

**MINUTES OF THE
LEGISLATIVE COMMISSION'S BUDGET SUBCOMMITTEE
Seventy-Eighth Session
January 29, 2015**

The Legislative Commission's Budget Subcommittee was called to order by Chair Anderson at 8:34 a.m. on Thursday, January 29, 2015, in Room 4100 of the Legislative Building, 401 South Carson Street, Carson City, Nevada. The meeting was videoconferenced to Room 4401 of the Grant Sawyer State Office Building, 555 East Washington Avenue, Las Vegas, Nevada. Copies of the minutes, including the Agenda ([Exhibit A](#)), the Attendance Roster ([Exhibit B](#)), and other substantive exhibits, are available and on file in the Research Library of the Legislative Counsel Bureau, and on the Nevada Legislature's website: www.leg.state.nv.us/App/NELIS/REL/78th2015. In addition, copies of the audio or video of the meeting may be purchased, for personal use only, through the Legislative Counsel Bureau's Publications Office (email: publications@lcb.state.nv.us; telephone: 775-684-6835).

ASSEMBLY COMMITTEE MEMBERS PRESENT:

Assemblyman Paul Anderson, Chair
Assemblyman John Hambrick, Vice Chair
Assemblyman Derek Armstrong
Assemblywoman Teresa Benitez-Thompson
Assemblywoman Irene Bustamante Adams
Assemblywoman Maggie Carlton
Assemblywoman Jill Dickman
Assemblyman Chris Edwards
Assemblyman Pat Hickey
Assemblywoman Marilyn K. Kirkpatrick
Assemblyman Randy Kirner
Assemblyman James Oscarson
Assemblyman Michael C. Sprinkle
Assemblywoman Heidi Swank
Assemblywoman Robin L. Titus



SENATE COMMITTEE MEMBERS PRESENT:

Senator Ben Kieckhefer, Chair
Senator Michael Roberson, Vice Chair
Senator Pete Goicoechea
Senator Mark Lipparelli
Senator David R. Parks
Senator Debbie Smith
Senator Joyce Woodhouse

STAFF MEMBERS PRESENT:

Cindy Jones, Assembly Fiscal Analyst
Mark Krmpotic, Senate Fiscal Analyst
Stephanie Day, Principal Fiscal Analyst
Alex Haartz, Principal Fiscal Analyst
Carol Thomsen, Committee Secretary
Cynthia Wyett, Committee Assistant

Following call of the roll, Chair Anderson opened public comment and there was no public comment to come before the Subcommittee. Chair Anderson recognized James R. Wells, CPA, Executive Officer, Public Employees' Benefits Program (PEBP).

Mr. Wells indicated that the overview of the Governor's proposed budget was contained in [Exhibit C](#), "Public Employees' Benefit Program (PEBP), Presentation to: Legislative Commission's Budget Subcommittee, January 29, 2015." Mr. Wells stated he would address many of the comments and questions that had arisen over the past few weeks regarding the Active Employee Group Insurance Subsidy (AEGIS) premium holiday and how that would affect the plan reserves. Overall, said Mr. Wells, there were few changes proposed in the PEBP budget for the upcoming biennium.

Mr. Wells said he would explain some of the complexities in budgeting and setting rates for PEBP. For years, the inflation experienced by PEBP was significantly higher than the Consumer Price Index (CPI). It became clear that a long-range policy would be needed to keep PEBP solvent and sustainable. During fiscal year (FY) 2010, in response to a shortfall in the state budget, the Board of the Public Employees' Benefits Program (PEBP Board) was asked to maintain the level of state subsidized premium costs over the next biennium at the same level as those of the previous biennium. That request was because of the effect on revenues caused by the great recession.

Because of that request, Mr. Wells said the PEBP Board made some very difficult decisions about changes to the plan design that it hoped would result in behavior changes by participants. By engaging participants to become better health-care consumers, the PEBP Board hoped to control costs going forward. Indications were that significant positive behaviors had occurred, and PEBP's inflation rate had substantially decreased under the current self-funded consumer-driven health plan (CDHP).

According to Mr. Wells, when the agency budget request was being prepared, the PEBP Board asked its actuaries to project the claims experience costs over the upcoming three years. While those assumptions were updated as the PEBP Board prepared to establish rates during the legislative session, the actuaries continued to make projections that covered the next 27 months. That was an extremely long period in the actuarial world where trend was exponential over time. Mr. Wells explained that actuaries had to estimate the potential effect of changes in technology, innovations in medicine, inflation, usage, and human behaviors over that period. He noted there were several factors that could change during those months that could affect the results of the actuarial estimates.

Continuing, Mr. Wells said one factor that had affected plans throughout the country was that the nation was experiencing some of the lowest inflation rates in 50 years. The inflation rate had dropped from double-digit increases to low single-digit increases; many plans were experiencing increases in the 3 percent to 5 percent range. While some had attributed that slower growth to the effects of the Affordable Care Act (ACA), others attributed it to medical inflation being an indicator of the overall economy. According to Mr. Wells, as the great recession affected the country, medical inflation did not fall as fast as inflation in other sectors, but had eventually stopped decreasing. As the economy continued to improve, medical inflation was again expected to increase, but whether that inflation would rise to the double-digit figures experienced prior to 2010 remained under debate. One side effect of the lower inflation was that many plans throughout the country experienced higher-than-expected reserves.

A second factor, said Mr. Wells, was usage patterns because PEBP had changed to a self-funded consumer-driven health plan, which was considered a high-deductible health plan under IRS rules. The projections had varied more than anticipated by the actuaries when changing from the previous preferred provider organization (PPO) to the consumer-driven health plan.

According to Mr. Wells, the third factor was that over the last four years, PEBP's third party administrator—last replaced on July 1, 2011—and the PEBP Board had been very proactive in adding cost-saving measures when negotiating savings with out-of-network providers. The Board created a "center of excellence" plan for bariatric and transplant surgeries, which saved the plan a significant amount on those very high-cost surgeries.

Mr. Wells reported that it was very difficult for actuaries to predict certain plan experiences and major market shifts. For example, over a 45-day period in the fall of 2013, three premature babies had been born under the CDHP coverage and those charges approached \$1 million.

In 2014, a series of new drugs was introduced to treat hepatitis C, said Mr. Wells. Those new drugs had cure rates of over 90 percent compared to the 50 percent to 70 percent cure rate of the older therapies. The problem was that the new drugs came with higher costs. The cost of the new drug therapies was between \$28,000 and \$35,000 a month, and the \$85,000 treatment cost propelled the new drug, Sovaldi, to the number one, most expensive drug on the plan in the second quarter the drug was available on the market. The projection was that approximately four million people in the United States suffered from hepatitis C. There was also the potential that up to 10 percent of the "baby boomer" population suffered from hepatitis C without being aware that they had the disease.

Page 4 of [Exhibit C](#), said Mr. Wells, represented the current budgeted funding for fiscal year (FY) 2015. The Public Employees' Benefits Program (PEBP) had a self-funded consumer-driven health plan (CDHP) for which the state was responsible for all costs. When costs were lower than projected, PEBP generated surplus or excess revenues; when costs were higher than projected, there would be a deficit and the reserves would be used to make up the premium costs in future years. Furthermore, the two health maintenance organization (HMO) plans offered by PEBP were "experience rated," which meant the rates were based on the claims that were incurred by participants, not on the carrier's entire "book of business."

Continuing, Mr. Wells stated that the chart on the right side of page 4 of the exhibit depicted the use of funds, which indicated that the CDHP comprised 44 percent of the entire PEBP budget. That included the administration costs, the health savings account (HSA), the health reimbursement arrangement (HRA), and the medical and dental claims. He noted that 23 percent of the costs were for fully insured plans, which represented the HMO plans that were available in all 17 counties throughout the state, as well as life insurance and

long-term disability insurance for employees. Mr. Wells said PEBP would spend only 2 percent of its budget on administrative costs and the remaining 31 percent for FY 2015 was projected reserves.

Mr. Wells stated that page 4 of the exhibit also contained the graph that represented the makeup of the revenues for PEBP. The reserves that carried over from one year to the next were the carryforward, which accounted for approximately 32 percent of the FY 2015 budget. The state subsidy, which was the state's contribution for employees and retirees, accounted for 47 percent of the revenues or 69 percent of PEBP's annual premiums. Employee and retiree contributions, nonstate retiree contributions, and local government subsidies for former employees accounted for approximately 21 percent of PEBP's total revenues, or 31 percent of PEBP's annual premiums.

Page 5 of [Exhibit C](#) depicted the projected revenues and expenses for the operating budget for FY 2015. Mr. Wells pointed out that PEBP was projecting lower revenues than originally budgeted, and that was because premiums for the current fiscal year were lower than the amount approved by the 2013 Legislature. The reason for the lower premiums was that PEBP had experienced a lower benefit trend during the current year than that projected for the 2013 Legislature. That reduction was also reflected in the lower self-funded claim costs and fully insured premium costs. Mr. Wells noted that the reduction in reserves represented a plan reduction of the surplus or excess reserves during the current claim year.

Mr. Wells explained that a 10-member board governed PEBP, with members appointed by the Governor. As shown on page 6 of [Exhibit C](#), the vision of the PEBP Board was to operate a well-managed program that promoted a healthy population and protected the membership from catastrophic financial loss. Page 8 depicted an overview of PEBP funding sources. There were three budget accounts administrated by PEBP. The account over which the PEBP Board had control was the operating budget, budget account (BA) 1338. The other two accounts were pass-through funds that were comprised of state funds in accounts managed by PEBP. Those two budget accounts, BA 1368, Retired Employee Group Insurance (REGI), and BA 1390, Active Employee Group Insurance Subsidy (AEGIS), represented the subsidies paid by the state for active employees and retirees.

Mr. Wells said under *Nevada Revised Statutes*, the PEBP Board had broad discretion to establish the plan design, set rates, and allocate the state's legislatively approved contributions for employees and retirees. Prior to 2004, the state subsidy was the same for every employee, and the employee was

responsible for paying the cost of insuring dependents. Beginning in 2004, PEBP provided subsidies for dependents, which was reflected as a percentage of premiums. Once the PEBP Board had set the plan design and rates, the amount that was necessary to fund the state subsidy portion of the plan—based on the projected plan and tier selection by participants—was converted into an aggregate average amount per person. That aggregate average for state employees became the assessment amount that was included in the session bill approved by the Legislature each biennium. Should the Legislature approve less funding, the PEBP Board would decrease the subsidization percentages or decrease the plan benefits to conform to the available funding.

The assessment amount per active employee was paid from each operating budget throughout the state where employees were enrolled in the PEBP plan, and those funds were deposited in the Active Employee Group Insurance Subsidy (AEGIS) account. Mr. Wells stated that the AEGIS funding was depicted on page 8 of [Exhibit C](#). The amounts transferred from AEGIS to PEBP's operating budget account depended on the plan and tier selections made by individual employees. Providing all PEBP's projections were accurate, the flat dollar amount that was deposited in the AEGIS account on a per-person basis would equal the amount taken out of the AEGIS account and transferred to the PEBP operating budget.

Mr. Wells explained that the final legislatively approved budget for the 2015 Legislative Session would include the rates approved by the PEBP Board for the first year of the 2015-2017 biennium. However, the rates for fiscal year (FY) 2017 would be built using projections from the actuaries based on market trend projections over the upcoming two years. Should medical inflation differ from that projected by the actuaries, the actual rates in the second year of the biennium could be either higher or lower than the rates projected for the 2015 Legislature. Those differences would be reflected in the amount paid by employees and retirees and the amount of subsidy paid by the state.

Mr. Wells indicated that current fiscal year rates were lower than the rates projected in 2013. In fact, state employees and retirees participating in the consumer-driven health plan (CDHP) were paying less in FY 2015 than they paid in FY 2012. Mr. Wells said that also resulted in lower subsidies drawn from the Active Employee Group Insurance budget account. Because the amount deposited by the state was determined by the Legislature, there was no way for the state to take advantage of the lower premium without legislative action. That, said Mr. Wells, was the premise of the AEGIS "premium holiday."

Mr. Wells explained that a balance in the AEGIS budget account was unintended, and that balance would be reflected as a reduction in the assessment for the upcoming biennium. Similarly, any deficit was reflected by adding to the amount of the assessments. Over the course of time, the AEGIS account had experienced both surpluses and deficits.

According to Mr. Wells, the Retired Employee Group Insurance (REGI) budget account operated in the same manner. Once the plan benefits and rates were set, PEBP determined the amount of the subsidy that would be required from the state and deposited that amount in the REGI account, as depicted on page 8 of [Exhibit C](#). For retirees, the total amount was converted to a percentage of active employees' payroll. That money was deposited in the REGI account and when there were excess funds, the excess was invested in the State Retirees' Health and Welfare Benefits Fund, which was managed by the Public Employees' Retirement System of Nevada. Mr. Wells explained that funds had been invested in the State Retirees' Health and Welfare Benefits Fund in 2007; however, because of the great recession, the vast majority of those funds were withdrawn in 2010 and the current balance in the Fund was approximately \$1 million.

Mr. Wells said he would explain the difference between an AEGIS "holiday" and a "premium holiday." An AEGIS holiday eliminated the deposits made by the state into the AEGIS budget, BA 1390, and reduced the amount available to transfer to PEBP's operating budget, BA 1338, based on the plan and tier selected by participants. Because the amount deposited during the current fiscal year was higher than the amount transferred out, and because of lower medical inflation, the current projection was that the AEGIS budget account would have a surplus of approximately \$27.3 million at the end of FY 2015. That surplus was the basis for the AEGIS holiday.

A premium holiday, explained Mr. Wells, reduced all premium revenues being deposited into the operating budget account (BA 1338), including subsidies from AEGIS and REGI; premium revenue, which consisted of state employee and retiree contributions; nonstate retiree contributions; and local government subsidy contributions. A premium holiday reduced the surplus, or excess reserve, in the operating budget account, which would be committed for another use by the PEBP Board and result in rate increases for participants.

Because the state paid the vast majority of the premium cost for employee medical care, and paid over half of the premium cost for retiree medical care, the state would benefit by any premium holiday. Mr. Wells noted that local government employers also benefitted from a premium holiday. The premiums

for local government, or nonstate retirees, had increased significantly over the past approximately six years. That was because nonstate retirees were members of the retiree-only pool; those retirees had been requesting additional funding to mitigate the premium increases for many years. Mr. Wells said it appeared insensitive to give their former employers a premium holiday when their retirees continued to request additional funding.

Mr. Wells reported there were a significant number of participants who did not benefit from a premium holiday because some employees and retirees did not pay premiums. Retirees on the Medicare Exchange purchased individual plans to supplement Medicare. Mr. Wells stated PEBP had no control over those retirees and could not offer them a premium holiday.

Page 9 of [Exhibit C](#) showed the percentage of subsidy for individual employees and retirees. Mr. Wells said an active employee paid 7 percent of the base plan, or the consumer-driven health plan (CDHP), and the state subsidized the remaining 93 percent. For participants of the HMO plans, the state subsidy was 78 percent and the employee paid the remaining 22 percent. The state subsidized less for dependents than for primary employees: 73 percent of the CDHP premium for dependents and 58 percent of the dependent cost for HMO plans. The figures depicted in the exhibit for retirees were based on 15 years of service, which was referred to as the "base subsidy" for retirees. Retirees who retired prior to January 1, 1994, received a flat-rate subsidy regardless of their years of service. Those who retired after 1994 received a subsidy based on years of service.

Continuing his presentation, Mr. Wells referred to page 10 of the exhibit, which depicted the state subsidy composite percentage as projected for the current biennium and the upcoming biennium. The state continued to contribute approximately 82 percent of the employee costs of health insurance, and subsidized 55 percent for non-Medicare retirees enrolled in either the HMO plans or the CDHP. The state subsidy for Medicare retirees was 61 percent, which was based on the amount deposited in a retirees' health reimbursement arrangement (HRA) compared to the average cost of the plan the retiree purchased under the Medicare Exchange.

Mr. Wells said page 12 of [Exhibit C](#) also showed a plan overview of the participants who were eligible to participate in PEBP. The first and foremost eligible participants were state employees, which included the employees of the Nevada System of Higher Education, Public Employees' Retirement System, the Legislative Counsel Bureau, legislators themselves, and members of all boards and commissions. Retirees from all state entities could join PEBP, either at

retirement or by reenrolling during any open enrollment period, which occurred in the month of May each year with an effective date of July 1. Retirees were allowed one break in service: retirees could have a second career that included insurance through their current employer and could purchase insurance through PEBP during an open enrollment period after completion of their second career.

Mr. Wells explained that nonstate participants were rated separately; there were two separate pools, one for state employees and retirees, and the second for nonstate employees and retirees, which was a statutory provision. Nonstate employees could participate in PEBP if their employer contracted with PEBP. Nonstate retirees of employers who contracted with PEBP could be covered by the plan. He noted that a group of nonstate retirees joined the plan in 2003 when first allowed to do so and they remained with the program to date. If a retiree from that group left the PEBP plan they would not be allowed to reenroll. Mr. Wells explained that the nonemployee group was now a "retiree only" pool that continued to shrink in size. There were originally 2,500 employees in that pool in 2003 when nonstate retirees were allowed to enroll in PEBP, but today there were fewer than 12 retirees in the pool.

Page 13 of [Exhibit C](#), said Mr. Wells, displayed the actual enrollment for fiscal year (FY) 2014, the projected enrollment for the current fiscal year, and the projected enrollment for the upcoming biennium. Mr. Wells said The Executive Budget included a flat enrollment of approximately 40,600 participants. However, as of January 1, 2014, there were approximately 41,180 participants, which was reflective of a slight increase in state employees and state retirees, offset by a small decrease in total nonstate retirees. The total enrollment peaked at approximately 44,280 participants in 2009 and declined by 8.3 percent through 2014. The enrollment was showing a slight upward trend for the current year.

Mr. Wells indicated that state employee enrollment peaked at 26,530 in June 2008 and decreased until the current plan year when the addition of staff from several different agencies, primarily the Department of Health and Human Services (DHHS), reversed that six-year downward trend. Mr. Wells said the PEBP Board would review those enrollment numbers as it commenced the internal rate-setting process in the next few months and would update those numbers prior to finalizing its budget for the 2015 Legislature.

The figures for nonstate retirees, as shown on page 13 of the exhibit, indicated that many of those retirees were projected to leave the program because the premiums for the nonstate pool had become so expensive. Mr. Wells stated that as of January 1, 2015, there were 2,400 participants enrolled in either the

consumer-driven health plan (CDHP) or one of the two HMO plans, and approximately 5,000 participants were enrolled in the Medicare Exchange plans. The figures on page 13 of the exhibit depicted a decrease in early nonstate retirees to 1,951 in fiscal year (FY) 2016 and to 1,411 in FY 2017; however, Mr. Wells believed those projections were somewhat "aggressive." There were currently between 30 and 50 retirees per month either transferring to the Medicare Exchange or leaving the program.

As of January 2011, said Mr. Wells, PEBP believed there were approximately 1,000 retirees not eligible for premium-free Medicare Part A because they failed to earn 40 quarters under Social Security. Prior to 1986, state employees could not pay into Medicare; therefore, those retirees were not eligible for premium-free Part A. Mr. Wells said PEBP did not require those retirees to use the Medicare Exchange, but continued to insure them beyond the age of 65 on one of the PEBP plans. As of January 15, 2015, there were 574 retirees in that group.

Mr. Wells said PEBP staffing levels had remained at 32 full-time-equivalent (FTE) positions over the biennium.

Continuing his presentation, Mr. Wells stated that page 14 of the exhibit contained an overview of the current benefit options available to employees and retirees. Active employees and non-Medicare retirees had a choice of the CDHP coupled with either a health savings account (HSA) or a health reimbursement arrangement (HRA). For retirees who resided in Nevada, there was the option of joining one of the health maintenance organization (HMO) plans. The southern Nevada HMO plan covered four counties, and the second HMO plan covered the remaining counties throughout the state. The premise behind the plans was that participants had a choice. Participants could pay a lower premium cost with the CDHP and pay higher copays to the doctor or pay a higher premium and have lower and more manageable out-of-pocket costs for services by enrolling in one of the HMO plans.

According to Mr. Wells, the CDHP met the IRS definition of a high-deductible health plan. For tax purposes, contributions to a participant's HSA were not subject to income tax as long as those funds were used for medical care. Medicare retirees who were eligible for premium-free Part A could enroll in a Medicare Advantage or Medicare supplement (Medigap) plan and a Part D prescription drug plan through a private market Medicare exchange. Funds for those Medicare retirees were paid into a HRA account for each participant to offset the costs of purchasing the policies. Per Mr. Wells,

PEBP offered a health and wellness program for active employees enrolled in the CDHP and also offered a dental plan for active and retired employees.

Page 15 of [Exhibit C](#) contained the list of benefit options offered by PEBP. Mr. Wells stated that PEBP also offered participants a basic life insurance plan, long-term disability, and a series of voluntary products as follows:

- Flexible spending accounts – medical, limited purpose, and dependent care.
- Additional life insurance.
- Long-term care.
- Short-term disability.
- Home and auto insurance.

