MINUTES OF THE JOINT MEETING
OF THE
ASSEMBLY COMMITTEE ON WAYS AND MEANS
AND THE
SENATE COMMITTEE ON FINANCE

Eighty-Second Session
March 30, 2023

The joint meeting of the Assembly Committee on Ways and Means and the Senate Committee on Finance was called to order by Chair Daniele Monroe-Moreno at 8:07 a.m. on Thursday, March 30, 2023, in Room 4100 of the Legislative Building, 401 South Carson Street, Carson City, Nevada. The meeting was videoconferenced to Room 4412 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 at www.leg.state.nv.us/App/NELIS/REL/82nd2023.

ASSEMBLY COMMITTEE MEMBERS PRESENT:

Assemblywoman Daniele Monroe-Moreno, Chair
Assemblywoman Shea Backus, Vice Chair
Assemblywoman Natha C. Anderson
Assemblywoman Tracy Brown-May
Assemblywoman Jill Dickman
Assemblywoman Michelle Gorelow
Assemblyman Gregory T. Hafen II
Assemblywoman Sandra Jauregui
Assemblywoman Heidi Kasama
Assemblyman Cameron (C.H.) Miller
Assemblyman P.K. O'Neill
Assemblywoman Sarah Peters
Assemblyman Howard Watts
Assemblyman Steve Yeager

SENATE COMMITTEE MEMBERS PRESENT:

Senator Marilyn Dondero Loop, Chair
Senator Nicole J. Cannizzaro, Vice Chair
Senator Pete Goicoechea
Senator Dallas Harris
Senator Dina Neal

Senator Rochelle T. Nguyen
Senator Heidi Seevers Gansert
Senator Robin L. Titus

COMMITTEE MEMBERS ABSENT:

None

GUEST LEGISLATORS PRESENT:

None

STAFF MEMBERS PRESENT:

Sarah Coffman, Assembly Fiscal Analyst
Wayne Thorley, Senate Fiscal Analyst
Brody Leiser, Assembly Chief Principal Deputy Fiscal Analyst
Cathy Crocket, Senate Chief Principal Deputy Fiscal Analyst
Jaimarie Mangoba, Principal Program Analyst
James Malone, Senior Program Analyst
Anne Bowen, Committee Secretary
Janet Osalvo, Committee Assistant
Janice Wright, Committee Assistant

OTHERS PRESENT:

None

Chair Monroe-Moreno:
[Roll was taken. Committee rules and protocol were reviewed.] On today's agenda we have a work session on state employees' compensation and benefits. Senator Dondero Loop and I have been working tirelessly with our Fiscal Analysis Division staff to come up with a few options to help address what we have all been hearing in absolutely every budget hearing: staffing, staffing shortage, lack of staffing in some areas, and critical lack of staffing. Today, you will hear a comprehensive plan of how we hope to address that. First will be funding retroactive compensation increases for members of certain bargaining units. Second is retention incentive payments over the biennium. Third is cost of living adjustments. Fourth is the Public Employees' Retirement System state contributions. Fifth is a longevity payment restoration plan. And last, but not least, is the Public Employees' Benefits Program. We have a lot to cover today, so I ask that you hold all your questions to the end.

Assembly Bill 268 (2nd Reprint): Makes appropriations for the payment of retention incentives to certain employees of the State Government. (BDR S-1037)

Senate Bill 440: Makes appropriations requiring certain one-time payments and salary increases for state officers and employees. (BDR S-768)

Sarah Coffman, Assembly Fiscal Analyst:
Mr. Thorley and I will be presenting the work session document that you have before you related to compensation enhancements for state employees [Exhibit C]. Some of the enhancements have already been discussed in bills or budgets already heard, and some of these enhancements will be considered later through bill and budget hearing processes.

However, as Chair Monroe-Moreno indicated, both the Committees' chairs asked us to conduct this work session to walk you through all the possible compensation enhancements that are being considered to provide you with the opportunity to discuss all of the various enhancements. During the work session, no formal votes will be taken; however, direction will be sought by Fiscal Analysis Division staff as to how the Committees wish to proceed with these compensation enhancements. Fiscal staff was requested to prepare the work session document before you to address the pay disparity that has emerged over the last decade between employees of state government and local government employees, as well as the private sector.

According to a salary survey that was conducted by the Division of Human Resource Management, state employees are paid an average of 30 percent less when compared to local government and the private sector. On page 1 of the salary survey [Exhibit C], the first occupational class is a conservation crew supervisor position. They asked the respondents to provide information on the minimum salary as well as the maximum salary. You can see in the first example, there were seven respondents who could be from Nevada public employers as well as western states and the private sector. In this instance, there were no private sector employers who responded for this survey. Continuing with this example, the state employee who is a conservation crew supervisor, makes between $48,608 and a maximum of $71,827. In comparison to all respondents, the state employee makes 22.95 percent less for their minimum salary and 3.29 percent less for their maximum salary. In comparison with the Nevada public employers, the state employee makes 50.97 percent less than the Nevada public employers that responded to this survey and 17.93 percent less for their maximum salary. And finally, when compared to all western states, the position for the conservation crew supervisor actually makes 5.7 percent more than the respondents provided in the survey, and 11.36 percent more for their maximum salary. I will not go through all the occupational classes. This information is just for your edification, but I wanted to provide it as context.

As of March 20, 2023, there were 23,118 authorized full-time-equivalent (FTE) positions within the Executive Branch. This is exclusive of boards, commissions, and elected officials as well as the Nevada System of Higher Education. There were 5,326 vacant positions for a vacancy rate of 23 percent. Some of the more common positions within the Executive Branch that have vacancy rates above 20 percent are an accountant assistant 3 with a vacancy rate of 20.3 percent and a highway construction aid with a vacancy rate of approximately 95 percent.

That concludes the overview remarks, and I will now turn it over to Mr. Thorley to begin the discussion of funding retroactive compensation increases for members of American Federation of State, County and Municipal Employees (AFSCME) and the Nevada Police Union.

Wayne Thorley, Senate Fiscal Analyst:
The first option we will discuss related to state employee compensation and benefits deals with pay and salary benefits that were included in two collective bargaining agreements that were approved by the State Board of Examiners last year. In March 2022, the Board of Examiners approved a revised collective bargaining agreement between the state and AFSCME Local 4041 that included a 3 percent cost of living adjustment (COLA) effective retroactively to July 1, 2021, for fiscal year (FY) 2022. As a reminder to the Committees, the Legislature approved a 1 percent general COLA that was applicable to state employees not covered under a collective bargaining agreement beginning in FY 2023. The Legislature also approved last year, a 3 percent COLA beginning in FY 2023 to employees of certain collective bargaining groups pursuant to approved collective bargaining agreements. The members of AFSCME in the Pay Bill last session received a 3 percent COLA in FY 2023. The retroactive agreement that the State Board of Examiners approved in March of last year after session ended, included a 3 percent COLA beginning in FY 2022. It would be the 3 percent COLA in FY 2022 from the revised collective bargaining agreement that was not funded by the Legislature because that occurred after the Legislature adjourned, and then another 3 percent in FY 2023 that was funded by the Legislature in the Pay Bill last session.

The State Board of Examiners also approved a new collective bargaining agreement approximately a year ago between the state and the Nevada Police Union, which represents bargaining unit G, or category I peace officers. That agreement included a 1 percent COLA in FY 2023, longevity bonuses of $1,500 for employees with 10 years of service or more with the state, and educational attainment bonuses based on whether the employee has attained an associate or bachelor's degree. The category I peace officers covered by the collective bargaining agreement with the Nevada Police Union, received the general 1 percent COLA in the Pay Bill last session because the agreement between the state and the union had not been approved at the time session adjourned. The agreement that the State Board of Examiners approved last March after the Legislature adjourned was for an additional 1 percent in FY 2023. On top of the 1 percent COLA there is a $1,500 longevity payment and the educational attainment bonuses.

