reverse through the next biennium, as several agencies begin hiring new staff with the Medicaid expansion. Based on the results of the PEBP survey last year, most participants that declined coverage have insurance through their spouses or through a former employer. Agency staffing levels have remained flat at 32 FTEs throughout the period.

In 2011, the Board of the Public Employees' Benefits Program made decisions that were to result in positive behavioral changes in the plan's participant populations. Early indications show we are seeing some positive behaviors as a result of the implementation of the consumer-driven heath plan. We have seen decreased inflation in the first 18 months under the plan.

The PEBP offers a wellness program to our HMO-plan and PPO-plan participants. We offer a voluntary dental program to those in the Medicare exchange.

As shown on page 10 of Exhibit D, the PEBP offers basic life insurance for all active employees and retirees, including Medicare retirees. Long-term disability is available for employees, as well as a variety of voluntary products for our participants.

The Board approved rebranding the wellness program which is now called the NVision Health & Wellness Program. The program's goals are to inform participants of their health risks, the improvement of plan participants' health and quality of life and to reduce avoidable claim costs associated with preventable conditions.

NVision is based upon a 4-year plan. The first year is a period in which participants gain health education. The second year is designed for participants to become active. The third year is for participants to have better nutrition, while the fourth year is to experience the results of the first three years and the positive changes they have made.

Page 14 of Exhibit D shows pie charts that indicate funding sources and the uses of our funds for FY 2013-2014. Approximately 50 percent comes from State subsidies paid by the State for active employees and retirees. The contribution shown in blue represents employee, retiree and contributions by nonstate employers. We also carry forward a portion of our funds each year as reserves. The other 1 percent is comprised of primarily drug rebates based upon pharmaceutical usage.

Approximately 52 percent of costs are associated with the high deductible plan, 44 percent for claims and 8 percent for the Nevada Health Savings Account (HSA) and Health Reimbursement Arrangements (HRA) contributions and another 2 percent to administer the costs of the high-deductible health plan. We spend approximately 25 percent of our funds on fully insured products for the HMO and life insurance. We reserve funds to carry forward to the next year to cover our incurred but not reported (IBNR), catastrophic and HRA reserves. Approximately 1 percent of the budget is spent to operate the PEBP offices.

We are trending about $50 million to $60 million under budget due to the enrollment numbers being lower than projected. The HSA and the HRA contributions are projected to be about $4 million over budget.

The 15-year chart shown on page 16 of Exhibit D represents reserves by fiscal year. This is presented as a historical reminder that the PEBP was not always solvent. The IBNR is calculated at a 95 percent probability that this will cover all of the claims submitted for the specific plan year. The catastrophic reserve is calculated at a 95 percent probability that the plan will be able to maintain financial solvency.

The original legislatively approved budget for the 2011-2013 biennium included much higher catastrophic reserves. They were set at approximately $35 million for FY 2011-2012 and approximately $39 million for FY 2012-2013 based upon the volatility stemming from the significant plan design changes that were made in 2011 which also included the transition to a new third-party administrator.

Approximately $29 million was rebated in 2012 through the actions shown on page 18 of Exhibit D. Based on the decisions from the 2012 PEBP Board meeting, increased excesses resulted in the mitigation of rates to 50 percent below what rates would have been using the amounts provided by actuaries and underwriters. The Board also approved retaining about $6.3 million in reserves to mitigate any rate increases within the 2014 plan.

Assemblyman Aizley:
For full disclosure, I am a Medicare retiree, and while Mr. Wells and I have discussed this issue more than once, I am still seeking some explanations. The HMO in southern Nevada was supposed to be averaged with the one in northern Nevada. There are Medicare retirees in similar situations. Some are receiving a subsidy of $500 per month, while others are receiving $2,200 per month.

Your presentation includes a projection of almost 10,000 Medicare retirees, so I am speaking for many people. We need an explanation why there is such disparity and a lack of fairness. At the time of the budget hearing, I would expect to bring this back again and find out why the subsidies are so different.

Mr. Wells:
We have discussed this at length with Mr. Aizley. The PEBP will provide a report to the Committee showing the historically used mechanisms to fund both Medicare and non-Medicare retirees. Beginning in 2011, the difference was the transition to the Medicare exchange. The reality is that there has always been a difference between the subsidies for Medicare and non-Medicare retirees.

Page 20 of Exhibit D shows the PEBP and the three budget accounts under our control. These are B/A 666-1390, B/A 680-1368 and B/A 625-1338.

SPECIAL PURPOSE AGENCIES

PUBLIC EMPLOYEES BENEFITS PROGRAM

PEBP – ACTIVE EMPLOYEES GROUP INSURANCE – Budget Page PEBP-24 (Volume III)
Budget Account 666-1390

PEBP – RETIRED EMPLOYEE GROUP INSURANCE – Budget Page PEBP-20 (Volume III)
Budget Account 680-1368

PEBP – PUBLIC EMPLOYEE BENEFITS PROGRAM – Budget Page PEBP-10 (Volume III)
Budget Account 625-1338

Based upon the approved budget, the Legislature approved a per dollar, per month, per employee assessment and those funds are placed for each participating position into B/A 666-1390.

The Legislature also approved a payroll assessment equal to a percentage of the State's payroll. That assessment of approximately 2.13 percent is placed into B/A 680-1368, which has the ability to invest excess funds, based upon availability, in the retirees benefit investment fund which is a subset of the PERS trust.

The funds from B/A 625-1338 and B/A 666-1390 accounts are subsequently transferred to the operating budget account as the State's subsidy dollars based upon the plan and tier selections of individual plan participants.

We also receive premium revenue which is the employee portion of the monthly premiums, the premiums of non-State employees and non-State employers.

Additional revenue is received from the retiree drug subsidy for the few Medicare retirees not in the Medicare exchange and the drug rebates that the

PEBP receives from the pharmacy benefits manager. The operating account is responsible for paying the expenses of this program.

Budget account 680-1368 and B/A 666-1390 are pass-through accounts in which an aggregate number is put in and a per person number is taken out. All operations activities are funded through B/A 625-1338.

The table on page 21 of Exhibit D indicates the breakdown between base, maintenance and enhancement units.

Based upon the decline in enrollment, the PEBP budget is less in the coming biennium. Over 10 years, we lost all but 65 non-State active employee participants down from the 2,200 in the plan in 2003.

The projected usage under the Governor's budget for the 2013-2015 biennium is shown on Page 22 of Exhibit D. The State pays out 42 percent in self-funded claims and an additional 9 percent is paid out in HSA and HRA contributions. There is 2 percent paid out for administrative costs of the self-funded plan and 27 percent paid out for fully insured costs, HMO, life insurance and long-term disability claims. We set aside funds for the IBNR, catastrophic reserves and reserves for HRA funds not spent. Lastly, 1 percent represents agency operating costs.

There are several decision units common to the budget accounts under discussion. The first, M-101, addresses inflation increases. Figures are based upon historical and actuarial projections provided by consultants. We received commitments from the HMOs in December 2012 to reduce the "not to exceed" amounts in their contracts from 10 percent to 8 percent. We will deliver a report with the figures for FY 2013-2014, adjusted to actual costs and the FY-2014-2015 figures will also be adjusted and projected from the FY 2013-2014 numbers.

M-101 Agency Specific Inflation — Page PEBP-12

Another decision unit represents our reserves adjustments throughout the biennium, accounting for inflation in the IBNR and in catastrophic reserves. We adjust our excess reserves to use those reserves down throughout the biennium.

M-102 Agency Specific Inflation — Page PEBP-12

Decision unit M-103, which is new to the budget this year, addresses inflation in the Medicare exchange population. This increases the HRA contribution that we would provide to Medicare retirees by $1 per month, per year of service from a base amount of $10 to $11. We estimate that this inflation factor will cost the plan an additional $2 million for each year in this biennium.

M-103 Agency Specific Inflation — Page PEBP-13

Enrollments are decreasing over the biennium. We are beginning to experience, especially on the non-State side, movement from the non-Medicare retiree group to the Medicare retiree group. These participants transfer to the Medicare exchange which decreases overall cost structure.