Mr. Wells referred to page 16 of the exhibit, which depicted plan design enhancements. Recognizing that the consumer-driven health plan (CDHP) experience had been far better than initially projected, the PEBP Board approved enhancements to the plan design in November 2013. The Board opted to use reserves to fund those enhancements for fiscal year (FY) 2015. In April 2014, as the PEBP Board was setting rates for the current plan year, the Board allocated reserves to cover the majority of those benefits going forward for the upcoming biennium. Mr. Wells explained that the Board was using the excess reserves to fund the enhancements for the next two plan years.

The first enhancement, said Mr. Wells, was to provide additional contributions to health savings accounts (HSA) and health reimbursement arrangement (HRA) accounts for participants in the CDHP. The enhancement consisted of an additional \$400 for each primary participant and \$100 for each dependent up to a maximum of three dependents. That amount was added to the \$700 HSA received by active employees or retirees as the base contribution, along with an additional \$200 for each dependent. The enhancements also provided for one-time Medicare retiree HRA contributions based on \$2 per month, per year of service. The enhancements also lowered the deductible on the CDHP from \$1,900 for an individual and \$3,800 for a family to \$1,500 for an individual and \$3,000 for a family. The enhancements would increase the CDHP coinsurance rate or the amount paid by the plan after the employee or retiree met the deductible from 75 percent to 80 percent. An annual preventive vision examination was added for the CDHP participants; the dental out-of-pocket

maximum was increased from \$1,000 per year to \$1,500; and life insurance was increased from \$10,000 to \$25,000 for state employees and from \$5,000 to \$12,500 for retirees.

Mr. Wells stated that for plan year 2015 only, the PEBP Board also approved use of reserves for additional HRA contributions for nonstate retirees in the amount of \$400 for each primary retiree and \$100 for up to three dependents under the self-funded CDHP. The reserves were also used to fund the Medicare Part B premium credit, which was provided to those who were not eligible for premium-free Part A or that covered non-Medicare dependents enrolled in the CDHP or one of the HMO plans. Mr. Wells indicated that PEBP provided a credit for purchase of Part B, but required that the retiree make that purchase.

According to Mr. Wells, the reserves also funded NVision Health and Wellness Program incentive credits, which were \$50 for the current year for the CDHP and HMO participants. The nonstate retiree HRA contributions were intended as one-time contributions, and Part B and wellness incentives would be built into future rates. Reserves were generated almost exclusively by the CDHP plan. The higher premiums and lower claims on the HMO plans benefitted the carriers. Mr. Wells explained that when premiums were in excess of the claim amounts paid, PEBP would not receive a refund from the carriers; however, participants would usually pay lower future rates. The surpluses from the CDHP plan went into excess reserves. Over the course of the past approximately four years, PEBP had frozen the HMO rates for each year using additional funds from the Active Employee Group Insurance Subsidy (AEGIS) budget account.

Assemblywoman Bustamante Adams asked Mr. Wells whether the PEBP Board made the decisions regarding enhancements from reserves or whether the Board solicited feedback from participants. She also asked about the percentage of suggestions that were incorporated in the Board's decisions.

Mr. Wells replied that plan design changes were discussed via a public process. The PEBP Board held two public meetings in the fall of each year to identify what, if any, plan design changes had been requested, either through participant feedback or by the Board. The suggestions were placed on the agenda and were then discussed to determine the cost of those suggestions; there was also opportunity for public feedback at the meetings. The Board then reviewed the results of the meeting and made the final decision about which suggestions would be incorporated into the plan design for the next year.

Assemblywoman Bustamante Adams asked whether the PEBP Board documented the suggestions provided by participants and what percentage of those suggestions had actually been incorporated into the plan design. She wanted to ensure that when participants provided feedback that the Board actually took those suggestions and incorporated some into the plan design.

Mr. Wells stated that there was no formal process for documenting requests for benefit enhancements submitted by participants and no record of the percentage incorporated into the plan design. In general, it was widely requested that the PEBP Board change the 75:25 percent coinsurance split back to 80:20, which was the split prior to 2011. The deductible had always been one of the stumbling blocks for employees on the consumer-driven health plan (CDHP), and participants had also requested dental enhancements over the years. Mr. Wells indicated that the Board had listened to participants and incorporated many suggestions into plan design changes.

Assemblywoman Carlton stated that the Interim Retirement and Benefits Committee had heard testimony at its January 16, 2014, meeting from Leslie Johnstone, Principal, LAJ Consulting, about the focus group conducted in 2013 to discuss and garner opinions and impressions of PEBP participants about the program. Assemblywoman Carlton stated that the focus group discussed out-of-pocket expenses for participants, whether participants actually understood the plan, and participants' opinions of the benefit structure. Assemblywoman Carlton believed it was very enlightening to learn how participants viewed the benefits offered by PEBP, which were subsidized by the state. She stated that she would be happy to provide copies of those minutes to other members of the Subcommittee upon request.

Continuing his presentation, Mr. Wells referred to page 18 of [Exhibit C](#), which depicted the NVision Health and Wellness Program. The programs goals were as follows:

- Inform participants of their health risks.
- Improve participants' health and quality of life.
- Reduce avoidable claim costs associated with preventable conditions.

Mr. Wells stated that the participation rate in the wellness program had been significantly lower than anticipated by PEBP; the current rate was approximately 35 percent. Because of that, the PEBP Board had elected to focus on participation in the upcoming biennium. For a participant to be eligible for the

\$50 per month premium incentive, employees and retirees in the CDHP or the HMO plans would need to register for the program, complete a health assessment questionnaire, obtain a biometric screening, visit a physician for an annual wellness checkup, and have their teeth cleaned. Mr. Wells said the biometric screening included body mass index, blood pressure, triglycerides, cholesterol, glucose, and cotinine for tobacco use. It was important to note that preventive screenings, including medical and dental checkups, were covered 100 percent by the plans and were not subject to deductibles and coinsurance.

Page 19 of [Exhibit C](#), said Mr. Wells, contained information about the results PEBP had noted because of the wellness programs. Participants in the high-risk category, based upon their responses to the health assessment questionnaire and biometric screening, cost on average \$5,518 per employee per year. There had been a 2 percent reduction in the number of participants in that category from 2012 to 2013. Participants in the moderate-risk category remained flat at 42 percent at a cost of approximately \$4,250 per employee per year. Participants in the low-risk category cost approximately \$3,319 per employee per year. There had been an increase in 2013 in the number of persons who were considered low risk.

Mr. Wells said page 21 of [Exhibit C](#) contained the funding recommendations in The Executive Budget. The budget request was \$950.6 million for the 2015-2017 biennium and that was flat compared to the request for the 2013-2015 biennium. The request for the upcoming biennium was actually \$18.8 million less than the amount requested for the 2011-2013 biennium. Most of that reduction was a reflection of the decreased enrollment, particularly the nonstate participant enrollment and the continued migration of retirees over the age of 65 to a Medicare Exchange. Mr. Wells said the reduction was not indicative that PEBP was providing fewer benefits or that there was some extra source of money available in the plan.

According to Mr. Wells, state subsidies made up approximately 51 percent of PEBP funding sources over the course of the biennium, with employee and retiree contributions, as well as nonstate employer contributions, making up approximately 27 percent. Because PEBP was attempting to lower the amount of the excess reserves over the upcoming biennium, the carryforward would be 20 percent. Other funding sources included retiree drug subsidies and drug rebates received from the pharmacy benefit manager.

Continuing, Mr. Wells stated that page 22 of the exhibit depicted the expenses for PEBP over the upcoming biennium. He indicated that 57 percent of expenses were associated with the cost of the consumer-driven health plan (CDHP), which included medical and dental claims, health savings account (HSA) and health reimbursement arrangement (HRA) contributions, as well as the administrative costs for leasing the network and paying the claims administrator. Mr. Wells stated PEBP also offered fully insured coverage, which included HMO plans, life insurance, and long-term disability plans and represented approximately 25 percent of its expenses. The operating costs for PEBP were approximately 1 percent and reserves were projected at approximately 17 percent.

Mr. Wells informed the Subcommittee that page 23 of [Exhibit C](#) contained the Governor's recommended budgeted reserves for the upcoming biennium. The figures for the actual reserves in fiscal year (FY) 2014 were included, along with the budgeted and projected figures for FY 2015. Those figures would be the starting point for the reserves for the 2015-2017 biennium. There were three required reserves in the program. The first was the Incurred But Not Reported (IBNR), which covered claims that were incurred during the plan year, but not submitted or paid by the claims administrator until after the year had ended. A calculation from the actuaries provided 95 percent probability that the reserve would cover all claims submitted for the plan year. Mr. Wells noted that the *Nevada Revised Statutes* required that claims be submitted within 12 months. There was also a catastrophic reserve, said Mr. Wells, and the calculation from the actuaries provided 95 percent probability that the plan would remain fiscally solvent. There was an HRA reserve based on the actual available balance of employee and retiree HRA accounts at the end of the plan year. Any reserves in excess of those three required accounts would be rebated to participants through lower premiums, increased HSA and HRA contributions, and benefit enhancements in future years.

The legislatively approved budget for the 2013-2015 biennium included higher catastrophic reserves than the actuaries believed would be required. Mr. Wells stated that was partly because of the volatility of the plan as PEBP converted from the previous preferred provider organization plan to the new consumer-driven health plan (CDHP). It was also because of the speed with which the new claims administrator processed payments. Mr. Wells stated there was a shorter turnaround time with the new claims administrator, which drove the decrease in the IBNR reserve because there were fewer claims that required processing at the end of the year.

Page 24 of the exhibit depicted a history of the reserves since the plan was created by the 1999 Legislature. Mr. Wells said that while IBNR had been fully funded for the last 11 years, in FY 2003 the IBNR was not fully funded, and in FY 2002 supplemental appropriations were required to keep the program solvent and pay the bills. That led to the creation of the catastrophic reserve in 2005 and to much more conservative actuarial estimates. There were also some benefit plan design changes that were incorporated in fiscal year (FY) 2004, which began the creation of the excess reserves. Mr. Wells stated that PEBP expected to end the current fiscal year with approximately \$62 million in excess reserves, which had been allocated as benefit enhancements for the next two plan years.

Mr. Wells said PEBP had recently received information that for the first six months of the plan year, the plan costs were approximately 23 percent higher than they were for the same period last year. He noted PEBP could suffer a much higher inflation rate in the current plan year than it had experienced in the past.

Page 25 of the exhibit listed the maintenance decision units that were included in the PEBP budget. Mr. Wells stated that decision unit Maintenance (M) 101 provided inflationary increases, which were based on actuarial trend projections, historical information, and contract maximum increases. The projection was that medical and prescription drug claims would increase by 6 percent in both years of the upcoming biennium. Dental claims were expected to increase by 3 percent, with HMO premiums increasing by 6 percent in FY 2016 and 8 percent in FY 2017. There were no projected increases in the life insurance premiums over the upcoming biennium. Long-term disability had an inflation factor in the contract at 7.25 percent for FY 2016 with no inflation factor for FY 2017. The contract extended past the end of the next biennium. Mr. Wells stated the proposed inflation increases were comparable to what PEBP had experienced during the current plan year.

Mr. Wells noted that the actuaries had set the inflation projections for the current plan year at 6 percent. When the PEBP Board set the rates, it did so without building in an inflation factor, which was an attempt to use some of the excess reserves that had accumulated. However, Mr. Wells opined that inflation might siphon off more than predicted by the actuaries, depending on the claims trend. The HMO premiums were set with an inflation factor of 6 percent for FY 2016 and 8 percent for FY 2017.

Page 26 of [Exhibit C](#) showed decision unit Maintenance (M) 102, reserve adjustments based on actuarial estimates. Mr. Wells stated that decision unit M-103 addressed plan design enhancements over the biennium, and decision unit M-104 was the Medicare Exchange inflation. That decision unit would increase the contribution to each participant's HRA by \$1 per month, per year of service, to a base amount of \$12 in the second year of the biennium.

Mr. Wells said page 27 of the exhibit showed decision units M-200, enrollment changes for state employees and retirees, and decision unit M-201, enrollment changes for nonstate employees and retirees. The current budget was the first time PEBP attempted to determine the effect of enrollment changes between the state and the nonstate pools. Decision unit M-200 was reflective of what PEBP expected to experience in changes for the state employee and retiree populations, and decision unit M-201 was reflective of the decrease in nonstate enrollment because participants were leaving the plan or moving to the Medicare Exchange; there was a significant reduction in decision unit M-201. Mr. Wells explained that decision unit M-200 also included an adjustment to the revenue allocation to align the revenues from contributions and state subsidies to the appropriate level according to projections.

Mr. Wells indicated that page 28 of the exhibit identified the federal mandates, most of which had been created by the Affordable Care Act (ACA). Effective for plan years that started on or after January 1, 2014, which included the current PEBP plan year that commenced on July 1, 2014, the ACA prohibited waiting periods from exceeding 90 calendar days.

Mr. Wells explained that the current *Nevada Revised Statutes* (NRS) stipulated that an employee had to wait to enroll in PEBP until the first of the month after completing 90 days of employment. Unfortunately, said Mr. Wells, that exceeded the 90 calendar days stipulated by the ACA, and the federal government refused to change that stipulation and recognize the first of the month after completing 90 days as an acceptable alternative. Because PEBP started and ended coverage on the first of the month, and the 90-day waiting period stipulated by the ACA trumped the NRS, the PEBP Board created a regulation where employees had to wait to enroll until the first of the month after completing 60 days. Mr. Wells stated that at no point in time under the current PEBP regulations would a newly hired employee wait longer than 90 days for coverage.

However, said Mr. Wells, the ACA also prohibited discrimination in favor of highly compensated employees. Current NRS contained a provision that those faculty members within the Nevada System of Higher Education (NSHE) would

receive coverage on the first of the month, coinciding with the date of their contract, or after, if that date was not on the first of the month. Because faculty members generally earned higher salaries than their classified counterparts, that could be considered as discriminatory in favor of highly compensated employees. Decision unit maintenance (M) 501 would actually change the effective coverage date for newly hired employees to the first of the month on or after their effective date of employment. That meant every employee would have the same enrollment date. That action would have a small price in the first year of the biennium and PEBP expected to cover the changes as part of the ongoing cost of the plan.

According to Mr. Wells, the second set of federal mandates in decision unit M-502 included a Patient-Centered Outcomes Research Institute fee. He explained that was an ongoing fee to fund an institute created by the ACA to support informed health decisions through the advancement of quality and relevant evidenced-based medicine. The current fee was \$2 per year per member and all dependents; the fee had a built-in inflation factor that would continue to increase over time. The second fee was the transitional reinsurance fee, which would be paid for three years; the fee commenced in calendar year 2014 and would continue through calendar year 2016. Mr. Wells stated the fee for calendar year 2014 was \$63 per member and dependents. That fee would fund the state-based exchanges; the funding was intended as a stabilizing factor for state exchanges, such as the Silver State Health Insurance Exchange. The rate dropped to \$44 per member for calendar year 2015 and to \$28 per member for calendar year 2016. Mr. Wells explained that PEBP actually paid those fees in the fiscal year following the calendar year. To date, PEBP had incurred approximately \$2.2 million owed for the Patient-Centered Outcomes Research Institute and transitional reinsurance fees. The PEBP Board had paid \$1.8 million and owed an additional \$400,000 that would be paid in FY 2016.

Mr. Wells stated there were two primary enhancement decision units described on page 29 of [Exhibit C](#), Enhancement (E) 276 and E-277. Decision unit E-226 would allow Medicare participants enrolled in TRICARE, which was the health-care system for military retirees, to receive a health reimbursement arrangement (HRA), as well as life insurance, without enrolling in a PEBP-sponsored medical plan. Historically, PEBP had only subsidized plans it offered participants, and decision unit E-276 would create an exception for participants of TRICARE; it would allow them to maintain their military retirement and benefit from HRA benefits and life insurance. Mr. Wells stated PEBP estimated that the cost for decision unit E-276 would be approximately \$1 million in each year of the biennium. Mr. Wells stated that many TRICARE participants had not enrolled in a PEBP plan, but if PEBP offered HRA benefits,

some participants would likely reenroll in PEBP during the open enrollment period.

Decision unit E-277 would fund a health information exchange (HIE). Mr. Wells explained that with the consent of the patient, the HIE would allow participating physicians to access clinical health records, prescription information, and test results that had been performed by another provider. The intent was that participants could access emergency rooms or other medical facilities and those doctors would have access to previous tests, doctors' notes, and other medical information entered into the system by the participant's medical providers. Mr. Wells said the information would not include claims information; only clinical data would be available through the HIE. The anticipated cost was 21 cents per member per month for those enrolled in the CDHP, raising approximately \$110,000 per year.

Mr. Wells referred to page 31 of [Exhibit C](#) and explained that PEBP fell under the health services core function of activities. The pie chart on page 31 showed PEBP's budget under the Priorities and Performance-Based Budget (PPBB). The vast bulk of the budget was for group insurance programs. Other programs in the budget included the wellness program, care management program, Medicare Exchange program, and general administration.

The performance indicators for PEBP were on pages 32 and 33 of the exhibit, said Mr. Wells. The indicators listed on page 32 had been in place for more than a decade and showed the operation or performance of the organization, including the expense ratios. The Affordable Care Act (ACA) required an 85 percent claims loss ratio, which meant PEBP had 15 percent for operations. Mr. Wells said PEBP operated with 4.5 percent to 5 percent for operations. The claims loss ratio reflected the percentage of premiums spent on claims. Per Mr. Wells, if the ratio was less than 100 percent, PEBP was building reserves, and if the ratio was over 100 percent, the reserves were being used. While PEBP projected a claims loss ratio of 106.90 percent in fiscal year (FY) 2014, the actual ratio was 91.41 percent, which meant reserves were being generated. Mr. Wells noted that the claims loss ratio was projected at over 100 percent through FY 2017.

Mr. Wells indicated that the performance indicators for generic drug use, medical network use, and dental network showed that participants were making wise decisions and using in-network providers and lower-cost alternatives, which helped PEBP manage the cost of the plan. The last performance indicator on page 32 was appeals per 1,000 participants.

According to Mr. Wells, PEBP added a set of new performance indicators as listed on page 33 of the exhibit to address the requirements of the Priorities and Performance-Based Budget. He stated PEBP intended to use those performance indicators for comparison to other state populations and federal benchmarks. The new performance indicators were:

- Percentage of participants in diabetes care management.
- Percentage of participants in obesity care management.
- Percentage of participants in the wellness program.
- Percentage of participants who were physically active.
- Percentage of participants receiving dental visits.

Assemblywoman Kirkpatrick referred to the wellness program. She noted that PEBP told the 2013 Legislature that participants would use the program and PEBP would offer them a premium savings. The Legislature provided the funding in 2013 for continuation of the program, even though participants had requested a \$50 premium reduction without signing up for the wellness program. Assemblywoman Kirkpatrick said legislators had heard from state employees that the wellness program was very difficult to manage. Today the participation rate for the wellness program was down, and she wondered whether something had changed within the program. She also voiced concern about the reserve and the high-deductible health plan. She wondered whether the reserves could be used to offer a better insurance plan to state employees.

Mr. Wells explained that PEBP continued to be disappointed with the 35 percent participation in the wellness program. There were some concerns that the program was too onerous, but Mr. Wells did not agree, because the first year of the program required participation only. The only requirement of participants was completion of the health assessment questionnaire; completion of a biometric screening and discussion of results with their doctor; and completion of a dental appointment for cleaning. In exchange for that compliance, participants received an incentive of between \$25 and \$50 toward their monthly premium.

Mr. Wells stated it was difficult for PEBP, as a mid-level organization, to order members to participate in the program. While the Governor was supportive of the wellness program, that support had not trickled down through management, including directors and campus presidents. Also, it appeared that the wellness

program did not have many champions among participants. Mr. Wells said some plan participants believed that the information requested for the wellness program would be used to make employment-related decisions or perhaps for other uses. Mr. Wells said PEBP had attempted to explain to participants that the information was not used for purposes other than the wellness program, but it was difficult to overcome that perception on behalf of the participants. When PEBP built the rates, it could not provide a \$50 incentive for every participant, because most were not participating in the wellness program and the rates would not necessarily be \$50 less for every employee on the plan.

Mr. Wells said it was never the intent of the PEBP Board to have excess reserves. The reserves had become a factor as PEBP attempted to navigate some historically difficult times in the health insurance market. The inflation rate had fluctuated over each biennium, and over the past four years, inflation had been between 3 percent and 5 percent. Mr. Wells said he recently read that New York City had a surplus of approximately \$1.3 billion in its medical plan because the projected inflation rate was 9 percent, but the actual inflation rate was under 3 percent. He noted that many programs were dealing with lower-than-projected medical inflation rates within the insurance industry, and the question was whether the lower inflation rates were temporary or whether they were permanent. He explained that PEBP would prefer having funds in reserves that could be spent down over the next biennium rather than having to appear at a special session of the Legislature to request additional funds.

Assemblywoman Kirkpatrick believed spending down the reserves over the upcoming biennium should make it easier for PEBP to manage the reserve. She wondered whether there were driving factors that could address the inflation rate when a request for proposal (RFP) was required. Perhaps there was some way the state could assist in the process. Assemblywoman Kirkpatrick said most state employees participated in PEBP and followed the rates very closely. It was sometimes difficult for participants to visit doctors and dentists as often as they should. Assemblywoman Kirkpatrick commented that she might also consider the requirements of the wellness program somewhat onerous, and perhaps the Legislature should revisit the wellness program to ascertain whether it remained workable.