When the Board of Examiners approved the retroactive collective bargaining agreement with AFSCME, the cost of that 3 percent COLA was estimated to be $12.8 million in FY 2022 and $13.2 million in FY 2023, for a total cost of $26 million over the current biennium. The estimate from the Board of Examiners did not break out that funding by funding source, so as Fiscal staff, we did that analysis. Based on our analysis, the 3 percent retroactive COLA for employees covered by the AFSCME collective bargaining agreement, which was at that time four groups, was estimated to cost the General Fund $19.7 million, the Highway Fund $2.2 million, and other funds $3.9 million for a total biennium cost of $25.9 million. The Fiscal Analysis Division estimate is very close to the estimate that was provided to the Board of Examiners.

Moving on to the agreement with the Nevada Police Union, there was also an estimate provided to the Board of Examiners at the time that agreement was approved. That estimate included costs of $767,926 for the 1 percent COLA, $222,000 for the longevity bonuses, and $745,200 for the educational attainment bonuses, for a total FY 2023 cost of $1.7 million. Again, the estimate provided to the Board of Examiners did not break that out by funding source, so Fiscal staff undertook that effort. Based on Fiscal staff estimates, the General Fund cost for all the compensation benefits in the Nevada Police Union agreement would cost $697,880 from the General Fund, $891,725 from the Highway Fund, and $160,266 from other funds for a total biennium cost of $1.7 million. Our estimate is very similar to the estimate provided to the Board of Examiners about a year ago. As I mentioned previously, since both collective bargaining agreements were approved by the Board of Examiners after the Legislature had adjourned, there was no funding authorized for the compensation benefits included in those agreements.

Pursuant to *Nevada Revised Statutes* 288.505, all collective bargaining agreements with state employees must include a nonappropriation clause. This clause provides that any provision in the collective bargaining agreement which requires the Legislature to appropriate money is only effective to the extent of legislative appropriation. As required by law, both of those agreements that the Board of Examiners approved in March 2022 included the nonappropriation clause. If the Legislature decides to allocate funding for the compensation benefits included in these collective bargaining agreements, both with AFSCME and the Nevada Police Union, the total cost would be $27.7 million.

I will note Senate Bill 440 has been introduced, and sections 1 through 4 include General Fund and Highway Fund appropriations to fund the compensation benefits for these two collective bargaining agreements. The decision for the Committees and the Legislature regarding this compensation benefit would be whether to provide the funding for these two agreements.

Sarah Coffman:
The next section relates to retention incentive payments of $500 per quarter beginning March 31, 2023, and continuing on through the 2023-2025 biennium. Included in The Executive Budget is $20 million in FY 2023, and $40 million in each year of the 2023-2025 biennium, to support $500 quarterly bonuses for Executive Branch employees only. The $500 payments would not be prorated for part-time staff, and as such, the $500 would be paid regardless of full-time or part-time status. In reviewing the Human

Resource Data Warehouse, as of March 26, 2023, there were 23,118 Executive Branch employees, excluding positions that are provided for in the Nevada System of Higher Education, as well as boards and commissions and elected officials.

In order for the Legislature to consider the $500 quarterly retention incentive payments for FY 2023, Assembly Bill 268 was introduced on March 7, 2023, and was heard by the Assembly Committee on Ways and Means. In the bill, the Governor's office requested that the amount be increased from $20 million to $23 million prior to the introduction of the bill. The intention was that there would be retention bonuses paid for Nevada System of Higher Education (NSHE) professionals as well as the state share of Medicare taxes. However, the bill as written and introduced did not exclude part-time NSHE professionals or professionals funded through NSHE's self-supported grant contracts or endowment-funded budgets. We reached out to the Nevada System of Higher Education to determine how many positions they had within the system, and they provided us with a total of 21,539.93 positions. That included positions whose staff were provided for in letters of appointment, academic faculty, administrative faculty, graduate assistants, hourly staff, classified staff, technologists, postdoctoral scholars, and contingent workers, as well as residents. Again, the bill as introduced, only excluded employees that were employed with boards and commissions, and to provide $500 bonuses to all Executive Branch employees, inclusive of NSHE, would have cost $44.7 million compared to the $20 million that was originally recommended in The Executive Budget.

There are 21,539 positions within NSHE and 23,118 in The Executive Branch, making a total of 44,657 Executive Branch positions. If a vacancy rate were applied, there would still be 35,726 positions to be provided retention incentive payments. For two retention incentive payments of $500 to be provided it would cost $35.7 million. Accordingly, the Assembly Committee on Ways and Means amended A.B. 268 to exclude the Nevada System of Higher Education professional positions. They also expressed concerns that the $23 million in General Fund appropriations did not include the Legislative branch, the Judicial branch, or the Public Employees Retirement System (PERS). Therefore, the Assembly Committee on Ways and Means modified the amount included in A.B. 268 to include $21 million for Executive Branch staff, which was inclusive of NSHE classified positions, $325,000 for the Legislative Branch, and $81,000 for PERS. In total, A.B. 268 as amended by the Assembly, provides $21.4 million for those employee groups.

During the bill hearing in the Committee on Senate Finance, NSHE requested that full-time NSHE professionals who are funded in the state-supported budget be considered for these retention bonuses. They suggested that employees who receive a salary of less than 95 percent of the Governor's salary be provided these bonuses. That would account for 3,846 positions. They also provided a second alternative, which was to provide the full-time professionals who were in the state-supported accounts that make less than $100,000, retention bonuses that would provide retention incentives to 3,029 full-time NSHE professionals. If those individuals were included in the retention incentive bonuses, between $3 million and $3.8 million would need to be added to the $21.4 million that was provided for in A.B. 268, as amended. The Senate Committee on Finance approved providing a flat $3.5 million to the Nevada System of Higher Education for professional staff and provided clarification to NSHE indicating that they could utilize other existing funds to supplement so that they could provide those retention bonuses to the NSHE professionals. That bill was sent back to the Assembly, which concurred on March 29, 2023.

That leads into the second portion of this discussion, which is the additional retention incentive bonuses for FY 2024 and FY 2025. If the Committees wish to consider the passage of a one-time retention bonus in the same manner that the Assembly approved, they would provide retention incentive bonuses for Executive Branch employees, Judicial Branch employees, Legislative Branch employees, PERS, and classified employees of NSHE in the amount of $42.8 million. However, if the Committees choose to consider applying the methodology that the Senate used, then a flat rate amount would also be provided for NSHE professionals in an amount of $7 million, and a total of $49.8 million would be required in each year of the 2023-2025 biennium.

If the Committees desired an option that would not require additional General Fund appropriations, the Committees could consider providing retention incentive bonuses of something less than the $500 that is recommended by the Governor. For example, a quarterly bonus of $250 could be considered, which would cost $24.9 million. If the methodology that was used by the Senate is applied, NSHE would get a flat $3.5 million to be provided for NSHE professionals.

Decisions to be made by the Committees include whether to approve General Fund appropriations of $42.8 million in each year of the 2023-2025 biennium to fund retention incentive bonuses of $500 per quarter for PERS, the Legislative Branch, the Judicial Branch, the Executive Branch, and NSHE classified staff only.