The Comparative Effectiveness Research Fee starts in FY 2013-2014 at $1 per member, per year. A family of 4 pays $4 per year to the federal government to fund the Patient-Centered Outcomes Research Institute. The fee increases in FY 2014-2015 to $2 per member. The PEBP included about $144,000 to our FY 2013-2014 budgets to cover this federal fee.

In December 2012, the Division of Human Resource Management took over the personnel functions of our Agency. Funds are placed into our budget for the assessment associated with continuing to provide these services into next biennium.

In addition, there are three primary enhancements, E-710, E-225 and E-227, for the replacement of computer equipment, data analytics and staff training. There has been significant turnover within the staff of this Agency. Three of the six executive staff, and four of the five accounting staff, were new to the Agency in 2012.

E-710 Equipment Replacement — Page PEBP-17
E-225 Efficient and Responsive State Government — Page PEBP-15
E-227 Efficient and Responsive State Government — Page PEBP-15

Page 28 of Exhibit D contains a chart of core function activities. All activities fall under Health Services Core Functions. The largest is the operation of the group insurance program followed by the Medicare exchange, care management, the wellness program and the general administrative functions.

Performance indicators are shown on page 29 of Exhibit D. The expense ratio is the percentage of premium revenue that is spent on Agency operations and self-funded claims administration. It has run at 4 percent for a few years.

The claims loss ratio is the percentage of the premium revenue spent on claims including HSA and HRA contributions. When the number exceeds 100 percent, we are spending down our reserves. If that number falls under 100 percent, we are adding to our reserves.

Generic drug utilization, medical in-network and dental in-network utilization are factors that determine how well our participants are managing their plan by using our providers and using less expensive prescription drugs.

The State incurs other post-employment benefits (OPEB). This is the liability that the State incurs in providing liability subsidized retiree health care to employees. The cash subsidy provided is the explicit subsidy. The commingling of the retiree experience rating with less expensive active employees is called an implicit subsidy and is reported on the State's financial statement.

In 2009, the Legislature increased the number of years of service required to obtain the subsidy from 5 to 15 years for hires after January 1, 2010. The 2011 Session eliminated the subsidy altogether for those hired after January 1, 2012. The bill that affected the OPEB liability was A.B. No. 553 of the 76th Session.

Page 34 of Exhibit D shows the OPEB evaluations are only required every 2 years unless there are substantive changes to the plan. The last Government Accountability Standard Board evaluation was completed on June 30, 2011.

Page 36 of Exhibit D shows the Legislative agenda that has been submitted by the Board to revise the commingling statutes in Senate Bill (S.B.) 34. Currently there is one pool for State employees and retirees and another pool for non-State employees and retirees. This has become a retiree-only pool and is becoming very expensive, with increases of more than 20 percent on that pool.

SENATE BILL 34: Makes various changes relating to group health insurance provided by the Public Employees' Benefits Program. (BDR 23-377)

There are implementation issues with the Affordable Care Act (ACA) surrounding the mandatory coverage levels aspect of health care reform, covering children to age 26, the elimination of the pre-existing condition exclusions, lifetime and preventative care maximums, all of which have been implemented already. One remaining piece of the mandatory care coverage that goes into effect July 1 is for women's reproductive health.

There is also a transitional reinsurance program which is a 3-year program intended to provide money to the federal government to provide to carriers and working through the Medicare exchange to offset the negative financial impact of sick people rejoining those carriers.

The federal government is assessing a fee against us, commercial insurance plans and self-funded plans, subsequently redistributing the funds to ease in the Silver State Health Insurance Exchange (SSHIX) style of programs throughout the Nation. The fees have not been finalized yet, but we have heard rumors that fees could be as high as $80 per person, per year. That is not included in our budget.

For the most part, the impact to the SSHIX will be minimal; however, there are potential penalties for members who have unaffordable health insurance and receive a federal subsidy through the Exchange.

Assemblywoman Carlton:
I am concerned about the enrollment numbers and people not having insurance. Can we determine where the changes actually were and add to that how many children are affected because of the changes?

Mr. Wells:
We can provide those numbers to the Committee. We have investigated to ensure plan participants are not removing children. The Board approved a change in 2011 stating if a spouse or domestic partner had access to other employer-based coverage, they would not be eligible for coverage through our program. We lost many spouses as a result of them having alternative employer-based coverage; however, we did not experience a significant

decrease in the number of children. We can provide the information on dependents at a later time.

Assemblywoman Carlton:
There has been another drop in enrollment since then so we need to take another look at that. We know that State employees are not allowed to put their children on Nevada Check-Up and the last thing we want to impact is increasing the number of uninsured children in this State.

Within the utilization rates, we need a comparison between the HSA and the HMO rates. We need to take a good look at utilization to determine if people are not using their health care based on the cost. Preventative care is fully covered, but it is with follow-up care that people encounter the gap between what you provide and where the plan kicks in. I believe that a number of employees are apprehensive of that gap scenario. I would hate to discourage those covered based on this.

Please provide hard dollar numbers that support the percentages your presentation offered for comparison purposes versus the HMO figures.

I have always had philosophical issues with subsidizing certain groups of employees at different levels especially when the HMOs do save us money. The Committee wants clarification, via hard dollar numbers, of what is actually impacting these families financially. When we look at an administrative secretary who is making $35,000 per year, how much money comes out of that paycheck so that they can take care of their children? What are their deductibles?

Assemblyman Kirner:
What is the State contribution? Is this State basically flat and for how long? Is it the fourth or fifth year now?

Mr. Wells:
Our percentage of the primary participant premium has remained the same for at least 4 years and is projected to remain the same for this fifth year.

Assemblyman Kirner:
What is the dollar amount that the State provides on a per employee basis? Every department has experienced changes because of the economy. What is your Department's situation?

Mr. Wells:
You are asking for the State's total subsidy percentage as a percentage of the total premium based on a per employee basis. The State subsidy has remained relatively stable as a percentage of the premium. We will provide more information on this for the subcommittee hearing.

Assemblyman Kirner:
Will it be in percentage figures or in dollar amounts?

Mr. Wells:
The dollar amounts have continued to increase as medical inflation has persisted. Again, what we faced in the previous two biennia is the State saying that the dollar amount they would provide had to stay flat and the inflation and utilization increases had to be absorbed by the participants.

Assemblyman Kirner:
My worry overall is how much burden? State employees have taken pays cuts and furlough days. How much more of a hit have they taken regarding their health care insurance?

Assemblyman Aizley:
Bill Draft Request (BDR) 23-681 allows subsidies for Medicare retirees to change, which as Mr. Wells indicated earlier needs to be done. There has always has been a difference between Medicare nonretired and retired employees and we need clarification of the difference.

Bill Draft Request 23-681: Revises provisions relating to the subsidy for coverage of certain retired persons under the Public Employees' Benefits Program. (Later introduced as Assembly Bill 303.)

When I attend meetings of the Retired Public Employees' of Nevada, those retired Nevada employees ask questions. If I answer that there is a difference "because there always has been a difference" is not going to satisfy them.

I really need to know why the difference exists. There may be a reasonable answer to this and I must know what it is.

Assemblyman Hogan:
Who are the constituents of non-State retirees that you refer to?

Mr. Wells:
The non-State retiree population is basically any local jurisdiction throughout Nevada as long as they either have their active employees participating, or their retirees have been on our plan continuously since prior to November 1, 2008.

We have thousands of school teachers and some county, city and other local governmental units that have retirees on the non-State plan.

Assemblyman Hogan:
Are you including federal retirees?

Mr. Wells:
No, this plan is limited to retirees of State agencies or State subdivision units.

Chair Smith:
Do the performance indicators on page 29 of Exhibit D ever contemplate member response or member satisfaction? There is existing data regarding this issue.

Mr. Wells:
We performed surveys last spring and found that on the Medicare exchange side, our customer satisfaction was above average. Approximately 70 percent of the survey responses were shown to be highly satisfied.

The employee survey resulted in the exact opposite, with 70 percent to 80 percent of responses indicating dissatisfaction. When we processed the survey, State employees had just taken pay cuts, work furloughs and increases to their retirement contributions, and we are the only people processing a survey. We did not ask the truly pertinent question of "what would you restore first?" That should have been the overriding question.

