

**MINUTES OF THE JOINT MEETING OF THE
SENATE COMMITTEE ON FINANCE
AND THE ASSEMBLY COMMITTEE ON WAYS AND MEANS
Seventy-Seventh Session
May 4, 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 8:18 a.m. on Saturday, May 4, 2013, in Room 4100 of the Legislative Building, Carson City, Nevada. The meeting was videoconferenced to Room 4401 of the Grant Sawyer State Office Building, 555 East Washington Avenue, Las Vegas, Nevada. [Exhibit A](#) is the Agenda. [Exhibit B](#) is the Attendance Roster. All exhibits are available and on file in the Research Library of the Legislative Counsel Bureau.

SENATE COMMITTEE MEMBERS PRESENT:

Senator Debbie Smith, Chair
Senator Joyce Woodhouse, Vice Chair
Senator Moises (Mo) Denis
Senator David R. Parks
Senator Pete Goicoechea
Senator Ben Kieckhefer
Senator Michael Roberson

ASSEMBLY COMMITTEE MEMBERS PRESENT:

Assemblywoman Maggie Carlton, Chair
Assemblyman William C. Horne, Vice Chair
Assemblyman Paul Aizley
Assemblyman D. Paul Anderson
Assemblyman David P. Bobzien
Assemblyman Andy Eisen
Assemblywoman Lucy Flores
Assemblyman Tom Grady
Assemblyman John Hambrick
Assemblyman Crescent Hardy
Assemblyman Pat Hickey
Assemblyman Joseph (Joe) M. Hogan
Assemblywoman Marilyn Kirkpatrick
Assemblyman Randy Kirner
Assemblyman Michael Sprinkle

Senate Committee on Finance
Assembly Committee on Ways and Means
May 4, 2013
Page 2

STAFF MEMBERS PRESENT:

Mark Krmpotic, Senate Fiscal Analyst
Cindy Jones, Assembly Fiscal Analyst
Michael J. Chapman, Deputy Fiscal Analyst
Alex Haartz, Principal Deputy Fiscal Analyst
Cynthia Clampitt, Committee Secretary

OTHERS PRESENT:

Jeff Mohlenkamp, Director, Department of Administration
Keith Uriarte, Chief of Staff, AFSCME-Local 4041 American Federation of State,
County and Municipal Employees
Daniel Ortega
Gordon Milden
Lou Lombardo, Jr.
Tania Johnson
De Salazar
Margo Oliver
Grace Salazar
Yaqub Mustafa

Chair Smith:

We will now open the hearing for statewide budget closing discussions.

Cindy Jones (Assembly Fiscal Analyst):

I will begin with a discussion of the statewide M-100 decision units. Most accounts in the Executive Budget include an M-100 decision unit to adjust expenditures for revised costs related to internal services provided by internal service agencies.

The document titled "Nevada Legislative Counsel Bureau, Budget Closings, Senate Finance and Assembly Ways and Means Committees Meeting Jointly" is ([Exhibit C](#)). The table on page 1 lists the internal service rates as recommended by Governor Brian Sandoval except for those services provided by the Division of Enterprise Information Technology Services (EITS). None of the rates on page 1 of [Exhibit C](#) are recommended to change except statewide building rent. A budget amendment was submitted by the Department of Administration to adjust the monthly State-owned building rent for office space from \$1.00 per square foot to

Senate Committee on Finance
Assembly Committee on Ways and Means
May 4, 2013
Page 3

\$.95 per square foot each month. State-owned storage space rent will be changed from 37 cents to 35 cents per square foot, per month.

The budget amendment also reduces rent rates in other buildings, including the Richard H. Bryan Building in Carson City and the Commodity Food Distribution warehouse in Reno.

The majority of the change reflected in the budget amendment is attributable to a calculation error. The amendment will reduce statewide rent revenue by \$1.3 million over the biennium. Included in this amendment is the reduction for State-owned building rent by \$333,667, based on the recommendation to eliminate two Capitol Police officer positions. This reduction is contingent upon approval of the request by the Joint Senate Committee on Finance and Assembly Committee on Ways and Means to establish a separate police force for the Supreme Court. If approved, the number of Capitol Police officers would be reduced by two positions.

The rates for the internal service funds in the table on page 1 of [Exhibit C](#), including the amendment for State-owned building rent, appear reasonable to Fiscal Analysis Division Staff.

Does the Committee wish to approve the use of the assessments for internal service funds as recommended by the Governor for the 2013-2015 biennium, including the amendment to rent rates? Fiscal Staff requests authority to make technical adjustments to the rates related to closing actions in other budgets.

Chair Smith:

My intention will be to accept limited public testimony because these are statewide decision units with significant impacts. I want to spend whatever time is necessary to ensure both the public and Committee members have opportunities for input.

Senator Denis:

Rental rates for agencies located in non-State-owned facilities have been reduced significantly. Is that the reason we are proposing to decrease rental rates in State-owned buildings?

Senate Committee on Finance
Assembly Committee on Ways and Means
May 4, 2013
Page 4

Ms. Jones:

The rent rate is being adjusted because it was artificially inflated through a calculation error. Typically, rent rates include costs associated with maintenance and upkeep of the buildings owned by the State.

Chair Smith:

Each of these rates was discussed in more depth at the budget hearings for the agencies responsible for administration of the rental rates. They have been vetted through the agencies' budget hearings. The purpose today is the global decision to accept the provisions statewide.

Because Assemblyman Hogan is present in Las Vegas, he will not be participating in the voting process.

ASSEMBLYWOMAN CARLTON MOVED TO APPROVE THE USE OF THE ASSESSMENTS FOR INTERNAL SERVICES AS RECOMMENDED BY THE GOVERNOR IN THE 2013-2015 BIENNIUM; TO INCLUDE THE AMENDMENT TO RENTAL RATES; AND TO ALLOW FISCAL STAFF THE AUTHORITY TO MAKE TECHNICAL ADJUSTMENTS TO THE RATES BASED ON CLOSING ACTIONS IN OTHER ACCOUNTS.

SENATOR DENIS SECONDED THE MOTION.

ASSEMBLY: THE MOTION CARRIED. (ASSEMBLYMAN HOGAN DID NOT VOTE.)

SENATE: THE MOTION CARRIED UNANIMOUSLY.

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Ms. Jones:

The next M-100 decision unit discussion is regarding the rates for services provided by EITS as recommended by the Governor. The rates recommended in the Executive Budget can be found on Attachment A, page 7, of [Exhibit C](#).

The attachment reflects a plethora of various services provided by EITS. The Department of Administration submitted a budget amendment on March 15 that

Senate Committee on Finance
Assembly Committee on Ways and Means
May 4, 2013
Page 5

encompasses amendments spread across all the budgets of the State agencies that use the EITS services.

A change was necessary to correct the methodology used to calculate the rates as included in the Executive Budget. The Joint Subcommittee on General Government of the Senate Committee on Finance and the Assembly Committee on Ways and Means closed the budgets for EITS on May 1. It was noted that additional technical adjustments will be necessary to ensure costs are in alignment between the various services to be provided. The various rate pools will be adjusted as well as to update utilization information for the various EITS services based on closing actions in accounts for agencies using the services in order to project the revenue of EITS over the 2013-2015 biennium.

Fiscal Staff requests authority to adjust rates as amended, reflected in Attachment A, page 7 of [Exhibit C](#), based on the actions of the money committees' closings and requests authority to make technical adjustments that may be necessary to align costs with services and utilization of revenues from receiving agencies with EITS.

SENATOR DENIS MOVED TO APPROVE THE RATES FOR SERVICES OF EITS TO OTHER STATE AGENCIES; AND TO AUTHORIZE FISCAL STAFF TO MAKE TECHNICAL ADJUSTMENTS BASED ON MONEY COMMITTEE ACTIONS.

ASSEMBLYMAN BOBZIEN SECONDED THE MOTION.

ASSEMBLY: THE MOTION CARRIED. (ASSEMBLYMAN HOGAN DID NOT VOTE.)

SENATE: THE MOTION CARRIED UNANIMOUSLY.

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Senate Committee on Finance
Assembly Committee on Ways and Means
May 4, 2013
Page 6

Ms. Jones:

The next items to be discussed are the Statewide Cost Allocation Plan (SWCAP) and the Attorney General's Cost Allocation Plan (AGCAP). The Department of Administration submitted a revision for both of these items. The revised SWCAP captures costs from non-General Fund agencies to pay for central services such as the Office of the Controller, the Budget Division and the State Treasurer's Office.

An adjustment was made by the Budget Division that will increase the collections from non-General Fund State agencies by approximately \$718,000 in fiscal year (FY) 2013-2014, and will decrease the amount to be collected in FY 2014-2015 by approximately \$418,000, for a net increase of approximately \$300,000 over the biennium beyond what is included in the Executive Budget. The SWCAP assessments collected are all deposited in the General Fund. The revised assessments for the biennium, as recommended through the budget amendment submitted by the Department of Administration, appear reasonable to Fiscal Staff.