Mr. Wells stated that PEBP entered into a contract for the health maintenance organization (HMO) plans. One plan proposed potentially higher inflation rates for the next plan year, and PEBP was negotiating the rates with the other contractor. The contractors indicated that the HMO plans had experienced "adverse selection," which meant persons who suffered from serious illnesses, those who required higher cost medications, or those who wanted to pay

copayments for doctor visits rather than higher premiums, were migrating to the HMO plans rather than remaining on the consumer-driven health plan (CDHP).

Mr. Wells stated that the plan rates for both employee and employer had been somewhat flat over the past four years. While PEBP projected inflation rates into its budget, that inflation had not materialized and participants were actually paying less on the CDHP today than they were in 2012. He also pointed out that benefits were better today. The contract for the wellness program was coming up for renewal in 2015, and PEBP was in the process of going out to bid on that contract. It was expected that the vendor would provide support and assist PEBP with generating participation in the wellness program. Mr. Wells concurred that the program had not been as successful as the PEBP Board thought it could be, but there had been some movement in the program, along with improvement in the health scores and biometric outcomes of employees participating in the program. There had also been participants shifting from the high-risk category to the medium- and low-risk categories, and PEBP had realized a savings because of that shift.

Chair Anderson stated that the Legislature would like some suggestions from PEBP about how it might help with participation in the wellness program, perhaps by spreading the message.

Assemblywoman Carlton said she understood the inflation rate problem for PEBP because she remembered when the Legislature held a special session to shore up the funding for PEBP. She referred to page 24 of [Exhibit C](#), which depicted the reserves by fiscal year. That money was paid by the state for premiums, and she believed the money could be expended in other areas rather than being placed in reserves. Assemblywoman Carlton understood that the money was eventually disbursed to the participants, but it appeared that participants believed they had little to no voice in how the excess reserves were disbursed. She noted that employees were also taxpayers, and their money was used by the state to pay PEBP premiums; they also were required to pay for dependent coverage.

Assemblywoman Carlton pointed out that the graph on page 24 of the exhibit showed significant excess reserves in 2014 and 2015, but PEBP had included a request for a small increase in the per member, per month contribution. Those were dollars that could be used for other expenditures within the budget. Assemblywoman Carlton said she was not sure how the excess reserves could be lowered or how the per member, per month costs were determined. The current method apparently was not working, and the projections by actuaries had been off the mark. The Affordable Care Act (ACA) was actually

working and bringing down the cost of healthcare, so perhaps that should be taken into account in the future. Assemblywoman Carlton said employees were frustrated because they did not have a voice in how the PEBP Board dispersed the excess money.

Assemblywoman Carlton said she believed the Legislature should take a very close look at the reserves and how those funds had been spent over the past few years. Perhaps the Legislature could determine whether there could be a trigger that would cause a decrease in the per member, per month cost over the biennium. That would allow the Legislature to use those dollars for other budget items for the upcoming biennium. Assemblywoman Carlton commented that the challenge was to recruit and retain the best possible employees for the state, and PEBP was one of the most significant employee benefits that would be reviewed by the Legislature.

Assemblywoman Carlton stated she understood PEBP's fiduciary responsibilities and the Board's reluctance to request additional funding via a special session, but the Legislature's responsibility was to ensure that all available funding was used in the best possible manner.

Mr. Wells said PEBP would provide information to the Subcommittee regarding how the projected excess reserves had been expended over the last two biennia. As it had in the past, the Board continued to discuss how the PEBP session bill would be written. Currently, in the first year of the biennium, the amount the state paid into the Active Employee Group Insurance Subsidy (AEGIS) budget account was not reflective of the amount expended. Funds remained in that budget account that could have been used for other purposes. However, said Mr. Wells, projecting that far into the future was very difficult for the actuaries, and there was a point when inflation rates would again increase. If the original projections were too low, problems could arise in the second year of the biennium.

One thing that could be considered, said Mr. Wells, was whether the Legislature could add some flexibility in the PEBP budget for the second year of the biennium that would trigger a lower AEGIS assessment should the inflation rate come in lower than projected. Mr. Wells stated PEBP rates for the CDHP had been relatively flat for the past four years; there had not been significant increases in the health insurance costs for employees. There had been some increases in the HMO plans, but as previously stated, that appeared to be because of "adverse selection."

Assemblywoman Titus said at the Subcommittee meeting of January 20, 2015, testimony indicated that only 21 percent of students who were eligible for the free breakfast program at schools participated in that program. She noted that breakfast was very important for students in preparing for school, and the Legislature should provide additional support for that program. Assemblywoman Titus submitted that wellness programs and health and disease prevention were definitely cost-effective because those programs helped participants maintain their health. The end care of diabetes and heart disease was infinitely more expensive than prevention treatments, and she encouraged PEBP to promote the wellness program and encourage additional participation because of the cost effectiveness, not only in health-care dollars, but also in human lives saved.

Mr. Wells agreed with Assemblywoman Titus and stated he would provide information to the Subcommittee regarding the diabetes and obesity care management programs that demonstrated tremendous decreases in costs for the participants of those programs. The participants were eventually much healthier and enjoyed more productive lives.

Assemblyman Kirner noted that PEBP had changed its claims administrator, and he wondered whether the quarterly audits would continue. Mr. Wells replied that the audits had continued, and the current vendor had met the performance expectations for the last five quarters.

Assemblyman Kirner said there had been some concern among legislators regarding nonstate retirees, and he wondered whether the PEBP Board had resolved the problems facing that retiree pool. Those nonstate retirees did not have the ability to comingle their claims with active employees, and he wondered how PEBP was addressing that situation.

Mr. Wells explained that he would address those problems when he continued his presentation.

Assemblyman Sprinkle concurred with previous comments about the excess PEBP reserves and stated he would also like to see a detailed analysis of the reserves over the last two to four years. It was time the Legislature looked seriously at the disbursement of those funds. Assemblyman Sprinkle said his question was about the 34 percent participation rate in the wellness program. He stated he strongly agreed with comments made by Assemblywoman Titus and believed that wellness programs worked and were beneficial; however, he was somewhat discouraged by previous comments about the program.

Assemblyman Sprinkle noted that Assemblywoman Bustamante Adams had asked earlier how PEBP was reviewing the feedback from participants. During the 2013 Legislature, participants complained that they were not happy with the wellness program and would not participate. Earlier, Mr. Wells expressed concern that the participation rate was only 34 percent, but agreed that members would benefit by using the program. Assemblyman Sprinkle did not believe that PEBP was in a position to tell people how to run their lives, and he wondered whether there had been a disconnect between what the participants were telling PEBP and what the PEBP Board believed should be the plan direction going forward.

Mr. Wells replied that the PEBP Board approved a four-year wellness program that would turn into a more outcomes-based program. The intent was to go from participation- and incentive-based to outcomes-based. Over the period of four years, additional requirements for participants would be integrated into the program, so that participants could continue collecting the incentive. The PEBP Board had received negative feedback regarding the additional requirements and had returned the program to a participatory only wellness program. The Board had listened to the complaints it received from participants and had taken steps to make the plan more accessible. Mr. Wells pointed out that some core requirements were necessary to maintain any wellness program.

Continuing his presentation, Mr. Wells referred to page 37 of [Exhibit C](#), which contained the Other Post-Employment Benefits (OPEB) liability. The exhibit showed the cost of providing subsidized retiree healthcare. Over the last several years, there had been two significant changes for participation in retiree subsidies, which resulted in long-term improvements of the OPEB liability. The first change became effective on January 1, 2010, and required persons hired after that date to have 15 years of service prior to becoming eligible to receive a subsidy upon retirement; that was an increase from the 5-year requirement for employees hired prior to that date. In 2011, the Legislature passed a bill that provided no retirement cash subsidy for employees hired after January 1, 2012. Those employees could participate in the plan and would have the benefits of comingling with active employees, but would be required to pay the entire amount of their premium upon retirement.

Page 38 of the exhibit contained the Governmental Accounting Standards Board (GASB), Other Post-Employment Benefit (OPEB) valuation. Mr. Wells stated the present value of benefits was \$2.02 billion, which represented the total amount of the expected benefits paid out in the future, including amounts earned by existing employees throughout the remainder of their working career. Mr. Wells explained that the OPEB valuation included the employee's length of

employment, the length of time until retirement, and the life expectancy after retirement.

Mr. Wells indicated that the actuarially accrued liability was \$1.27 billion and was a snapshot of the liability for benefits earned as of any given point in time; for the current budget, that point in time was as of July 1, 2013. The annual required contribution was \$140.8 million, and that was the amount set aside to fund benefits incurred during the current year, as well as a 30-year amortization payment on previous unfunded liabilities. Unlike the unfunded liability for the Public Employees' Retirement System, PEBP's unfunded liability was solely the responsibility of the state; it was not a shared responsibility with all local governments.

Mr. Wells noted that many local governments did not provide retiree healthcare, and in fact, only about 50 percent of state and local governments across the country provided retiree healthcare. Approximately one-third of local governments provided healthcare to retirees at age 65 or older. The OPEB liability of \$2.02 billion was down from a high of \$4 billion in 2008, but was up slightly from \$1.95 billion in 2013. That increase was primarily because of changes in benefits and changes in demographic assumptions used by PEBP and PERS.

Page 40 of [Exhibit C](#) depicted the effects of the Affordable Care Act (ACA), said Mr. Wells. The first effect was the significant reporting requirements that PEBP would undertake on behalf of the state and other organizations in state government. The first was to report information to the IRS, as well as every participant of the plan, regarding their insurance coverage. Mr. Wells stated those reporting mandates would provide the federal government with individual mandate provision information and determine whether employers were providing minimum essential health insurance coverage for their employees.

Mr. Wells said PEBP had met with all major pay centers and had agreed to accept reporting mandates. The reports would be very similar to W-2s in timing and had to be reported to employees and retirees by January 2016. Mr. Wells believed that would represent a significant undertaking for PEBP during the current year.

According to Mr. Wells, as a health plan, PEBP required certification by a third party to ascertain whether certain electronic transactions met federal requirements. That information had to be submitted to the U.S. Department of Health and Human Services by the end of the current calendar year. The state would also be required to pay an excise or "Cadillac" tax of 40 percent of the

premium cost in excess of \$10,200 per individual, and 40 percent of the premium cost in excess \$27,500 per family. That tax would become effective in plan year 2018, and PEBP's current actuarial projections were that the federal excise tax would cost the state \$5.6 million in 2018. The PEBP Board would review actions it could take to mitigate the effect of the excise tax.

Assemblywoman Carlton believed the federal excise tax was very important, and she asked whether the threshold for that tax was the premium cost. Mr. Wells replied that the excise tax was calculated on the total premium, rather than the amount paid by the employee or the employer, and was paid on an annual basis.

Assemblywoman Carlton asked about the cost per individual. Mr. Wells explained that the amount of \$10,200 was the cap for individual premium costs, and if the premium costs were \$10,700, the state would pay 40 percent of the \$500 above the cap as the excise tax.

Assemblywoman Carlton believed that was what everyone needed to understand. The excise tax was not calculated on the full amount of premium costs, but rather on the amount above the cap for individuals or families. Mr. Wells concurred. Assemblywoman Carlton asked whether the tax would trigger should the premium costs come in under the cap, and Mr. Wells stated it would not.

Assemblywoman Carlton opined that it would take mathematical "juggling" to maintain the premium costs as close to, or under, the excise tax threshold as possible. She noted there were several groups in the state attempting to ascertain how to mitigate the excise tax costs while maintaining insurance for their employees.

Mr. Wells stated that while PEBP might not take action during the current biennium to mitigate those costs, in 2017 there would be some mathematical "juggling" to help PEBP mitigate the effect of that tax.

Continuing, Mr. Wells stated that page 41 of [Exhibit C](#) provided information about the nonstate retirees previously referred to by Assemblyman Kirner. Currently, nonstate retirees were subsidized based on the same dollar amount as that provided for state retirees. Because state retiree and employee premiums had been relatively flat, the contribution amount for state retirees had also been flat. At the same time, the nonstate premiums had been increasing significantly. Mr. Wells said the subsidy was not changing, the premiums were increasing, and nonstate retirees on certain plans were actually paying quite

a bit more than their state counterparts. Conversely, on some plans nonstate retirees were paying less than their state counterparts because of the flat dollar amount that was being provided.

According to Mr. Wells, the state retiree subsidy was a percentage of the premium based on plan and tier selections. After the PEBP Board determined what action it could take to assist nonstate retirees, a workshop was held in November 2014 to discuss the proposed regulation. The PEBP Board continued to accept public comment regarding the proposed regulation, which would change the Board's interpretation of *Nevada Revised Statutes* (NRS) to provide that the subsidy for nonstate retirees would be based on a percentage of their premium as opposed to the flat dollar amount they currently received. The effect of that action would be that the rates for some nonstate retirees would decrease while the rate for others would increase. Also, said Mr. Wells, some nonstate employers would pay a higher subsidy while others might actually pay less.

Mr. Wells reported that the PEBP Board had received many comments regarding the proposal, with positive feedback received from nonstate retirees. However, negative comments had been received from many local employers. A determination would be made at the adoption hearing for the proposed regulation on April 2, 2015, and the effective date would be July 1, 2015. Mr. Wells believed that there would be further discussion on the topic throughout the 2015 Legislature.

Chair Anderson thanked Mr. Wells for his presentation and agreed that there would be additional discussions regarding PEBP during session.

Assemblyman Oscarson noted that some local governments would pay higher subsidy while others would actually pay less. He wondered whether PEBP had a list of the amounts that each local governmental entity would pay.

Mr. Wells stated that PEBP did not know which entities would pay more and which would pay less. It would depend on the makeup of each local government entity; however, PEBP believed the overall total would increase for most, if not all, local governmental entities.

Assemblyman Oscarson asked whether PEBP had any idea about the amount of the increase. He asked Mr. Wells to provide a "ballpark figure" of the increases that would affect smaller local government entities.

Mr. Wells explained that PEBP had not started breaking the figures out by employer, but he would provide information regarding the effect to the retiree and inversely to the employer. The actual amount would depend on the makeup of the participation for individual employers. He would provide information to the Subcommittee regarding the fiscal impact to retirees.

Senator Goicoechea asked Mr. Wells to provide information regarding the number of local governmental entities that currently participated in the PEBP program. He believed the numbers had dropped considerably from those of the past.

Mr. Wells reported that there were currently four local government general improvement districts that participated in the PEBP plan with a total of 12 employees. That was down from approximately 35 nonstate employers who participated in the plan in fiscal year (FY) 2004. Those included school districts and a few small cities, with 2,400 active employees participating in the plan. Mr. Wells noted that PEBP billed just about every local government in the state because of nonstate retirees that had served at one time or another with almost every city, town, and school district. The bulk of the remaining nonstate retiree population consisted of former school district employees. Mr. Wells stated he would provide the requested information to the Subcommittee.

Senator Smith asked for information about the retiree exchange contractor. There had been concern voiced about whether that contractor had an in-state representative to work with retirees.

Mr. Wells stated that PEBP had gone out to bid for that contractor because the current contract expired in June 2015, and the next contract would become effective July 1, 2015. He opined that PEBP was experiencing a significant decrease in the number of complaints, but it had also heard from participants about the need for a local presence. Mr. Wells said PEBP was negotiating with a vendor at the current time, and while there would not be a permanent local presence, PEBP was negotiating for the provision of local staff presence at certain times of the year.

Senator Smith asked that PEBP provide an update on the state of those negotiations when the next budget hearing was scheduled. Mr. Wells replied that he would provide that information.

With no further questions or comments regarding the PEBP budget overview, Chair Anderson declared the Subcommittee in recess. The Subcommittee reconvened at 10:18 a.m., and the Chair stated the next budget overview was for the Office of the Military.

Cheryl Tyler, Administrative Services Officer 2, Nevada National Guard, Office of the Military, introduced herself and various staff members to the Subcommittee.

Ms. Tyler began her presentation as outlined in [Exhibit D](#), "Office of the Military, Legislative Commission's Budget Subcommittee Hearing, January 29, 2015." She explained that page 1 of the exhibit contained the following mission statement for the Adjutant General and the National Guard: "The Nevada National Guard provides ready organizations and individuals to perform state and federal missions, globally and domestically." She pointed out that page 2 of the exhibit contained a photo of the 152nd Airlift Wing in front of the C-130 Hercules aircraft.

Ms. Tyler indicated the strategic priorities of the Nevada National Guard:

- The number one priority was readiness.
- The second priority was care for service members and families.
- The third was the strategic priority of diversity.
- Community was a noted priority as well.

Page 3 of the exhibit contained maps that depicted the Army National Guard facilities throughout the state, encompassing approximately 75 major buildings over 16 sites. Also shown on page 3 was a map of the National Guard Southwest Asia Deployment and temporary duty locations for fiscal year (FY) 2014. Ms. Tyler stated that troops had been deployed to Egypt and Afghanistan.

Ms. Tyler stated that page 4 of the exhibit contained the summary of agency operations. Employees of the State of Nevada provided administrative, accounting, personnel, firefighting, security, operating, and maintenance services to the Nevada National Guard for all facilities assigned to the Office of the Military. The mission of the state administration team was to provide outstanding customer service that maximized the available resources and informed pertinent parties as to the status of the Master Cooperative Agreement

in relation to The Executive Budget and to maintain and secure the facilities in conjunction with those resources. The chart on page 4 showed the economic effect by county. Ms. Tyler explained that the state portion of funding was approximately 2.7 percent of the total operating expenditures, and the national average for state contributions was approximately 5 percent.

Ms. Tyler stated that page 5 of [Exhibit D](#) showed the FY 2014 economic effect by county for FY 2014. The state portion of funding was 2.57 percent of total operating expenditures. Page 5 also included a chart that listed the major construction dollars spent in fiscal year (FY) 2014. The Office of the Military had spent approximately \$71 million for those major construction projects.

Continuing her presentation, Ms. Tyler noted that the Office of the Military received federal funding from the National Guard Bureau through the Master Cooperative Agreement. There were currently 11 appendices as indicated on page 6 of the exhibit. The amount of federal support differed by activity and type of facility. Some properties were a 50 percent funding match, some properties were 100 percent federally funded, and some properties were a 75:25 funding match.

Ms. Tyler said the Office of the Military had been asked whether there would be increases or decreases in federal funding, and the United States Property and Fiscal Officer (USPFO) had not received notice of any federal funding changes for the next fiscal year. Therefore, the Office of the Military anticipated the same level of funding for the upcoming fiscal year.

Page 6 of the exhibit also contained activities of the Office of the Military, said Ms. Tyler. Those included:

- Command and control of state militia force.
- Management of facilities for the National Guard.
- National Guard recruitment.
- Support services.

Continuing her presentation, Ms. Tyler referred to page 7 of the exhibit, which depicted budget account (BA) 3650 and major enhancement decision units. The Office of the Military proposed to merge BA 3651 with BA 3650. She explained that BA 3651 had been used for the Carlin Readiness Center, which transitioned from the Nevada System of Higher Education (NSHE) to the

Office of the Military; that transition was now complete. Ms. Tyler said the 593rd Transportation Company was currently using 30,000 square feet of the Carlin Readiness Center. Because that transition was complete, the Office of the Military would propose the merger of BA 3651 and BA 3650. That merger would enable the agency to maintain the operating and maintenance expenditures for all facilities within one budget account. Ms. Tyler stated the FY 2014 legislatively approved State General Fund authority for BA 3650 and BA 3651 was \$3,322,719, and the State General Fund request for FY 2016 was \$3,941,731 and \$4,019,534 million for FY 2017.

Ms. Tyler said page 7 of the exhibit depicted the major enhancement decision units that addressed deferred maintenance projects and proposed construction projects over the upcoming biennium. Total authority requested was \$11,422,985 in both years of the biennium; federal reimbursement was approximately \$10,702,935 million and the state share was \$720,050. That amounted to \$14.86 in federal funding per \$1 of State General Fund. Ms. Tyler indicated that the projects would be 94 percent federally funded. The request consisted of projects to improve, maintain, and ensure the safety and health of Nevada National Guard members, while performing their duties to accomplish National Guard missions, and the public when they were using Office of the Military facilities. Some proposed projects would improve the energy efficiency of various locations.

Page 8 of [Exhibit D](#) described decision unit Enhancement (E) 225, the request for an accounting assistant 3 position, and E-226, the request for an accountant technician 1 position for the state administration office. Ms. Tyler explained that the positions would accommodate increased workloads because of the expansion of facilities and personnel over the last 15 years. The state administration office accounting staff level had remained stagnant from 1999 to the present, but the budget and workload had quadrupled. The workload included new programs of added complexity. In 1999, the total expenditures for the state administration office were approximately \$5.3 million; during the last year, the expenditures were approximately \$19 million. The number of facilities had increased steadily through the years and there were ongoing projections for future expansion. The complexity of the programs had increased significantly through the years. Also, said Ms. Tyler, the reporting and reimbursement requirements were substantially more complex because of the ongoing oversight of state and federal funds. Additional decision units were listed on page 8 of the exhibit to address the request for maintenance personnel at various locations.