In response to Assemblyman Kirner earlier, this plan is better for many people. It is better for people who are very ill or very healthy, but it contains a specific subset of high pharmaceutical drug users for whom this plan is not good. Many of these particular participants have migrated to the HMO.

Chair Smith:
Evaluation is part of performance. We want to see the data, including the employee responses as well as information regarding timely payments and the other issues we all hear about.

Assemblyman Hogan:
With reference to the prior year's survey, do you feel that what the employees think should be addressed first, if those results were helpful? Please give us the highlights.

Mr. Wells:
In the previous survey, the choice was the consumer-driven health plan versus the HMO. If it was the HMO, the choice was the southern or the northern HMO. We attempted to isolate the plan that they were participating in.

There were some anomalies. Total dissatisfaction was higher within the PPO plan than it was for the HMO plans. Dissatisfaction was indicated to be higher for the northern HMO than for the southern HMO. We will forward a summary of those surveys to staff.

Chair Smith:
We have normally seen the surveys in the past. This needs to be provided to the entire committee.

Assemblyman Kirner:
Within this is the administration of the HSA which should be a priority. Please bring this information and the actions you have planned to the subcommittee hearing.

Chair Smith:
We will hear an overview of the budget for the Nevada Department of Employment, Training and Rehabilitation (DETR).

Frank Woodbeck (Director, Department of Employment, Training and Rehabilitation):
We are here to present the biennial budget overview for the DETR (Exhibit E). We want to incorporate our collaboration with the Governor's Office of Economic Development (GOED) and the NSHE in facilitating the training and stability of Nevada's workforce.

The unemployment rate fell from 13.7 percent in 2010 to 13.5 percent in 2011 and to 11.6 percent in 2012. The State ended 2012 with an unemployment rate of 10.2 percent, which is a drop of 2.7 percent from a year ago, the sharpest drop in the entire Nation.

Nevada has many favorable economic indicators. Initial unemployment claims have declined in 34 of the past 37 months. The number of employers is up 5 straight quarters. Taxable sales have been up for 28 straight quarters. Personal income is up for 9 straight quarters. Las Vegas visitor volume is approaching record levels and export activity was up nearly one-third in 2012.

For 2012, job gains are evident in most major industries. Leisure and hospitality businesses represented 2,000 hires in 2011. Trade, transportation and utilities are up by 5,500 positions. Education and health services are up by 1,500 positions. Professional business services are up by 5,900 positions. Construction continues to struggle, trending at a rate of approximately 2,400 positions below 2011 figures.

Most economic indicators point to a continued mild recovery. Nevada's economy remains reliant, in part, on consumer sentiment and the willingness to spend disposable income.

Current projections call for continued job gains going forward, with growth approaching 2 percent. Driven by these modest job gains, the unemployment rate is expected to continue to decrease.

Based upon legislation passed in 2011, which reformed Nevada's economic development efforts, the GOED and DETR have been working in unison regarding the provision of a qualified workforce to attract industries and companies to Nevada. Much of this is based upon a demand-driven system as companies and industries demand certain job skill sets.

The DETR collaborated with the NSHE and with Chancellor Daniel J. Klaich, as we design significant training initiatives. The continued pathway of kindergarten through Grade 12 will provide our future workforce, particularly within career and technical education; hence the coordination with Superintendent of Public Education James W. Guthrie.

The Governor's Workforce Investment Board, also called the State Workforce Board (SWIB), has been reformed and is now 35 members strong. The first meeting of the reformed SWIB was in January. The next is in March, to strengthen our Board's oversight of local workforce training boards, their initiatives and the investment of dollars into workforce training.

At the directive of the Legislature we have embarked on the formation of the SWIB industry sector councils approved through S.B. No. 239 of the 75th Session and now in the *Nevada Revised Statutes* (NRS) 232.935 which mandates sector councils for each industry sector that the GOED would be pursuing.

This process is currently ongoing and there are eight industry sector councils in the formation phase. The overview of these councils is based upon the industry sectors cited in a 2011 Brookings Institution study and then adopted by the GOED. These councils currently encompass health and medical services, tourism, gaming, entertainment, clean energy and sustainability, aerospace and defense, information technology, manufacturing and mining and materials.

The Governor's Chief of Staff, Gerald Gardner, Department of Agricultural Director Jim R. Barbee and I will meet in February to plan the launch of the agricultural sector council that is scheduled this year in the spring.

The mission of each sector council is to bring together decision makers from business, government, education, labor, industry and professional groups to identify and to address the delivery of industry-specific training and workforce development initiatives in support of the economic development goals for our State. Each council is slated to number between 22 and 25 members.

The purpose is to bring together all necessary individuals and departments that make decisions regarding the type of industry sector training necessary, and those that impact those particular decisions.

We have also initiated a partnership with the GOED and NSHE to form a Nevada Center of Excellence which we are purchasing in partnership with IBM.

We have also signed an agreement with American College Testing to provide skills testing for the unemployed and underemployed so we can identify skill sets that they either have or lack.

The Jobs for America's Graduates (JAG) has been successful in 30 other states and has operated in Nevada for several years. This program targets at-risk youth in high school. We launched it in seven schools last year, four schools in southern Nevada, three schools in northern Nevada and one school in rural Nevada.

Through the DETR career enhancement program, and local boards, we financed this pilot program to see what could be done in terms of addressing the drop-out rate in our schools and to provide qualified individuals coming out of high school to the workforce or to higher education.

Chair Smith:
We had some discussion about the JAG program when we heard the education budget. Has a press conference been scheduled for today regarding this program's results?

Dennis Perea (Deputy Director, Department of Employment, Training and Rehabilitation):
The press conference is for the program installation ceremony tonight at Desert Pines High School in Las Vegas which is one of the seven schools named in the original program.

Chair Smith:
There is a lot of interest in what the program looks like, how the students are collected, what the outcome is and what the jobs are like. When we review the program in the Education Committee hearings, we would like to find out more about it.

Mr. Perea:
We are issuing a report, through the JAG offices, on the progress that the State is making on that particular initiative. We will furnish a copy to the Committee.

Assemblyman Hardy:
With respect to the jobs that were created in the State last year, how many were due to the DETR function? Can you track the effects or benefits of the DETR throughout the State?

Mr. Woodbeck:
We can track that and will provide that information. We work with a number of companies in finding employees for them. Ameriprise Financial arrived in southern Nevada and employed the services of Nevada JobConnect to find 180 individuals for their administrative, call center and financial services sections.

The Silver State Works program works with 314 companies and placed 1,583 positions for which we subsidized the training. I do not have the exact numbers currently, but I can certainly deliver this information to you along with the list of key companies that we work with.

Assemblyman Hardy:
Please bring that information for the upcoming subcommittee hearings. We want to see the value of DETR services.

Mr. Woodbeck:
We have been integrating our Department's mission with businesses, the NSHE, government and nonprofit organizations to develop new, innovative and customized training programs by aligning worker skills and education to meet employer needs. Specifically, we launched the Right Skills Now program that was born of a conversation we had with the Nevada Manufacturers Association, our manufacturing sector council and the community colleges.

That particular model is one we desire to replicate across all sectors. It is a challenge within the sector counsels to determine how to come up with pilot programs like this. We need to look for opportunities that offer jobs to trainees right out of training, instead of anticipating that they might find a job.

In cooperation with public and private agencies, we are seeking opportunities, and enhancing all opportunities, for persons with disabilities. The DETR's Bureau of Vocational Rehabilitation has done a terrific job for many years. For example, in 2012, the Bureau served 5,896 persons with disabilities and now wants to enhance that by having greater ties with the business community. Last year we placed 852 of those persons in jobs. Of those, 55 percent were full-time jobs with health-care benefits.

As shown on page 7 of Exhibit E, the Director's office and administrative services is comprised of 150.51 FTEs. This includes human resources, financial management, information development and processing, operations management, research and analysis as well as our workforce solutions unit.

Our Employment Security Division (ESD) is comprised of 487 FTEs, plus 139 intermittent employees. The Rehabilitation Division has 266 FTEs, plus two intermittent employees while our Nevada Equal Rights Commission has 16 FTEs.