The second option would be whether to approve General Fund appropriations of $49.8 million in each year of the 2023-2025 biennium to fund retention incentive bonuses of $500 per quarter for staff of PERS, the Legislative Branch, the Judicial Branch, the Executive Branch, and NSHE classified staff, as well as a flat amount of $7 million for NSHE professionals.

Finally, the third option would be whether to approve General Fund appropriations of $24.9 million in each year of the 2023-2025 biennium to fund retention incentive bonuses of $250 per quarter for staff of PERS, the Legislative Branch, the Judicial Branch, the Executive Branch, inclusive of NSHE classified staff, and include a flat amount of $3.5 million for NSHE professionals.

For the next discussion item, the Governor recommends an 8 percent cost of living adjustment for those state employees who received a 3 percent cost of living adjustment in FY 2023, and he recommends a 10 percent COLA for those state employees who received a 1 percent cost of living adjustment in FY 2023. The Governor also recommends a COLA adjustment of 4 percent for all state employees in FY 2025. The salaries of state employees have not kept up with inflation over the last several decades. There were two significant events that impacted the policy decisions that surround the state employees' wages: the Great Recession, which occurred from December 2007 to June 2009, and the COVID-19 pandemic.

Page 6 of the salary survey [Exhibit C] includes information related to classified employee salary increases and decreases approved by the Legislature compared to the Consumer Price Index (CPI). You can see we went back all the way to 1979 because that is the actual information that we had. In the first half of page 6, from 1979 to 1999, there were consistent COLAs that were provided by the Legislature, and they were being offset by the CPI or inflation. From 1979 on, you can see that wages have not kept up with inflation. The last column of that table shows the cumulative effect of how salaries have changed in comparison to the CPI—you can see that from 1979 to 1999, salaries lagged approximately 14.3 percent.

As we get into the second half of page 6, Fiscal staff provided some comments in the Notes and Other Legislative Actions column, so that we can make the Committees aware of some of the policy changes that were made during those Legislative sessions that impacted the salaries of state employees, but were not necessarily the COLAs or inflation that are being provided for in the two columns to the right of the comments. You can see, for example, in FY 2002, unclassified salaries were actually increased by 9 percent. You can also see that there are comments that take into consideration some of the grade increases that were approved by the Legislature during that time. For example, there was a two-grade increase for certain engineering personnel. Those comments try to reflect some of the policy changes that were made during that time, but not necessarily reflected in the COLAs and the CPI comparisons that are provided in this table.

Page 7 provides a period which is difficult to quantify. The period of FY 2009 to FY 2022, saw a number of policy decisions which impacted state employees' salaries but are not necessarily reflected in the COLAs or the CPI. I am going to try and walk the Committees through some of those policy decisions that were made during those times which reflect both the Great Recession as well as the time related to the pandemic. Beginning in FY 2010, the Legislature approved 12 furlough days for state employees which equated to a 4.6 percent salary reduction. During that time, the Legislature also suspended merit pay increases as well as longevity. Those decisions were continued on into FY 2011. You can see there were no COLAs provided, but that was not necessarily reflecting the fact that state employees were still going through the furloughs and the 4.6 percent salary reduction that was provided for in FY 2010.

In FY 2012, in lieu of the 96 hours of furlough, or 12 furlough days, the Legislature approved a 2.5 percent salary reduction as well as 6 furlough days which equated to an approximately 6.8 percent salary reduction. Merit salary increases as well as longevity pay also continued to be suspended. That was continued into FY 2013. In FY 2014, the Legislature eliminated the 2.5 percent salary reduction from the prior year, but still required state employees to take three furlough days. The longevity pay and merit increases continued to be suspended in that year. In FY 2015, the same salary reductions were applied for the furlough days, but merit increases were restored. In FY 2016, the Legislature eliminated furlough requirements which equated to an increase of about 2.3 percent, and provided a 1 percent COLA.

In the shaded cell to the right on page 7, you can see that it reflects a 3.3 percent increase, but that just reflects the 2.3 percent restoration of the furloughs as well as a 1 percent COLA. In the next five years, the Legislature provided consistent cost of living adjustments. But as you can see when we get to FY 2021, state employees were required to take six furlough days for a 2.3 percent salary decrease. Those furlough days were not carried through to FY 2022. As all of you are aware, those furloughs were restored using American Rescue Plan Act dollars.

What is not reflected is the erosion of net pay that state employees have experienced as contributions made to PERS have increased over the last several biennium. Just to give you a comparison, a state employee in 2009 contributed 10.5 percent to their PERS retirement as a regular member on the employee/employer pay plan. In FY 2024, a state employee will contribute 17.5 percent as a regular member on the employee/employer pay plan. Similarly, a state employee in 2009 contributed 17.25 percent as a police/fire member on the employee/employer pay plan, and in FY 2024, police/fire is recommended to contribute 25.75 percent in the employee/employer pay plan.

During the Public Employees Benefits Program (PEBP) hearing on February 17, 2023, the agency shared a survey from state employees that asked the participants to rank a set list of employee benefits from most important to least important. The number one priority from state employees was identified as higher wages via salaries. In order to address the issues identified as most important to state employees, the chairs of the money committees asked Fiscal staff to prepare estimates of how much it would cost to initiate a 2 percent COLA effective April 1, 2023, in addition to the COLAs that are recommended in The Executive Budget. Additional General Fund appropriations of $5.7 million would be required as well as $566,090 in Highway Fund appropriations, and $2.5 million in other funds. That is specifically just for FY 2023, from the period of April 1, 2023, to June 30, 2023.

If the 2 percent COLA was added to the COLA that is being recommended by the Governor, a total of $570.3 million would be required, which is inclusive of General Fund appropriations of $354.8 million, Highway Fund appropriations of $71.4 million, and $144.2 million for other funds. I would note that there is a 20 percent vacancy savings factor that is applied for the Executive Branch, Judicial Branch, and Legislative Branch associated with the FY 2024 and FY 2025 calculations. We did not take into consideration a vacancy savings for PERS and Tahoe Regional Planning Agency since they do not have the economies of scale to determine that they can absorb that 20 percent vacancy rate.

For the Nevada System of Higher Education, a factor was applied that is based on the General Fund component that is provided to NSHE. In past biennia, COLAs have been adjusted for NSHE to account for the General Fund percentage that is applied to their budget.

That percentage was also applied to this calculation. In FY 2023, 62.7 percent would be provided to NSHE to provide for that 2 percent COLA, and then the calculation is slightly adjusted for fiscal years 2024 and 2025 to 65.9 percent, which is reflective of the composition of their budget.

Decisions to be made by the Committees are whether to: (A) approve funding for a 2 percent cost of living adjustment effective April 1, 2023, for all state employees; and/or (B) fund cost of living adjustments beginning July 1, 2023, of 8 percent for those employees who received a 3 percent cost of living adjustment in FY 2023, and a cost of living adjustment of 10 percent for those employees who received a 1 percent cost of living adjustment in FY 2023; and/or (C) consider funding a cost of living adjustment beginning July 1, 2024, of 4 percent for all state employees.

The next compensation enhancement for discussion is the Public Employees Retirement System state contribution pursuant to Chapter 286 of the *Nevada Revised Statutes*. Contribution rates are set based on the results of even-numbered fiscal year valuations. The PERS contribution rates have been increasing over the last several biennia. Using the current statutory provisions regarding state employees, the employees on the employer-pay plan will incur an increase to their rates of 3.75 percent, while the employees on police/fire for the employer-pay plan will incur an increase of 6 percent. On the employee/employer pay plan, regular members will have an increase of 2 percent, and police/fire members will have a 3 percent contribution increase. The actuarially-determined contribution rates for regular fund, as well as police/fire fund, are comprised of normal costs, which include the present value of pension plan benefits and expenses. It also includes the unfunded actuarial accrued liability amortization payments, which are in excess of accrued liability over the value of assets. It also includes the administrative expenses.