Ms. Tyler stated that enhancement decision units were as follows:

- Decision unit E-228, grounds maintenance worker 4 at the Reno Air Base.
- Decision unit E-232, maintenance repair worker 2 in Reno/Stead.
- Decision unit E-234, grounds maintenance worker 2 in Reno/Stead.
- Decision unit E-952, maintenance repair worker 2 in Carlin/Winnemucca/Elko/Ely.

Ms. Tyler noted that the total authority requested was \$314,072. The federal reimbursement would be \$226,506, and the state share would be \$87,566. She pointed out that 72 percent of the request would be federally funded. The personnel requested in the decision units would be designated to the facilities that had been operating without necessary maintenance personnel because of prior budget cuts and restrictions. Various locations had backlogs that could lead to larger expenses if maintenance work orders were not completed in a timely manner. Landscaping at various facilities had also deteriorated because of insufficient attention, which reflected poorly on the Nevada National Guard.

Page 9 depicted decision unit Maintenance (M) 503, which requested funding to address the provisions of Assembly Bill No. 364 of the 77th Session (2013), said Ms. Tyler, which provided for additional military leave costs. The request would also fund the unanticipated additional military leave costs because of the National Guard Bureau's clarification of limits on reimbursable military leave costs through the Master Cooperative Agreement.

According to Ms. Tyler, military leave for eligible personnel had been increased from 15 days to 39 days per calendar year. That could result in up to 78 days per fiscal year, given the overlap of two calendar years in one state fiscal year. The National Guard Bureau determined it should only reimburse up to 168 hours of military leave for firefighters and 120 hours for all other state employees per federal fiscal year. Under current *Nevada Revised Statutes* (NRS), firefighters were qualified for a minimum of 936 hours and, worst-case scenario, qualified for 1,872 hours per state fiscal year.

Chair Anderson said he could not recall who sponsored A.B. No. 364 of the 77th Session (2013), but the Legislature was working with personnel from the Office of the Military to resolve some problems that had arisen because of that

legislation. He believed the provisions of the bill would be reviewed by the 2015 Legislature.

Continuing her presentation, Ms. Tyler stated that other maintenance decision units depicted on page 9 of the exhibit were:

- Decision units M-501 and M-502 requested the transfer of shift differential costs from federal fund reimbursement to state funds at a cost of \$69,653.
- Decision units M-504 and M-505 requested to transfer firefighter overtime costs from federal fund reimbursement to state funds at a cost of \$220,413.

Ms. Tyler noted that the United States Property and Fiscal Officer (USPFO) conducted an audit and discovered that there were some past overtime and shift differential reimbursements that were not covered by the Master Cooperative Agreement. However, Brigadier General William R. Burks, Adjutant General of Nevada, and Colonel F. T. "Cas" Castagnola, USPFO, were currently in Washington, D.C. and would request clarification about whether those costs were reimbursable. Should it be determined that the costs were reimbursable to the state, the aforementioned maintenance decision units would be removed from the budget request. Ms. Tyler indicated there was no definite date for the decision, but the Office of the Military anticipated an answer in March 2015.

Continuing her budget overview, Ms. Tyler stated that budget account (BA) 3653 was depicted on page 10 of [Exhibit D](#) and was the Military National Guard Benefits account. The funding was used for National Guard recruitment and training. The budget supported the Nevada National Guard by reimbursing students who met reimbursement criteria for up to 100 percent of the credit-hour costs for summer school tuition. The funding request was a 100 percent State General Fund appropriation of \$57,824 in each year of the biennium for a total of \$115,648, which was the actual amount spent in fiscal year (FY) 2014.

Next was BA 3654, the Military Patriot Relief Fund, depicted on page 10 of the exhibit. Ms. Tyler stated that the Patriot Relief Fund had been established as a benefit to Nevada National Guard members to reimburse the cost of college textbooks and the cost of Servicemembers' Group Life Insurance (SGLI) premiums and to provide funds for relief from financial hardship caused by federal activation of the National Guard. Ms. Tyler explained that a bill draft

request (BDR) was submitted that requested the removal of funding for reimbursement of SGLI premiums because the benefit to the member would not outweigh the cost to the state. If all members took advantage of SGLI premium reimbursements, the cost to the state would be approximately \$2.1 million per fiscal year and the Patriot Relief Fund would be totally expended at the beginning of FY 2016. Decision unit Enhancement (E) 225 restored the appropriation to actual projected revenue expenditures of \$94,675 in FY 2016 and \$129,994 in FY 2017.

Assemblyman Edwards referred to the BDR that had been submitted in BA 3654, Military Patriot Relief Fund, and he asked Ms. Tyler about the cost to the state if all members requested reimbursement for the SGLI premiums.

Ms. Tyler explained that the current expense for those premiums was approximately \$15,000 to \$16,000 in SGLI reimbursement per year. That was because not all servicemen had requested the reimbursement; however, if all members took advantage of that reimbursement, the cost to the state was projected at \$2.1 million. Ms. Tyler asked Captain Dana Grigg to provide additional information.

Captain Dana A. Grigg, Assistant Judge Advocate, Office of the Staff Judge Advocate, Nevada National Guard, Office of the Military, stated that the SGLI premiums were approximately \$27 per month, and most members appeared to be unaware of the provisions of the Patriot Relief Fund. While it was a well-intended law, Captain Grigg opined that perhaps the state had failed to understand the ultimate cost. In an effort to be more fiscally responsible as a whole, perhaps the reimbursement of SGLI premiums should be reviewed to determine whether the state wanted to pay up to \$2.1 million per year to cover the reimbursements. Should the law remain as written, members would soon discover it and sign up for the reimbursement.

Assemblyman Edwards commented that he had paid his own SGLI premiums in the past, but it appeared that the state would now fully reimburse all members for SGLI premiums; he asked whether that was correct.

Captain Grigg replied that current state law would reimburse members for SGLI premiums; she stated that she also paid her own premiums. The National Guard was attempting to change the provisions of the statute before it became a financial burden to the state.

Assemblyman Edwards asked how many members were currently taking advantage of the reimbursement. Ms. Tyler replied that the Guard was paying \$15,000 to \$16,000 in reimbursements during the current fiscal year. A limited number of members were aware and taking advantage of the reimbursement program.

Assemblyman Edwards asked whether that represented approximately 300 participants, and Ms. Tyler replied that the number was less than that.

Chair Anderson suggested that the Office of the Military provide the exact number of National Guard members receiving reimbursement for SGLI premiums at future subcommittee meetings when the budget would be discussed in depth. Assemblywoman Kirkpatrick clarified that the Legislature was attempting to assist National Guard members with expenses upon return from deployment. The law was well intended, but as with any piece of legislation, the law should be reviewed to ascertain whether the outcome was as intended.

Continuing, Ms. Tyler indicated that page 11 of [Exhibit D](#) depicted the recommended State Public Works Division (SPWD) of the Department of Administration, Capital Improvement Program (CIP) projects for the Office of the Military. There were nine SPWD projects planned for the 2015-2017 biennium at various locations throughout the state. The Office of the Military had discussed the 2013-2015 CIPs with the SPWD, and those projects were listed on page 11 of the exhibit. Ms. Tyler reported that eight projects had been undertaken during the current biennium, and some had been completed. Projects 13-M24 and 13-M25 consisted of installation of air conditioning and electrical power upgrades at the Henderson Armory. Those two projects were awaiting structural retrofit and had not been completed as yet. Project 13-P04 was the field maintenance shop at the Washoe County Armory, and the design was 35 percent complete. Project 13-S02G was the sidewalk replacement and restroom remodel at the Plumb Lane Armory, which was 90 percent complete.

Ms. Tyler concluded her presentation and said she would be happy to answer questions from the Subcommittee.

Senator Goicoechea asked whether there were still troops deployed in the Middle East, and Ms. Tyler replied that was correct. Senator Goicoechea stated that when discussing cuts to programs for veterans, the Legislature should remember that troops continued to be deployed.

Senator Goicoechea said he heard that the National Guard was going to retrofit some C-130 Hercules aircraft for firefighting retardants, and he wondered whether that was correct.

Captain Grigg replied that such information was "above her pay grade." While she had also heard such rumors, she could not reply at the present time.

Chair Anderson asked whether there were further questions from the Subcommittee regarding the budget presentation for the Office of the Military, and there being none, the Chair invited members from the Department of Veterans Services to come forward and commence their budget presentation.

Katherine Miller, U.S. Army Colonel (Retired), Director, Department of Veterans Services (NDVS), introduced herself and various staff members present in Carson City and Las Vegas to the Subcommittee. Ms. Miller stated that Caleb S. Cage, Director of Military and Veterans Policy, Office of the Governor, would join her later to provide testimony about Nevada's Green Zone Initiative.

Ms. Miller referred to [Exhibit E](#), "State of Nevada, Department of Veterans Services, Pre-Session Budget Hearing, January 29, 2015," which contained an overview of the agency, major concerns, and recommended enhancements. Those enhancements would include the Governor's number one capital improvement project, the Northern Nevada Veterans Home, recommendations for new and reclassified positions, enhancements at the Northern Nevada Veterans Memorial Cemetery, and as requested, an overview of Nevada's Green Zone Initiative presented by Mr. Cage.

Ms. Miller stated that, by statute, she was responsible for providing aid, assistance, and counsel for every problem, question, and situation, individual as well as collective, that affected any individual or group of servicemen, servicewomen, or their dependents. Ms. Miller said it was a task that every member of the agency took very seriously: staff played a key role in ensuring that veterans and their families understood and had access to benefits and opportunities that would improve their lives.

According to Ms. Miller, the NDVS worked toward making its vision a reality through four primary programs. Through those programs, staff assisted veterans, submitted claims for federal benefits, provided skilled nursing care at the Nevada State Veterans Home, provided dignified burial support, and helped veterans successfully reintegrate into Nevada communities. Accomplishing that reintegration mission certainly supported veterans, but just as importantly,

reintegration benefitted the communities where veterans lived and the businesses that employed them.

Ms. Miller stated that the men and women who had served the nation returned from that experience as disciplined, hardworking, educated, tech-savvy problem solvers. Nevada was lucky that almost 300,000 veterans called the state home, and NDVS staff were privileged to do everything possible to be a part of the state's work in assisting veterans when and where they might need that assistance.

Continuing, Ms. Miller said she would like to give the Subcommittee a picture of veterans, service members, families, and survivors who were served by the NDVS. Page 4 of [Exhibit E](#) depicted the Nevada veteran demographics. The agency did not know exactly how many veterans were served or where they were located. The U.S. Department of Veterans Affairs (VA) reported that number as approximately 243,000 to 350,000, but that was based on veterans and service members who accessed either the VA or the U.S. Department of Defense (DOD) systems for services.

Ms. Miller noted that the number of veterans was probably higher, but without sufficient data, it was very challenging to conduct the analysis necessary to provide the right support in the right places. During the 2015 Legislature, there would be bills from the Governor's Office that addressed the importance of reporting and collecting data. When those bills were heard, Ms. Miller said she would like legislators to consider how very important it was for the Nevada Department of Veterans Services (NDVS) to have a better understanding of the veterans it served so the agency could ensure that veterans were receiving the opportunities and benefits that were needed. Ms. Miller noted that the greatest share of veterans served by the NDVS were Vietnam-era veterans.

Ms. Miller stated that the NDVS was also responsible for addressing the needs of the active duty troops in Nevada, who numbered approximately 5,000. The NDVS also provided services to homeless veterans, women veterans, and families and survivors of veterans.

As previously mentioned, said Ms. Miller, the NDVS had four programs and the organizational chart on page 5 of the exhibit was arranged by function. The Veterans Advocacy and Support Team program consisted of teams located throughout the state that assisted veterans by helping them connect with eligible benefits. The veterans memorial cemeteries were located in Boulder City and Fernley, with a proposed Elko rural burial ground. Ms. Miller

explained that the VA would be building a rural burial ground in Elko. While the burial ground would be located on federal property, support would be provided by contract with a local cemetery, and the NDVS would assist the VA by providing oversight.

Continuing, Ms. Miller stated there was one skilled nursing facility in Boulder City and a second planned facility that would be located in northern Nevada, as authorized by the 2013 Legislature. The Community Outreach and Engagement offices were currently located in Reno and Las Vegas only; however, the NDVS had an approved AmeriCorps grant, which would place Volunteers in Service to America (VISTA) workers in Reno, Las Vegas, and Elko. Additionally, said Ms. Miller, the NDVS had a dynamic rural outreach operation.

Page 6 of [Exhibit E](#) contained information about the Veterans Advocacy and Support Team (VAST) program. Ms. Miller stated that the team offices were located in Las Vegas, Boulder City, Reno, Fallon, Elko, and Pahrump. Staff consisted of 1 program manager, 2 administrative assistants, and 12 veteran service officers. The number of veteran service officers was recently increased to 12 with the addition of 5 positions approved by the 2013 Legislature. The veteran service officers helped veterans navigate the very complex VA system to access the benefits they had earned. A veteran service officer conducted an average of 15 face-to-face interviews and 100 telephone contacts per week and had an average caseload of 400. Each veteran service officer annually generated \$6.56 million in benefits that improved the lives of Nevada veterans.

Continuing, Ms. Miller referred to page 7 of the exhibit, which depicted the veterans memorial cemeteries program. Located in Fernley and Boulder City, the cemeteries honored veterans, eligible family members, and Gold Star Parents with dignified burial and final resting places. She explained that Gold Star Parents were those who had lost a son or daughter in combat. The cemeteries technically belonged to the State of Nevada, but Ms. Miller hoped everyone understood that she held those properties in trust to honor the community, the veterans, and their families, who dedicated countless hours to ensure that the cemeteries were appropriate resting places for America's heroes.

Page 8 of [Exhibit E](#) described the Nevada State Veterans Home, which Ms. Miller explained was a 24-hour skilled nursing facility that cared for veterans, spouses, and Gold Star Parents. Located in Boulder City, it was established in 2002 and had served over 14,000 veterans and their spouses. Current policy allowed the Veterans Home to accept 25 percent nonveterans, such as spouses of veterans or Gold Star Parents. The Veterans Home was

currently running at full capacity and usually only had open space when a resident had a bed hold resulting from a hospital visit or during transfers and readmissions. The facility was currently rated four out of five stars by the Centers for Medicare and Medicaid Services (CMS). Also, for the last two years running, it had won the excellence rating from HealthInsight, the quality control and improvement organization for the Nevada Department of Veterans Services (NDVS).

Ms. Miller explained that the Veterans Home was hoping for a rating of five stars and was working on the quality of food service. The three most important things at any type of large medical institution were medical care, recreational activities, and food. Members of the Nevada Veterans Services Commission ate at the Veterans Home quarterly, and Ms. Miller said she also visited approximately every two weeks to check out the food. She believed it had improved.

Assemblyman Edwards asked about the average stay for residents at the Veterans Home. Ms. Miller directed that question to Mr. McBride.

Herald Mark McBride, Master of Health Administration (MHA), Administrator, Nevada State Veterans Home, replied that the majority of the Home's residents required long-term care, and their stays usually exceeded 30 days. He pointed out that for many veterans, the Home was their last place of residence. There were very few short-term residents and patients were seldom discharged. Mr. McBride reiterated that the stays were usually in excess of 30 days.

Assemblyman Edwards asked whether there were figures that indicated the average length of stay in the Veterans Home. Mr. McBride said that between 60 percent and 75 percent of the veterans remained in the Home from one year to ten years or more.

Ms. Miller stated that she would provide follow-up information regarding the average length of time veterans remained in the Home.

Continuing her presentation, Ms. Miller referenced page 9 of the exhibit, which outlined the community outreach programs. The Community Engagement Program helped veterans and community supporters connect so that veterans could receive the services and opportunities needed to improve their lives. The program supported community councils, wellness, employment, and education outreach events and managed the Green Zone Employer Program and virtual outreach with the Green Zone Network. The community outreach programs also included the Rural Outreach and Veterans Enrichment and

Resources(ROVER) program. Within the past two years, the program had grown to encompass 26 community clusters within the state with veteran service officers travelling to each community cluster on a regular schedule to aid veterans without access to a main office.

Ms. Miller stated there was also a Nevada Women Veterans Program to address the unique needs and the different communication and networking styles of women veterans. Many women veterans did not self-identify as being a veteran and often failed to access available services that might improve their lives. One of the major goals of the program was to identify the location of women veterans and offer opportunities for them to come together to receive the information needed to access programs and improve their lives.

Ms. Miller asked whether there were questions from the Subcommittee regarding the agency's mission before presenting the budget overview.

Senator Goicoechea referred to the rural outreach program and asked whether the Nevada Department of Veterans Services (NDVS) continued to use the pickup truck and fifth wheel trailer to provide rural services. Ms. Miller replied that the agency stopped using that trailer about two years ago. It had been determined that the NDVS could partner with community resources and provide better services within those settings. Marketing and outreach had improved by partnering with such entities as a Veterans of Foreign Wars (VFW) post or a county library. It was also helpful to have persons at those locations who could answer questions about upcoming events.

Senator Goicoechea pointed out that his district was very rural, and he had received complaints from veterans about the difficulty in accessing services from the NDVS. He asked Ms. Miller to provide additional information about the number of visits to rural areas, such as Austin and Ely, at future budget hearings. Ms. Miller said the NDVS had a very specific rural outreach plan, and she would share that information with the Subcommittee.

Ms. Miller explained that one of the most significant problems facing the NDVS was that of the 31 accredited veteran service officers, only 12 worked for the NDVS, with the remaining officers working for other veteran service organizations. That meant there were only 31 officers total to serve almost 300,000 veterans statewide. The NDVS recently initiated the Nevada Veteran Advocate Program, where persons could go online and complete a 20-hour course that included classes such as understanding death benefits or how to access military records. There were many times that a veteran would not need the assistance of an accredited officer to file a claim. A person could sign up

online and take from 1 to 20 classes; however, persons who completed all 20 classes could be certified as a Nevada veterans advocate. Those advocates would then be connected to a veteran service officer. Ms. Miller reported that several persons in Ely were currently taking the course. When the advocates were certified, there would be another link between the NDVS and those communities where there was no full-time office.

Assemblyman Oscarson stated he contacted the NDVS approximately six times during the past year, and those contacts had been very good experiences. The employees he dealt with had been very professional and courteous in taking care of the needs of the veterans in his district, which was within Senator Goicoechea's district. Assemblyman Oscarson asked whether the NDVS anticipated the creation of some type of hospice program within the community outreach programs. He realized that VA hospitals were full, but he wondered whether such a program would be forthcoming to serve veterans.

Ms. Miller said hospice care was offered at the Nevada State Veterans Home in Boulder City. As provided by statute, before programs could be expanded in southern Nevada, the NDVS was required to establish a veterans home in northern Nevada. However, said Ms. Miller, there were three or four expansion projects under review. For example, there appeared to be a great need in southern Nevada for adult daycare facilities. When there were two working children caring for an aging veteran parent who needed assistance with the daily activities of living, quite often one of the children would be required to remain in the home to care for that parent. The creation of an adult daycare center in Las Vegas would address that significant need. The NDVS recently conducted a housing needs assessment throughout the state, and the need for adult daycare resonated. There also appeared to be the need for an adult daycare center in northern Nevada. There was space for expansion and for building an additional skilled nursing facility or any other type of needed facility.

Assemblywoman Bustamante Adams said Ms. Miller had talked about food being one of the areas that needed improvement at the Nevada State Veterans Home in southern Nevada, and she asked for additional explanation. Regarding the Nevada Veteran Advocate Program, Assemblywoman Bustamante Adams wondered when that program would be launched and what she, as a legislator, could do to engage her community in connecting veterans with the services provided by the NDVS.

Ms. Miller explained that one of the challenges within a nursing home was the restrictive dietary requirements. It took a very talented person to create wonderful food offerings that would still accommodate and meet the dietary challenges of the residents. The NDVS had used various contractors and continued to bring in experts in an attempt to meet the needs of the residents. There was a resident council at the Nevada State Veterans Home that assisted the NDVS by providing feedback on the actions that might improve the food offerings. Ms. Miller stated that she had been very pleased with the strides that had been made in improving the food over the past year, but the NDVS would continue to try and improve the food offerings.

Regarding the Nevada Veteran Advocate Program, Ms. Miller stated that program launched on January 1, 2015. Only 10 of the 20 courses were currently available online, and the other courses should be available within two weeks. The NDVS partnered with the Truckee Meadows Community College to provide the classes via an online training platform called Moodle. The classes were available on the state's e-learning system, NVeLEARN.

Ms. Miller stated there were several things that legislators could do to assist veterans in the community. One was to open lines of dialogue at the community level with veterans through town hall meetings to determine their needs and communicate those needs to the NDVS. Second, legislators could also ask NDVS to assist in determining the needs of veterans. Another avenue was the Nevada Veteran Advocate course, which could be accessed by persons either for their own use or to advocate for others. That course would explain the depth of veterans' needs in the community. Also, said Ms. Miller, legislators could recognize and become spokespersons for veterans as assets to the community. Too often veterans were depicted as downtrodden victims that needed help from the community, which could not be further from the truth. Most veterans returned from service, reintegrated into the community, and took charge of their lives; they were incredible assets to their communities. Ms. Miller opined that the stories told about veterans should include what those veterans were doing for the state, not just what the state was doing for its veterans.

Continuing her presentation, Ms. Miller stated that page 10 of [Exhibit E](#) listed the revenue sources for the Nevada Department of Veterans Services (NDVS). The NDVS received revenues from many different sources, and only 8 percent of the funding was from the State General Fund.