Mark Costa (Chief Financial Officer, Department of Employment, Training and Rehabilitation):
The departmental budget summary on page 9 of Exhibit E is a comparison of key components between the last legislatively approved budget and the FY 2014-2015 Governor's recommended budget. The table also includes an explanation of the "Reed Act" funding under the Employment Security Financing Act of 1954 which is federal funding for the new Unemployment Insurance Modernization Act. These funds will be exhausted by FY 2013-2014.

Page 10 of Exhibit E has a pie chart showing the relative sizes of the DETR funding sources for the biennium, the largest being the U.S. Department of Labor at 46 percent, while the smallest source of funding is the U.S. Equal Opportunity Employment Commission at 0.24 percent. A significant source of funding is the use of reserves and transfers from within the DETR and from outside of the DETR.

Mr. Perea:
The DETR's administration services division consists of financial management, human resources, operations management, research analysis and the workforce solutions unit. We are requesting the transfer of the workforce solutions unit

from the ESD to the Director's office. The unit is assuming a greater role in assisting sector counsels in obtaining information for the Bureau of Vocational Rehabilitation, the ESD and local boards. This Division also has a grant writer who will be able to perform those duties for other portions of the DETR as well. There is also a request for a new information technology manager II position to provide for increased DETR security functions.

We request two new positions, and ongoing vendor maintenance services from our contractor CapGemini, in providing additional transfer of knowledge pertaining to the Unemployment Insurance Modernization Act project.

The research and analysis unit requests a public service intern to assist in research for economic development. They also request an ongoing subscription to the Help Wanted OnLine information database. This database is a Web crawler which locates and defines jobs that are open and provides reports for real-time data review.

The ESD is made up of four components: employment services, unemployment insurance benefits (UI), unemployment insurance contributions and workforce training services. Employment services are delivered primarily through JobConnect and will be available in the near future through the One-Stop Career Centers that we are working to re-establish throughout Nevada.

The DETR has passed funds to the local workforce investment boards and serves as oversight of the program for compliance purposes.

The Unemployment Insurance Modernization Act project should be completed in 2013. Many enhancements to the system were made with federal funding. The contractor has indicated that there may be a no-cost extension on the contributions piece. The budget request for about $3.17 million for FY 2013-2014 is directed toward the completion of this project.

The ESD is requesting approximately $17 million in FY 2013-2014 and approximately $14.2 million in FY 2014-2015 as special assessments for the payment of interest on the Nevada UI Trust Fund loans.

We are requesting about $2.5 million for the jobs training program and initiatives such as the JAG.

The IBM Nevada Center of Excellence funding would also originate from this fund.

We are requesting the continued funding for reemployment services such as Reemployment Eligibility.

Staffing changes are needed to accommodate the Unemployment Insurance Modernization Act project. We are requesting two FTEs with financial backgrounds.

The DETR is currently paying UI to approximately 60,000 individuals. Of that total, about 36,000 are on regular weekly benefits, while about 24,000 are on extended unemployment. Since July 2008, Nevada has paid out a total of about $6.7 billion in benefits to unemployed Nevadans.

Changes to the UI programs are shown on page 19 of Exhibit E. The columns compare where the State was at the beginning of 2012 with the beginning of 2013. Individuals were able to remain on federally paid unemployment benefits for 73 weeks.

The Virtual Call and Virtual Hold programs have been a great asset in improving customer service. Callers are able to call in and receive an automated call back, while remaining in order in the call queue.

The Aggregate Workforce Analytics and Reporting Engine is a program that helps detect and prevent fraud. It seeks patterns to look for UI fraud. As criminals become more advanced, the system is able to adapt to continue seeking relevant patterns.

We have completed implementation of the cross match with the U.S. Social Security Administration to reduce the amount of improper overpayments.

We have completed the implementation of the State Unemployment Tax Act (SUTA) dumping detection and investigations system. The SUTA dumping consists of an employer shifting employees from one company to another company with a lower tax rate.

The State Information Data Exchange System makes it easier for multistate employers to interact and pay benefits within the State featuring continuous implementation assistance and activities seeking to reduce improper UI payments.

Senator Kieckhefer:
Are you going to offer more detail on the UI debt that we owe to the federal government?

Mr. Perea:
Currently, the State owes approximately $711 million. If the State did nothing and left the rate at 2.25 percent, Nevada would pay back the loan by 2016. If Nevada were to bond that debt, the DETR estimates that are within the same payback period, we could save approximately $9 million in interest.

There are other possible alternatives to this scenario. Nevada could bond for more money than owed to improve the solvency within the trust fund. This would ensure that Nevada does not land in a borrowing position again. We could make the UI Trust Fund fully solvent and pay it back in 2018.

Senator Kieckhefer:
Is the proposal to add an additional assessment, on top of the existing rate of 2.25 percent, to pay off the bonds?

Mr. Perea:
When we pay off the bond, the Federal Unemployment Tax Act (FUTA) tax rate will revert to the base of 0.6 percent. Nevada employers would pay 2.25 percent. It would be an additional assessment, but the rate would not change because of the reduction of the FUTA tax.

Senator Kieckhefer:
Are you proposing that we apportion a section of the 2.25 percent to be used for the bond repayment and the remainder will be sufficient to cover UI payments ongoing?

Mr. Perea:
That is correct.

Senator Kieckhefer:
Will employers take the additional hit because of this arrangement?

Mr. Perea:
Depending on how the bond is structured, it is possible that the rate stays at 2.25 percent and employers will not feel the pinch. The biggest benefit is that Nevada remains in control of our own tax rate. If we do not bond, the FUTA tax rate will increase incrementally over time until the loan is paid back and the rate would continue to climb above the current FUTA tax rate. We have the ability to hold the tax rate more consistent so employers can plan, and Nevada maintains the rate at the lower percentage.

Chair Smith:
What is the plan regarding the interest repayment?

Mr. Perea:
Whether Nevada bonds or not, a special assessment is included for employers to pay the interest on the loan.

Chair Smith:
Is the special assessment in this biennium?

Mr. Perea:
The special assessment would be for the next biennium.

Chair Smith:
That indicates Nevada would be required to pay about $31 million in interest this biennium.

Mr. Perea:
Yes, that is correct. The State would have to pay approximately $16.9 million in FY 2013-2014 and approximately $14.1 million in FY 2014-2015.

Assemblyman Hambrick:
With respect to interest repayment issues, I have received phone calls from two constituents who have received bills from the IRS. One business received a bill for $4,000 because of a problem in the UI repayment process. Is the IRS

getting involved in this? Do you have any knowledge or forewarning that the IRS is going to be taking a more active role in this?

Mr. Perea:
I am not aware of that situation.

David Schmidt (Economist, Research and Analysis Bureau, Department of Employment, Training and Rehabilitation):
Yes, the IRS is responsible for collecting the federal unemployment tax that Mr. Perea mentioned. We have an outstanding loan balance. The federal unemployment tax has increased and those increases go toward repaying our loan. So when Mr. Perea spoke of the federal unemployment tax increasing every year, the additional bill that your constituents are receiving are for those increases. If we are able to bond the debt, then those increases and those additional bills from the IRS would be eliminated.

Assemblyman Hambrick:
These bills are quite a shock, particularly to the smaller employers.

Mr. Perea:
The Governor's budget includes a special unemployment assessment to pay these interest costs in the coming biennium. We have submitted a BDR to give us the ability to bond if it makes sense to do so economically.

BILL DRAFT REQUEST 1165: Provides for the temporary imposition of a solvency assessment on employers to pay loans from the Federal Government related to unemployment benefits.

We are requesting the consolidation of B/A 101-3254 and B/A 101-3265.

HUMAN SERVICES

EMPLOYMENT TRAINING AND REHABILITATION

DETR - Services to the Blind & Visually Impaired — Budget Page DETR-35 (Volume II)
Budget Account 101-3254

DETR - Vocational Rehabilitation — Budget Page DETR-23
(Volume II)
Budget Account 101-3265

In combining these two budget accounts, the services to the blind will not be impacted which helps us deliver services more efficiently to our constituents. The Bureau of Services to the Blind and Visually Impaired will not suffer because of the grouping of funds.

The second point is to explore collaborations with community partners to expand services to Nevadans with disabilities by braiding existing funding streams.

During the past 2 years, the Nevada Equal Rights Commission has stabilized and become more relevant. It is important to note that there remains some very real challenges with staff turnover and security issues.