Normal costs for FY 2022 equated to 18.79 percent, whereas the amortization costs were 18.58 percent, and the administrative costs were 0.2 percent. There was a phased-in smoothing mechanism that was applied by the PERS Board this biennium, and that was to try to reduce or alleviate some of the increase in contributions that are being passed on to state employees. When that phased-in smoothing percentage is applied, the total prior adjustment for FY 2022 would have been 33.61 percent. That is reflected for the four various plans for FY 2024 and FY 2025. As indicated in the previous example, the amount was 33.61 percent, and that is typically rounded to the nearest quarter of a percent. The amount being recommended in The Executive Budget is 33.5 percent for the employer-pay plan rate associated with that contribution.

I will take you briefly through the four retirement rates. For the employee/employer pay plan rate for FY 2024, the employee would pay 17.5 percent and the employer would pay 17.5 percent. For police/fire on the employee/employer pay plan rate, the employee would pay 25.75 percent and the employer would pay 25.75 percent. The employer pay plan rate for police/fire members would be 50 percent. During the joint meeting of the Assembly Committee on Ways and Means and the Senate Committee on Finance on February 13, 2023, the Committees expressed concerns with the increases in contribution rates and asked PERS to provide the Committees with options to consider to reduce some of these contribution rates. In talking with PERS staff, they indicated that most public pension plans are either setting the maximum statutory rate or percentage that employees pay, or they require employees to pay at least one-half of the normal benefit costs for the contribution rates.

If the state were to move to a contribution payment mechanism where the state employee would pay only half of normal costs and the state would pick up the rest of those costs, under the one-half of normal benefits scenario, the state would pick up 24.91 percent of the cost while the employee would pay 10.09 percent of the cost. That would be an increase of 7.41 percent that the state would pay for the retirement benefits of state employees.

Fiscal Analysis Division staff asked PERS for a cost estimate, which was provided by their actuary. It would cost approximately $140.3 million in FY 2024 and approximately $145.2 million in FY 2025. Fiscal staff has also made some calculations through our budgeting system to see whether the calculations that we provided were within reason. Fiscal staff estimates were approximately $132 million in FY 2024 and $142 million in FY 2025. Fiscal staff calculations are about $11.3 million lower over the 2023-2025 biennium when compared to the PERS actuary estimates because Fiscal staff used the projected payroll for FY 2024 and FY 2025 based on all the positions that were included in The Executive Budget, whereas the PERS actuary utilized FY 2022 amounts and applied a 3.5 percent payroll growth. However, they are within the ballpark of each other.

The decision to be made by the Committees is whether to approve an adjustment to the percentage of contributions made by the state to PERS on behalf of the state employees from the current 50 percent of statutory contribution rate to a total statutory contribution rate less one-half of the normal costs. I will turn it over to Mr. Thorley to continue with the next option.

Wayne Thorley:
I will now be going over some options regarding longevity payment restoration for state employees. Longevity payments for state employees were first instituted by the Nevada Legislature in 1973. However, because of the Great Recession's negative impact on state revenues, longevity payments were suspended by the Legislature in the 2009, 2011, and 2013 sessions. Ultimately, the 2015 Legislature passed Assembly Bill 436 of the 78th Session, which repealed the longevity payment provisions from statute entirely. The last longevity payments for state employees occurred in the 2007-2009 biennium, almost 15 years ago.

The way longevity worked for state employees under the old structure, prior to payments being suspended and the statute being repealed, is after eight years of service, an employee would receive a semiannual payment of $75 with an increase of $25 each year from the 9th year to the 14th year. From the 15th year through the 24th year of service, the semiannual payments increased each year by $50. From the 25th year through the 30th year of service, the semiannual payments increased by $75 per year, which resulted in a maximum semiannual payment amount of $1,175 in longevity payments. Under the prior statutory provision, NSHE professional employees were not eligible for longevity payments.

The estimated cost to provide longevity payments to state employees, assuming they would not be subject to PERS contributions and under the old construct, would be a General Fund cost of $4.5 million in FY 2024 and $5.1 million in FY 2025; a Highway Fund cost of about $1 million in FY 2024 and $1.2 million in FY 2025; and other funds cost of $1.7 million in FY 2024 and $1.9 million in FY 2025. Again, the foregoing would restore longevity payments under the prior statutory structure. While the dollar amounts provided assume no PERS contributions, NRS 286.025 does indicate that longevity payments are considered compensation and subject to PERS contributions.

However, when longevity payments were in place, they were treated a little bit differently than regular salary when it came to PERS contributions. As you all are aware, there are two retirement options. One is the employer pay plan, and one is the employee/employer pay plan. Under the employee/employer pay plan, the state is responsible for half of the rate and then the employee through a deduction from their paycheck pays for the other half. Under the employer pay plan the employee is responsible for half of the rate also, but that comes in the way of a salary reduction and then the state then pays the other half. Under the longevity payment structure, though, employees on the employer pay plan were not paying their half through a reduction in the longevity payment.

Under a comparison of two similarly situated employees, we assume an employee with 15 years of service would receive a longevity payment of $275, assuming the prior statutory structure. For employees on the employer pay plan, the entire 33.5 percent rate, a $92.13 contribution, was paid by the state. The total cost to provide the longevity payment was the $275 longevity payment and the $92.13 for the PERS contribution for a total of $367.13. However, the employee's net pay was $275. For an employee on the employee/employer pay plan with 15 years of service, in order to receive a $275 longevity payment, they actually had to pay the 17.5 percent PERS contribution reducing their longevity by $48.13. The state share was a little bit less than under the employer pay plan because the employee was picking up half the cost. The net employee longevity payment was $226.88 on a bonus of $275.

The decisions for the Committees to consider are the following: restore longevity payments that were repealed in 2015 for state employees excluding NSHE professional positions, or restore longevity payments that were repealed by the 2015 Legislature for state employees including NSHE professional employees. With either of these two decisions, the Committees have the following three options: (A) the Legislature could fund PERS contributions consistent with prior longevity payments where the state covered the entire cost of the contribution for those on the employer pay plan; (B) fund PERS contributions consistent with the existing policy for salaries—this would require the employee to be responsible for a portion of the PERS contributions related to longevity payments under either plan; or (C) exempt longevity payments from PERS contributions altogether for state employees.

The last benefit area to be discussed relates to the Public Employees Benefits Program and specifically, Health Savings Account (HSA) and Health Reimbursement Arrangement (HRA) contributions. The budget recommended by the Governor for PEBP for the upcoming biennium maintains current benefit levels which includes an HSA base contribution of $600 per year for participants on the consumer-driven health plan, also known as the high-deductible plan. A Health Savings Account is a savings account owned by the participant, and it allows a participant to set aside money on a pretax basis to pay for qualified medical expenses. Contributions to the HSA can be made by both the employer and the employee, but it is owned by the employee and it is portable. If it is used for qualified medical expenses, that money is not taxed. Under federal rules, contributions to an HSA may only be made if the individual has a high-deductible health plan, which the consumer-driven health plan is. Also, just over half of the participants are enrolled in the consumer-driven health plan, although not everybody on the consumer-driven health plan is eligible for an HSA under federal rules. The point here is not all PEBP participants can have an HSA, and if you do not have an HSA, you do not receive the $600 base contribution to the HSA that is in the Governor's recommended budget.