The Department of Administration also submitted budget amendments to the AGCAP, resulting in a General Fund savings of \$2.4 million in FY 2013-2014 and \$4.4 million savings in FY 2014-2015, for a total General Fund savings over the biennium of \$6.8 million. The revised AGCAP assessment for the biennium, as recommended by the amendment, appears reasonable and Fiscal Staff recommends approval.

Fiscal Staff requests approval of the SWCAP and the AGCAP as submitted by the Department, including the amendments and authority to make additional technical adjustments if necessary.

The purchasing assessment, as submitted in the Executive Budget, appears to be appropriate. Does the Committee wish to approve the SWCAP and the AGCAP as amended, and the purchasing assessments?

SENATOR KIECKHEFER MOVED TO APPROVE THE SWCAP AND AGCAP ASSESSMENTS AS AMENDED AND THE PURCHASING ASSESSMENTS.

ASSEMBLYWOMAN CARLTON SECONDED THE MOTION.

ASSEMBLY: THE MOTION CARRIED. (ASSEMBLYMAN HOGAN DID NOT VOTE.)

SENATE: THE MOTION CARRIED UNANIMOUSLY.

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Ms. Jones:

That completes the decision unit M-100 statewide inflation adjustments. The next statewide decision unit considerations are a part of decision unit M-300 which represents fringe rate adjustments. Page 3 of [Exhibit C](#) lists the various payroll-related assessments as recommended by the Governor. The rates for Medicare, payroll assessment, personnel assessment, employee-employer-paid retirement, employer-paid retirement, police/fire employee-employer-paid retirement, police/fire employer-paid retirement, unemployment compensation and workers' compensation all appear reasonable to Fiscal Staff. The Public Employees' Benefits Program (PEBP) will be discussed separately.

Does the Committee wish to approve the fringe benefits as described and contained in the Executive Budget?

Assemblyman Kirner:

Most of these rates are not subject to our decision. One example is the rates for the Public Employees' Retirement System (PERS). *The Constitution of the State of Nevada* requires those rates be set by the actuary. We cannot change those rates unless we wish to overfund or underfund the provisions. Several other rates also fall in that category.

ASSEMBLYWOMAN CARLTON MOVED TO APPROVE THE FRINGE RATE ADJUSTMENTS AS RECOMMENDED BY THE GOVERNOR AND LISTED ON PAGE 3 OF [EXHIBIT C](#); EXCLUDING THE PEBP ADJUSTMENTS.

SENATOR DENIS SECONDED THE MOTION.

ASSEMBLY: THE MOTION CARRIED. (ASSEMBLYMAN HOGAN DID NOT VOTE.)

SENATE: THE MOTION CARRIED UNANIMOUSLY.

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Ms. Jones:

The rates to be charged for employee group health insurance, and the assessment for employee group health insurance for retired employees, will be reviewed in conjunction with the PEBP budget account, scheduled for closing by the Joint Subcommittee on General Government on May 8.

The rates recommended for the 2013-2015 biennium in the Executive Budget are reflected in the table at the top of page 4 of [Exhibit C](#).

Budget Amendment Nos. A13A0029, A13A0034 and A13A0036 have been received to adjust the PEBP budget accounts. These rate assessment subsidies charged to State agencies to support employee health insurance, with the adjustments, are shown in the second table on page 4 of [Exhibit C](#). The monthly subsidy rate in FY 2013-2014 is increased by approximately \$20, and the monthly subsidy rate in FY 2014-2015 is reduced by approximately \$116.

The significant decrease is the result of a reduction in medical/dental prescription-cost trends. Therefore, \$47 million is the projected excess reserves in plan year 2013. One of the actions taken by the PEBP Board on March 21 was to reduce the reserves and to approve benefit changes that, in turn, adjust the State subsidy from the amounts originally approved in the Executive Budget. As a result of the budget amendments, a total reduction for group insurance rates of \$14.1 million is expected in FY 2013-2014 and \$5.2 million in FY 2014-2015. According to information provided by the Department of Administration, the total General Fund savings, because of these adjustments, will be \$31.4 million over the biennium; \$17.8 million for the reduction in regular State budget accounts and \$13.6 million for the Distributive School Account (DSA) portion of the savings.

On April 26, the Department of Administration advised the Fiscal Analysis Division that the Governor recommended a portion of the savings, approximately \$12 million, be used to reduce the number of furlough days for State workers in FY 2014-2015, as originally included in the Executive Budget. The Department of Administration indicated the other \$5.8 million, of the \$17.8 million in savings, be used to increase certain kindergarten through Grade 12 (K-12) education enhancements already included in the Executive Budget. Those are for the English-language learner (ELL) and full-day kindergarten (FDK) expansion. These accounts are scheduled to close in the Joint Subcommittee on General Government on May 8. Therefore, Fiscal Staff requests authority to make technical adjustments

to incorporate any changes resulting from the Subcommittee closing recommendations. Further, Staff requests authority to make any technical adjustments based on closing actions in other accounts. Those actions may impact these rates.

The total General Fund savings may vary slightly depending on closing actions. As Fiscal Staff moves toward rebalancing the budget statewide, we will have a clearer idea of fund savings.

Does the Committee wish to approve the PEBP subsidy rates as recommended by the Governor and as amended; and to authorize Fiscal Staff to make any further technical adjustments?

Chair Smith:

In this situation, we have a reduction in PEBP costs. Those funds are recommended to be reallocated to reduce the number of furlough days for State employees. A portion is also allocated for education programs.

Assemblywoman Carlton:

All Legislators want to allocate additional funding in education for programs such as ELL, the FDK and class-size reduction. However, the funds we are currently discussing are health care funds that have come from the State and from State employees. Employees pay a portion of their health insurance premiums if they cover their family members as dependents. Therefore, although these are worthy programs, it is not prudent to redirect these funds when we are unsure what the health care needs will be in the near future.

The rates for covering children have increased and the utilization costs have been fluctuating dramatically. There are issues involved in the health savings accounts (HSA). Some State employees are removing their children from their health plans because they cannot afford the premiums. The last thing we want to do is place State employees in the position of not covering their families and ultimately seeking basic care at hospital emergency rooms.

I would like to hear testimony about how these health care dollars can be budgeted to serve State employees and their dependent children.

Assemblyman Grady:

Are the excess reserve funds employee funds or State funds?

Assemblywoman Carlton:

These funds are a blend of State and employee premium costs. The State pays for their employees, but the employees pay for their families' premiums. On the high deductible plan, the employees must pay medical costs up front, before they reach the amount that triggers their access to use of the insurance benefits. The funds are ultimately in the same pool, because we fund health care through the agencies for their employees.

Assemblyman Grady:

I understood that the funds we are discussing are only the State subsidy payment reserves, not the employee payments.

Chair Smith:

Will someone from the Budget Division please clarify this item for the Committee?

Jeff Mohlenkamp (Director, Department of Administration):

The funds before the Committee are the State subsidy portion of funds. That is the level of funding the State would pay for medical benefits. There is a separate pool of funds paid by employees for themselves or their beneficiaries.

Assemblywoman Carlton:

To take the discussion one step further, even single employees make up the difference because we fund premiums at one level and employees are making up the difference.

Mr. Mohlenkamp:

When savings are identified, decisions regarding reallocation can be made. The PEBP Board made a determination that they would use the largest share of the excess reserves to provide for increases in the HSA allocations. A portion of the savings would also be utilized for a reduction in the State subsidy costs. The portion currently under discussion is the State subsidy portion. Clearly, other decisions could have been made to alter the rates for the employee portion of health care insurance costs.

Senate Committee on Finance
Assembly Committee on Ways and Means
May 4, 2013
Page 11

I will make one clarification on the information provided on page 4 of [Exhibit C](#). While the \$5.8 million was additional fund savings to the State, it is not necessarily directed to education. It is a part of the overall fund balance. Those funds are available to use for reallocation or to alleviate additional deficits.

Assemblywoman Carlton:

It was my understanding that the PEBP reserve funds were comprised of both employee premiums and State funds. In other words, they were blended among all participants.

Mr. Mohlenkamp:

I am unclear as to the exact allocation of those savings. Some were provided from Medicare retirees, and a variety of other contributions.

Assemblywoman Carlton:

The reserves recommended for reallocation were a combination of State dollars and employee premium funds.

Mr. Mohlenkamp:

I do not have a precise answer to that question.

Assemblywoman Carlton:

Assemblyman Kirner is nodding his head in the affirmative.

There is also a disparity between the funding provisions in the HSA and the Health Maintenance Organization (HMO) costs. How many members participate in the HSA and how many are in the HMO plan?

Mr. Mohlenkamp:

I will have to discuss that question with the Executive Officer of PEBP.

Assemblyman Kirner:

The portion of funds described on page 4 of [Exhibit C](#) is the employer contribution. To that, the employees also have a premium rate and the two contribution segments are allocated to a fund to pay for health care benefits.