Chair Smith:
A few months ago we met regarding health care and some information gathering that the DETR and the NSHE were doing regarding our ability to prepare and provide the workforce for health care change. What is the status of that process?

Mr. Woodbeck:
We will be releasing an interim report to the SWIB members. We are trying to establish a baseline of comparing where the jobs pipeline is to where industry is at this point. From that point, a study will be prepared by the end of February giving us clearer details regarding the future.

Senator Kieckhefer:
You referenced a program that was run through Western Nevada College and Truckee Meadows Community College called Right Skills Now. I have heard fabulous things about the program. It seems to be a model we should be using to identify the skills needed by current employers and then matching the right people to the jobs. How do you identify individuals to enroll in that program?

Mr. Woodbeck:
We went through several different agencies in this particular case, including the Nevadaworks board and JobConnect. We were then able to identify who may have a skill set, and some interest in a program like that. We tested about 200 individuals and 20 were chosen. We are working to establish these programs so participants can remain on UI while they are in training, and transition them directly into work upon the completion of training.

Chair Smith:
Please provide further information regarding our local workforce investment boards and the level of transparency regarding their budgets. I am still not sure that a viable level of transparency exists. Much of this stems from Nevada receiving stimulus money. The public needs to have clear, easy access to where funds have been spent as stimulus filters down to local levels.

Mr. Woodbeck:
We will make sure that this is more clear than it has been in the past.

Assemblyman Hogan:
Opening up job opportunities for women and minorities has been a priority of mine for many years. I am looking forward to working with this level of enthusiasm and interest to see what we can do for Nevada. I think we can be the home of opportunity for our entire citizenry.

I hope you already feel that your strongest allies, particularly in your efforts to open up equal employment opportunities, are your fellow agency heads.

Chair Smith:
We will now hear from the Department of Taxation.

Chris Nielsen (Executive Director, Nevada Department of Taxation):
We do more than just collect taxes at the Department of Taxation. We provide guidance to local governments, conduct performance audits of local government functions and regulate, to a certain extent, the liquor and tobacco industries.

We also do a significant amount of taxpayer training. In our experience, it is a win-win experience when taxpayers understand what is expected of them. We are headquartered in Carson City, and have offices in Reno, Las Vegas and

Henderson. We service the rural portions of the State by sending auditors and revenue officers on field visits.

Please refer to page 6 of my handout titled "The Department of Taxation FY 2014-2015 Biennial Budget" (Exhibit F). Among the taxes we collect are the Sales and Use Tax, which represents more than 70 percent of the State's tax revenue, and the general business and financial Modified Business Tax. The Insurance Premium Tax and Net Proceeds of Minerals Taxes are also significant.

The chart on the right side of page 6 shows the vast majority of money the Agency collects does not go into the General Fund, but is distributed to local governments, including various school districts. The Agency collects over $4 billion annually that moves into the various school district funds, counties, cities and so forth.

Approximately 97 percent of the Agency's budget comes from the General Fund. We receive no federal funds. A very small portion of the budget is fee based.

In B/A 101-2361, we are requesting an increase of 6 FTEs, increasing our staff to 335 FTEs. Enhancement unit E-225 requests the addition of one chief deputy, while E-227 requests three additional auditor II positions. Enhancement unit E-228 requests two revenue officer II positions and E-807 requests the reduction from one chief local government service position to a deputy executive director position.

FINANCE AND ADMINISTRATION

DEPARTMENT OF TAXATION

Department of Taxation — Budget Page TAXATION-9 (Volume I)
Budget Account 101-2361

E-225 Efficient and Responsive State Government — Page TAXATION-12
E-227 Efficient and Responsive State Government — Page TAXATION-12
E-228 Efficient and Responsive State Government — Page TAXATION-13
E-807 Classified Position Reclassifications — Page TAXATION-15

Assemblyman Hickey:
Your Department measures the percentage of taxes the State receives from the Modified Business Tax. Can you provide projections of the impact of the proposal in the Governor's recommended budget by reducing this tax?

Mr. Nielsen:
Under current law governed by the *Constitution of the United States*, a state cannot require an out-of-state company or retailer to collect tax on behalf of the state where goods are being shipped, unless that seller has some form of physical presence in that state.

An example of this is BestBuy.com. Best Buy has brick and mortar stores within Nevada and also has BestBuy.com operating somewhere outside of the State. They are required to mail a card when a Nevada resident purchases an item online, but they do not collect sales tax as part of the transaction.

The companies who are not required to collect sales tax have no physical presence in Nevada. Constitutionally, none of the states can require those out-of-state retailers to collect sales tax. Given this issue, many states convened 10 to 12 years ago recognizing that there is an issue and arrived at a solution.

The U.S. Congress, with their authority to regulate interstate commerce, has the authority to empower states to require these out-of-state retailers and remote sellers to collect sales taxes.

In 2003, the Legislature granted authority to the State Department of Taxation and to the Nevada Tax Commission to enter into this agreement. This created a compact between them to design the framework to be prepared when the U.S. Congress makes this remote collection of sales tax mandatory.

We have been participating in this agreement for several years. There has been a bill before the U.S. Congress for the past four Sessions. To my knowledge, it has never received a floor vote. There was some hope that the last Congress would have given streamlining some consideration; however, they did not.

If Congress does act, Nevada is one of 26 states that has all of the necessary tools and framework in place. The collection tools, the rules and statutes and the common definitions are all ready to go. We are projecting this will generate from $25 million to $150 million in additional revenues in sales taxes from these remote sellers.

In the event that Congress does act, there will be such an increase in new registrants, sellers and businesses that we would have to seek an IT solution to handle the increased volume. We are projecting the cost for this solution will be approximately $2 million.

Chair Smith:
In December 2012, I spent a day in Washington, D.C., speaking to our delegation about streamlining. It appears there is a possibility of some action on this and there is a better feeling about this as compared to the past.

The numbers are high and following this past holiday season, the numbers will probably be pretty staggering to many people as the figures have certainly grown exponentially over the past several years.

This is starting to have a big impact on our local businesses. I have spoken with a couple of local retailers who feel that their stores are more like showrooms as customers come in and try out their products, but then buy online. Some retailers are considering charging a fee for customers who try on clothes then order online. This really is a significant issue.

Nevada has all of the law and regulations necessary in place. We need to know the TIR and how long it would take to develop the TIR if this legislation were to be approved.

Mr. Nielsen:
I am informed by our information technology deputy that it would take approximately 9 months to make this fully operational.

Chair Smith:
If Congress passes enabling legislation, would we also need to pass legislation, or are we already set based upon the streamlining initiative?

Mr. Nielsen:
That is dependent upon which of the three competing bills presented in the last Congress is ultimately passed. The common theme among the bills is the desire to comprehensively involve all 50 states. The problem is that the larger states such as California, Texas and Florida are not part of this agreement.

Nevada and many of the smaller states are part of the agreement. Regardless of what type of legislation has been proposed, we suspect they will treat the 26 streamlined states as ready to go under that legislation.

Chair Smith:
There are still a couple of holdouts but, generally speaking, we are making progress. I still do not feel like I have a good understanding of this issue. If Congress passes enabling legislation, and because there does not appear to be a 50-state agreement, where are we situated?

Mr. Nielsen:
We currently receive $10 million per year in streamline payments based on voluntary payments. Not only do we have the laws, but the infrastructure in place to accept the current volume of businesses reporting. There are approximately 100 streamline businesses reporting to us monthly. We do not have the infrastructure currently in place to manage the higher volume.

Chair Smith:
We need clarity regarding the situation with Amazon. We have had a couple of different reports about the actual agreement and what it means to Nevada and to Amazon.

Mr. Nielsen:
My predecessor signed an agreement with Amazon to voluntarily begin collecting sales tax on January 1, 2014, on sales they ship to Nevada residents.

Chair Smith:
Please provide a copy of that agreement to our Fiscal Division. We need to determine whether we can consider that revenue within our budget for this biennium. Our staff would appreciate a copy of that document so that can be clarified.

Mr. Nielsen:
I will consult with the Nevada Office of the Attorney General (AG) regarding the confidentiality of that document and will follow up with Fiscal Staff with the response from the confidentiality inquiry.