Page 11 of the exhibit depicted the expenditures by program. Ms. Miller indicated that one way to examine the budget for the NDVS was to look at each program separately. The lion's share of expenditures was used to support the Nevada State Veterans Home; those funds were provided exclusively by the U.S. Department of Veterans Affairs (VA). The next program in order of operating costs was the Veterans Advocacy and Support Team Program. Ms. Miller said approximately 40 percent of the operating costs for the veterans cemeteries were provided by the VA. The funding for the community outreach program was through both State General Fund and gift funds, and that included salaries, travel costs, and the costs for establishing community activities and job fairs. Also included in the expenditures were the Green Zone Network, the women veterans program, and the rural outreach program; the rural outreach program included the costs for sending veteran service officers to communities throughout Nevada.

Ms. Miller referred to page 12 of the exhibit, which depicted three major areas of concern:

1. The unmet need for skilled nursing beds in northern Nevada.
2. The insufficient number of staff to accomplish the mission of identifying and connecting veterans to benefits and opportunities.
3. The rising cost of water at the veterans memorial cemeteries.

Assemblyman Edwards questioned the amount of \$1.7 million from the State General Fund for the NDVS, with the remaining budget funded by federal funds. Ms. Miller stated that was the correct funding split. Another revenue source was the license plate Gift Account for Veterans. Most of the NDVS programs, other than staffing and operating costs, were funded through gift-funding. Very little revenue was realized from the State General Fund.

Assemblyman Edwards asked about the amount of funding from the gift fund. Ms. Miller said the amount received from the license plate Gift Account for Veterans was approximately \$500,000 per year, which was dependent upon the number of residents who purchased veteran license plates. That was a huge gift fund for the NDVS, even though it did not seem like a large amount of money. The programs that addressed homelessness, women veterans, and the outreach to rural areas were made possible through the license plate Gift Account for Veterans.

Assemblyman Edwards noted that with a biannual State General Fund budget in excess \$7 billion, the NDVS received only \$2 million from that Fund. Ms. Miller concurred that the NDVS received only that amount from the State General Fund, but 92 percent of its budget request was received through federal funding. The NDVS had sufficient funding to fund programs for veterans, but the bulk of that funding was not from the State General Fund.

Continuing her presentation, Ms. Miller referred to page 13 of [Exhibit E](#), which depicted major enhancements as follows:

- Construction of a 102,000 square-foot, 96-bed veterans skilled nursing home located in Sparks (CIP project 15-C77).
- Eight new employees and one reclassified position to support the exponential increase in NDVS responsibilities.
- A cost-allocation plan to reduce the effect on the State General Fund for the cost of the requested new employees.
- A water project to reduce the cost of water at the Northern Nevada Veterans Memorial Cemetery in Fernley.

Page 14 of the exhibit addressed the unmet need for skilled nursing facilities. Ms. Miller introduced Wendy Simons to the Subcommittee and indicated that she would provide additional information regarding the proposed northern Nevada veterans facility. Ms. Miller stated that Ms. Simons was the former Chief of the Bureau of Healthcare Quality and Compliance of the Department of Health and Human Services.

Wendy Simons, Project Manager, Northern Nevada Veterans Home, NDVS, stated she had joined the staff of NDVS in October 2014 as the Project Manager for the Northern Nevada Veterans Home. The administrator of the nursing home in southern Nevada was charged with the oversight and vision to move the northern Nevada project forward. That administrator recognized that she had a difficult job operating the 180-resident facility, much less trying to spearhead a much-needed project in the north.

Ms. Simons stated there was an unmet need for a skilled nursing home in northern Nevada, of which everyone was aware. The U.S. Department of Veterans Affairs (VA) identified a 379-bed shortage in Nevada for skilled nursing care. In 2006, the state initiated the effort to bring a nursing home to northern Nevada and submitted a grant to the VA. At that time, the NDVS received tacit

approval, pending the state's contribution of one-third the cost to match the two-thirds federal match. With the downturn in the economy, Ms. Simons said there was little appetite at that time to proceed with the project. However, the atmosphere now appeared much more favorable, noting that Ms. Miller continued to champion the much-needed facility.

Ms. Simons said that states surrounding Nevada received calls daily for placement of Nevada veterans in nursing facilities. She had conducted preliminary research and discovered that many Nevada veterans were placed out of state simply because of the lack of beds in northern Nevada, which also separated veterans from their families.

Continuing, Ms. Simons stated that page 15 of the exhibit described Capital Improvement Program (CIP) project 15-C77 [State Public Works Division], which was the construction of the Northern Nevada Veterans Home. The proposal was for \$14.1 million state bond funds with approximately \$32 million in matching federal funds. She stated the building would be a 102,000 square-foot, 96-bed facility and would be a completely new model of a skilled nursing care facility. The facility included 12 eight-bed, clustered residential units in three 32-room neighborhoods. Ms. Simons explained that the home would have an exciting town center with physical therapy, occupational therapy, and a dining hall. It was one of the newer construction models championed by the VA. The beauty of the design for the northern facility was that if a veteran wanted dinner at 2 a.m., it would be prepared for him; the new facility would provide a much more personalized approach to skilled nursing care.

Ms. Simons said the concept went beyond simply housing veterans by embracing community involvement. She said the design was a grand invitation to link communities and veterans through the functions that could be held at the facility; the design included many amenities yet to be seen in a model for skilled nursing facilities.

Page 16 of the exhibit, said Ms. Simons, described the Northern Nevada Veterans Home economic impact analysis, which had been conducted by the Office of Economic Development, Office of the Governor (GOED). Ms. Simons stated that the GOED completed a 60-page report for the NDVS because it wanted to know, beyond services and opportunities for veterans, what effect the proposed veterans facility would have on the economy. The annual payroll of the employees of the veterans home would be approximately \$7.5 million, and the facility would provide an output benefit of approximately \$14.3 million to the community through various vendors providing services to the operation.

There would be 168 direct and indirect jobs created in the community. Ms. Simons stated that the NDVS estimated 20 or more merchants and businesses would provide services.

In response to Assemblyman Oscarson's previous inquiry about hospice care, Ms. Simons said that hospice care would be integrated into the state's northern veterans home. She said she was also sensitive to Assemblyman Oscarson's query about future hospice benefits in homes, and the NDVS would do its best to facilitate hospice care.

Ms. Simons stated that the NDVS would provide additional information about operational costs and future economic analysis at upcoming budget hearings. She noted that she was working on a business plan that should be completed within the next 30 days.

Ms. Simons referred to page 17 of [Exhibit E](#), which showed the location of the Northern Nevada Veterans Home. The facility would be located on state land at the Northern Nevada Adult Mental Health Services campus through a memorandum of understanding. She reported that 10 to 12 acres of that campus had been dedicated to the facility, which had access from Kietzke Lane and was close to many area hospitals.

Pages 18 and 19 of the exhibit depicted the project footprints, said Ms. Simons, and page 18 indicated how the home would be situated on the available land. The excitement was about the individualized "pod" design of the facility. The design would eliminate long halls within living units for all levels of veterans. Ms. Simons said there would be a very high staff-to-resident ratio at the facility, even though it was designed as a residential model. She said the footprint on page 19 depicted one branch of households with eight private rooms, a living room, dining room, den, galley kitchen, and a front entry porch that opened to the commons or town center hub.

Another concept of the community living center design, said Ms. Simons, was that the critical and support staff, which consisted of certified nursing assistants, nurses, a medical director, and other staff, would come directly to each individual living unit. The design also allowed for entry into each of the pods from a side parking lot so family members, loved ones, and even frail elderly relatives would not be required to walk far to visit. Ms. Simons said that the physical design of the facility encouraged as much independence, mobility, and interaction as possible, and it offered the opportunity for a "band of brothers and sisters" to interact with each other.

Ms. Simons stated that having previously been involved in the long-term care setting, she found the design of the northern Nevada facility to be unlike most nursing homes where 85 percent of the residents were female. Usually at those facilities, the only common thread among residents was an illness or a condition from which the patient was attempting to recover. The veterans who accessed the northern Nevada facility would be 85 percent male, and all of them had their military service, dedication, and pledge to serve the country as a thread of commonality.

According to Ms. Simons, there would be a caretaker in each of the housing units to ensure that everyone was treated as family and with the utmost respect and consideration.

Ms. Simons stated that concluded her presentation, and she would be happy to answer any questions from the Subcommittee.

Assemblywoman Titus said as the medical director for a long-term care facility, she understood the problems, and she noted that the proposed veterans facility was being listed as a skilled nursing home, rather than an assisted-living facility. She wondered whether there would be physical therapists and occupational and speech therapists available and whether the facility would meet the other requirements of a skilled nursing facility.

Ms. Simons replied that the facility would meet the criteria for a skilled nursing facility. There was a nationwide trend to deinstitutionalize the environment of veterans homes, while providing the clinical and medical services that were needed. There was also a plan to have oxygen accessible in each unit without the use of portable equipment.

Assemblywoman Titus stated that skilled nursing facilities were reimbursable through Medicare, and she wondered whether the home would be reimbursed by Medicare as opposed to being an assisted-living facility.

Ms. Simons said that was correct. The current Southern Nevada Veterans Home in Boulder City was reimbursable by Medicare, Medicaid, and the VA, and the northern facility would also be reimbursable. The proposed facility would meet the criteria of the Centers for Medicare and Medicaid Services (CMS) as a skilled nursing facility.

Assemblywoman Titus asked whether there was a lack of beds or skilled nursing facilities in northern Nevada, and whether the NDVS was unable to place veterans in local facilities, thereby creating the need for a new facility.

Ms. Simons said she had discussed the problem of veteran placement in skilled nursing facilities with Dr. Steven E. Brilliant and Dr. William J. Gray of the VA's Sierra Nevada Health Care System in Reno. They indicated that there were a few contracts with local nursing homes, but the stringent VA criteria often ended such contracts. The doctors advised that the community living center at the Reno VA Hospital was at capacity, and they were referring patients to out-of-state facilities. Ms. Simons noted that between five and ten veterans were currently residing in the Veterans Home of California-Yountville in Napa Valley, California, because of lack of capacity in Reno.

Assemblywoman Titus stated that she had no trouble placing her patients who were veterans in a skilled unit because the costs were reimbursable, but she had experienced difficulty in placing veterans in the assisted-living facilities. Assemblywoman Titus wondered whether there was a long-term plan to review assisted-living facilities for veterans.

Katherine Miller, U.S. Army Colonel (Retired), Director, Department of Veterans Services (NDVS), said there was no current plan for assisted living facilities. A study had been conducted that identified the need for assisted living and also determined there were problems placing veterans in skilled nursing facilities, particularly in the area of memory care. Facilities might have beds available, but Ms. Miller said that when it came time to accept a veteran with memory care problems, the number of beds was often limited, and the cost for those beds exceeded the amount that was reimbursable by Medicare and the VA. Ms. Miller acknowledged that the VA had been unable to place the number of veterans who required memory care in facilities in northern Nevada.

Ms. Miller said she had heard from many veterans and their family members that when they attempted to locate placement they were unable to do so, and that was why veterans were being placed out of state without even seeing doctors at the Reno VA hospital. Many times the facilities would state they could not accept a patient with memory conditions, or the funding was not adequate for placement in the facility.

Assemblywoman Titus stated that, typically, Medicare reimbursement for skilled nursing facilities was for a time frame of 120 days, and she wondered whether veterans at the Northern Nevada Veterans Home would be allowed to stay longer than 120 days. She noted that memory care units were typically a secured and locked unit, and she asked whether there would be such a unit at the facility.

Ms. Miller reported that every bed in the facility could be used for memory care. The initial thought was that one of the three neighborhoods that housed 32 veterans would be used exclusively for memory care, because it was easier from a staffing perspective. However, the entire facility could be used for memory care because of its design.

Ms. Miller said she would refer Assemblywoman Titus' inquiry about reimbursement to Ms. Garland.

Amy Garland, Chief Financial Officer, Department of Veterans Services (NDVS), stated that after veterans had exhausted their Medicare benefits, there were other funding sources available. Sometimes the family was able to assist the veteran. Ms. Garland stated that veterans usually stayed beyond 120 days at the Southern Nevada Veterans Home.

Ms. Miller also explained that older veterans often had disability compensation coming from the U.S. Department of Veterans Affairs (VA), and many were entitled to pensions. Also, there was a tax-free benefit called the Veterans Aid and Attendance Benefit for veterans age 65 or older who had served during wartime. With the combination of veterans programs and assistance from families, the NDVS always found a way for veterans to remain in the facility.

Assemblywoman Benitez-Thompson said that it was mentioned that one cause for the shortage of beds was that certain facilities failed to meet the VA criteria for care. She asked for additional information about that criteria.

Wendy Simons, Project Manager, Northern Nevada Veterans Home, NDVS, said the comment concerning the veterans criteria came from Dr. Steven Brilliant at the VA hospital in Reno. The VA criteria was very stringent for reimbursement and placement of veterans in private facilities; she said she would provide the requested information.

Ms. Miller added that the Southern Nevada Veterans Home and the proposed facility in northern Nevada were subject to two sets of regulatory oversight: (1) the Centers for Medicare and Medicaid Services (CMS); and (2) the U.S. Department of Veterans Affairs (VA). The current facility was surveyed twice each year, and there were two sets of criteria that had to be followed. Ms. Miller stated the NDVS was under the spotlight to a degree that other skilled nursing facilities in Nevada were not.

Senator Goicoechea stated that in eastern Nevada, most veterans accessed the VA Salt Lake City Health Care System. He assumed a number of those veterans also remained in that area for skilled nursing care upon release from the hospital. Senator Goicoechea wondered whether those veterans would be required to move from Utah to the Northern Nevada Veterans Home, which might be problematic for family members because of the distance.

Ms. Simons said she had recently spoken to an admiral whose father fit within the criteria described by Senator Goicoechea. The admiral's father had been traveling to the VA hospital in Salt Lake City, and she wondered whether the northern Nevada facility would be open within the next two months so she could place him in Nevada. Ms. Simons said that veterans always had a choice regarding placement, and if the choice was to remain in Nevada, the opportunity would be there when the northern Nevada facility opened.

Continuing her presentation, Ms. Miller referred to page 20 of [Exhibit E](#), which highlighted the problem of insufficient staff to accomplish NDVS' missions. Ms. Miller stated that the expansion of existing programs without corresponding increase in management and staff had limited what the NDVS could accomplish. The decades old leadership structure currently in place was not capable of addressing the expansion of wellness programs or services supporting veterans in rural and frontier Nevada. It was never intended for the initial structure to handle anything other than northern Nevada, and there simply was not enough staff or structure available to address at-risk populations.

In addition, said Ms. Miller, the southern Nevada cemetery grounds had doubled in size since the last staff increase with no corresponding increase in groundskeepers. The NDVS was an organization that had added large "silos" [uncoordinated functions] with no overarching management structure.

In 1943, said Ms. Miller, the first commissioner of veterans services was appointed, which was the beginning of the NDVS. There was one commissioner in northern Nevada, and his job was to help veterans prepare claims to the VA for services in World War II (WW II), much as the current NDVS veteran service officers helped veterans through the vast array of programs. Ms. Miller said in 1947, a deputy commissioner was added because it was recognized that there was a population in southern Nevada who needed the same support. Those two positions were actually veteran service officers and eventually a third staff member was added. Slowly, between 1947 and 1961, more veteran service officers were added, and in 1961 two new programs were added. One was a scholarship program that provided a small amount of funding for surviving sons and daughters if a parent had been killed

in WW II or the Korean War. A guardianship program was also added, said Ms. Miller, for veterans who needed assistance managing their financial situation.

Ms. Miller said the next change occurred in 1990 when the Northern Nevada and Southern Nevada Veterans cemeteries were added to the duties of the NDVS. During that time, a financial officer position and human resource officer were added to the NDVS. In 2002 the Nevada State Veterans Home opened in southern Nevada, and a fiscal officer position was added to assist with billing. The current number of NDVS staff was 218, and they continued to manage the diverse mission set of the NDVS. However, said Ms. Miller, the NDVS was experiencing difficulty handling anything other than the primary programs. Therefore, the NDVS used the Gift Account for Veterans to hire additional staff to manage special programs. These programs included a public information officer to keep veterans informed of programs and benefits, contractors to handle rural veteran services, a suicide prevention task force, and a women veterans program, all of which were added between 2002 and 2013.

After the 2013 Legislature, the NDVS was tasked in 2014 with the planning and design of the Northern Nevada Veterans Home. During that time frame, the NDVS also expanded community outreach programs; started operating homeless veteran programs and incarcerated veteran programs; provided grant program management, which Ms. Miller conducted from her desk and which brought in millions of dollars; and developed the Green Zone Network, along with the veterans information technology (IT) systems. Once the Northern Nevada Veterans Home opened, there would be additional duties for the NDVS. Ms. Miller said the NDVS was taking on more and more missions it simply did not have the structure to manage.

Ms. Miller referred to page 22 of [Exhibit E](#), which depicted staff requests for the upcoming biennium. Ms. Miller said the first request was for a public information officer; she noted that the current public information officer was a contract employee rather than a state employee. There was a state classification for a public information officer (PIO), and a state staff PIO position would be created in the NDVS to deal with the very sensitive information.

The second request was for an IT manager because of new and expanded missions that equaled a significant increase in IT staff workload. Currently, said Ms. Miller, the NDVS was relying on two IT positions that had been established for supportive operations at the Nevada State Veterans Home.

Ms. Miller stated the two current IT positions were unable to keep pace with the new tasks, which included:

- Administering the Green Zone Network website, a social networking platform connecting veterans with service providers.
- Managing the Nevada veterans information system web portal and database.
- Establishing a federally mandated electronic medical records system.
- Supporting rural outreach programs, opening new rural offices, and driving new satellite communications and IT requirements.
- Managing the NDVS email database services, workstation deployment, IT security, and network telephone service at many NDVS locations.
- Supporting videoconferencing for Nevada's veteran service organizations to hold regularly scheduled meetings and events.
- Planning for the Northern Nevada Veterans Home.

Ms. Miller stated the NDVS had contacted the Division of Enterprise Information Technology Services (EITS), Department of Administration, in an attempt to secure support, but to date that effort had been unsuccessful. She indicated that the NDVS projects would never meet the level of other major IT projects. Ms. Miller said she had been attempting to secure support for a project for over two years for the veterans information system, but that had been unsuccessful. The NDVS was currently looking at contractor opportunities to address the needed support.

The next request was for an administrative assistant for the Elko office. Ms. Miller noted that there was one veteran service officer in Elko. In the past there were two officers at that location, but because of the workload increases in Las Vegas, Ms. Miller was forced to move one officer from Elko to Las Vegas. The addition of an administrative assistant would relieve the officer of administrative tasks and would allow the officer to see additional clients. Currently, said Ms. Miller, there was an approximate 12-week delay in Elko to see the veteran service officer.

Ms. Miller stated that the next request was for a reclassification of the current administrative services officer (ASO) 2 position to an ASO 3. She emphasized that the responsibilities of an ASO 2 did not match the duties of the NDVS' current ASO 2. Because of the number of revenue sources and the complexity of the budget for the NDVS, Ms. Miller believed the duties of the current ASO 2 were mismatched, and the position should be reclassified to an ASO 3.

Continuing, Ms. Miller stated that the budget also requested additional staff for the Southern Nevada Veterans Memorial Cemetery (SNVMC), and an unclassified deputy director for veterans healthcare located in northern Nevada.

Ms. Miller stated that page 23 of the exhibit showed the staff request for the SNVMC. Ms. Miller said she was not proud of the picture of the turf at the cemetery, and she explained that the turf over the gravesites was good, but the problem was the expansion from 20 acres to 40 acres, which exceeded the capability of staff to maintain. Maintaining grass in southern Nevada with the weather, the wind, and the blowing sand was difficult; she noted that simply picking up the pinecones was a task. In the past, the U.S. Department of Veterans Affairs (VA) had paid the NDVS \$300 for interment, and that amount had increased to \$745; therefore, the NDVS had sufficient funding to support the request for additional staff.

One request, said Ms. Miller, was for an irrigation specialist. The cemeteries were built in 1990, and the NDVS wanted to provide maintenance and slowly replace equipment to alleviate the possibility of a complete irrigation system breakdown.

Page 24 of [Exhibit E](#) depicted the leadership team, and Ms. Miller explained that the team consisted of a Director and Deputy Director. The 1947 structure was created when the organization consisted of two persons responsible for assisting veterans file claims within their respective jurisdictions. According to Ms. Miller, Chapter 417 of the *Nevada Revised Statutes* (NRS), which governed the operation of the NDVS, did not differentiate between the duties of the two positions, thereby perpetuating an obsolete geographic construct within a functionally oriented state agency. If approved, the addition of a second Deputy Director and the modification of the duties of the existing deputy would create a functionally aligned organization.

Ms. Miller stated that the current Deputy Director would be responsible for the veterans advocacy program, community outreach, the two cemeteries, the women veterans program, public relations and marketing, and the incarcerated

veterans program. The new Deputy Director would be responsible for the two veterans homes, the suicide prevention program, and other wellness initiatives.