The PEBP excess reserves indicate that utilization was not as high as projected. However, those reserve funds were the outcome of the combination of State contributions and employee contributions.

In terms of the HSA and the HMO question, the HMO is a completely separate consideration and these premiums do not mix. The PEBP Board made the decision to increase the HSA and to reduce premiums in the coming year. That consists of the reserve, the State and the employee contributions.

While the PEBP Board determined to decrease the employer contribution, they also lowered the employee contribution. Thus, nothing is being taken from State employees in this equation. If the State desired, it could choose to contribute \$826.52 for FY 2014-2015, rather than lowering the rate to \$708.99. Two things might happen: the reserves could be built even higher, or the benefit plan could be completely redesigned.

The PEBP Board's decision was not to take anything away from State employees.

Chair Smith:

The point is that we acknowledge this is a conglomeration of funds and that those funds should be left for the benefit of State employees.

Assemblywoman Kirkpatrick:

That is my point as well. Previous discussions indicated approximately \$12 million would be used to buy down the number of furlough hours required of State employees. Why were the funds not utilized to restore a portion of the pay losses suffered by State employees? Even a 1 percent pay increase would have been of more benefit.

I am disturbed by the testimony that claims utilization is down because some of the constituents in my district who are State employees can only carry the catastrophic insurance policy and are on food stamps because they cannot afford anything else. That is sad. One State employee works for the Florence McClure Women's Correctional Center and the other, who has four children, works out at High Desert State Prison. They had to apply for food stamps. They are insurance poor because they are paying for the most catastrophic plan.

I do not understand the PEBP Board's reasoning. As Chair of the Assembly Committee on Government Affairs in the 2011 Legislative Session, we heard testimony from James R. Wells, Executive Officer of the PEBP, that "the sky is falling and my goodness, we've got to make all these changes" We made the changes requested. The Legislators try to believe that State agency heads know what is going on in their area of expertise. But, it is frustrating to see an excess reserve balance at the end of the interim between the 2011 and 2013 Sessions.

My constituents did not change their lifestyles, but were part of the discussions when times were tough. They experienced the reductions in pay and benefits and are now at a point that they cannot even afford their basic needs. The excess reserve funds must go back to State employees.

Insurance provisions are updated regularly and the excess reserves could have been used to fund the employee portion. "I am offended because Mr. Wells stated the sky was falling, and here the sky has not fallen. There is a whole bunch of money that we are trying to redirect and not to the people who have been shafted the most in my mind."

Assemblyman Kirner:

I concur with Assemblywoman Kirkpatrick's comments. A portion of the excess reserves should be redirected to employees' salaries. I appreciate the hits State employees have taken with the 1 percent PERS increase in contribution every 2 years. As the rates increase, State employees have a 50 percent share in that increase. That is on top of the 2.5 percent salary reduction and the required furlough days. We are now in the third biennia of those reductions.

On behalf of the PEBP Board, there were a number of considerations to be made. Pending legislation concerns non-State employees who participate in PEBP. The bill would create a single employee pool that would have some form of economic impact as well.

Assemblyman Aizley:

In general, much of the foregoing discussion is a matter of perception. If someone goes to work under a written contract, it would cover their entire compensation. It would not be limited to their salary; it would encompass salary and benefits. I view

anything in that compensation package as belonging to the worker – in this case, the State employees.

When things are shifted from using salaries to pay for compensation, that shift equates to a salary reduction. State employees have experienced that repeatedly. Take-home pay is decreasing at a time when expenses are increasing. That is an unfair situation.

When an individual accepts a position, all funds within the compensation package belong to the person who is supposed to be earning it, as an agreement. It is not a matter of State funds versus workers' money; it is the workers' money.

Senator Denis:

I will add my frustration to the discussion. I concur with the comments by Assemblywoman Carlton. The proposal would increase funding to the HSA accounts, yet the HMO participants also deserve increased funding. When I was on the HMO plan, costs doubled in one increase. It went from approximately \$220 to more than \$400 monthly.

We are providing savings to one segment and not to the other. We need to be fair to participants in both plans. We understand that health care utilization costs have decreased. As mentioned by Assemblywoman Kirkpatrick, in 2011 the Legislature was told that additional funding was drastically needed, and now suddenly there is a large excess reserve. Perhaps nothing could have been done about that, but at least as we move forward, I hope we can be fair in the way we help all of our State employees.

Assemblyman Eisen:

What is the employee portion of the premium? We are discussing adjustments to the State's contribution. Is that an even match with the employees? I echo Assemblywoman Kirkpatrick's earlier comments.

I am concerned about how we ended up with such a reduction in payments by the PEBP plan. I am pleased that savings were realized, but I am concerned about why that happened. If that happened because the people who work for us are not seeking health care when it is needed, that is not a good thing. It is not good from a health care or financial standpoint. Those individuals are going to experience

greater and more expensive health care needs in the future. We need to ensure that we hear the reason the PEBP expenses were so much lower than projected.

Chair Smith:

We have heard that testimony anecdotally and reviewed the utilization rates. That is disconcerting.

Ms. Jones:

The changes being seen in the rates only reflect the State subsidy portion. The premiums for employees remain unchanged from those in the Executive Budget.

Mr. Mohlenkamp:

That is correct. The costs for the employee insurance premiums do not change. The largest portion of the savings the State has incurred is due to inflationary pressures. The Executive Budget has a fairly large, built-in inflation factor. The PEBP actuary has reduced that substantially.

Chair Smith:

Do the inflation rates include utilization factors?

Mr. Mohlenkamp:

My understanding is that the utilization portion largely led to the excess reserve, which is being added into the HSA.

Chair Smith:

My question is whether the utilization factor was included in the inflation rates.

Assemblyman Eisen:

What I am hearing is that we are reducing the portion the State is paying and not reducing the portion paid by State employees. Less is required to maintain the plan and yet our State workers are not benefitting from that reduction.

Mr. Mohlenkamp:

That is not entirely true. The rates in the table at the top of page 4 of [Exhibit C](#) indicate that the Executive Budget substantially increased rates to \$826.52 per month. That increase was based largely on higher inflation projections, but also on other expectations from the actuary. We are reducing that increase substantially. The State was going to be required to pay considerably more in health care costs

and we were going to absorb the additional costs. Those additional costs are no longer projected, so we are reducing the State's burden.

Chair Smith:

The cost to the employees for insurance deductibles is not being reduced and that is having a negative effect on our employees.

Assemblyman Anderson:

If we provide incentives not to use the insurance product, the utilization rates will decrease. Sometimes that is done through raising costs. Is this a one-time savings that will be utilized to offset other costs? How will that be backfilled in future biennia?

Mr. Mohlenkamp:

I am not certain this is a one-time provision. Actuaries project new costs during the preparations in each budget cycle. Those include inflationary pressures, the utilization and the number of participants. This may not be a one-time savings, but the projections will likely change in each budget cycle.

We have essentially doubled the provisions of the HSA for employees and have increased it substantially for dependents. Long-term medical trends will have the greatest impact on future health care costs and provisions.

Assemblyman Anderson:

My concern is that if the funds are being used to help our State employees recoup some of their losses, we are providing a comfort level that cannot be guaranteed in future biennia. That may be true of spending in any category.

Assemblyman Sprinkle:

It is important to note we are also discussing provisions for retirees and for people who are caught in the place between retiring and when they become eligible for Medicare. It is important they also be considered. I have heard many different numbers about the actual amount of reserve funds. I have heard anywhere from \$10 million or \$12 million, all the way up to \$80 million.

Is the \$47 million, described in [Exhibit C](#), the actual and accurate amount in the reserve funds?

Mr. Mohlenkamp:

I do not have the exact figures at this time. It is my understanding that \$47 million is the amount the PEBP Board considered as additional reserve funds.

Ms. Jones:

The press release we received from PEBP indicated that it would be \$47 million in excess, unrestricted reserves. The excess is the reserves resulting from the plan year and the higher rates built into the Executive Budget based on the actuarial figures not being realized. The proposal would reduce the amount of the subsidy the State would be funding.

Mr. Mohlenkamp:

I concur.

Chair Smith:

Director Mohlenkamp, I appreciate your testimony this morning and bringing the information you have from PEBP. It is unfortunate that no one is here representing PEBP to answer these questions.

Assemblywoman Kirkpatrick:

Director Mohlenkamp, it is unfair that you are here defending this portion of the additional savings. I would have a few questions for Mr. Wells if he were here.

Based on testimony, there is a possibility that the health care numbers and the savings could be consistent for a while. My first question, after asking why we are not doing something for employees, would be why are we funding something in education for which we may not have sufficient funds in the future?

It seems as if we place funding in programs and then we take it back out. Unfortunately, the one area where we have been consistent is removing provisions for State employees. Since 2005, when I became a Legislator, there was a trigger for the possibility of a pay raise for the first time in 8 years, then it was a trigger for employee health costs, and we continued to take and take from State employees.