Assemblyman Hogan:
Are both the U.S. Congress and Nevada's elected officials behind these efforts to increase our revenues? I will ask more about this later when we are dealing with a greater level of detail.

Mr. Nielsen:
Currently this is the only signed agreement we have. My predecessor did reach out to some companies other than Amazon. To their credit, Amazon is the only company so far that has voluntarily signed an agreement.

Assemblyman Hogan:
Many of us have close contacts in Congress and would be happy to monitor the situation for our own entrepreneurs and businesses without further burdening them. It is a very good thing that we could be brought up to date on what you are seeking with this legislation.

Mr. Nielsen:
The Department of Taxation Call Center was funded by the Legislature in 2009. I cannot emphasize how much of a success it has been. The number of complaints went from 33,000 in FY 2007-2009 to 1,100 in FY 2011-2012.

Mr. Nielsen:
We have initiated 20 separate mine site audits, 12 of which have been completed to date. We have completed the audits of Barrick Gold Corporation and Ormat Technologies and we are in the midst of auditing Newmont Mining Corporation. When that audit is completed, 90 percent of the revenue for net proceeds of the Minerals Tax will have been audited.

Assemblyman Hogan:
Is the mining industry cooperative in fully meeting their obligations and our expectations to contribute fiscally here in Nevada?

Mr. Nielsen:
I have been told that while the level of cooperation is not perfect, it is better this time around. There will always be disagreements or misunderstandings about what is needed in reporting, and especially during an audit.

Assemblyman Hogan:
This Legislature strongly supports your efforts in seeking that desperately needed funding.

Mr. Nielsen:
Our auditors do not initiate audits with results-oriented thinking. If we arrive and there is a "no change audit," meaning no money is due and we have done our jobs, that is good news and means the company has been reporting correctly all along.

With respect to the process of reducing Nevada's noncompliant or delinquent taxes caseload, we have reduced the caseload by 65 percent due to the new revenue officers. I cannot give you the exact figures of the impact of these new revenue officers; however, the increased number of staff pursuing these delinquencies have paid for themselves already.

Page 21 of Exhibit F contains an error under the category Revenue Officer Collections by Office, column FY 2011. The total figure should be $42,047,813.92 not $47,047,813.92.

As shown on pages 25 and 26, the Department is asking to be funded through the tobacco Master Settlement Agreement (MSA) rather than through the General Fund. Essentially, we will have to track both tribal and nontribal cigarettes for the purposes of enforcing the MSA. Nevada may still be liable for the repayment of approximately $40 million annually.

Senator Kieckhefer:
Have there been any issues with the tribal governments over this issue?

Mr. Nielsen:
Not specifically. The tribes get nervous with respect to excise taxes or escrow money and whether or not those will impact their businesses. The AG has taken the lead on this in dealing with the tribes. The approach is to be more inclusive

than exclusive in building partnerships with the tribes going forward. The Department of Taxation does not have many issues with respect to cigarettes, as State excise tax is not required to be paid on tribal products.

Senator Roberson:
What is the status of the tax on the compensated meals dispute and what are your Department's policies?

Mr. Nielsen:
Currently, we have over $230 million in refund claims still pending. This has not changed since the last time the Legislature met, although the interest earned has increased the overall amount in the fund. The litigation has progressed somewhat and currently is being briefed before the Nevada Supreme Court. We have placed advice and guidance on our Website indicating that, based on the Tax Commission's decision, even though the tax is accruing, it is not due and payable until we get a Supreme Court decision.

Chair Smith:
We will now hear the budget overview from the Office of the Military.

William R. Burks (Brigadier General, The Adjutant General of Nevada, Office of the Military):
The mission statement of the Nevada National Guard is shown on page 3 of our budget presentation (Exhibit G). Our Biennial Report is (Exhibit H). Our commander-in-chief is Governor Brian Sandoval.

The Nevada Guard's responsibilities are divided between federal and State. Within the federal and State jurisdictions are the Air National Guard and the Army National Guard. Within each one of those components, are the full-time force and the traditional part-time force.

There are two federal missions which are ongoing overseas. The State missions are Homeland Security and domestic response.

We swear an oath to support and defend the *Constitution of the United States* and *The Constitution of the State of Nevada*. We are further divided within the Department of the Military, whether to side with the military or the State administration team.

State of Nevada employees provide administrative, accounting, personnel, firefighting, security, maintenance and custodial services to the Nevada Guard for all facilities assigned to the Office of the Military. The mission of the State administration team is to provide outstanding customer service that maximizes the available resources and informs the pertinent parties as to the status of the Master Cooperative Agreement in relation to the State budget; and to maintain and secure the facilities in conjunction with those resources.

The Agency's strategic priorities are shown on page 5 of Exhibit G. The number one priority is readiness in manning, equipping and training the force to execute mission requirements and maintain high-quality facilities and resources. The Nevada Guard must always be ready to meet our federal and State's missions.

The second priority is care for service members and their families. The organization specifically focuses on service member and family care during predeployment, deployment and post-deployment. Retirees are also valuable members of the organization. All components' established and enhanced systems and programs are present to properly support them.

There is an epidemic rate of suicides currently within the military. We are working diligently to define and reduce the causes of these. We have two different task forces in place to combat this. One task force deals with substance abuse and the other with resiliency. Campaigns are being initiated now for both programs.

The third strategic priority is diversity. This includes diversity in duty assignments, education, recognition of diversity as a force multiplier and within leadership strategies. The Nevada Guard uses the diverse nature of its members in creating a joint team, eliminating barriers and fostering talent in providing opportunity for every individual to reach his or her full potential.

Our goal is to ensure that the Nevada Guard is the leader within the category of diversity within the 50 states and 4 territories. I also head up the National Guard Bureau's efforts on diversity nationwide. Last year, we were a Presidential award winner at the national level.

Community involvement is a noted priority as well. It is fostered through providing a positive image involving efforts to publish and capitalize on successes about who we are and what we have accomplished. Community involvement and partnerships with community employers support this priority.

We could not do this without community. The Nevada Guard is your military organization. It does not matter what community, the Nevada Guard is a member. In the north, we are establishing an explorer troop as well as assisting in the establishment of a Tuskegee Air Chapter in northern Nevada to complement the chapter already located in southern Nevada. We also have a number of other civic organizations.

There are about 1,150 airmen in Nevada located at the Reno-Tahoe International Airport and about 3,100 Army National Guard soldiers. This distribution creates an equitable deployment of Guard personnel throughout Nevada.

The Nevada Guard has flying units in the north. We are working to move some of those units to the south. In 2 years, we will receive 4 additional Lakota UH-72 helicopters. They will be stationed in southern Nevada. We are seeking to obtain more Black Hawk UH-60 helicopters for deployment into the northeast section of the State. At this point, we will have aviation covered for search and rescue within the State portion of our mission.

There are 142 FTEs on the administrative payroll of which 16 are State funded. The remaining 126 FTEs are federally funded through the Master Cooperative Agreement.

Page 7 of Exhibit G depicts the federal mission and the unique federal State relationship that exists in Nevada. The federal side provides approximately 95 percent of the Nevada Guard while 5 percent is funded by the states and territories. Nevada is funded at 99 percent by federal funds.

Jennifer McEntee (Administrative Services Officer, Office of the Military):
Page 8 and 9 of Exhibit G, although the funding distribution by county is not comparable from page to page, because the federal and State fiscal years are different, it paints a clear picture of the Agency's overall operating expenses that totaled approximately $222 million. Within this, Nevada funding is approximately $2.6 million, or approximately 1.1 percent of the overall budget.

As shown on page 10, construction funds of about $89 million have been received in Nevada over the past 2 years.

Page 12 of Exhibit G are the cooperative agreement appendices and a brief overview of the activities running throughout the State which is inclusive of facilities for both the Army and Air National Guards. Overall communications coverage is shared between federal and State fiscal support. All activities noted in green are 100 percent federally funded. General Funds are crucial to maintain support for facilities or activities not receiving 100 percent federal support.

In 2012, our funding from the State was only about $30,000 more than what was appropriated in 2001. This has remained fairly flat from the past decade. The exception is the Youth ChalleNGe program years, where appropriations spiked, but budget reductions were reduced to 2001 State funding levels.