In December 2022, the PEBP Board also approved a one-time $300 supplemental contribution for all state employees for HSA and HRA contributions. A Health Reimbursement Arrangement, sometimes referred to as a Health Reimbursement Account, is an employer-funded group plan from which employees are reimbursed, tax free, for qualified medical expenses. The employer owns the HRA, which means the employee cannot take it with them if they leave PEBP. Under the action approved by the PEBP Board, which is also included in the Governor's recommended budget, if you are eligible for an HSA—on the consumer-driven health plan and eligible to have an HSA account—you would get a $300 one-time supplemental contribution in FY 2024. If you are on any of the other health insurance plans or on the high-deductible plan, but you do not qualify for the HSA, you would get a one-time $300 supplemental HRA contribution in FY 2024. With both the base HSA contribution in the Governor's budget plus the one-time supplemental HSA/HRA contribution in the Governor's budget, employees with an HSA would get $900 in FY 2024 and $600 in FY 2025. Employees with an HRA would get $300 in FY 2024 because of the one-time supplemental, and nothing in FY 2025, because the supplemental is only for FY 2024. To provide enhanced benefits to participants to help them pay for health care expenses, the Committees may wish to consider including a General Fund appropriation to provide additional supplemental payments for HSA and HRA contributions, beyond what is included in The Executive Budget.

The Committees may want to consider an option to have any additional HSA or HRA contributions be on a sliding scale, depending on the coverage tier selected by the individual. All PEBP health insurance plans and options have four coverage tiers: the participant only tier where only the participant is covered; the participant plus spouse tier; the participant plus child or children tier; and the participant plus family tier. Again, those tiers are available regardless of which plan the employee chooses.

An option for the Committees to consider would be providing more than what is in the Governor's budget: an enhanced HSA and HRA payment of $300 in each fiscal year of the upcoming biennium for those on the participant only tier; $400 in each fiscal year for those on the participant plus spouse or participant plus child or children tier; and $500 for those on the participant plus family tier. The amount would increase depending on which tier you were on. For example, a participant only would receive the base amount of $600 for HSA, the supplemental amount approved by the PEBP Board of $300 in FY 2024 for the HSA and HRA, and the optional enhanced amount depending on the sliding scale.

For the participant plus family tier, the participant would receive the HSA $600 base payment, the $300 supplemental for FY 2024, and the optional enhanced amount of $500 in both FY 2024 and FY 2025. Accordingly, the participant would receive a total $1,400 contribution in FY 2024 and an $1,100 contribution in FY 2025. Those with an HRA would receive $800 in FY 2024 and $500 in FY 2025. The cost to provide the optional enhanced amount beyond what is in the Governor's recommended budget on this sliding scale would be $9.3 million in FY 2024 and $9.5 million in FY 2025.

If there is a desire to fund these enhancements, the Committees may wish to do so with General Fund contributions. General Fund is not generally provided to the Public Employees' Benefits Plan; however, given that PEBP is currently preparing for open enrollment in about a month and preparing their marketing and information materials, it would be very difficult for them to make any plan design changes. General Fund appropriations could be used as an alternative revenue source to fund this and would not impact anything that is planned for premiums and state contributions. The option for the Committees to consider is whether to include enhanced HSA or HRA contributions, potentially on a sliding scale depending on the coverage tier.

Sarah Coffman:
To provide the Committees with a global view of what this might look like to a specific state worker if all of these recommendations were incorporated and approved by the Legislature, we provided an example on page 8 [Exhibit C]. There are three examples of specific state employees. The first example provided illustrates the impact this might have on state salaries for an administrative assistant 3, who is a grade 27, step 6, has been employed with the state for 7 years, and is on the regular employee/employer pay plan retirement. Currently, that individual's annual wage is $45,601. Deductions include contributions to PERS of $7,068, a federal tax rate of 10 percent for $4,560, and we indicated that they are on the insurance for participant and family, which would cost roughly $3,924 each year. The employee's annual

net pay is currently $30,049. Under the Governor's recommendations in The Executive Budget, this individual would receive a 10 percent COLA in FY 2024, and a 4 percent COLA in FY 2025. Therefore, their wages would increase to $52,168, with an additional $2,000 for a bonus, making their net annual pay $35,825.

If the Committees were to consider all the options provided today, it would include a 2 percent COLA in FY 2023, a 10 percent COLA in FY 2024, a 4 percent COLA in FY 2025, a $2,000 bonus, PERS contributions being reduced to one-half of normal costs, and longevity restored, resulting in that individual receiving wages of $53,211, with an additional $2,000 bonus and the PERS contribution being reduced $5,321, making their net income $40,373. Essentially, their gross pay would increase under all these scenarios by 21.1 percent; however, their net pay would increase by 34.4 percent.

The second example is for an IT professional 4, who is a grade 42, step 9. This individual has been with the state for 17 years on the regular employee/employer pay retirement plan. Currently, this individual makes $101,164 in gross salary, with net pay of $71,443. Under the Governor's recommendations for COLA increases and bonuses, this individual would receive $115,732 in wages with an additional $2,000 bonus, and their net annual pay would be $81,909. Under the options that have been discussed today, that individual would receive $118,046 in wages with $2,000 in a bonus. I apologize—there is a typo on this chart and that $375 for longevity should actually be $750 because there are two payments that are applied for the year. I will give you the corrections on the percentages as well, but the impact would be a net salary of $92,578. The gross pay increase would be 19.4 percent as opposed to 19 percent and the net pay increase would be 30.1 percent as opposed to 29.6 percent.

The third example is a correctional sergeant who is at grade 37, step 10, has been employed with the state for 8 years, and is on the police/fire employee/employer pay retirement plan. Their wages are $84,229 and their current take home pay is $52,720. Under the Governor's recommendations, this individual would receive an 8 percent COLA in FY 2024. Since this individual likely received the 3 percent COLA in FY 2023, they would receive the 4 percent COLA in FY 2025 with a $2,000 bonus. Accordingly, the Governor's recommended budget would have $94,606 for this individual with a $2,000 bonus, and their net annual pay would be $58,788. Again, this individual received a 2 percent COLA in FY 2023, an 8 percent COLA in FY 2024, a 4 percent COLA in FY 2025, a $2,000 bonus, and PERS contribution reductions to half of normal costs as well as longevity restored. You can see that individual would receive wages of $96,498, a $2,000 bonus, $150 for longevity pay, and their PERS contributions would be 16.75 percent as opposed to 25.75 percent currently recommended in The Executive Budget. Their net annual pay would be $68,624, with gross pay increasing by 17.2 percent and net pay increasing by 30.2 percent.

Wayne Thorley:
We have thrown a lot of numbers at you this morning. Attachment D, shown on page 9 [Exhibit C], is our attempt to summarize all this information for you. Attachment D includes the costs for all the various options that we discussed this morning, broken out by funding

source, at the top half of the table. The funding source columns are broken out by fiscal year, and you can see the cost by fiscal year for the General Fund, the Highway Fund and other funds. As you go down the table row-by-row, you will see the various options that we discussed. The first row shows the cost to provide the COLAs that were included in the Governor's recommended budget. The second row is the cost to include the COLAs for the collective bargaining agreements with those bargaining groups that were discussed at the beginning of the meeting.

The next two rows relate to the cost to provide the bonuses in FY 2023 then also in FY 2024 and FY 2025. The next group of rows relates to longevity. The first row under longevity is what I would call the base cost; the other two rows you would add to the base cost, depending on what is chosen—whether the PERS contributions for longevity payments would be treated as salaries or not. There is also the additional 2 percent COLA beyond what is recommended by the Governor, which would be effective beginning April 1, 2023. Finally, there is the cost to cap PERS contributions at half of normal costs and the cost to provide the enhanced HSA or HRA contributions for PEBP participants. The total cost of all those enhancements are on the total enhancements line. The General Fund cost for FY 2023 would be $51.1 million, for FY 2024 the cost would be $293.4 million, and FY 2025 the cost would be $359.1 million, and then moving along the table, you can see the cost for the Highway Fund and other funds.