I know the decisions to require furlough days were hard for us in the beginning. Nevertheless, now people need money back in their paychecks. Their expenses

have increased and they seem to be the only entity where we keep making benefit reductions.

If State employees are still required to take furlough days, they would not need to pay for child care or they can get a second part-time job to help with their expenses.

There are 119 State employees in my district who no longer have health insurance because they cannot afford it. They need to pay their bills and other obligations; therefore, they are not making health care claims. The claims are increasing somewhere else; it is only for catastrophic care now. Rather than nursing a cold, they may now have bronchitis or require a visit to the emergency room. That is a significant problem in Clark County. The private sector has experienced similar challenges. However, State employees are insurance poor.

Why could we not make some type of additional provision for our employees in the first year of the biennium? They have been waiting since 2005, and perhaps even longer, to receive increases in their benefits. Why does the HSA provision only apply to the second year of the 2013-2015 biennium?

Chair Smith:

We will discuss the State employee pay item once we have completed the PEBP discussion.

Assemblyman Kirner:

This discussion is somewhat frustrating to me. Clearly, the reason we are in a high-deductible plan is because the State has not contributed or raised their contributions during these difficult times. This is our fault. Therefore, when the PEBP Board considers the amount of funding they receive from the State subsidy amounts, and then they consider the utilization rates, including the commingling of retirees with active employees, it makes the utilization rate somewhat higher than it might be otherwise.

It was clear that employee rates would have skyrocketed. To avoid the skyrocket effect, the Board adjusted their plan to keep the rates lower. Therefore, if we want to do better by State employees, we must contribute more and allow the Board to use the excess funds to change the employees' health care plans. Board members

are knowledgeable concerning health care benefits, but they must work within the parameters set by the actuary.

The Board is trying to mitigate the effect on employees by increasing the HSA provision and the retired employee Health Reimbursement account. They are doing all they can to keep costs for employees lower than they would be otherwise.

If we want PEBP to do better, the Legislature must provide the funding. In the last few years, funding has not been sufficient to make those kinds of provisions.

Chair Smith:

I do not disagree that, in some ways, it is the fault of the Legislature. We have been in a position where we could not fund increases. However, we have been making choices between reductions from the education system to how much we reduce mental health or reductions to State employee salaries or benefits. It is truly a challenge.

Assemblyman Kirner:

We have made those decisions. However, our problem is that the State employees are bearing an unfair burden.

Chair Smith:

We need to reinvest in State employees in a multitude of ways.

Assemblywoman Kirkpatrick:

I understand the Legislature has had to make tough choices. However, we also made some of those tough choices based on information that was provided to us. It was tough to hear testimony in 2011 that PEBP had a deficit of approximately \$61 million. Now, in 2013, we hear PEBP has a \$47 million surplus. In all fairness, it does not make me feel better about the reductions we made in 2011, when that action created a surplus.

During the 2011 Session, we based our decisions on the recommendation of someone who spoke on behalf of the State employees and the insurance industry who told me, "the sky is falling" by \$61 million. To say that we picked that number out of our heads is inaccurate. It is high time State employees get something back.

I am not blaming anyone or any organization, but we can only make our decisions based on the information we are given.

Chair Smith:

It is true that when a budget amendment is received that would add funding to K-12 education that the funding must come from somewhere. Therefore, the assumption must be that these savings are a part of how we are improving the education portion of the budget. Does the Department of Administration agree with that assumption?

Mr. Mohlenkamp:

There are a number of moving parts within the Executive Budget. One piece is the PEBP subsidy rates and the savings that are received in the General Fund, and ultimately in the DSA, because of the modifications by the PEBP Board.

Changes occurred in the Department of Health and Human Services (DHHS) in the Federal Match Participation rate and a change in caseload numbers. A number of changes ultimately impacted the General Fund. The General Fund savings can then be redistributed in various ways.

The Governor made a choice to recommend to the Legislature to spend a portion of the savings to eliminate furlough days in FY 2014-2015. The Governor does not control the decisions of the PEBP Board. When the PEBP Board made their decision, we informed the Governor that approximately \$17.8 million was saved. The Governor asked what changes could be made to benefit State employees. The furlough costs were similar in size to accommodate the General Fund savings.

The other savings were placed in the General Fund. Property taxes had decreased and that funding gap had to be filled. Therefore, the \$5.8 million went to fund various needs. One could say it went to education, to backfill decreased property taxes, or it could be any one of a number of needs.

ASSEMBLYWOMAN CARLTON MOVED TO ACCEPT THE PEBP SUBSIDY RATES AS RECOMMENDED BY THE GOVERNOR; AND TO AUTHORIZE FISCAL STAFF TO MAKE TECHNICAL ADJUSTMENTS.

SENATOR PARKS SECONDED THE MOTION.

Senate Committee on Finance
Assembly Committee on Ways and Means
May 4, 2013
Page 21

ASSEMBLY: THE MOTION CARRIED. (ASSEMBLYWOMAN KIRKPATRICK AND ASSEMBLYMAN HAMBRICK WERE ABSENT FOR THE VOTE. ASSEMBLYMAN HOGAN DID NOT VOTE.)

SENATE: THE MOTION CARRIED UNANIMOUSLY.

* * * * *

Chair Smith:

Mr. Krmpotic will now present the statewide salary decision units.

Mark Krmpotic (Senate Fiscal Analyst):

Beginning on page 5 of [Exhibit C](#) are the three statewide decision units that establish employee pay. These are decision units E-670, E-671 and E-672.

Decision unit E-670 includes a continuation of the current 2.5 percent salary reduction into the 2013-2015 biennium. It also includes the implementation of a reduction to 3 days of furlough that equates to 1.15 percent in employees' salaries. The current furlough requirement is 6 days each year, or a 2.3 percent furlough reduction in salary for the 2011-2013 biennium. The value of both the 2.5 percent salary reduction and the 3 days of furlough are detailed in the table on page 5 of [Exhibit C](#) and broken out between State employees and higher education employees. The total value of those reductions to the General Fund is \$70.6 million over the biennium.

The reductions are not implemented in the K-12, DSA budget account.

The restoration of a 1 percent salary reduction recommended by the Governor for State and Nevada System of Higher Education (NSHE) employees would require an addback in General Fund appropriation of approximately \$20.5 million over the biennium. Restoration of a 2.5 percent salary reduction would result in the need to add back \$51.3 million over the upcoming biennium.

As noted by Mr. Mohlenkamp, the Governor submitted budget amendments to eliminate the proposed implementation of 3 days of furlough in FY 2014-2015, but to continue the furlough requirement as it is in FY 2013-2014. Fiscal Staff estimates the General Fund impact of eliminating the furlough days in FY 2014-2015 to be approximately \$10 million. If the furlough requirement were

eliminated in FY 2013-2014, Staff estimates the amount of General Fund appropriation needed to be added back would be approximately \$9.9 million.

The decision before the Committee is whether to approve the 2.5 percent salary reduction as recommended by the Governor for both State and NSHE employees and 3 days of furlough reduction in FY 2014-2015 as amended. Alternatively, does the Committee wish to restore all, or a portion, of that reduction?

Chair Smith:

Throughout the many budget hearings on various topics, we have heard about the difficulties in hiring and retaining employees. We have all seen the staff changes in different agencies with employees and the assumption that employees would seek employment with a different agency to achieve a higher salary.

What are the rate of vacancies and the current status of the personnel situation?

Mr. Mohlenkamp:

The State has always had recruiting or retaining challenges in areas such as medical fields and portions of the information technology (IT) environment. That has not changed during this biennium. Overall, as we have viewed employment history 6 or 7 years prior to the recession, the State vacancy rate seems to be between 7 percent to 9 percent. Currently, the agencies are experiencing a vacancy rate of approximately 7.8 percent in an economy where we still have considerable unemployment. We are near the 6- or 7-year historical averages. I do not know what the optimum vacancy rate should be.

There will be upcoming challenges for the State in attracting and retaining qualified employees. As the economy improves and the unemployment rate decreases, we will continue to face hiring and retention challenges. Whether that will increase in a meaningful way, I cannot say.

Many key staff members have been lost to retirement over the period of the recession and that will continue over the next 4 or 5 years.

Chair Smith:

I would expect hiring and retention difficulties when financial times are good, but when times are bad, and we still cannot attract and retain employees, it is a worry. We hear repeatedly about hiring difficulties in the IT professions. I worry that the

State will spend more through contracts for employees in certain areas, paying a higher rate to complete necessary projects.

Mr. Mohlenkamp:

At one point during the recession, vacancy rates were at slightly more than 11 percent. For the past 2 years, the State vacancy rate has been between 7.5 percent and 8 percent.

Chair Smith:

When the Governor was making his determination about which salary reduction to restore to employees, we discussed how that decision was made and which restoration employees most desired. Has any more work been done in that area?

Mr. Mohlenkamp:

I understand the American Federation of State, County and Municipal Employees (AFSCME) has done a survey along those lines. I am not sure if it is complete at this time.