Page 25 of the exhibit was the cost-allocation plan. Ms. Miller said the salaries for many of the current positions, such as Director, the existing deputy, the administrative services officer (ASO) 2, and the human resources officer, were paid through the State General Fund. The current ASO 2 wondered why the positions were funded by the state; she explained that she came from an agency where positions were cost-allocated. Ms. Miller explained that 85 percent of her time was spent as the Director, managing operations at the Nevada State Veterans Home, which was federally funded. At least 75 percent of the ASO 2 and the human resource officer positions was also spent managing the operations of the veterans home.

Therefore, said Ms. Miller, the NDVS had cost-allocated several positions, and by doing that, the NDVS had released State General Funds from those positions and proposed to align that State General Fund savings with the eight new positions. The NDVS could add eight new positions with an additional draw of just \$35,000 from the State General Fund. Those eight new positions had been discussed; three of those positions were for the Southern Nevada Veterans Memorial Cemetery, which was partially federally funded. The Deputy Director, the information technology management, and the public information officer were funded through the Gift Account for Veterans.

Ms. Miller noted that Wendy Simons currently performed some of the Deputy Director functions in the wellness program, which was also funded by the Gift Account for Veterans.

Ms. Miller noted the rising cost of water at the two cemeteries was shown on page 26 of the exhibit. The most significant rise in cost was at the Northern Nevada Veterans Memorial Cemetery (NNVMC) in Fernley. Several years ago, the cost was approximately \$30,000 and that amount had risen to approximately \$90,000; Ms. Miller believed the amount would average approximately \$75,000 a year over the upcoming biennium.

Ms. Miller said she contacted the Division of State Lands, State Department of Conservation and Natural Resources, and asked whether there was another way to provide water to the northern Nevada cemetery. The leadership of the Advisory Committee for a Veterans Cemetery in Northern Nevada wanted to drill a well and use groundwater to irrigate the cemetery. The NDVS conducted research and discovered that a well was not the ideal solution because of the

litigation underway regarding water rights. It was also quite expensive to drill a well, and the water contained calcium, which tended to clog the system. Currently, said Ms. Miller, the NDVS was using city water to irrigate the cemetery, which was a better solution and more cost-effective than groundwater.

Ms. Miller noted that the Advisory Committee had suggested another possibility, which was surface water. The cost for surface water would be less than \$300 per year. The problem was the upfront cost for the project at \$1.2 million. That funding would allow the cemetery to connect to the surface water pipeline owned by the Truckee-Carson Irrigation District. The connection pipe would have to go under a road, and the project would require a retaining pond and a pump. Ms. Miller noted that surface water was only available eight months out of the year; the pond would retain sufficient water to cover the off months when only bushes and trees were watered.

Ms. Miller said the NDVS was reverting a large sum of federal funding for the cemeteries to the state. She indicated that \$122,000 per year was reverted to the state, but if that money was not reverted and was used for the surface water project, by comparing the current cost with the future savings, it would take approximately ten years to pay for the project. Ms. Miller did not know whether the timing was right, but she believed it was a viable project and one that made sense from a business standpoint. She stated more information about the project would be presented at future budget hearings.

Assemblywoman Swank stated that in southern Nevada, residents were being encouraged to remove grass, and she wondered whether there were other options for the cemeteries, particularly in southern Nevada because of the scarce water supply.

Ms. Miller replied that Assembly Bill 62 had been introduced and would make changes to Chapter 417 of the NRS that governed the NDVS. That would create the option for xeriscaping, while allowing veterans to be interred under green grass if so desired. Ms. Miller stated she would like the option to create xeriscaping areas in both the northern and southern cemeteries. Many Nevada residents indicated a preference for xeriscaping areas, similar to those found in southern California and Arizona.

Ms. Miller introduced Caleb S. Cage, Director of Military and Veterans Policy, Office of the Governor, who would discuss Nevada's Green Zone Initiative.

Mr. Cage stated that as the Director of Military and Veterans Policy, he had overseen aspects of the Green Zone Initiative (GZI) and worked in partnership with Director Miller and her excellent team in moving the Initiative forward over the past interim. The GZI was depicted on pages 30, 31, and 32 of [Exhibit E](#).

Mr. Cage indicated that approximately one week ago legislators had received a copy of "Nevada Veterans Comprehensive Legislative Reform Report" [prepared by the Interagency Council on Veterans Affairs], which outlined the work completed over the past 18 months. The report described what the GZI hoped to accomplish and its successes and also contained the reports of the various policy councils created by the Legislature and the Governor in 2014. The report also covered three policy studies that dealt with the needs assessment for the Northern Nevada Veterans Home, a statewide housing needs assessment for aging veterans, and an assessment of homeless veterans in Nevada. Mr. Cage encouraged legislators to review the report to realize the scope of the GZI.

According to Mr. Cage, the GZI effort began in earnest in August 2013. The Initiative was centered around three basic assumptions. The first was that the State of Nevada and its counterparts around the country could not provide the necessary services for all existing and transitioning veterans in the state through existing funding structures. The nursing homes, the veteran services officer positions, and the cemeteries were important and crucial services, but they were not meeting the needs of all veterans throughout the state. Mr. Cage explained that the Pentagon referred to the national level of support for veterans as the "Sea of Goodwill," and that support had picked up the slack.

Rather than attempting to locate new federal or state programs, said Mr. Cage, the GZI team charter focused on coordination and alignment of existing services, opportunities, resources, and benefits for service members, veterans, and their families. Also, the GZI provided on-ramp opportunities for private philanthropy and funding arguments for state and federal governments, while ensuring that all veterans had access to every service, resource, benefit, and opportunity available to them in the state, whether that was available through the community or through state, local, or federal governmental agencies.

Mr. Cage said the next philosophical assumption was that the state would not meet the needs of veterans if they were viewed as returning broken, returning as victims, or returning as a strain on their communities, which happened entirely too often. Instead, the assumption was that veterans returning to Nevada communities simply needed an opportunity to thrive; Mr. Cage believed that Nevada was a great place for that to occur.

Finally, said Mr. Cage, there was no federal solution to veterans' problems, but rather a grassroots approach would be necessary to meet the needs of Nevada's veterans and ensure that they could successfully reintegrate into their communities. Mr. Cage said a person should imagine the "Sea of Goodwill" as a boisterous and overwhelming sea of resources and services that were not coordinated at the top. To coordinate those resources and services from the bottom up, they had to be broken into three categories: (1) employment, (2) education, and (3) wellness, to provide the logic for coordinated services.

Mr. Cage said the first of three phases in the development and operation of the Green Zone Initiative commenced through a needs assessment within the state to determine what services were available, what services were needed, where there were gaps or overlaps in services, and how those services could be best aligned throughout the state.

Mr. Cage explained that the Interagency Council on Veterans Affairs (ICVA) was established in the first application phase to meet the mandates of Assembly Bill No. 58 of the 77th Session (2013), along with several other components of the Green Zone Initiative. The GZI team also developed "quick win" items that would help develop traction in each of the three categories—education, employment, and wellness. Funding was provided by grants from private philanthropy, positions approved by the Legislature, and resources from the Nevada Department of Veterans Services (NDVS).

The second application phase, said Mr. Cage, commenced in April 2014 through December 2014, with the Governor proclaiming 2014 as the "Year of the Veteran in Nevada."

Mr. Cage said in the current phase, the GZI team focused on achieving a full operating maturity of the GZI through three lines of effort or "pillars." The first pillar was policy development, the second pillar was service provider coordination, and the third pillar was connection to veterans. Mr. Cage said the GZI team believed if it could attain mastery in those three areas, it would truly achieve the initial mission of the GZI.

Page 31 of the exhibit, said Mr. Cage, depicted early GZI successes in the three phases. He advised Subcommittee members that the first nine pages of the "Nevada Veterans Comprehensive Legislative Reform Report," depicted the state successes that had been achieved in accord with the efforts of the GZI team, as well as with other efforts through the Nevada Department of Veterans Services (NDVS). The successes had been extensive, with Governor Sandoval declaring 2014 as the "Year of the Veteran in Nevada," signing ten

Executive Orders for pilot programs and developing recommendations that were proffered by organizations and councils throughout the state.

Mr. Cage indicated there were six policy councils, which included the aforementioned ICVA and five others created by Executive Order to meet with subject matter experts, service users, and service providers throughout the state to deal specifically with certain demographics of veterans: (1) student veterans, (2) women veterans, (3) incarcerated veterans, and (4) Nevada's military community.

Mr. Cage stated that the Green Zone Initiative (GZI) had been leveraged to receive millions of dollars in grants, and additional grant funding would be pursued over the next year. He indicated that some grants were policy academy grants, such as a National Governors Association workforce development grant. The GZI also applied for the Trade Adjustment Assistance Community College and Career Training competitive grant program. That was a \$10 million grant awarded to the Nevada System of Higher Education (NSHE), \$3 million of which would provide veteran resource centers at community colleges throughout the state.

According to Mr. Cage, the GZI team had been successful in aligning government resources and services, primarily through the Interagency Council on Veterans Affairs (ICVA). The Governor had also established pilot programs through Executive Order, and the Nevada Department of Veterans Services (NDVS) had funded and developed those pilot programs. The Nevada Veteran Advocate Program would be a game-changer for Nevada, said Mr. Cage, and was one of the most exceptional veterans outreach ideas he had seen in his seven years of service to veterans in Nevada. He believed that program would also become a national model.

Ms. Cage pointed out that the GZI had been recognized by the Office of the Chairman of the Joint Chiefs of Staff, the National Governors Association, and substance abuse and mental health service agencies as a "best practice." The GZI team regularly discussed the Initiative with officials of other states and provided information about how the GZI was working in Nevada.

Mr. Cage stated that he chaired the ICVA on behalf of the Office of the Governor, and it would be responsible for the aforementioned policy development pillar. That would include continuation of work through the various policy councils, advocating on behalf of the legislation submitted by the Governor, helping legislators with bills dealing with veterans, bringing the veteran community to the Legislature, and helping achieve what he believed

would be comprehensive reform. Mr. Cage noted that the policy councils had submitted six reports, with over 220 pages of information, to assist the 2015 Legislature in accomplishing comprehensive reforms.

Regarding service provider information, Mr. Cage stated that the Nevada National Guard stepped up and took on that task through creation of community collaboratives based on a California model that had been highly successful. The initial phase would establish a collaborative in northern and southern Nevada and in Elko. The NDVS was taking on the "connecting to veterans" piece and had initiated exceptional programs. Mr. Cage hoped the restructuring requested in the budget for the NDVS would allow it to fully and fundamentally change the way veterans were reached, served, and understood in Nevada.

Ms. Cage stated that concluded his presentation, and he would be happy to answer questions from Subcommittee members.

Chair Anderson thanked Mr. Cage for his presentation. The Chair asked whether there were questions from the Subcommittee and there were none. The Chair asked Ms. Miller to continue her presentation.

Katherine Miller, U.S. Army Colonel (Retired), Director, Department of Veterans Services (NDVS), stated that the Northern Nevada Veterans Home had been the number one request from the veteran community for the past ten years. There was currently an opportunity to build the home with two-thirds funding from the U.S. Department of Veterans Affairs (VA). Ms. Miller opined that it was not appropriate to send veterans outside northern Nevada for treatment, away from their families and their communities, at the time when those veterans most needed support. Even when facilities were available, in some cases veterans could not afford the monthly fees, or the facility did not offer the type of environment in which veterans could thrive. Ms. Miller said the State of Nevada needed to do better for its veterans.

Ms. Miller noted that the Northern Nevada Veterans Home, just as the Nevada State Veterans Home, would soon become independent of State General Fund support. She had the business plan that showed how soon the northern home would be independent of State General Fund support and would provide that information at upcoming budget hearings.

According to Ms. Miller, the NDVS had the best staff, because they believed in what they were doing and felt strongly that everyone should give their best for veterans, service members, their families, and the survivors. However, additional staff was needed that would help the NDVS become something more

than a 1947 organization. Ms. Miller said she was not asking for a significant amount of money, and because of the aforementioned cost allocation, federal funding would be used to cover the cost of most of the requested positions. Ms. Miller noted that the state needed to ensure that its veteran cemeteries were places where veterans were provided dignified burials in a manner that reflected and honored the service of the nation's heroes.

Ms. Miller stated that concluded her presentation, and she would be happy to answer questions at any time from legislators. She hoped that legislators would contact the NDVS at any time because its job was to answer and address the problems and concerns of any veteran, family member, service member, or survivor.

Chair Anderson thanked Ms. Miller for her presentation and thanked NDVS staff for their participation and dedication.

Senator Goicoechea commented that he was very interested in the plan for surface water at the Northern Nevada Veterans Memorial Cemetery and asked that NDVS make that information available at future budget hearings.

Ms. Miller said the NDVS did not have that detail as yet and was in the process of completing the plan; she stated the information would be presented at future hearings.

Chair Anderson stated that persons who wanted to address the Subcommittee during the public comment portion of the hearing and were unable to do so could submit their testimony electronically. The Chair noted that there would also be an opportunity to address the Subcommittee later in the afternoon.

Chair Anderson declared the Subcommittee in recess at 11:57 a.m., and reconvened the hearing at 1:32 p.m. The Chair asked Mr. Dillard to commence the budget overview for the Department of Motor Vehicles (DMV).

Troy L. Dillard, Director, Department of Motor Vehicles, introduced himself to the Subcommittee, and referred to [Exhibit F](#), "Nevada Department of Motor Vehicles, Budget Overview Presented to: Senate Finance and Assembly Ways and Means, January 29, 2015," and noted that page 2 depicted the eight divisions within the DMV:

1. Director's Office – provided oversight of policy.
2. Administrative Services Division – provided financial support.

3. Division of Central Services and Records – back office staff who processed internet requests.
4. Division of Compliance Enforcement – provided oversight of the automotive industries throughout the state and fraud committed using DMV services.
5. Division of Information Technology – provided computerized system infrastructure to run the DMV.
6. Division of Field Services – staff that manned the counters in the main DMV offices.
7. Division of Management Services and Programs – staff that handled fiscal notes and bill responses; also supported all operations throughout the DMV with policies, research, and program management.
8. Motor Carrier Division – provided oversight for the trucking industry and interstate carriers throughout the country and Nevada.

Mr. Dillard said page 2 of the exhibit also depicted the snapshot of 2014 revenue distribution. The DMV had collected and distributed \$1.1 billion, an increase from the previous year. He cited the mistaken opinion that because the DMV was a State Highway Fund agency, the revenues collected were only for the Highway Fund. Mr. Dillard said the DMV collected Highway Funds for the state, and that represented 38 percent of its total collection. The most significant portion of DMV revenue, however, was 45 percent collected and distributed to counties and school districts. The DMV had realized a revenue increase of 2.85 percent from fiscal year (FY) 2013 to FY 2014, which Mr. Dillard said was good news for the state.

Page 3 of the exhibit depicted the Highway Fund revenue highlights (Blue Book), which indicated projected increases in the Highway Fund balance over the upcoming biennium. Mr. Dillard stated that FY 2016 revenue was projected to increase by 1.24 percent and the FY 2017 projection was for an increase of 1.26 percent.

Additionally included in [Exhibit F](#), under the tab "Revenue Projections," was the breakdown of all sources of revenue for the DMV. The revenue was projected for the upcoming biennium in a line-by-line format, depending upon the revenue source. That was a differentiation from past budget requests when the amounts of revenue had been combined before making the projections.

Mr. Dillard said that because of known trends and other factors, each of the separate revenue projections was based upon a different formula. The projections and the expected revenues for the DMV for the upcoming biennium would be discussed in depth at future budget hearings.

According to Mr. Dillard, the DMV was subject to a 22 percent spending cap, as shown on page 3 of the exhibit. He explained that DMV was limited in its budget to spending no more than 22 percent of the Highway Fund revenue that was collected by or through the DMV, which excluded the gas tax. Revenue was primarily received from registration fees and driver's license fees.

In 2011, the Legislature redirected part of the governmental services tax (GST) commissions and penalties to the State General Fund to assist with the shortfall it was experiencing. Mr. Dillard said the 2013 Legislature split the redirection over the 2013-2015 biennium. In FY 2014 those revenues were restored to the DMV, and in FY 2015 the revenue would once again revert to the State General Fund to help with the shortfall in revenue distribution from that Fund. Mr. Dillard said The Executive Budget continued to divert the GST revenue to the State General Fund in the 2015-2017 biennium to address the shortfalls.

Page 4 of the exhibit depicted the DMV funding sources by type, said Mr. Dillard, noting the DMV was primarily a Highway Funded agency. The second source and bulk of the revenue consisted of fees; the allocation for both FY 2016 and FY 2017 was represented in the chart on page 4.

Mr. Dillard said one of DMV's popular programs was the self-service kiosks. Currently there were 45 kiosks distributed throughout the state, 18 of which were located within DMV offices. The DMV also partnered with 27 locations, most of which were in local neighborhood businesses and schools, to allow easy access to kiosks; many locations offered 24-hour access. Most transactions pertaining to vehicles were available via the kiosks, and the DMV planned to expand the list in the future.

According to Mr. Dillard, the kiosk program was currently fee funded rather than state funded, as it had been in the past. In 2012, the funding model had been changed and it was made into a self-funded program. There was currently a \$3 transaction fee for each registration, which was paid by the user of the kiosk to support the vendor. The fee was \$1 for all other transactions.

Senator Kieckhefer referred to the 577,771 kiosk transactions conducted in FY 2014, and he asked whether DMV could track those transactions to ascertain how many were diverted from counter transactions.

Mr. Dillard explained they were not specifically diverted from counter transactions, but the graph on page 5 of the exhibit depicted the increased use of kiosks month after month, year after year. In addition, 30 percent of DMV customers were cash-based customers, said Mr. Dillard, and only those kiosks located within DMV offices accepted cash. It was expensive to provide a cash-handling capacity outside the control of the state. The DMV had attempted to enter into a few contracts, but had been unsuccessful in locating an entity willing to provide cash handling.

Mr. Dillard reported that the DMV had tracked the type of transactions that were taking place and where they were moving from. The DMV was aware that it was diverting counter transactions to kiosks and other alternate services: specifically, 80 percent of the registration renewals in 2014 were done through alternate services rather than at the counters. Thirty percent of the customers paid cash and 80 percent using alternate services represented very good benchmarks.

Continuing his presentation, Mr. Dillard referred to the kiosk transaction graph on page 5 of the exhibit. The graph indicated that the kiosks had been very successful from inception through today. The usage by residents had increased month after month, year after year, up to 577,771 in 2014, and usage continued to increase in 2015. The DMV expected over 600,000 transactions just at the kiosks alone.

Mr. Dillard indicated that along with the 577,771 kiosk transactions, there had been an additional 1.2 million transactions conducted by DMV customers through alternative services, for a total of approximately 1.7 million transactions. Those services consisted of kiosk transactions, web and portal transactions, emission station transactions, and mail renewals.

Mr. Dillard referred to the field office performance chart on page 5 of the exhibit and noted that the Governor's State of the State address highlighted that Nevada had become a very popular state in which to reside because of the new businesses and people that had been attracted to the state. Mr. Dillard said that as new businesses were attracted to Nevada, so too were new people. During 2014, the DMV issued 87,840 driver's licenses and identification (ID) turn-ins from individuals moving to Nevada from other states. He noted that approximately 7,400 persons per month were moving to Nevada, and almost 75 percent of those persons were moving to Clark County. That percentage had been determined through the volume of individuals in DMV offices in the Las Vegas region.

According to Mr. Dillard, the four metro offices in Las Vegas and the one in Reno had a 13.5 percent increase in customers in 2014, and when the Carson City office was added, the six metro offices had a combined 12.8 percent increase. The number of individuals moving to Nevada and transacting business was significant, but he could not determine how many more individuals were being seen now than in the past. Mr. Dillard said new programs had come online in 2014 that brought new customer volume, and there had been changes to programs that changed customer volume. One of the most significant recent changes was the state's economic recovery, which attracted more persons to communities in Nevada.

That growth brought its own set of challenges, said Mr. Dillard. During 2013, the DMV wait-times were quite reasonable at approximately 45 minutes. That wait-time had more than doubled with 250,000 more persons accessing DMV offices. At the same time those additional 250,000 persons requested service at offices, the transactions through alternate services had increased by an additional 250,000. Mr. Dillard pointed out that in 2009 a significant number of positions had been deleted from the DMV budget. He noted that 85 of those positions had been serving customers at the counters in DMV offices.

Another change for the DMV was the Dash Pass service, said Mr. Dillard. That system represented a change in the queuing process within DMV offices. Customers could now get into line at DMV offices by using their cell phones, the Internet, or a voice phone, without actually being in line in a DMV office. However, the program had not been without its challenges, which were mostly internal. The vast majority of customers using the Dash Pass service found it favorable, and the compliments received about customer service had significantly increased because of that service. At the same time, the combination of changing to a new system and the volume of new customers made it very difficult for DMV staff to deal with some of those changes. The Dash Pass service was one of many changes that had come online throughout 2014, which also contributed to the increased wait-time for customers.

Mr. Dillard stated that the eight-year driver's license came online in 2014, which was another process change for DMV staff, and one that equated to a longer learning curve and longer transactions. The reality of that change was that, over the long term, it would reduce the number of individuals who had to access a DMV office to receive services. With the four-year license, 80 percent of those renewing a driver's license still used the counters rather than alternative services. Mr. Dillard stated that transferring to an eight-year

driver's license would reduce the demand for services at a DMV office by approximately 1.5 million customers over a four-year period, thereby helping with the service capacity and wait-times.