How could you pay for all this? That is on the bottom half of the table [page 9, Exhibit C], which lists the funding that was set aside in the Governor's budget for the Governor's recommended salary and compensation benefits. Regarding the amount set aside in the Governor's recommended budget for COLAs, the first two lines titled General Fund salary adjustment and Highway Fund salary adjustment appear to be much larger than what is needed to provide COLAs as recommended by the Governor. The reason for that is twofold; first, the estimate that was used to prepare the numbers for the Governor's recommended budget for the COLAs assumed that all positions, regardless of funding source, would have their COLA paid for by the General Fund. Not all employees are paid by the General Fund; some are paid by the Highway Fund, and some are paid by other funds. It has been the past practice of the Legislature to fund COLAs dependent on how the position is funded. If the position is a General Fund position, then the COLA would be funded by the General Fund, if it is a Highway Fund position, it would be funded by the Highway Fund, or if it is funded by other funds, it would be funded by those other funds and not by the General Fund.

That is why the General Fund amount included in the Governor's budget could be higher than what is needed if the Legislature chooses to go with a historical budget practice. Also, as we discussed on Monday, there are statewide decision units, and one of them is decision unit maintenance (M) 300—the fringe benefit rate adjustment that is funded throughout the entire budget. The amounts included in the Governor's recommended budget double count that—the costs for the M-300 adjustments are already in the budget, but they are also included in the calculation of the cost needed for the COLA. It is not needed in the COLA cost because it is already funded elsewhere in the budget.

On page 9 [Exhibit C], the second to last row titled "Net of Gov Rec" is what it would cost to fund everything that was discussed this morning. By first utilizing what the Governor set aside for the enhanced compensation benefits in the Governor's budget, this is what would be needed beyond that. You can see in FY 2023 for the General Fund, you would need to allocate an additional $31 million and $20.7 million in FY 2024. In FY 2025, the cost would be less than the Governor set aside in his budget for employee compensation benefits.

The last row shows the total additional funding that would have to be set aside by funding source for everything that we discussed this morning. In addition to what the Governor already set aside, the Legislature would have to provide $40.1 million from the General Fund, $125 million from the Highway Fund, and $240.7 million from other funding sources.

One last thing for the Committees to consider; as I mentioned previously, it had been a historical budget practice that General Fund is not provided for COLAs or compensation benefits that are ongoing for employees who are funded by the other funds. However, given the magnitude of some of these increases, some budgets that are non-General Fund budgets, non-Highway Fund budgets, and others that are funded by federal funds, revenues, or other funding sources, may not have sufficient reserves or incoming revenue to fund all these enhancements. The Committees may wish to consider setting aside some General Fund in a salary adjustment account, where agencies with non-General Fund or non-Highway Fund budgets request General Funds to fund some of these enhancements. Over the biennium, these agencies would then work to make the necessary changes in their budgets to be able to fund these enhancements on an ongoing basis using their existing funding sources. We are happy to answer any questions that you might have.

Chair Monroe-Moreno:
Thank you for that very thorough presentation. There are a lot of numbers, and members, before we go to questions, we are going to take a recess.

[The Committees recessed at 9:34 a.m. and reconvened at 10:18 a.m.]

Chair Monroe-Moreno:
Thank you for your patience. Members, you have just been provided with an additional worksheet document which the Fiscal Analysts will explain.

Sarah Coffman:
You should have all received a revised page 9, which is attachment D [Exhibit D]. If you refer to the General Fund grouping, the fourth line down, the amounts have been modified to account for a one-time bonus of $1,000 per year as opposed to $2,000 per year. That correction would decrease the amount that was included in attachment D from $49.8 million

in each year of the biennium to $24.9 million. If you accumulate the three years—FY 2023, FY 2024, and FY 2025—there would be a $9.6 million savings from what is recommended in The Executive Budget compared to the addition that would be required for General Fund appropriations that were included in your packet.

Senator Neal:
The first question is related to collective bargaining—the police collective bargaining. Will that amount be included in the baseline of the next collective bargaining agreement?

Wayne Thorley:
When it comes to the cost estimates that we provided [Exhibit D], we are assuming that those enhanced compensation amounts are carrying forward through the biennium. As far as what might be in the collective bargaining agreements between the state and these employee bargaining groups, my understanding is they are currently in negotiation, and we do not have any information about what might, or might not, be negotiated.

Chair Monroe-Moreno:
I would appreciate it if we can ask our questions in the order of our agenda. Right now, the questions are on decision point number 1 for the retro pay, and if it is about another decision point, please hold off the questions until we get to those decision points. Are there any other questions for the first decision point?

Senator Seevers Gansert:
I want to ask about the 2 percent retroactive pay that is limited to the members of those bargaining units. How much is the cost to the remainder of employees who are state employees, but not part of the bargaining units?

Wayne Thorley:
There were two different COLAs provided through the collective bargaining agreements. There was the 3 percent COLA for the bargaining groups in FY 2023, the current fiscal year, which was approved through the Pay Bill last session. There is the retroactive AFSCME agreement that was an additional 3 percent in FY 2022. Then the Nevada Police Union also got the 1 percent general COLA in the Pay Bill last year, and this is an additional 1 percent in FY 2023 for a total of 2 percent in the Governor's recommended budget.

The COLAs as recommended by the Governor for FY 2024 vary between 8 percent or 10 percent dependent on whether the individual is covered by one of these collective bargaining agreements that had additional COLAs in the current biennium. State employees that only got the general 1 percent COLA in the current biennium were not covered by a collective bargaining agreement that included additional COLAs, so they are recommended to get the 10 percent COLA in FY 2024. Those who were covered by enhanced collective bargaining agreements in the current fiscal year would receive the 8 percent COLA in FY 2024.

Senator Seevers Gansert:
I am asking about a different amount. I am asking about the retroactive 2 percent to April 1 of this year and moving forward. My understanding is that was limited to a certain group of people. Was that for everyone?

Wayne Thorley:
Thank you, Senator, for the clarification. The 2 percent COLA retroactive to April 1, 2023, would apply to everybody regardless of whether they are covered by a collective bargaining agreement or not.

Assemblywoman Peters:
Regarding the arbitration awards, are we just applying that amount going forward, or are we going back to 2021? How is that going to be paid to employees—is it being distributed in paychecks—how are we making them whole?

Wayne Thorley:
On the second row from the top of the chart [Exhibit D], where it says retro applied, you will see there is funding for FY 2023, FY 2024, and FY 2025 in the General Fund, the Highway Fund, and other funds. That is the cost to pay for those retroactive COLAs in the current biennium and the funding in FY 2024 and FY 2025 is for the cost to carry that forward.

Assemblywoman Peters:
I am wondering about the difference in time and pay between 2021, when this was negotiated, and this legislative session. What has happened in that period of time?

Wayne Thorley:
Senate Bill 440 has been introduced in the Senate that includes funding in the current fiscal year to pay the total cost of those COLAs for the current biennium as if those employees had been getting it the entire time. As far as to how it would be administered—would they receive a lump sum payment—I am not sure how that would work; we need to discuss that with the Division of Human Resource Management. The funding estimates that we provided to you and that are also in the bill would cover the entire cost for the current biennium.

Assemblywoman Peters:
Thank you. That helps clarify for me.