The Department of Administration held discussions with agency directors to try to understand what was needed the most to manage their operations. Almost without exception, restoration of step and merit increases was requested. That would allow employees to expect the possibility of future increases. If State employees were asked their preference, I am sure their response would be either an increase in pay or benefits.

Chair Smith:

What is the Governor's position on the 2.5 percent salary reduction since there is not a recommendation for restoration of that reduction? Is the 2.5 percent salary reduction assumed to be temporary or permanent?

Mr. Mohlenkamp:

This is a challenging decision. Senate Bill (S.B.) 483 provides that the 2.5 percent salary reduction would sunset at the end of June 2015.

SENATE BILL 483: Revises provisions relating to the compensation of state employees. (BDR S-1125)

In recent discussions with the Governor's office, they are cognizant of the same concerns expressed by Assemblywoman Kirkpatrick with regard to offering something and not being able to continue it into the future. Because of that, the Governor is hesitant to restore salary funding unless we know for sure it can continue going forward.

Our current position would be to seek to amend S.B. 483 to have the salary reduction become permanent. Then a decision could be made to restore salary reductions through an affirmative action such as a cost-of-living allowance. As has been noted, the cost of restoring the 2.5 percent salary reduction, just for this biennium would be \$51.3 million. Based on changes in individual salaries, it would be closer to between \$55 million to \$60 million. It is unknown whether that funding will be available. Sequestration effects must also be considered.

Chair Smith:

I hope the Governor reconsiders that position before S.B. 483 is heard. Employee morale is important to this discussion as well.

Assemblyman Kirner:

I have a career in private industry. When we discuss furlough days or salary reductions, employees generally prefer one or the other. This budget proposes to reduce the number of furlough days. Is there a difference in cost structure between reducing the number of furlough days and restoring salaries?

Mr. Mohlenkamp:

The only distinction would be furloughs are slightly less costly due to what is called the Public Employees' Retirement System holdout. While Governor Sandoval would like to restore employee pay, it is just a matter of resources and priorities.

He wants to give back to employees, but also benefit the State. Furlough days create a reduction in the number of employees available to provide the services and to perform the duties, whether it is correctional officers having to backfill with overtime provisions, public safety or areas of health and human services. It is a matter of trying to provide improvements in two areas at the same time.

Assemblywoman Kirkpatrick:

Referring to my earlier comments regarding the PEBP reserves and reducing the number of furlough days, if we reduce the number of furlough days, the State

employees will no longer qualify for food stamps because they will earn just a little more than the threshold resulting in reduction of the food for their families.

Our State employees are the infrastructure of how the State conducts its business. We have agreed to spend well over \$200,000 for IT infrastructure. Now we must pay for the employees who run that infrastructure to keep the State running.

The employees have done a fair job. I know of no employee who has been on a furlough day that has been too busy to answer a Legislator's question. I know of no employee that was on a furlough day that has stopped the way we do business because other employees stepped up to cover the gaps. It is not as if a building had to be closed or services were not provided.

If it were me, if furlough days were reduced, I am not sure I would work any harder, because I would have to pay for day care and it would not allow me to qualify for services I am administrating for everyone else at my place of employment.

I will not support a 2.5 percent salary reduction on a permanent, or a short-term, basis. We want to retain employees. As an example, this goes back to the vacancies for five positions to assist veterans. We cannot get anyone interested in accepting those positions. However, the Executive Budget provides \$400,000 to cover positions that are not filled. At some point, our employees must be considered as infrastructure.

Mr. Mohlenkamp, as a State employee, do you ever stop working during a Legislative Session because you might be due to take a furlough day? You do not. Therefore, why should we not pay the people running our State a better wage? State employees would rather have an increase in their paychecks than a reduction in the number of required furlough days.

I could not look any of the State employees in the face if we make the 2.5 percent salary reduction permanent because that is disgusting to me; then we wonder why they are retiring or leaving State employment.

If we are trying to get to the base budgetary reductions, then we should make reductions across the board including the IT infrastructure and other provisions that have been approved.

I realize you are only the messenger and I will be happy to send my own message. This is the time to provide an incentive for State employees.

Assemblyman Kirner:

I agree with Assemblywoman Kirkpatrick. Our State employees are underpaid when compared to similar counterparts in county and city governments. By further reducing their pay by 2.5 percent, we will lose them to these other jobs. When someone is on furlough, someone else has to step up and we wind up paying overtime.

Chair Smith:

If employees must take a pay reduction, then they should at least get a day off in return.

Senator Woodhouse:

I agree with Assemblywoman Kirkpatrick. Last week when I returned to my district, I met with a group of State employees. Overwhelmingly, they expressed their need to have the 2.5 percent salary reduction restored. They indicated that if the furloughs had to continue, those could be lived with. Merit increases were not an issue for them. These people are the worker bees within State government.

During the rest of the time I spent with them, we discussed their health benefits. These are the people who are not taking their high blood pressure medication, not taking cancer treatments or are caregivers for their parents.

All of us need to consider what these people are contributing to our State, whether in education, health and human services; wherever they are, they are the ones that are making this State run. I am adamantly opposed to the continuation of the salary reduction.

Assemblyman Eisen:

I cannot stand the furloughs or what we are doing in terms of the benefit reductions and I really cannot stand what we have done in terms of salary. If we want to begin inching our way back, the first thing that is needed is to ensure that the people who work for the State receive any additional funding available. They can best determine how it should be utilized.

That may mean covering the copay for their medications to retain their health, or it may be needed to pay for child care for the days they are working. Although I do not like the furloughs, at least our State workers get something for that. They get time with their families, reduced child care costs. The salary reductions are just a punch in the face. We cannot continue to beat up on our State workers. These are not individuals to whom we just give money. They are individuals who do a job for us and are being compensated for that job. We have hit them in every single form in which they are compensated.

Even the suggestion we would make this permanent and say, "Well, if we ever have the money down the road, we'll take an affirmative step to restore that" In my opinion, we have punched them in the face and now we are going to slap them.

Senator Denis:

I agree with the comments that have been made. We have asked many sacrifices of our State employees. While we may be asking for salary reductions, we have never discussed making this a permanent salary reduction, yet we are asking them to continue with even greater workloads. Why do we not make permanent reductions to the Department of Motor Vehicles and make people wait longer in the lines?

We are asking them to do more for less salary. We are trying to do the best we can to help our citizens with the services we provide. We need to figure out a way to give our employees something. Even if the salary reductions are restored, we will not reduce the amount of work that is expected of them.

Senator Roberson:

Both private and public sectors of the State have been hurting over the last few years and I am cognizant of that. We must take care to craft policies that do not unduly burden the private sector and cost more private sector jobs.

We are directly responsible for the pay and benefits of our State employees. I have met with State employees in my district. They have talked to me concerning the fact they are on food stamps or they cannot afford their insurance or their medications. I have heard their stories and I cannot ignore that. None of us should be able to ignore that.

I have also heard our employees state that reduction of furloughs is not their number one priority, because that does give them the opportunity to take a second job to supplement their State income.

If we need to move money around to do better by our employees, we need to figure out a way to do that. If more revenue is needed to provide for their benefits, we are looking at Day 90 of the 2013 Legislative Session. We must find a way, on a bipartisan basis, to address the situation. I do not want to leave this Session without addressing how we treat our State employees.

Assemblyman Aizley:

While we are venting frustration over this budget item, things are going on in other areas of the budget that are of concern. We have existing employees and we are hiring new employees. At some point before this is over, I will want to see all the new positions authorized in the General Fund budget and I would like to know which unclassified positions would receive fairly large raises compared to our State employees. These items are being approved in tough times and we need to know precisely what is proposed.

Senator Kieckhefer:

All of us have State employees that live in our districts. State workers may answer to the Executive Branch of government, but they are our employees. I have to ask myself if I am proud of how I am treating them. It is important to find a way to help them.

Assemblywoman Carlton:

When I first ran for office, I was the wife of a State employee who is now retired. The reason we moved to Nevada was that we could not make a living in Missouri. If we let Nevada turn into that kind of scenario, we will lose many good families. They will move somewhere else. These are our employees, but we are also talking about families.

When my husband came home from work after the furloughs were implemented, he took pictures with his cell phone of two extra baskets of work on his desk. At one point, there were so many files for review they could not be placed on his desk; they had to be put in a chair. Just because an employee takes a furlough day does not mean the work stops.

We all work to make a living so we can enjoy ourselves and do good things for our children. I plucked myself up from one state and moved to another, leaving my other family members behind so that I could give my daughters a better life. I do not want to see our State employees have to make that same decision.

Chair Smith:

We should all remember that next week is State employee recognition week as we contemplate our decisions. I will not be accepting a motion on this topic until we have a clearer resolution on the other items before us.

Mr. Mohlenkamp:

I am a State employee and have been one for a long time. There are not too many days where I feel overpaid. Therefore, I appreciate the comments this morning. The Governor would be willing to discuss how best to use available resources to help our employees.