Mr. Dillard noted that there had been a significant change when Nevada became compliant with the mandates of the Real ID Act of 2005 in November 2014. The DMV had been unsuccessful in educating the public regarding the effects of Real ID and what would be required to obtain such an ID. Mr. Dillard said Real ID was the reenrollment of a person's driver's license or ID card. Individuals who had not previously presented the necessary documents to the DMV would be required to bring them to the DMV to become Real ID-compliant. The necessary documents would show proof of name and age, proof of Social Security number, and proof of residency in Nevada. Once a person presented those documents, no further documentation would be required. For example, when a person was Real ID-compliant and moved to another state, that state would require no further documentation to issue that person a driver's license.

According to Mr. Dillard, there had been some confusion about the use of the Real ID. A Real ID card indicated that the person had met the standards and identification requirements set by the federal government. A Real ID card would suffice for persons to visit federal buildings, visit the White House, visit a nuclear power plant, or fly on commercial airlines. Eventually, said Mr. Dillard, a person would be required to possess a Real ID-compliant card or another form of identification acceptable to the federal government, such as a U.S. passport. The phased enforcement of the mandates of the Act by the U.S. Department of Homeland Security (DHS) added to the confusion regarding the use of a Real ID card. The DHS recently began enforcing Real ID compliance at most federal offices; therefore, persons from states that were not Real ID-compliant could not use their driver's license to access federal facilities. However, a person from a Real ID-compliant state who possessed a Real ID card could access federal facilities.

Mr. Dillard stated that the majority of individuals currently had a driver's license or identification card that contained no markings, and those cards were still valid in states that had been certified as Real ID-compliant and could be used for identification at airports. That would continue until rules went into effect in 2020 requiring every person to possess a Real ID-compliant driver's license or ID card to meet federal standards.

Mr. Dillard stated a person who possessed a noncompliant Nevada driver's license or ID card that contained the statement, "not valid for federal official purposes," would be allowed access to commercial flights even when the Department of Homeland Security (DHS) began enforcement of the Real ID-program in 2016. Once that occurred, persons could use either a Real ID-compliant driver's license or the noncompliant driver's license until it expired or until 2020, when DHS would require all driver's licenses and ID cards to be Real ID-compliant.

Mr. Dillard pointed out that the medical marijuana program had also affected DMV offices. The DMV currently issued the cards for medical marijuana use, but there was a bill before the Legislature that would allow the Department of Health and Human Services to take over the issuance of those cards. In the meantime, that volume had significantly increased, which affected DMV field offices.

Mr. Dillard stated that the 2013 Legislature passed a law that allowed the DMV to require motor vehicle dealers throughout the state to submit electronic dealer reports of sale, and the results were better than expected. The title unit maintained a 21-day turnaround for title submissions, but it had to borrow staff from other units to maintain that turnaround. Mr. Dillard noted that when the DMV transitioned to the electronic dealer report of sale, it eliminated the bulk of the data entry requirements, eliminated the need for additional staffing, and brought the title turnaround time down to seven days. That was an example of partnership between the business community and the state resulting in greater efficiency; the DMV continued to look at similar programs that would make it more efficient.

Page 6 of [Exhibit F](#) contained a chart that depicted the use of alternate services and the year-after-year growth that the DMV had achieved by continuing to increase available services and simplify the services to make them easier for customer use. Mr. Dillard said the DMV continued to focus on the use of alternate services without wait-lines, as opposed to the increasing wait-times in DMV offices.

Also on page 6 was the graph that depicted the increase in DMV customer volume in its offices over the preceding years when the DMV windows were staffed full-time—referred to as the 100 percent staffing formula. However, said Mr. Dillard, when the DMV lost 85 positions, it had not been able to maintain that 100 percent-staffing formula. He noted that annual leave, sick leave, breaks, and lunch hours all affected window coverage; the DMV offices were currently serving two million customers at the present staffing level.

Continuing his presentation, Mr. Dillard referred to page 7 of the exhibit, which depicted the information technology (IT) projects. The DMV had a significant number of IT projects, some ongoing and some future projects that were limited in the current budget request. Some of the current IT projects included secure dealer placards, which the DMV had recently begun issuing. He explained that when a person purchased a car from a licensed dealer in the past, the dealer would write the registration date on a blue placard, which made it easy for people to commit fraud. The DMV contracted with OpSec Security, the company that protected merchandise brand security, to design the system. The initial phase included a computerized placard system so that when the vehicle left the dealer's lot, purchaser information was immediately available to law enforcement to ensure that the individual's information matched the vehicle. The placard would also link warrant or bulletin information and provide that to law enforcement. Mr. Dillard noted that the placard also made it very difficult for a person to commit fraud regarding the 30-day registration requirement, which affected the tax revenue collected. Two dealers in northern Nevada and two dealers in southern Nevada were participating in the initial phase. The pilot was going quite well, and the DMV anticipated that by the end of 2015, the program would be available statewide.

Mr. Dillard stated that the electronic lien and title program was also approved by the 2013 Legislature. The contract had been concluded with the vendor paying for the completion and integration of that program at no cost to the state. The program made the title electronically available to lienholders. The program was touted as a win-win situation for everyone involved, and lienholders supported the program because it was helpful for them and for the state.

Continuing on page 7 of the exhibit, Mr. Dillard referred to the commercial driver's license information system and commercial learner's permit project. He advised that additional information was available in the exhibit under the tab "IT Projects." Mr. Dillard said the programs were federally mandated and required the DMV to upgrade its systems to meet federal guidelines and regulations; failure to meet that mandate would result in withholding funds from the Highway Fund Trust. The project would be completed in approximately one year, and it was an example of the type of projects that IT staff constantly worked on to meet mandates and other requirements.

Mr. Dillard said the 2013 Legislature approved building a new license plate factory (page 7, [Exhibit F](#)), which would be moved from the grounds of the Nevada State Prison (NSP) to the Northern Nevada Correctional Center. The factory would be located outside the fence across from the Stewart Conservation Camp. The building was almost complete, and the

equipment would be installed when the certificate of occupancy was issued. The use of inmates from the Stewart Conservation Camp for staffing the plant was in agreement with the Department of Corrections and was more in line with providing skill sets to offenders who would eventually reintegrate into society. Prior to the relocation, inmates serving life sentences often staffed the factory inside the fence at NSP. The DMV was looking forward to producing the first plates from the new license plate factory; the factory would return to an embossed plate, using both digital technology and the "old school" stamping method.

Page 8 of the exhibit, said Mr. Dillard, referred to the Nevada Commission on Off-Highway Vehicles. The Commission was responsible for oversight of the off-highway vehicle program; however, the DMV handled both the titles and licensing of the dealers who sold off-highway vehicles and the titles and registration of the vehicles by the operators. Currently, there were 75 licensed off-highway vehicle dealers, and there were 39,323 active off-highway registrations. Mr. Dillard said that paled in comparison to the 280,000 vehicle registrations that were projected. That had caused some funding and regulatory difficulties, and the DMV was attempting to correct one funding problem. There was an 85:15 percent split of the registration costs, with 15 percent going to the DMV and 85 percent to the Commission for distribution.

Mr. Dillard said that with 39,323 registrations, 15 percent would not cover the cost of the resources to handle the registrations. Should the registrations increase to the projected 280,000 registrations, however, 15 percent would more than cover the resources needed to handle the registrations, and the funding would simply accrue in an account, which did not make sense. Therefore, the DMV was proposing an enterprise level account that would change the current account to a reserve forward account where, after expenses, all funding would roll over to the Commission. That would solve the problem going forward.

Assemblywoman Carlton asked whether Clark County would be reimbursed for the \$250,000 seed money it had provided when the program began. Mr. Dillard replied that there was never an intent to reimburse the seed money provided by Clark County. The county granted that funding to get the program started.

Assemblywoman Titus stated she would support a bill draft request that eliminated the off-highway vehicle program. She was concerned about enforcement; there were no incentives for individuals who were supposed to enforce the program. Assemblywoman Titus believed the program had failed. She noted that constituents in her district continued to ride off-road vehicles on

the dirt roads historically used for those vehicles, and it did not appear law enforcement was concerned about enforcing the program.

Mr. Dillard replied that he would not classify the program as a failure, rather that the program had not met the expectations that were set when it began. The Commission recently underwent an audit regarding the funds that had been appropriated and the disposition of those funds. The Commission was attempting to address some of the problems, and it was charged with allocation of certain percentages of the funding for certain purposes, including enforcement and education, along with trail improvement. Mr. Dillard indicated that the DMV had no oversight of the Commission and simply collected the registration fees and sent the 85 percent to it for allocation.

Assemblyman Oscarson said he would echo the comments of his colleague. He believed there was little knowledge of the off-highway vehicle requirements in many of the areas of Nevada that he had visited. In some instances, persons were being cited who had no knowledge of the program requirements. Assemblyman Oscarson opined that, even though he was not an advocate of the program, people should be educated and there should be information readily available about the requirements.

Senator Goicoechea noted that legislation passed by the 2013 Legislature allowed for registration of "large all-terrain vehicles" through the DMV [Senate Bill No. 343 of the 77th Session (2013)], and he asked about the number of large all-terrain vehicle registrations.

Mr. Dillard replied that he was unsure of the number of large all-terrain vehicle registrations that had occurred since passage of the legislation. That legislation also mandated that those vehicles be covered by insurance rather than the standard registrations for off-highway vehicles, which did not require insurance coverage.

Assemblywoman Bustamante Adams referred to page 7 of [Exhibit E](#) and the electronic lien and title project. She noted that the contractor had paid for the completion and integration of the program at no cost to the state. She wondered whether the program would continue when the contract was complete and when the current contract expired.

Mr. Dillard indicated that the DMV had recently signed the contract in January. For clarification, he explained that the contractor was building an interface between the DMV and the lienholders of the vehicles so they would have electronic access to the information. Currently, the DMV generated a vehicle

title that was printed and mailed to the lienholder. The majority of the lienholders were large financial institutions that received thousands of titles. The goal was to make the process electronic for tracking purposes, as well as provide for the release of the liens so the dealers could transact their business more quickly. Mr. Dillard said the lienholder would simply pay a transaction fee to the vendor/contractor who was building the infrastructure between the DMV and the lienholder. Regarding the contract, Mr. Dillard stated the contract was for six years.

Chair Anderson said the other part of Assemblywoman Bustamante Adams' question was what would happen with that interface when the contract expired.

Mr. Dillard explained that the infrastructure was controlled by the DMV, and the vendor selected to initiate the project was responsible for the costs associated with development of that interface between the DMV and the lienholders. The DMV would continue to maintain control of the project, including all the data.

Continuing his presentation, Mr. Dillard referred to page 8 of the exhibit. Currently, the DMV had submitted four bill draft requests (BDR) as follows:

- System modernization – modernize the DMV's aging technology platform.
- Off-highway vehicle cleanup – establish an annual plate fee of \$12 for long-term and short-term lessor or manufacturer.
- License plate factory – address the fiscal year State General Fund shortfall. Proposed removal of annual payments for the capital improvement project and diversion of the funds accumulated for the license plate factory to the State General Fund in fiscal year (FY) 2015 and, thereafter, established a reverting account to the Highway Fund.
- Eight-year license plate reissue – required a rolling eight-year license plate reissue to eliminate the older license plates that were difficult to read because of the lack of reflectivity. The bill would also address several policy concerns.

Senator Kieckhefer asked whether motorists would be required to purchase license plates every eight years. Mr. Dillard replied that was correct.

Senator Kieckhefer asked whether that would commence in the second year of the biennium with projected revenue of approximately \$2.5 million, and Mr. Dillard stated that was correct.

Senator Kieckhefer wondered, as motorists cycled plates every eight years, what the average annual revenue would be once the program was underway.

Mr. Dillard said the focus of the plate cost was to cover the cost of producing the plates, and it would not become a revenue-generating fund. There was a 50-cent per plate Prison Industry fee for each plate manufactured, which would benefit the Fund for Prison Industry as well. Overall, there would be some revenue generated, but the long-term amount was unknown because the cost of the plates would be adjusted based on the cost of commodities and the cost of producing the plates.

Continuing his presentation, Mr. Dillard stated that page 9 of [Exhibit F](#) depicted the major enhancements for the DMV budget. Two enhancements—system modernization and field services technician positions—were the most important items for serious consideration by Legislature. Mr. Dillard said the ability of the DMV to continue to conduct business, to continue the collection of revenue for the Highway Fund, and to continue to support the transportation industry in Nevada depended on those enhancements.

Mr. Dillard explained that the existing DMV information technology (IT) system was a COBOL-based system, which was very antiquated. The DMV produced fiscal notes for the Legislature every time a programming response was required to address a policy issue within a bill. The dollar amount of those notes was very large because of the design and capabilities of the COBOL system. Mr. Dillard stated that the “back end” of the system ran on COBOL technology, and the “front end” of the system ran on PowerBuilder technology. The problem was that many younger IT professionals were unfamiliar with those antiquated technologies.

In addition, said Mr. Dillard, one of the most disturbing facts was that the \$1.1 billion in revenue collected by the DMV over the past two years and the \$1.2 billion and \$1.3 billion in revenue projected for FY 2016 and FY 2017 was managed by usage of Excel spreadsheets. Mr. Dillard commented that the DMV still had a Paradox database management system running in the background for its fuel tax transactions, and that database was responsible for ensuring that the DMV was collecting and distributing the appropriate amount of tax revenue.

Mr. Dillard opined that it was time for the Legislature to address the system modernization for the DMV in a significant way. It was not simply the revenue aspect, but also the DMV's ability to provide services to customers and upgrade to a modern system that would allow the DMV to provide the services expected by customers in a timely manner.

Today, said Mr. Dillard, the DMV office technicians had to scroll through approximately seven screens to conduct a vehicle registration transaction; a person who accessed the DMV website could complete that transaction using two screens. The DMV could not improve current computer programs because of its antiquated system. Mr. Dillard said the DMV had searched for every efficiency possible, and while the current system could be maintained, there was no room for further advancement. Mr. Dillard reiterated that it was time to modernize the DMV system. With the current customer volume and the projected increase of 250,000 additional requests for service, the DMV needed the ability to move more customers through its system.

Mr. Dillard said another important matter was the request to add sufficient personnel to cover the available windows and provide customer service at the DMV offices. The DMV requested 75 positions, 68 of which were window technicians for the five metropolitan offices in Las Vegas and Reno. That would allow the DMV to staff the windows from 8 a.m. to 5 p.m., Monday through Friday, and from 8 a.m. to 4 p.m. on Saturdays. Currently, said Mr. Dillard, customers who entered a DMV office would see a number of empty windows, which did not bode well for the customer's interaction with persons staffing the other windows. Most customers were not happy with significant wait-times when some windows remained vacant. With the aforementioned customer volume increase, the requested positions were necessary.

Mr. Dillard stated that the DMV needed to serve its customers much better than it had with the increased demands of the past two years. The DMV also needed to provide assistance in a more timely manner than it did today because of the limitations of its IT system. Mr. Dillard pointed out that the DMV wanted to reduce the amount of time required for a transaction by ensuring that there was less data entry being done at the windows. He noted that working together with customers and providing alternate services would reduce the volume of customers visiting the DMV offices.

Mr. Dillard referred to page 11 of [Exhibit F](#), which contained a color-coded chart depicting the use of alternate technology in 2014. The blue line represented the electronic dealer's report of sale (EDRS), and the gold line represented the EDRS web and portal transactions. One of the advantages of the electronic

dealer's report of sale being sent to the DMV was that individuals could conduct online transactions for first-time registrations if the vehicle had been purchased from a Nevada dealer. In the past, a person had to visit a DMV office to register a vehicle, but that was not necessary today. Mr. Dillard stated that 90 percent of the individuals who purchased a vehicle from a Nevada dealer would be able to register the vehicle online. The individual could also apply any existing registration credit toward the new registration; if it was a new vehicle and there were no registration credits, the individual could start the transaction from scratch. The DMV would send temporary plates and ultimately the final plates. Everything necessary to register a vehicle could be found online from the comfort of an individual's home or office, and future customers would be able to register vehicles at DMV kiosks.

Mr. Dillard pointed out that less than 10 percent of DMV customers were taking advantage of the alternate technology; that tied into another DMV budget initiative, which was a proposal to increase its education budget. The DMV had realized several technological advancements over the past few years, but those advancements were not being used because of the lack of public education. The alternate technologies changed what customers experienced when they visited a DMV office compared to what they were used to; the technology now available made transactions more convenient. Mr. Dillard said the DMV had not done a good job in educating the public and press releases had also been unsuccessful. The information needed to be accessible to residents so they became aware of the services and would take advantage of them, which would make the DMV as efficient as possible. Mr. Dillard said that was the entire focus of the first three initiatives in the DMV budget.

Continuing his presentation, Mr. Dillard referred to page 11 of [Exhibit F](#), which contained information about the human resource investigation unit. Presently, the DMV had 1,173 positions, but there was no centralized process to ensure that internal investigations were properly completed in a timely manner. That had been an issue for the DMV when processing personnel-related matters. The DMV was attempting to address that need, while being consistent and fair with current employees when incidents occurred that required an investigation.

Chair Anderson referred to page 10 of the exhibit and the request for 75 additional positions. The Chair noted that the information technology (IT) enhancement request would update the entire system and create more efficiencies and less need for office staff because of alternative service methods. He wondered what would occur with the new permanent window staff positions in DMV offices after the new IT system was up and running and whether the need for those positions would disappear in a few years.

Mr. Dillard replied that the current focus was that customer volume had reached an all-time high. The DMV had resources available because the window staff positions would not require additional computers, chairs, or any additional equipment. The DMV office windows were already set up to serve customers, but added positions were needed to staff those windows and help serve the current volume of customers. The DMV needed to maximize its capacity because of simple "supply and demand." Mr. Dillard said the DMV hoped that with the increase in efficiencies gained from a modernized IT system, further expansion of staff would not be required. The DMV had been growing at an average of 6 percent, with a significant increase in 2014, and it anticipated that the growth would continue. The DMV hoped to stay in front of that growth so it could continue to serve customers in a timely manner. The effort would be measured by the number of customers DMV window staff could serve and the length of wait-time for customers. Mr. Dillard said the DMV continued to study ways it could improve its services and lessen the volume of customers who were required to visit the DMV office.

Continuing his presentation, Mr. Dillard stated that page 23 of the exhibit depicted supplemental requests, and a more detailed synopsis was contained under the "Supplementals" tab of the exhibit. He indicated that Ms. McKinney would present that portion of the budget presentation.

Amy McKinney, Chief of Administration, DMV, explained that DMV had submitted three supplemental requests:

1. Budget account 4741—Central Services requested \$100,000 to cover contract costs for print-on-demand decals.
2. Budget account 4744—Director's Office requested \$36,523 to cover personnel costs for a March 2013 position reclassification that was budgeted at the lower salary.
3. Budget account 4745—Administrative Services requested \$238,784 to cover electronic payments for merchant fees and printing of customer service forms.

Ms. McKinney said, as with all supplemental budget requests, the DMV would continue to track expenditures and make adjustments as needed in those requests throughout the session.

Mr. Dillard stated that concluded the budget overview and he would be happy to answer questions from the Subcommittee.

Assemblywoman Swank said she had received a phone call from a constituent about the television screens in the DMV offices that showed informational pieces that were interspersed with advertising. Her constituent had noticed advertisements for payday title loans on the screen, and she asked for information regarding the process for placing advertisements on DMV screens. Assemblywoman Swank said she was concerned because it seemed that the advertisements might imply that the DMV endorsed those businesses.

Mr. Dillard said he had recently received the letter from Assemblywoman Swank regarding the advertisements. He stated he was not familiar with that particular advertisement, but the company who handled the advertising submitted the requests to advertise to the DMV for review prior to displaying them on the screens. Mr. Dillard assured Assemblywoman Swank that he had referred the matter to DMV's public information officer for review and to determine what information was provided by the advertisements.

Assemblywoman Benitez-Thompson noted that the DMV had requested two rifles at each DMV office, and she wondered about the theory, logic, and rationale behind that request. She asked Mr. Dillard to include detailed information about that request at future budget hearings. Assemblywoman Benitez-Thompson believed it was a significant policy change and should have been included in the budget overview.

Mr. Dillard explained that the request was not a significant policy change because the law enforcement branch already existed. The request was to address "active shooter" concerns and was a major item that would be discussed by Donnie Perry, Administrator, Division of Compliance Enforcement, at future budget hearings.

Chair Anderson asked whether there were further questions from the Subcommittee, and there were none; the Chair indicated that further public comment would be heard at the end of the hearing.

The Chair declared the Subcommittee in recess at 2:30 p.m. and reconvened the hearing at 2:41 p.m. The Chair asked Mr. Soderberg to present the budget overview for the Department of Employment, Training and Rehabilitation (DETR).

Don Soderberg, Director, Department of Employment, Training and Rehabilitation (DETR), introduced himself to the Subcommittee and stated that Mr. Perea would commence with the budget overview.