Senator Titus:
You mentioned that according to a query from the Human Resource Data Warehouse, as of March 20, 2023, the state has 23,118 full-time equivalent positions. I am wondering when these calculations were done, and whether the calculations were compiled from the FTEs or the actual filled positions? We have 20 percent vacancies here, with 90 percent in some

agencies based on your presentations. In these figures that we are looking at, are they actually filled positions? We just went through with our bill trying to give everybody a bonus, and there were miscalculations because they had not figured in the actual employees we have at the time.

Sarah Coffman:
Senator Titus, are you referring to the positions that were being included in the arbitration awards?

Senator Titus:
My question was raised from the start when you said there are 23,118 FTEs. I am wondering what you based from thereon, for the rest of the presentation, on the cost of bonuses, on the cost of the negotiated salaries, and the actual cost to the state taxpayers? Again, the reason I ask is because of the issues that we ran into with the bill that we passed to support the bonuses, because of the true difference in calculations based on actual employees versus positions.

Sarah Coffman:
The calculations vary for each of the different scenarios. For example, the bonuses were based on total positions, and not FTE, because the way that the bill was established was everyone, regardless of their full-time or part-time status, would receive a $500 General Fund bonus. The bill in its origination did not separate out revenue sources, so it was 100 percent inclusive of General Funds. There were different ways that we looked at it in terms of the different situations where we may have applied a 20 percent vacancy factor, just because of economies of scale. In instances such as the COLA discussion, there was a 20 percent vacancy rate that was applied to that particular one because with the way that they are calculated, it is based off of what an agency can absorb. At the end of the fiscal year, if an agency does not have the funding to pay for the COLA, they can go to the Governor's Finance Office and seek reimbursement from the salary adjustment account. The bonuses were very much specific to General Fund, and we had to have a very precise amount because we were not being allowed to use other revenue sources to offset those bonuses. In each of those instances, the calculation varied just slightly.

Wayne Thorley:
For a quick follow-up, for the PEBP piece, we looked at PEBP enrollment projections for FY 2024 and FY 2025. For each of these pieces, we took an approach of what looks like a realistic scenario as far as what the funding need is going to be, based on vacancy rates, employee counts, or participant enrollment, to try to establish accurate numbers.

Assemblyman Hafen:
My question is a little more global than just the retro pay but does apply—it is in regard to the other funds. I know you touched on some of this, but there are a lot of different agencies that fall under the other category, whether it is the Department of Health and Human Services, the Department of Business and Industry, or the State Department of Conservation

and Natural Resources. Some of these agencies are self-funded or fee-funded, through an enterprise fund and some of it is federal money. My question is, can these agencies afford what we are talking about here? If the agencies cannot afford retro pay, could we, for the biennium, do some bridge funding with one-shots?

Wayne Thorley:
The ability of non-General Fund and non-Highway Fund agencies to afford this varies. There are fee-funded and other revenue funded agencies that currently have very high reserves where they could use reserve funding, and they have lots of employees. Those agencies understand the economies of scale that Ms. Coffman talked about. There are other agencies or budget accounts that are non-General Funded, where they may only have two or three employees. Maybe those agencies do not have any vacancies and maybe they do not have any reserves beyond what is needed in their budget to fund their operations. In those instances, we mentioned that the Committees might want to look at setting aside a pot of money. It could be General Fund money, so that these agencies could, if they cannot afford it with their existing funding sources, request an allocation and then fund those positions in the current biennium with the enhanced compensation benefits. The idea going forward is that those agencies would have a chance to look at their budget over the interim, and if they needed to bring forward statutory changes or budgetary changes, they could bring that forward to the 2025 Legislature to make those structural changes to allow them to afford these enhanced compensation benefits on an ongoing basis.

What is the amount of money that would need to be added into that pot? We would have to do an analysis on that, but it is certainly an option for the Committees to consider because there are agencies that are non-General Funded that currently do not have the existing funding in their budget to cover all these enhanced compensation benefits.

Assemblyman Hafen:
We do not know what that number is yet, and that number is not included in what was just presented to us?

Wayne Thorley:
That is correct. The dollar amount of that is not included in any of the information that we presented to you. It would be in addition to all the dollars that were in the table and attachment.

Chair Monroe-Moreno:
Thank you for the questions. Seeing no other questions for this section, we are going to move on. Members, I am sure you all know the conversations we have today will help our Fiscal Analysis Division staff in determining what will be included in our closing documents.

Moving on to the second item, which is retention incentive payments, are there any questions on that decision point? [There were none.]

There are three choices that we can make when it comes to retention incentive payments:

- Whether to approve General Fund appropriations of $42.8 million in each year of the 2023-2025 biennium to fund retention incentive payments of $500 per quarter for staff of PERS, the Legislative Branch, the Judicial Branch, and the Executive Branch inclusive of NSHE classified staff only.

- Whether to approve General Fund appropriations of $49.8 million in each year of the 2023-2025 biennium to fund retention incentive payments of $500 per quarter for staff of PERS, the Legislative Branch, the Judicial Branch, and the Executive Branch inclusive of NSHE classified staff and inclusive of a flat amount of $7 million for NSHE professionals.

- Whether to approve General Fund appropriations of $24.9 million in each year of the 2023-2025 biennium to fund retention incentive payments of $250 per quarter for staff of PERS, the Legislative Branch, the Judicial Branch, and the Executive Branch inclusive of NSHE classified staff and inclusive of a flat amount of $3.5 million for NSHE professionals.

As joint chairs of these Committees, the third item is the way we would be leaning of those three choices.

Does anyone have any questions?

Assemblywoman Jauregui:
I do not have any questions, but I do want to make a comment. After sitting here last session and during our special sessions and having to make some cuts, I am very happy see this document and see what we have before us. I think what we are doing is something that we can all be proud of and something that all state employees will appreciate. I just want to say that I am proud to see this in front of us today.

Senator Seevers Gansert:
Just for clarification, we are having the incentive bonus including having the portion that we just allocated to NSHE. We have put in $3.5 million for a half a year and now they would get $3.5 million per year and then all the other bonuses across the state would be $1,000 per employee—is that correct?

Sarah Coffman:
That is correct. The Nevada System of Higher Education would receive $3.5 million in each year of the 2023-2025 biennium for their flat portion.

Senator Goicoechea:
We just passed a bill that came out of this body yesterday that will give us $500 for this until July 1st, and then this action will move it ahead. Correct?

Sarah Coffman:
Yes, that is correct. Assembly Bill 268 was specifically related to FY 2023. There will be other legislation brought forth, I believe by the Governor, that would continue this bonus on into FY 2024 and FY 2025. That is where that decision would be made.

Senator Goicoechea:
Thank you. I just needed clarification. I am sure everyone understood it, but I just wanted it on the record.

Assemblyman Yeager:
When we are talking about this decision, I really think the third one is the way to go. There are bonuses, but I think what we are doing here is better than a bonus, frankly, and we are maintaining a bonus for the next two fiscal years. When we looked at that sheet at the end of that document [page 8, Exhibit C] illustrating what the employees' take-home pay would be, to me this package is way better than a bonus. I am very much in favor of still providing a bonus, but also looking at how to use some of that money for first contributions for things that really increase the take-home pay of the employees.

Chair Monroe-Moreno:
We are talking about a General Fund appropriation of $24.9 million each year of the 2023-2025 biennium to fund retention incentive payments of $250 per quarter for employees of PERS, the Legislative Branch, the Judicial Branch, and the Executive Branch, inclusive of classified staff and inclusive of a flat amount of $3.5 million for NSHE professionals. That would be the decision.