Chair Smith:

We will now consider the E-671 statewide decision units.

Mr. Krmpotic:

Decision unit E-671 represents the suspension of merit salary increases. The Governor recommends the suspension of merit salary increases for all State employee groups during FY 2013-2014. Page 5 of [Exhibit C](#) includes descriptions of merit pay increases.

Page 6 of [Exhibit C](#) indicates the financial impact of the merit salary increase suspensions, \$18.3 million in FY 2013-2014 and \$23.6 million in FY 2014-2015. These are General Fund monies. If the Committee did not approve the freezing of merit salary increases, those exact amounts would need to be added back as increased allocations in the Executive Budget.

Does the Committee wish to approve the Governor's recommendation to suspend merit pay for State and NSHE employees for FY 2013-2014?

Chair Smith:

I assume most of the discussion on the previous decision units would apply to this item as well.

Assemblywoman Kirkpatrick:

It is too soon to close this budget item without attempting to identify additional revenues. It is not in the best interest of State employees to move forward with final budget decisions on these items.

Chair Smith:

It is not my intention to close the E-671 decision units at this time either, until we can bring greater clarity to the issue.

Assemblywoman Carlton:

The most troubling thing for me is the thought of those younger employees that began their State service with certain promises concerning recognition of their merits at the end of 1 year of service. Then we pull the rug out from underneath them. During the recession, some of our employees lost their homes through these severe budget reductions. We cannot forget that fact.

Chair Smith:

There was some discussion at a previous hearing about this cycle of anniversary dates for different employees merit increases. When employees were cycled out of merit salary increases, some employees won or lost, depending on the date their merit salary increases were due. When we cycle back in, will those same people either win or lose, thereby equalizing the situation?

I am concerned about fairness for all employees as we cycle benefits back into the salary package.

Mr. Mohlenkamp:

An employee is compensated through merit steps of 1 through 10. If the employee were not at the top of their grade, on their anniversary date, or the anniversary date of a promotion to a different position, they would receive the proscribed merit increase upon satisfactory performance of their duties. Merit pay is a salary increase of approximately 4.5 percent.

As an example, if the restoration of merit salary increases became effective on the first day of a fiscal year, or July 1, and the employee's anniversary date was July 10, they would receive the merit increase immediately. If an employee's anniversary date was June 15, they would not receive a merit increase until the next year.

Chair Smith:

Is it also true that if an employee's anniversary date were July 10, they would have been the first to receive a suspension of their merit increase?

Mr. Mohlenkamp:

I think that is true.

Chair Smith:

I want to ensure we do not make provisions that we feel are a benefit to employees and then later discover there were unintended consequences of the application methodology. I did not realize that employee anniversary dates change when they receive a promotion.

Mr. Mohlenkamp:

If an employee were promoted into a different position, the anniversary date would change.

Chair Smith:

That means my cycling theory would not work in those cases. We need to explore those circumstances as we seek a resolution to this budget item.

Senator Kieckhefer:

Are new employees all hired at a step 1 in their grade level?

Mr. Mohlenkamp:

No. There are some positions that are hired at a step 1 while others have been brought in at a higher step. An agency must follow a process if it wishes to hire an individual at a higher step. They must make application to the Office of the Governor. In addition, some positions are budgeted for hire at a step 9 or 10. Most nursing positions are budgeted quite high in order to recruit and fill the positions. Some IT positions have also been budgeted at higher steps. We try not to hire from outside at a higher step than those who have been in State service for several years.

Senator Kirkpatrick:

Are most of the new positions in the Governor's recommended budget, particularly those for the Division of Welfare and Supportive Services (DWSS) in the DHHS, budgeted at a step 1?

Mr. Mohlenkamp:

Most of the positions for the new DWSS offices are budgeted at a step 1.

Chair Smith:

There have been discussions about the number of individuals who have been hired, particularly in the Nevada Department of Corrections (NDOC), that have left shortly thereafter. It would be helpful to know if the Division of Human Resource Management in the Department of Administration could provide a synopsis of what the experience has been with individuals joining State service and then leaving in a relatively short time. Please provide our Fiscal Staff with the number of employees in that category that have left within 6 months of their hire date.

We will now discuss the E-672 statewide decision units regarding longevity payments.

Mr. Krmpotic:

The Governor recommends continuing the suspension of longevity payments to State employees, as was originally approved by the 2009 Legislature. This would extend the suspensions through the 2013-2015 biennium.

To inform newer Committee members, State employees are entitled to longevity payments to encourage retention of those employees with 8 or more years of State service. Longevity payments begin in the eighth year of State service at \$150 in each year and reach a maximum of \$2,350 each year at 30 years or more of continuous service.

The suspension of longevity payments creates a General Fund savings of \$3.4 million in FY 2013-2014 and \$4 million in FY 2014-2015.

Assemblywoman Kirkpatrick:

It is only fair that we close the E-672 statewide decision units so that we can identify additional provisions for all State employees. It would be even more

Senate Committee on Finance
Assembly Committee on Ways and Means
May 4, 2013
Page 33

demoralizing if some employees received longevity payments and others received nothing.

ASSEMBLYWOMAN KIRKPATRICK MOVED TO APPROVE STATEWIDE DECISION UNITS E-672, FOR SUSPENSION OF LONGEVITY PAY AT A GENERAL FUND SAVINGS OF \$3.4 MILLION IN FY 2013-2014 AND \$4 MILLION IN FY 2014-2015 AS RECOMMENDED BY THE GOVERNOR.

SENATOR DENIS SECONDED THE MOTION.

ASSEMBLY: THE MOTION CARRIED. (ASSEMBLYMAN HOGAN DID NOT VOTE.)

SENATE: THE MOTION CARRIED UNANIMOUSLY.

* * * * *

Chair Smith:

We will now open the hearing to public comment.

Keith Uriarte (Chief of Staff, AFSCME-Local 4041 American Federation of State, County and Municipal Employees):

I am certain you will find some solution to the situations that were discussed. I have submitted written testimony ([Exhibit D](#)). The reductions State workers have endured over the last 2 biennia are listed, as are links to the legislation enacting them.

The savings through health care benefit excess reserves are one-time savings. No one who runs a business would fund something on a permanent basis with one-time funds.

Conversely, if those savings are permanent, then we need to investigate a health care plan redesign. If those excess reserves are expected to continue, we need to know the reason the reserves are so high. That may be because of the underutilization factor. The current health care plans are not good and they are not family friendly.

Chair Smith:

My colleagues and I have been legislators throughout the severe budget reductions. When trying to bring a resolution to the budget crisis, especially in the 2010 Special Session, State employees were always present to help us determine where and how reductions could be made. I want to thank State employees for that because it made it much less painful for us to make those decisions.

Daniel Ortega:

I am a fairly new State employee, having been employed for just over 1 year. I enjoy my State position. The people I work with at the Department of Employment, Training and Rehabilitation are hardworking, but there is a lot of heartbreak. They continue to do their jobs no matter what, but I have had individuals approach me and ask for money because they cannot pay their bills.

I am in a unique position where my wife is a nurse. I do not use the State employee medical benefits. That would cost far too much. We have three children. We are forced to file for bankruptcy because what we make is not enough.

I have just been offered another job. However, I was waiting to see what kind of changes would be made to the State salary package. It does not appear any positive changes would be made until 2015, and that would still not be enough.

Others I work with have been State employees for 5 or 10 years and they are suffering. I need to go back to school and to take this other job in the private sector because I accepted a salary reduction of nearly \$10,000 to work for the State. The private sector has offered just over that amount.

I have never before been asked to loan money to fellow employees, because they are living in a place with a weekly rent process.

We may still lose our home, even though my wife works overtime after 12-hour shifts 4 or 5 times a week just to get us by and she is grumpy when she comes home.

Chair Smith:

Thank you for sharing your personal feelings. It always helps us to have personal perspectives. The Committee members were chuckling because we are glad to

know other individuals go home to a grumpy spouse. We all appreciated that statement.

We have had considerable serious discussion today resulting in a consensus that we all want to do something better for our State employees, so I hope you will stay awhile longer.

Gordon Milden:

We are State employees and we live in Nevada. We contribute to society. We shop at local businesses and participate in local activities. If there is a question of where to derive more resources, try to make this a more business-friendly atmosphere and give tax breaks to the private sector.

Demand creates jobs. If you return the cuts that we have had over the past 6 or 7 years, we will have more disposable income to shop at local businesses and increase the demands for the goods and services. That would be a win-win situation.

Chair Smith:

That was a good perspective to hear.

Lou Lombardo, Jr.

I cannot only speak for myself, but for many of the other State employees. Everyone is struggling profoundly.

I have a home and two children, one of whom suffers from autism and is completely disabled. My health insurance went from a monthly premium of \$172 to \$391. That is an increase of 130 percent. That does not address any of the other benefit reductions such as merit and longevity pay. This is not simply a 2.5 percent pay reduction.