Our overall expenditures in 2001 were approximately $5 million, while our current budget proposal is approximately $17.5 million. There has been a dramatic increase in funding by Nevada.

Chair Smith:
What happened to the ChalleNGe program? Where are those youths going now?

General Burks:
The ChalleNGe program was a victim of budget cuts here in Nevada. We initially sent these youths to Arizona and then to California and the Sunburst Youth ChalleNGe Academy. During the last year that we were able to participate, we had the distinguished graduate there.

Chair Smith:
We contemplated using a facility at the Nellis Air Force Base, but then the budget crisis hit and we eliminated the program.

General Burks:
The problem with using the facility at the Nellis Air Force Base was it would cost approximately $3 million to refurbish to bring it up to Nevada Guard standards.

The Youth ChalleNGe program funding was formerly a 60-40 federal match. Now, funding is a 75-25 federal match. The State portion would be less if we could get a facility that could be brought up to standard and have 100 youths per class. This would be an investment of about $3 million in federal funds and about $1 million in State funds.

Ms. McEntee:
We are operating under a continuing resolution and the Sequestration issue remains out there on the horizon. The Master Cooperative Agreement has not yet been impacted. The budget was built on the negotiated level of support and funds are obligated on a federal fiscal-year basis. Until we arrive at the beginning of each year, we do not know what the level of federal contribution is going to be.

General Burks:
I have been involved in two conference calls with the Chief of the National Guard Bureau concerning Sequestration. During a briefing this morning, Deputy Secretary of Defense Ashton Carter indicated there is a probability that we will be running on a continuing resolution for the remainder of the year. That, coupled with Sequestration, is going to cause a major problem in all of the services.

The Chief of Staff of the Army, General Ray Odierno, stated in a morning session that if a continuing resolution is put in place for the rest of the year it would create an approximate $6 billion shortfall for operation maintenance accounts within the Army. If Sequestration occurs, it will cause an additional approximate $45 billion in cuts to the Department of Defense. The Army's portion will be about $6 billion in additional operations maintenance cuts and the overseas contingency funds within the Army will take another approximately $4 billion in cuts. Those cuts have to impact the National Guard.

The problem is that even if Congress were to rectify this the next year, it cannot be made up fiscally in 1 year. The damage done will create a "hollowing of the forces" where either the people, the contracts that have been placed for various purchases of equipment or training schools will have to be shut down. These cannot be shut down and then brought back up to operational levels overnight. This is a major concern and we are watching this one very closely. The Sequestration trip guards initiate and are set into place March 1.

Ms. McEntee:
The PPBB for the Nevada Guard is on page 15 of Exhibit G. We are a core function of public safety. Our objectives are response capability and improving emergency response and response preparedness.

Our three activities are command and control of the State militia force, management of the facilities for the National Guard and National Guard retention and training.

Some significant funding changes experienced include the North Las Vegas Readiness Center which was budgeted for FY 2012-2013. Our prior methodology was for armories to be 100 percent State funded and the FY 2012-2013 budget for this facility reflects that approach.

We will be receiving federal support for that facility in July, so those funds will be going toward some enhancements. The ability to increase that federal support kept us well within our General Fund appropriations limit.

Also new this fiscal year is the Carlin Readiness Center. The budgetary transfer was effective July 1, 2012. This adds General Fund money and a small amount of federal funds to our account.

Funding requested in decision unit E-225 will provide computer access to the maintenance and custodial staffs. Our State maintenance and custodial workers are required to complete electronic timesheets and online training.

SPECIAL PURPOSE AGENCIES

MILITARY

Military — Budget Page MILITARY-6 (Volume III)
Budget Account 101-3650

E-225 Efficient and Responsive State Government — Page MILITARY-8

Decision unit E-226 adds a management analyst II position in the State administration office. We currently only have two people in accounting and just to pay a bill we must have two people. We do not have the proper staffing numbers to properly perform the daily work requirements of this agency.

E-226 Efficient and Responsive State Government — Page MILITARY-8

Decision unit E-730 in B/A 101-3655 provides preventative maintenance for the enormous uninterruptable power supplies in the Emergency Operations Center. Funding for the first year of the biennium includes a scheduled annual maintenance and replacement of the batteries at an expense of approximately $45,000.

Military Emerg Operations Center — Budget Page MILITARY-17 (Volume III)
Budget Account 101-3655

E-730 Maintenance of Buildings and Grounds — Page MILITARY-20

Ms. McEntee:
The positions eliminated due to prior budget restraints have not been reinstated. The increased federal support received to avoid ten additional layoffs remains in effect going forward.

Chair Smith:
When you come to your budget hearing, please bring the full dollar amount of the Department's reductions over the past two budget cycles.

Ms. McEntee:
I will add detail and expand more in the presentation of that as well.

Page 19 of Exhibit G discusses the Carlin Readiness Center. Referencing the bottom left corner, envision the new readiness center there. Construction started in July 2012 and the building is almost ready. We are anticipating completion in March 2013.

Military Carlin Armory — Budget Page MILITARY-13 (Volume III)
Budget Account 101-3651

The budgetary transfer of the Carlin Readiness Center was effective on July 1, 2012. The building is currently transitioning from a fire science academy to a military facility which was not included in the initial plan. As a result, there are deferred maintenance left pending.

Enhancement unit E-240 of B/A 101-3651 seeks equipment to establish a coordinated effort across the entire complex. The complex is very different compared to others in that the federal presence, under the initial plan, is limited to 20 percent of the square footage so that is all the federal government will fund. We seek a paging communications system that encompasses the entire facility.

E-240 Efficient and Responsive State Government — Page MILITARY-14

Page 23 of Exhibit G discusses the North Las Vegas Readiness Center. This was scheduled to be completed in FY 2012-2013 and is behind schedule. Groundbreaking is now expected in April. Of the five staff members at the facility, three have been hired and two are actively being recruited.

Page 24 of Exhibit G describes the Las Vegas Field Maintenance Shop. This project was also slated for early 2013 and is now scheduled for completion in August 2013. We have four staff members that will arrive in April.

Page 25 of Exhibit G discusses the Civil Support Team Armory. This building was slated to come online in 2013. We continue to pursue the federal funding for this facility. We already have a Civil Support Team.

General Burks:
The Civil Support Team is made up of Army guardsmen, Army Guard and Air National guardsmen under the direct control of the Governor. By federal law, it is nondeployable. They are first responders in the truest sense of the word.

In the interim we acquired what is known as the Chemical, Biological, Radiological, Nuclear and high yield Explosive Enhanced Response Force Package (CERFP), which is responsible for responding to such events. The unit consists of approximately 40 trailers and about 200 personnel that have an additional duty of being the response force package for Nevada.

We are one of two units within Federal Emergency Management Agency Region 9 which includes California, Arizona, Nevada and Hawaii. Hawaii has a mini CERFP and California has a unit. The Homeland Response Force (HRF) is 3 CERFP units comprised of 540 people and includes all of the necessary equipment.

Between the CERFP and the Civil Support Team, Nevada has a very unique homeland security capability. When Congressional earmark funds arrive, we want to house both units in one building at the North Las Vegas Readiness Center. This would be located on the other side of the property, off Raceway Boulevard, and would be called the Raceway Armory.

Ms. McEntee:
Page 26 of Exhibit G describes the Patriot Relief Fund, B/A 101-3654, which was established as a benefit to NEVADA GUARD members to reimburse them for college textbooks, Servicemen's Group Life Insurance premiums and to provide relief from financial hardship caused by federal activation.

Military Patriot Relief Fund — Budget Page MILITARY-26 (Volume III)
Budget Account 101-3654

This account is interesting as fiscal support originated in FY 2007–2008 from three allotments. The funds never lapsed back to the General Fund. We have been able to provide these benefits to members throughout this period but with our current expenditure pattern remaining constant, we will nearly exhaust these funds at the end of the State FY 2014-2015.

We have some decisions to make during this biennium as the fund will require additional resources or the removal of benefits. There was a reintegration payment of $100 per soldier, yet no base benefit to that, so a bill draft request is being created for removal of this fee.

Chair Smith:
The first part of this seems straightforward. How are the funds for relief from financial hardship allocated?