Dennis A. Perea, Deputy Director, DETR, referred to page 2 of [Exhibit G](#), "State of Nevada, Department of Employment, Training and Rehabilitation, 2015-2017 Biennium, Legislative Commission's Budget Subcommittee, January 29, 2015," which depicted the vision, mission, goals, and the *Nevada Revised Statutes* (NRS) under which DETR operated. Page 3 of the exhibit showed the summary of agency operations and listed the number of full-time-equivalent (FTE) positions that were assigned to each division, program, or commission. There were 878 FTE positions throughout the state. Mr. Perea noted that represented the reduction of 42.49 FTEs for the upcoming biennium. The bulk of the reductions was in the Unemployment Insurance (UI) program, but DETR had also reduced the cost-allocated or overhead positions by eight positions in an attempt to reduce costs proportionately. According to Mr. Perea, DETR was somewhat countercyclical; that it was downsizing could be seen as a positive action, but such action created some operational challenges. Mr. Perea stated page 4 of the exhibit contained a pie chart that detailed the breakout of the FTE positions by division.

Pages 5 and 6 of the exhibit set forth the goals and updates for DETR over the upcoming biennium. Mr. Perea said DETR hoped to repay the Unemployment Trust Fund bond in late 2017, which would be one year early. The current balance of that bond was approximately \$477 million and DETR had collected \$38 million for the next payment. The DETR was currently in a positive cycle.

Mr. Perea stated that DETR wanted to complete the Unemployment Insurance claim filing system (UInv) project in 2015. The benefits portion of the UInv was launched in September 2013; the appeals portion of the system, in July 2014. The third and last stage was the contribution tax piece, and DETR was working diligently with the contractor to finish that stage.

Another goal, said Mr. Perea, was completion of the Burning Glass Technologies Data System project, which would greatly improve the delivery of DETR services to employers and potential employees.

Chair Anderson asked for additional highlights of the Unemployment Trust Fund bond and why it had been funded in that manner.

Mr. Perea explained that at the beginning of the great recession, DETR had a Unemployment Trust Fund reserve of approximately \$800 million, and it was ranked as one of the more healthy funds in the country. With the economic downturn being so severe, and with Nevada suffering from the highest unemployment rates in the country, DETR quickly expended that \$800 million and went \$800 million in the hole. There was an approximately \$1.6 billion

shift in the Trust Fund. Mr. Perea stated that DETR borrowed that money from the federal government at a higher rate of interest than that available on the open market through bonding. Therefore, DETR approached the 2013 Legislature and requested authorization to bond that debt, which was the bond currently being paid down.

Chair Anderson recalled that there had been a lump-sum payment to refinance the debt to a lower interest rate and save money for the state.

Mr. Perea stated that was correct. It was somewhat confusing to employers because they thought the second charge was an additional payment, but DETR had paid off the federal debt while maintaining constant tax rates. Mr. Perea stated that DETR had been advising employers that it had actually bonded the debt for them to ensure that the Unemployment Trust Fund remained viable.

Continuing his presentation, Mr. Perea referred to page 6 of [Exhibit G](#), and stated that in conjunction with the Nevada Department of Education, DETR was requesting that the Statewide Longitudinal Data System (SLDS) be housed within its research and analysis division.

Mr. Perea indicated that William Anderson was in the audience in Las Vegas should the Subcommittee request additional information regarding the current economic outlook as depicted on page 7 of the exhibit. The current unemployment rate had dropped to 6.8 percent, and current projections called for 40,000 to 50,000 new jobs per year through the end of the upcoming biennium.

Continuing, Mr. Perea stated that page 8 contained a chart that showed Nevada's unemployment rate versus the nation's unemployment rate over several years. At the peak of the recession, Nevada's rate was 4.6 percentage points higher than the national average, and in December 2014, the rate was 1.2 percentage points higher, much closer to the national average. Mr. Perea said from February 2010 through October 2013, Nevada had the highest unemployment rate in the nation; however, Nevada's rate was currently lower than three other states and the District of Columbia (page 9, [Exhibit G](#)).

Page 10 of the exhibit, said Mr. Perea, showed that at the peak of the recession, DETR was accepting approximately 35,000 initial UI claims per month, and initial claims currently averaged approximately 15,000 per month. That was not as low as the number of initial claims in 2007, but it was approaching those levels. At the height of the recession,

DETR was issuing approximately 140,000 UI payments per week, and it was currently issuing approximately 30,000 payments per week. In the last year, said Mr. Perea, Nevada added 27,300 jobs and expected in 2016 to regain all the jobs lost because of the great recession, provided the economy continued to improve (page 11, [Exhibit G](#)).

Referring to page 12 of the exhibit, Mr. Perea stated that Nevada had added close to 100,000 jobs since the economy began to grow in 2010. Page 13 indicated that Nevada's job growth was stronger than 48 other states; the pace of jobs had steadily increased with growth at 1.2 percent in 2011, 1.9 percent in 2012, 2.7 percent in 2013, and 3.7 percent in 2014. Mr. Perea commented that Nevada's economy continued to "pick up steam."

Chair Anderson asked whether job growth was analyzed by sector and what that would denote for further growth. Mr. Perea replied that the information had been reviewed, and he would provide that information to the Subcommittee.

Continuing his presentation, Mr. Perea stated that pages 14, 15, and 16 of the exhibit detailed agency highlights from the current biennium. The DETR was awarded a \$1.8 million grant to launch the Platform to Employment (P2E) initiative in Nevada. Mr. Perea said DETR partnered with The WorkPlace, one of Connecticut's Regional Workforce Development Boards, which had delivered a five-week preparatory program. That program had been launched in Las Vegas in October 2014, and the first full course would commence in Reno on February 2, 2015, with 26 participants.

Mr. Perea pointed out that DETR's Employment Security Division (ESD) received the 2014 best practices award from the American Institute for Full Employment. Receipt of that award was due to the innovative method that DETR had combined the reemployment service and the reemployment eligibility assessment program to assist persons in reentering the workforce. That action had been selected by the U.S. Department of Labor as a "best practice" for other states to follow.

Mr. Perea stated that the Rehabilitation Division continued to search for ways to maximize federal matching funds. The Division would enter into third-party cooperative agreements, which leveraged state resources to draw down federal funds at a ratio of 1:4 matching funds. Currently, DETR had entered into third-party cooperative agreements with Truckee Meadows Community College (TMCC), Western Nevada College (WNC), the Washoe County School District

and was in the final process of completing an agreement with the Clark County School District.

The Governor's Workforce Investment Board, Industry Sector Councils, had launched a series of pilot programs to address some of the most immediate labor needs. Mr. Perea stated page 15 of the exhibit depicted the pilot programs that had been launched and would be ongoing.

Page 15 of the exhibit, said Mr. Perea, indicated that DETR was actively engaged with Tesla, Panasonic, and their contractors, to help deliver the necessary workforce for the proposed Tesla Gigafactory. The DETR was working with its education partners to determine how to deliver the best training and services for the project.

Continuing on page 16 of the exhibit, Mr. Perea stated that the Rehabilitation Division had partnered with the Starbucks roasting plant, and earlier today, the second graduation and official ribbon cutting at the plant had taken place. That partnership helped train persons with disabilities through onsite classroom training and on-the-job training. To date, the Division had established partnerships with OfficeMax, Starbucks, and PepsiCo. Those companies were using Nevada's model as the "best practice" for their nationwide locations.

Mr. Perea reported that page 16 contained information regarding the Nevada Equal Rights Commission (NERC), which continued to have success in its mediation and conciliation programs, helping keep many cases out of court.

Page 17 of [Exhibit G](#), said Mr. Perea, detailed the difference in full-time employees (FTE) and intermittent positions in the budget for the upcoming biennium and the sources of funding. The DETR was reducing its staff by 36 FTE permanent positions, 19 of which were currently filled; 8 positions would be eliminated from administration or cost-allocated divisions, and 5 of those positions were currently filled. The ESD had 54.5 intermittent positions that were included in the budget for the upcoming biennium, and there were currently 83 intermittent positions filled throughout the programs; the current request would result in a reduction of 29 filled intermittent positions. Mr. Perea explained that the intermittent positions were used to supplement the permanent FTE positions, and that gave DETR flexibility in meeting its business needs. It also gave DETR the ability to ramp up or ramp down according to changes in the economy that influenced its funding. For example, DETR was able to use intermittent schedules and funding to reduce hours because of sequestration [automatic across-the-board cuts necessitated by the Budget Control Act of 2011].

Mr. Perea stated that page 18 of the exhibit contained a representation of the funding sources for DETR. The 29 percent "other" funding source included the Career Enhancement Program, the Business Enterprise Account for persons who were blind, and penalties and interest accounts, as well as federal dollars balanced forward from the previous year. He noted that page 19 of the exhibit depicted the funding provided to various agencies and divisions, and page 20 represented how DETR allocated its resources by core function.

Mark Costa, Chief Financial Officer, DETR, said the next pages of [Exhibit G](#) contained the funding and FTE positions for each division listed by activity.

Page 21 of the exhibit, said Mr. Costa, depicted the Rehabilitation Division and its four activities. He pointed out that there were fractions or decimal amounts in the vocational rehabilitation for eligible individuals with disabilities and older blind independent-living services activities. In the older blind independent living services program, one position coded most of the work hours to that grant, but up to seven other positions could code part-time work hours to the grant fund as services were needed.

Regarding the percentage of State General Fund used, Mr. Costa stated that only two activities used State General Fund revenue, and those were the vocational rehabilitation for eligible individuals with disabilities program at 15 percent, and the older blind independent-living services program at 9.8 percent. Mr. Costa indicated there was a match requirement; the main funding source for vocational rehabilitation was grant funding through Section 110 of the Rehabilitation Act of 1973. The match requirement for that funding was 21:7, but Mr. Costa stated DETR had been able to reduce that match through various types of income match, so-called soft matches from the Business Enterprises of Nevada (BEN) program.

Page 22, said Mr. Costa, depicted the activities of the Employment Security Division (ESD). There were four activities within that Division: (1) Unemployment Insurance (UI) contributions, (2) UI benefits, (3) employment services, and (4) workforce training services.

According to Mr. Costa, revenue was collected from Nevada employers through UI contributions, which supported the UI benefits activity, including appeals and fraud detection. Employment services included services to both workers and employers; employers received candidate screenings when they had open positions to ensure that those candidates possessed the minimum requirements for the position. For workers, the services included resume' development and job placement services and also helped persons obtain a job.

Mr. Costa indicated that workforce training services helped Nevada workers attain the skills to become job-ready or to advance in their employment. That included a variety of programs, such as customized training. Mr. Costa pointed out that the recommended funding for the upcoming biennium did not necessarily follow the number of employees assigned to those activities. He explained that DETR granted funding to other entities to provide the aforementioned services.

Page 23 of the exhibit contained the information about Administrative Services, said Mr. Costa. Those activities were not normally funded through the State General Fund, but the information technology activity was requesting State General Fund of 9 percent because of the Statewide Longitudinal Data System (SLDS). Also on page 23, said Mr. Costa, was the Nevada Equal Rights Commission, which was 72 percent funded through the State General Fund. The remaining funding was through a contract with the U.S. Equal Employment Opportunity Commission (EEOC).

Continuing his presentation, Mr. Costa stated that page 24 of the exhibit depicted populations and workloads by division according to activity. The page indicated the actual population served in fiscal year (FY) 2014, and the projections for the upcoming biennium for the Rehabilitation Division. Mr. Costa stated that pages 25 and 26 of the exhibit depicted the same activity information regarding the ESD. Workforce training services on page 26 showed a significant difference in the actual population served and the projections for the upcoming biennium, which occurred because the process of counting the population would change for the upcoming biennium. Mr. Costa explained there were three types of clients who received workforce training services: adults, youths, and dislocated workers. Because youths would be considered an education activity for FY 2016 and FY 2017, that population would be excluded from the overall population and workload activities for workforce training services.

Page 27 of the exhibit contained information about populations and workloads for Administrative Services. Mr. Costa stated that the information technology (IT) activity might be subject to a revision because of the workload and population. The new Ulnv system would come online and the populations and workloads would increase. Page 28 of the exhibit contained the populations and workload for the Nevada Equal Rights Commission.

Dennis A. Perea, Deputy Director, DETR, continued the budget overview with the information contained on page 29 of [Exhibit G](#). He indicated that DETR had added performance measures to the budget overview. Under the vocational

rehabilitation for eligible individuals with disabilities performance indicator, the Division was exceeding the projected performance percentage. Mr. Perea said because of the Workforce Innovation and Opportunity Act of 2014, that performance indicator would decrease from "within 180 days" to "within 90 days."

Continuing his presentation, Mr. Perea stated that page 30 of the exhibit represented the performance indicators for the Bureau of Disability Adjudication of the Rehabilitation Division. He noted that there were two types of claims, Social Security Disability Insurance (SSDI), and Supplemental Security Income (SSI). The SSDI was when an individual left the workforce because that individual could no longer work, and SSI claims were because of children's economic status and partial disability.

Pages 31 and 32 of the exhibit depicted performance indicators for the Employment Security Division (ESD). Mr. Perea said the indicator that would be of most interest to the Subcommittee was UI benefits and the UI appeal determinations issued within 45 days. Mr. Perea said there had been considerable problems with appeals; there were many reasons for that including funding and sequestration [automatic across-the-board cuts necessitated by the Budget Control Act of 2011]. Probably the most significant effect was the launch of phase 2 of the UIn v project, which consisted of the appeals section. The Division continued to work the bugs out of the system and continued to improve, but would struggle to meet the performance indicators in 2015.

Pages 33 and 34 of the exhibit depicted the performance indicators for Administrative Services. Mr. Perea stated that page 35 of the exhibit showed the performance indicators for the Nevada Equal Rights Commission (NERC). The Commission's performance was set at 660 cases resolved for the upcoming biennium. The reason for that was that 660 was the performance indicator included in DETR's contract with EEOC. Mr. Perea said that performance indicator might increase with state-only cases, because DETR worked some federal cases that were not reimbursed.

Mr. Perea stated page 36 of the exhibit included information about the bill draft request from DETR to address conformity issues with federal regulations for the UI program. The one exception was the requested amendment to add the Statewide Longitudinal Data System (SLDS) clarification to the *Nevada Revised Statutes* (NRS). That would allow DETR to share information with the Board of Regents of the Nevada System of Higher Education in an effort to maximize the use of the system.

Page 37 of [Exhibit G](#) contained the 2015-2017 biennium major agency issues. Mr. Perea stated that DETR was working toward conformity with the Workforce Innovation and Opportunity Act. There would be some significant changes in the way DETR conducted business, not necessarily a change in funding, but rather a change in requirements. The state was now required to complete a unified state plan, and DETR was working with the Department of Health and Human Services (DHHS) and the Department of Education (NDE) to devise a unified plan of service delivery. The focus was on ensuring that individuals who accessed DETR services were aware of available services through the various entities, and that every entity helped individuals rise to their highest level of self-sufficiency. Mr. Perea said it was difficult to construct those unified plans, but participating entities were eager to design a state plan that would improve service delivery.

Continuing, Mr. Perea referred to page 37 of the exhibit. He noted that the ESD continued the implementation of the unemployment insurance modernization project (UInv). The Division was hopeful that the project would be completed in 2015. The continued decline in UI funding would present a challenge, and there would be some effect on customer service, but the Division hoped to mitigate that effect as soon as possible.

Page 37 also depicted the major issues within the Nevada Equal Rights Commission (NERC). Mr. Perea said NERC was dealing with some interesting problems, one of which was bullying in the Clark County School District. Schools were considered places of public accommodation, and the EEOC had jurisdiction over schools. The NERC was beginning to receive cases based on gender identity and sexual orientation, which originated because of bullying at school. Mr. Perea said the most significant business concern was that as bullying cases moved forward, the EEOC could award actual damages, and one scenario could be that the EEOC would award private school tuition to the victim. Mr. Perea said should that action occur, it would greatly affect the caseload of the NERC. Therefore, an investigator position was requested in the upcoming biennium to deal specifically with youth bullying matters. It had been very difficult for current staff to conduct adult conversations with youths to determine how to deal with the bullying cases.

Another type of case for the NERC was medical marijuana cases where individuals might, or might not, be impaired at work, but had tested positive when taking a drug test. Mr. Perea stated that under the Nevada Fair Employment Practices Act, which prohibited employment practices that discriminated on the basis of disability, a discrimination scenario could occur in

the use of medical marijuana, and in fact, the NERC had already received some medical marijuana cases.

Mr. Perea stated that page 39 of [Exhibit G](#) contained the major funding changes for the upcoming biennium. The Statewide Longitudinal Data System (SLDS) was mandated through Governor Sandoval's Executive Order 2011-17 and the P-16 Advisory Council was established to facilitate the project. The Department of Education (NDE) received federal grant funding to develop the SLDS, and DETR had worked with NDE and the Nevada System of Higher Education (NSHE) to launch the system. The State General Fund cost for continuing maintenance of the SLDS was \$2.4 million, which was included in DETR's budget.

Continuing the presentation, Mark Costa, Chief Financial Officer, DETR, referred to page 40 of the exhibit, which contained information regarding major enhancement or maintenance items for the Administrative Services Division. Budget account (BA) 3270, Nevada P20 Workforce Reporting, was the new budget account for the SLDS. The remaining budget accounts were as follows: BA 3272, DETR Administration; BA 3273, Research and Analysis; and BA 3274, Information Development and Processing. Mr. Costa explained that those budget accounts had sustained position reductions because of the severe revenue contraction experienced within the Employment Security Division (ESD). The aforementioned budget accounts were entirely or mostly cost-reimbursed accounts, which meant the revenue for those accounts was through a cost-allocation process based on positions in other DETR budget accounts.

Mr. Costa noted that BA 4770 was the main budget account for the ESD, and was also the main cost-reimbursement account. Therefore, with a reduction in ESD revenue, the remaining Administration Services Division budget accounts would also be reduced. Mr. Costa noted that BA 3272, DETR Administration, had a reduction of 8 FTE positions; BA 3273, Research and Analysis, had a reduction of 0.49 FTE, or one-half of a position; and BA 3274, Information Development and Processing, had been reduced by 2 FTE positions. Contained in BA 3274 was decision unit Enhancement (E) 236, which was the Master Services Agreement contract that provided services to maintain and support critical applications, specifically the Ulnv system.

Continuing on page 41 of the exhibit, which contained information regarding major enhancement or maintenance items for the Employment Security Division (ESD), Mr. Costa said that BA 4770 requested the reduction of 36 FTE positions. Per Mr. Costa, 30 positions were from the UI benefits activity and the remaining 6 positions were part of the UI contributions activity.

The budget account also contained decision unit E-229, which was the continuation of the Job-Driven National Emergency Grant into fiscal year (FY) 2016. Decision unit E-230 addressed continued funding for the reemployment services and the reemployment and eligibility assessment programs. Those programs had been very successful in saving funds in the Unemployment Trust Fund account, because as claimants who normally filed for benefits obtained employment, fewer benefits would be paid out of the Trust Fund. Mr. Costa stated that the return on investment ranged from \$2.6 million to \$3 million, compared to a cost of approximately \$500,000.

Mr. Costa stated that the Rehabilitation Division budget accounts were depicted on page 41 of the exhibit. Decision unit E-910 in BA 3268 requested the transfer of one rehabilitation chief position and associated costs to the BA 3265 to align proper funding. Decision unit E-227 in BA 3253 requested training and certifications to new and existing blind Business Enterprises of Nevada (BEN) operators. Mr. Costa explained that BA 3253 was actually funded through the BEN reserve, and there was no new authorization being requested.

Decision unit E-226 for the Nevada Equal Rights Commission (NERC), BA 2580, requested one FTE position and associated costs for a compliance investigator to address the aforementioned bullying initiative.

Continuing the budget presentation, Dennis A. Perea, Deputy Director, DETR, stated that page 42 of the exhibit contained information regarding personnel changes, which had been discussed previously. Mr. Perea said DETR would work diligently to mitigate the effect of position eliminations on its employees through attrition. The DETR had also contacted other state agencies with open positions to which DETR staff might transfer, thereby mitigating the damage to its employees. Mr. Perea noted that some intermittent employees had worked for DETR for many years, and it would provide assistance to those employees whose positions would be eliminated.

That concluded the budget overview for the Department of Employment, Training and Rehabilitation (DETR), and Mr. Perea said he would be happy to answer any questions.

Chair Anderson thanked Mr. Perea and asked whether there were questions from the Subcommittee. There being none, Chair Anderson opened public comment, and there was no public comment to come before the Subcommittee.

Chair Anderson adjourned the hearing at 3:13 p.m.

RESPECTFULLY SUBMITTED:

Carol Thomsen
Committee Secretary

APPROVED BY:

Assemblyman Paul Anderson, Chair

DATE: _____

Senator Ben Kieckhefer, Chair

DATE: _____

EXHIBITS

Committee Name: Legislative Commission's Budget Subcommittee

Date: January 29, 2015

Time of Meeting: 8:34 a.m.

Bill	Exhibit	Witness / Agency	Description
	A		Agenda
	B		Attendance Roster
	C	James Wells, Executive Officer	PEBP, Budget Overview
	D	Cheryl Tyler, ASO 2	Office of the Military, Budget presentation
	E	Katherine Miller, Director	NDVS, Budget Overview
	F	Troy Dillard, Director	DMV, Budget Overview
	G	Dennis Perea, CFO	DETR, Budget Overview