It has already affected my son's future. I must provide for my future and his because he will be unable to work. Therefore, my legacy to my son will not be a good one, even though I would give him anything I have.

Does that affect me at the job? Would it affect you? When I heard earlier that PEBP had a \$47 million reserve and yet my insurance premium went up \$219 each month, I feel like someone broke into my home and robbed me. I felt violated.

I had to refinance the home that I have only owned for 3 years or I was going to lose it. Every time I turn a corner, there is another challenge I have to face because of these profound pay cuts and furloughs. I am not a new State employee. I will retire in 3.5 years. The losses we have experienced cannot be recovered.

We work hard and our workloads have increased. Therefore, we have the stress of the job and the stresses of everything else affecting our daily lives. It is unbelievable.

If we were your children, I would say you are guilty of neglect. If I did this to my child, you would charge me with neglect. At times, my wife and I must decide whether we can go 2 days without medications so we can pay a bill or pay our house payment.

Can no money be found in the State budget to help State employees? How much waste and abuse is there inside the budget?

I am here to advocate for myself and other State employees, my family and my son because, when I am dead, what I do here will have a profound effect on my son when he is my age.

Tania Johnson:

I work for the unemployment office. I typically say that we, as State employees are treated like redheaded stepchildren. The morale in our office has decreased significantly. We sometimes feel the individuals who receive the maximum in unemployment benefits are paid more than us.

I began my career in the hospitality industry. I was paid a higher wage and the insurance was phenomenal. However, everyone always said it was great to work for the State, so when I got my State job, I was excited. It took me 1 year to make what it took me 7 years to make in the hospitality industry. Then the salary and benefit reductions occurred.

I am a mother of two children, one of whom has cerebral palsy and is considered legally blind. I cannot utilize the Katie Beckett option under Medicare because I cannot afford the deductible. I went from paying \$25 for a doctor visit to paying \$50 for a visit. It has gone up every year.

My son is now in Texas and I still pay the preferred provider organization costs so that he can have access to whatever health care needs he has. I now pay \$250 for a specialty doctor visit. That has increased from \$150 per visit just 2 years ago.

My daughter has respiratory infections requiring her to take breathing treatments. I have to choose when either of my children or I can go to the doctor.

The results of salary reductions have caused me to lose my condominium and I have slept in my car at times. The cost for an apartment is approximately \$700 each month. For 4 months, our take home pay was only about \$800.

When you are working in a place where you are required to help other people, it makes you not want to go into work because you cannot receive similar assistance. Nevertheless, you still go to work and still try to help those other individuals.

Chair Smith:

Thank you for sharing your story with us. I am sure it is painful to do so publicly and it means a lot to us that you are willing to come forward. We appreciate your service and hope we can do something to make it better.

De Salazar:

I have worked for the State for nearly 24 years. You really need to do something for us. Many need the help more than I do. I have already cashed out my certificates of deposit. I have used my individual retirement account (IRA). There is no money left. I now live paycheck to paycheck. I own a home and I am hopeful I will not lose it like so many other State workers.

We do the work for you and we are good workers. We come to work all the time with our happy faces, even though you have taken so much away from us.

I recently had a knee injury, but I did not go to the doctor because I could not afford it; but I still went to work because I knew I was needed. If our salaries were returned, we would be buying more groceries and doing fun things with our children or grandchildren.

Margo Oliver:

I have been a State employee since 2005. One of things I find interesting is that even though I am at a higher pay grade than when I began, I make a lot less than I did in 2005. I work at two jobs and I am not alone in that.

If we had a living wage, I would not need to work two jobs, which means someone else might have a job. Having a living wage is like preventative medicine. If an office has good morale, efficiency is better. That would likely increase revenue in the form of increased purchasing power, increased sales tax and lower caseloads for programs such as the Supplemental Nutrition Assistance Program (SNAP).

If we can make our workplace more efficient and retain employees that will allow us to meet federal standards, it would avoid federal penalties. That costs the State money. If federal standards were met, the federal government would pay for many additional services.

By helping State employees, you would help the entire State.

Grace Salazar:

I have been a State employee for 37 years because I am dedicated to my job and I like to work. However, over the last 6 years with the multiple benefit reductions, it has been difficult. I work with homeless people, who are less fortunate than we are. My job is to try to find them employment. I also work with homeless veterans. It is such a joy when I am successful in finding these people employment and getting them back into the labor market.

However, lately, I have had to borrow from my IRA to keep "my little home shack." I cannot fill some of my prescriptions because they are too costly. Sometimes I have to borrow money from my older sister, who is also a State employee, because she makes a little more than I do.

We just want a better tomorrow like everyone else.

Chair Smith:

Thank you for all your years of service. I am sure I am speaking for everyone here when I say we are glad you are on our team.

Yaqub Mustafa:

I am a State employee. I applied for a job with the NDOC at the Grant Sawyer State Office Building in 1997. I am still employed by the NDOC. I am a resident in District 1, so I thank Assemblywoman Kirkpatrick for her comments.

I realize it is a tough economy and the State does not have an unlimited source of resources or revenue. It is a difficult situation for everyone involved. Working for the NDOC is a difficult job. As Chair Smith noted, the turnover rate is exceptionally high. I will make myself available in any capacity to seek as much accurate information about the statistics of the turnover rate at the NDOC. Without concrete data, I would surmise the turnover rate is considerably higher now than it was in 1998.

The 2.5 percent return in salary discussed earlier is probably far more significant for employees than a reduction in the number of required furlough days. One benefit item that has not been addressed is the paid rural area differential pay. Most of the NDOC employees in the Las Vegas area work approximately 30 miles north of the city. That is a hardship for younger people because they have to spend so much money for gasoline. Vehicle maintenance needs must also be addressed more often. In the course of perhaps 5 years, a person can put 100,000 miles on their vehicle, mostly because of their daily commute.

One reason I decided to become more involved and bring this information to you, is not so much for myself, but for those who will come after me. When I applied for my job, I was so excited and I can honestly say many good things have happened in my life because of this job. However, at the same time, it is so difficult for young people.

A young man I supervise walked into my office and placed something on my desk. I thought it was a leave request, but it was actually an application for welfare. He is a correctional officer. He is one of the individuals affected by not receiving rural area differential. He was affected early in his career by the furloughs, pays more than \$500 each month for insurance for his wife and children and contributes a large offset for his PERS benefits. A 2-week paycheck involving a furlough day was slightly more than \$700. Yet, he is considered a peace officer and must confront dangerous situations daily. I hope you take all of that into consideration.

Chair Smith:

I want to thank all of those who testified with their personal stories today. It helps us a great deal.

The next budget item is federal Sequestration – the automatic spending reductions enacted by Congress through the Budget Control Act of 2011 (BCA, P.L. 112-25). I would like a report on where we are on Sequestration and what provisions have been made.

Mr. Mohlenkamp:

Sequestration has been under consideration for several months now. Through the roller coaster ride that is the federal government process, we have arrived at the Sequestration for 2013. I will provide an overview of Sequestration and the effects on Nevada. Then I will provide some options for consideration.

Sequestration is “across the board” reductions in program expenditures at the federal program level. The “across the board” nature of the reductions is one of the big challenges for Nevada. Nevada has been making expenditure reductions over several years, but State reductions were made much more selectively.

We have allowed department directors to consider their programs and make recommendations. The Budget Division and the Governor then refer those to the Legislature and ultimately decisions would be made.

The federal government has recently discovered that “across the board” expenditure reductions have their distinct challenges. The Federal Aviation Administration flight controller situation that arose recently is a good example. The federal government has to backtrack and realize that “across the board” reductions can have unintended consequences. In this case, flights were slowed so much it was disrupting flight patterns and other consequences.

I would not be surprised that, as we move forward, the federal government realizes other unintended consequences in the months to come where they will need to reverse course in some capacity.

Sequestration is effective for federal fiscal year (FFY) 2013-2014 and is generally a 5 percent reduction to programs that are not exempted. The education reductions will not be effective until the next school year, or approximately September 2014.

Several major funding streams are exempt from Sequestration. Medicaid and the Children's Health Insurance Program, SNAP, the child nutrition programs, most of the commodity food program, the Federal Pell Grant Program, transportation, foster care, Temporary Assistance for Needy Families and child vaccine programs are all exempt. Those are some of the major exempt programs.

The immediate impacts are those for FY 2012-2013, which will conclude June 30. State agencies have been on notice for several months that this is happening. Directors have been planning and, in some cases, reducing grant awards or placing a hold on hiring of some positions.

The reductions became effective March 1 and therefore, only impact the last 4 months of this biennium. I am not aware of any State agencies that have had to meaningfully reduce positions or restrict funding to subgrantees during this fiscal year. I am not aware of any potential difficulties related to budget closings.

In fact, many State agencies will either not draw the full federal allocation, or have a deferral to not draw on those funds, until the next fiscal year of the next biennium.