Ms. McEntee:
The individual applies for assistance and a decision is then rendered by a board comprised of the Chief of Staff of the Army Air Guard, the Chief of Staff of the

Air Guard and myself. This board is defined within an internal regulatory document which I will provide to staff.

Assemblyman Kirner:
Did some troops come home today?

General Burks:
Yes. The 189th Chinook Unit arrived at the Reno-Tahoe International Airport this morning to be reunited with their families. Another 60 members were deployed overseas with a Montana unit that was also a part of the 189th. They were at Fort Hood on the morning of January 22 and just arrived home today. This is great news.

Assemblyman Hogan:
I am delighted to hear diversity mentioned as a mission priority. It is tremendous that the military is going to open doors for women to participate with all their skills. I am sure the invitation extends to minorities and all others. You have the opportunity to open the door and I am delighted that you are planning to do so.

Chair Smith:
The final budget presentation scheduled for today is the Office of Veterans' Services.

Caleb S. Cage (Executive Director, Office of Veterans' Services):
I will now read my written testimony (Exhibit I). My presentation also includes a publication titled "The Green Zone Initiative" (Exhibit J).

Senator Denis:
I spoke recently with a colleague in Arizona regarding veterans service officers. He advised me that these are individuals who work with veterans to ensure that they get all the services they are entitled to receive.

Mr. Cage:
Veterans service officers (VSO) are veterans' advocates who assist veterans in filing claims with the federal government for health benefits, compensation, pension and other benefits that they may be eligible to receive.

Senator Denis:
How many VSOs do we have in Nevada?

Mr. Cage:
We currently have 11 VSO State employees and one contracted VSO who manages the Returning Veterans Environment of Recovery program.

Assemblyman Hogan:
You mentioned a $700 interment fee. Is this subsidized by any federal benefit or is it totally at the expense of the veteran's family? In your experience, is this fee a problem for many of our veteran families?

Mr. Cage:
The interment fee is charged to the federal government for the interment of each eligible veteran at the Nevada Veterans Memorial Cemeteries and is paid to the Nevada Office of Veterans' Services. We do not receive these interment fees for veteran dependents who are interred in our veterans cemeteries. By statute, we have to charge the actual amount of the interment. We do hear that the $450 fee is onerous. We have a mechanism in our procedures to waive the fee in extreme cases.

Assemblyman Hogan:
Can we advise the federal government that the assessment of this fee causes friction with our State's citizens? We may not be able to fix it immediately, but we want to make sure they know about it.

Agencies have new requirements to set specific objectives for their management plans for both identifying and publishing what their intentions are. Has this requirement had an impact on your Agency in terms of clarifying your plans, and your methods of monitoring your success, in meeting them?

Mr. Cage:
Are you speaking of the new requirements to make strategic planning available for review? The Nevada Office of Veterans' Services has already started planning. We are ready to go, our books are open and transparent to anyone who wants to see them.

We have started building standard operating procedures for our three function areas. Our VSO procedures are the last to be completed, yet are available to the public at any time.

We have also purchased software to measure the performance of our VSOs, which could not be done in the past.

We are very interested in being transparent and ensuring that we are meeting the expectations of policy makers and the Executive Branch.

Assemblyman Hogan:
It seems to me that your Agency may be in a good position, both in your internal hiring and in your contracting of services, to support the concept of attempting to achieve integration of workforces.

Mr. Cage:
As far as the office's hiring and contracting practices, we follow NRS chapters 333 and NRS 338 for purchasing, State Public Works Board (SPWB) contracting and assisting service-connected disabled veterans. We follow personnel regulations as well. We look to hire the most qualified individuals and have an emphasis on diversity in our hiring processes.

Assemblyman Hogan:
Over the past 2 years, one of your fellow agencies has energetically engaged in an effort to work with its contractors, with the money they are given by the State, to ensure diversity in their workforce. The result has been astounding and well received by the building trades.

Chair Smith:
Please talk about the suicide rate amongst veterans. What is the specific role of your office and how do you address the problem?

Mr. Cage:
The DHHS published a report last year about the rate of veteran suicides in the State. The numbers are alarming. Nevada is amongst the highest in the Nation. I asked the author of the report, a veteran and policy analyst for the DHHS, to make a presentation at the Veterans' Services Commission meeting. At that meeting, we agreed that Director Willden and I would form the Veterans Suicide

Prevention Task Force of Nevada. The team is made up of stakeholders from all over the State. This is one asset we are currently working to develop.

The Task Force members received a federal grant to go to Washington, D.C., in September 2012 to receive policy development training and develop our action steps and strategic plan for the group. We reconvened in January and have met several times since. I am the Chair of the Task Force. We have developed our strategic plan and are putting together frontline training for suicide response for our VSOs. This is being established as a standard agency procedure.

We have shared this plan with DETR and are spreading this through the Interagency Council on Veterans Affairs for anyone who is working the frontline as a customer service provider.

Chair Smith:
I do not often refer to Arizona policy, but I recently saw a group that received an award for suicide prevention for a plan that integrates suicide awareness training across the board in all agencies.

Mr. Cage:
Exhibit J, although not suicide specific, is driven by the Task Force. You will see that the contributing areas of higher education, workforce development, employment and health and wellness are well integrated. That strategic plan falls closely in line with the Arizona Military Families Foundation.

Chair Smith:
I will seek out the award presentation information and send it to you.

Senator Parks:
I would like further information regarding the building of the Nevada State Veteran's Home in Boulder City and the request of about $1.8 million for the replacement of the roof at that facility.

Since roofs are normally expected to last longer than 10 years, I am curious whether this a major repair or a full replacement. Is there a warranty for the initial construction?

Mr. Cage:
As I understand it from the SPWB, the company that built the facility is now out of business. We are unable to pursue anything into the future for this. The facility has received insurance funds and exercised warranties, but those are no longer an option.

The roof should have lasted more than 10 years as it is metal; however, due to a design defect, the roof expands and contracts to such a degree that it causes great damage throughout the facility.

For instance, approximately 6 months ago, we had to do an emergency repair on one section of the roof. Three rooms had to be shut down. In one of the rooms, the ceiling started to cave in due to water damage created by the expansion of the roof under the extreme heat.

At a cost of approximately $1.8 million, the new roof is actually a vinyl material that overlays the existing roof and has a warranty. This is the SPWB preferred solution.

Senator Parks:
We will discuss this in further detail at the budget hearings.

Assemblyman Hogan:
We are all aware of President Obama's recent announcement to increase the use of women in the military. Have you looked forward to future planning and future budgets to see if this is something we need to start thinking about or is it too early to worry about this?

Mr. Cage:
This office does not operate with a reactionary-based mentality. Our strategic planning and SOP, aggressively developed over the past 2 years, does not foresee any particular impact to our services.

We know from the U.S. Census that there are about 24,000 veterans in Nevada. Ms. Katherine Miller, Deputy Executive Director of the Office of Veterans' Services, determined that the women's veteran coordinator position must be funded and not just an additional duty of the Deputy Executive Director.

We have hired a woman, Marine Corps veteran, who is aggressively developing our women's veterans program at this time.

Chair Smith:
As there is no public comment, this meeting is adjourned at 4:03 pm.

RESPECTFULLY SUBMITTED:

____
Thomas Hutton-Potts,
Committee Secretary

APPROVED BY:

____
Senator Debbie Smith, Chair

DATE:______________________________

____
Assemblywoman Maggie Carlton, Chair

DATE:______________________________

Bill	Exhibit		Witness / Agency	Description
	A	2		Agenda
	B	9		Attendance Roster
	C	43	Michael J. Willden Amber Howell Jeff Morrow	DCFS Budget Overview
	D	38	James R. Wells	PEBP Budget Overview
	E	25	Frank Woodbeck Dennis Perea Mark Costa	DETR Budget Overview
	F	27	Chris Nielsen	Department of Tax Budget Overview
	G	27	Brigadier General Burks Jennifer McEntee	Office of Military Budget Overview
	H	48	Brigadier General Burks	Nevada National Guard Biennial Report Publication FY 2011-2012
	I	6	Caleb Cage	Written Testimony
	J	40	Caleb Cage	Veterans Administration The Green Zone Publication