Current Sequestration provisions continue through September 30. After that, no one knows what will happen. The reality is that it will either be replaced with some other form of Sequestration including another "across the board" reduction or some form of a more targeted reduction.

The Budget Control Act of 2011 establishes funding caps through September 30, 2021. Therefore, some form of restrictions or limitations is implied going forward to that date, unless the provisions are overturned.

The uncertainty is significant in that when you look at the President's FFY 2013-2014 budget, and compare it to the recommendations of the U.S. Senate or the House of Representatives, there are considerable differences. The Senate and the President's plans are much more aligned than that of the House of Representatives.

The distinctions are significant across many functions, whether it is health and human services, education or other areas. Therefore, it is unclear what amount of federal funding will be available going forward. This is a distinct challenge when

planning or approving the 2013-2015 biennial budget because we only have certainty through the first 3 months of the next biennium. The uncertainty of federal funding is greater than in prior biennia.

The Budget Division made the assumption that the Sequestration reductions continue forward without change. We tried to apply that to what funding would be in the next biennium and then considered the programs that would be most significantly impacted.

The Sequestration impacts hundreds of funding streams and they could be affected going forward. For the most part, any reduction we would see is somewhat mitigated by the fact that not all currently allocated federal money has been spent. Therefore, some of the funds being reduced are funds Nevada has not historically spent.

The basic premise we established is a federal funding reduction of approximately \$60,000 each year. When we considered the true reduction against historical spending, the reduction drops to approximately \$30,000.

Some of the perceived cuts are actually reductions in program growth. I will speak to two specific areas of concern, health and human services and education.

While we do not see an impact in FFY 2013-2014, for the Nevada DHHS, Women, Infants and Children program, there is concern regarding future award reductions and resultant reduction of allocations of sources to provide meals for those in that caseload area. There are also child care concerns. While approximately \$4 million has been added in the Executive Budget to address wait lists in child care, there will be more reductions because of Sequestration. If those continue forward to the next round of reductions, it could have a meaningful impact on reduction of the wait lists.

The Ryan White Comprehensive AIDS Resources Emergency Act grant is one area that initially caused considerable concern. We now have less concern surrounding this grant program. Good drug rebates are available that allow us to maintain the medications for that caseload. As a result of that, and because the grant funds must be used before any other federal funding can be allocated, the reduction in federal funding that may occur in that area is not seen as that problematic.

An area of concern to many states is the provisions for the Low Income Home Energy Assistance Program. We anticipate meaningful reductions in federal provisions for this program that will have considerable impacts on individuals who rely on those funds to meet their energy needs.

The Budget Division focused on two areas within K-12 education. The first is the Individuals with Disabilities Education Act of 2004, which provides special education funding. Meaningful reductions are proposed in this area.

Some areas of slight comfort in this program are that the State has increased resources in special education for the first time in several years. That will help to mitigate some of the impacts of federal funding losses. Whether it will completely offset those losses is unknown.

Impactful reductions in funding are proposed for Title I, Part A of the Elementary and Secondary Education Act known as the No Child Left Behind Act of 2001. Carryover funds that are moving forward from this biennium to the next might partially offset the impact. A reasonable increase of funding has been placed in the ELL and FDK programs.

These issues are problematic, but some funding resources are present to help mitigate a portion of those concerns. There are concerns throughout other departments in the State, but I am hearing they are prepared and making plans should the reductions continue throughout the 2013-2015 biennium.

Assemblyman Hickey:

Given the outline of your testimony and the impacts that may occur on some of the funding streams, what do you anticipate being the greatest difficulty? I assume some flexibility will be needed for some of the unforeseen impacts.

Mr. Mohlenkamp:

Things do not always work out the way we planned. While we build a budget with great care and pride, sometimes things happen after we finish that may cause other reactions. If the federal government had no ability to react to the flight controller reduction consequences, that situation might have continued with further impacts.

State government has limited abilities for moving monies during the interim. A frank discussion is needed, whether only for this interim or long term, to provide tools to

Senate Committee on Finance
Assembly Committee on Ways and Means
May 4, 2013
Page 44

the department directors to identify needs and reallocations of funding that may be needed.

Ultimately, the Legislature needs tools to assist the Executive Branch in meeting those changing needs. When the federal budget is finalized, the State will have more certainty; until then, we will leave here with more questions than answers.

The Department of Administration has proposed Senate Bill 482 to address that intent.

SENATE BILL 482: Revises provisions relating to state financial administration.
(BDR 31-1126)

Having said that, the bill provisions are a long-term solution to flexibility. I would support even a short-term solution.

Assemblyman Anderson:

You had mentioned there was anticipated to be approximately \$60 million annually in federal funding, approximately \$30 million of which the State historically spends. You also stated many of those reductions were in growth of programs. Do we know how much of the funds we were using will be reduced as a matter of reduced growth versus actual allocations?

Mr. Mohlenkamp:

I do not have the information structured in that way. The Budget Division was considering true reduction scenarios. Some funding carries forward, so we look at offsets of increases of federal funding. I can provide that information to your Fiscal Staff.

Assemblyman Anderson:

It would help us understand the true impact on an area, if we knew it would have the ability to carry forward from previous year allocations, or if it would be a true reduction in federal spending.

Mr. Mohlenkamp:

We are working on a more detailed spreadsheet, but there are many complexities in this process. When I provide numbers related to Sequestration, I am also going to

tell you they are wrong, because the only thing that is known with certainty is what will occur in the next 3 months.

Chair Smith:

I do not know how we consider situations to be unintended consequences when budget reductions cause things to happen.

Please stay in contact with our Fiscal Staff in the coming days as we close these budgets concerning the impacts and suggested actions.

Mr. Mohlenkamp:

I will now provide information on what other States are doing to address Sequestration impacts.

Other States are not backfilling the losses in federal funding. Some of the programs we have discussed this morning are also primary concerns in other states. Overall, backfilling of funding is difficult to address, even if the amount of backfill needed were known. Many states have increased funding in certain areas. The increases they had hoped for will be less than planned.

Due to the uncertainty of funding, even targeted flexibility would help.

The Economic Forum met recently and identified limited increases in projected revenue for the State. I suggest additional funds that were targeted to be drawn from the Account to Stabilize the Operation of State Government, also known as the Rainy Day Account, be retained in that account. The 2013-2015 biennium will begin with about \$85 million in the Rainy Day Account. The initial proposal in the Executive Budget was to decrease that amount to approximately \$15 million by the end of the biennium. I suggest increased funding should remain in the Rainy Day Account as a further tool to address future needs.

A Tobacco Master Settlement Agreement payment was received recently at a higher level than projected. I suggest we retain some of that funding in the Fund for a Healthy Nevada rather than spend it in the next biennium. This would be a reserve to address the unknowns in the DHHS field, and as a backstop against any future needs that may arise.

Senate Committee on Finance
Assembly Committee on Ways and Means
May 4, 2013
Page 46

The Executive Branch does not intend to set aside a pool of funding as a recommendation, other than those already mentioned.

There are several long-term concerns. There are a few budgetary areas where the Executive Branch and your Fiscal Staff need to be diligent. One of those is maintenance of effort concerns. We need to be cognizant that if we backfill any funds, we understand the long-term ramifications.

We need to advocate for federal flexibility through both the Executive and Legislative Branches and to work with our representatives in Washington, D.C., to obtain federal flexibility.

Nevada has shown amazing fiscal responsibility over the past several years and that must continue through these uncertain revenue streams.

Assemblywoman Carlton:

In a recent subcommittee budget closing, Senator Kieckhefer and I discussed Sequestration because one of the decision units we were considering included the possible requirement of backfilling a need, or whether to adapt a wait and see attitude.

I understand the need for flexibility. There have been a few times when we have placed language in a bill to allow a backfill of funding. However, and I think I can speak for most members on this Committee, we want input on backfill decisions. We want to be there to help when needs arise, but we determine where money really needs to be allocated. If we allocate it to the Executive Branch and if, under flexibility, it is moved to another budgetary area, we will not be happy. It is a consensus process.

I agree with the proposal concerning the Rainy Day Account because a Special Legislative Session is required to add funding in the Account, if the Legislature has adjourned *sine die*.

Senate Committee on Finance
Assembly Committee on Ways and Means
May 4, 2013
Page 47

Chair Smith:

I agree with Assemblywoman Carlton. Seeing no further business to come before the Committee at this time, the meeting is adjourned at 11:02 a.m.

RESPECTFULLY SUBMITTED:

Cynthia Clampitt,
Committee Secretary

APPROVED BY:

Senator Debbie Smith, Chair

DATE: _____

Assemblywoman Maggie Carlton, Chair

DATE: _____

<u>EXHIBITS</u>				
Bill	Exhibit		Witness / Agency	Description
	A	1		Agenda
	B	4		Attendance Roster
	C	7	Fiscal Analysis Division, LCB	Budget Closings, Senate Finance and Assembly Ways and Means Committees Meeting Jointly Statewide Decision Units dated May 4, 2013
	D	3	Keith Uriarte	Written Testimony