We will move on to the third item—cost of living adjustments—which includes whether to approve:

- A 2 percent COLA for all state employees effective April 1, 2023, and continued as an ongoing COLA in enabling legislation over the 2023-2025 biennium.

- An 8 percent COLA for employees who received a 3 percent COLA in FY 2023, and a 10 percent COLA for employees who received a 1 percent COLA in FY 2023, effective July 1, 2023.

- A 4 percent COLA for all employees effective July1, 2024.

Senator Cannizzaro:
I wanted to make sure that we are talking about all the things in conjunction with one another so that there is some clarity. I am seeing that we are discussing approving a 2 percent COLA increase that would start April 1, 2023, and will continue through the end of this fiscal year, which ends at the end of June 2023. That 2 percent would then be built into those salaries. There would be an additional 8 percent to 10 percent pay increase for the COLAs set to start

July 1, 2023. In addition, on July 1, 2024, it is an additional 4 percent that would be added to those salaries. I just wanted that to be clear for the record that it was 2 percent plus 8 percent or 10 percent, depending on what they had received in the last biennium, plus an additional 4 percent.

Senator Seevers Gansert:
The Governor had proposed a 2-step increase for Public Safety employees, and I do not see that reflected anywhere. In the example that you gave, it was using these numbers but with no step increase. Have you been able to look at that and calculate what that is?

Wayne Thorley:
The 2-step increase for Public Safety employees was included in the Governor's budget and is funded in the Governor's budget. We did not include any discussion of that here. If the Legislature wishes to go forward with that, the Legislature does not need to come up with any additional funding because it is already funded in the Governor's budget. Those benefits would be on top of the other benefits that we discussed today. The example of the Public Safety employee on page 8 [Exhibit C] does not account for that recommended step increase. A 2-step grade increase would just further increase that person's salary if approved.

Senator Seevers Gansert:
If they do get the 2-step grade increase, that actually dominos into PERS and other things; is that already built into the Governor's budget, because all that is getting changed right now?

Wayne Thorley:
Yes, we will need to account for the ripple effect of that. These numbers that we provided to you today are our estimates; we will come back with more refined estimates based on the direction that we receive today. That is something that we will look at; what the ripple effect is for the two-grade increases.

Chair Monroe-Moreno:
Are there any other questions? [There were none.] We will move on to item four, which is our Public Employees' Retirement System members. We heard the presentation about the options that were presented today, and to complete those options, there would have to be some statutory changes.

Assemblywoman Kasama:
Does the PERS amount stated here take into account the vacancies, or is this the amount for full-time equivalent positions?

Sarah Coffman:
Yes, this PERS amount takes into account a 20 percent vacancy rate associated with the Executive Branch, the Judicial Branch, and the Legislative Branch.

Assemblywoman Kasama:
I do have concern with us looking at capping the cost, because that will continue to be a liability that grows, and then it becomes an unfunded liability for the taxpayers.

Sarah Coffman:
I would note that this is not necessarily capped at a specific percentage. It is capped at half of normal, so that rate will fluctuate as the contribution rates fluctuate from the actuary. While the rates will still continue to fluctuate, they may not be as volatile as they have been in recent biennia.

Senator Seevers Gansert:
I need a little clarification regarding "half of the normal rate," because when I think of a contribution rate of 35 percent, half is usually 17.5 percent. But if you do 35 percent, then half of 17.5 percent, you end up with 26.25 percent and 8.75 percent. I do not know why the numbers are different, or I am misunderstanding something. It is almost like a 75 percent/25 percent—why is that? It is a little more nuanced.

Sarah Coffman:
The normal costs are different than the unfunded actuarially accrued costs. For example, in FY 2015, normal rates then were 16.56 percent, and the amortized cost of the unfunded liability made up about 11.09 percent, and the administrative costs were about 0.15 percent. In FY 2022, it appears that normal costs are fairly close to half-and-half with amortized costs, but that has not always been the case. The normal costs would essentially be the present value of the pension plan benefits for those state members and the state employees would then not be providing for the costs associated with the unfunded liability.

Senator Seevers Gansert:
Thank you, that is a huge clarification. We have this big unfunded liability, and the state is assuming full responsibility for that, and the employee is assuming half of the responsibility for their portion, because the rates have been combined for years and it is not broken out. If we are looking at FY 2022 right now, it is 50-50 so half of the 35 percent is because of the unfunded liability.

Sarah Coffman:
That is correct.

Senator Neal:
I am grateful that this was even considered because I know I brought that up earlier. We were working out a solution on the PERS contribution eating into any salary increase that we gave, so I am grateful that you worked out a solution.

Chair Monroe-Moreno:
Thank you, members. Are there any other questions on this section? [There were none.]

We will move on to the fifth item, which is longevity payment restoration. Are there any questions? [There were none.]

There are a few decisions that we as a body will have to make as we close out our budgets and close out this legislative session. In discussion with Chair Dondero Loop and with what we have heard in hearings in this building and knowing that a member of this body has a bill for longevity, it would be the Chairs' desire to: (1) restore longevity payments that were repealed by the 2015 Legislature for state employees, including the Nevada System of Higher Education professional employees, and (2) fund PERS contributions consistent with existing policy for gross salaries, whereby the longevity payment would be reduced for those on the employer-pay plan. Are there any questions? [There were none.]

Our last item is the Public Employees Benefits Program and associated contributions. The only decision we need to discuss is whether we want to approve the additional Health Savings Account and Health Reimbursement Arrangement contributions based on the participants' coverage tiers. Are there any questions?

Senator Neal:
Did the General Fund that will go to HSAs and HRAs include the projected numbers for the future?

Wayne Thorley:
The General Fund estimates that were provided take into account the enrollment projections provided by PEBP for plan years 2024 and 2025.

Assemblyman O'Neill:
I want to note the total additional funding required of $125 million in Highway Funds [Exhibit D]. Can the Highway Fund afford that or where is that going to come from? That is a fairly limited fund with great fluctuation, if I understand correctly.

Wayne Thorley:
There are several options that this body can consider to cover the Highway Fund portion of the cost of this benefit package. It is really going to be a policy decision to decide where that comes from, in conjunction with the other recommendations in the budget to use Highway Fund. There will have to be some other decisions made in conjunction with this to make it work.

Assemblyman O'Neill:
I do like the intent of what we have been discussing today. Our state employees have been severely underappreciated for years as displayed in some of your prior charts. I just want to make sure we are sustainable.

Chair Monroe-Moreno:
This is my fourth time in this building, and it is the first time we have ever had money so we could actually do something. As a legislative leader I felt we had a responsibility to take care of the state employees who have been there when times were good and when times were bad. They stuck with us. We have heard from agencies that have come before us to testify that they are having difficulty working with the state. We do not have the staffing to do the job that we need to do as a state for our constituency. As a legislative body we have a responsibility to do what is best for our employees, and the state employees are our employees. The first thing we need to do this legislative session is to make them whole as much as we can.

If you look at what has been proposed today, our state employees' gross pay will increase by 18 percent to 31 percent over this next biennium, if we are able to do everything that we have said today. Yes, it is going to mean that there are some bills that are going to come before you, that you are going to have to vote yes on, so that we can do this. There are going to be some changes to what we do with the Gross Receipts Tax. Right now there is a 25 percent/75 percent split, but we may have to go back to 100 percent where it was supposed to be. There are going to be a lot of decisions that we as legislative leaders are going to have to make in the next 60-plus days to make sure we are able to do what is right by the people who have been doing what is right by this state for years.

Senator Seevers Gansert:
I think we all agree, we want to make sure we support our public employees. We have these two buckets: one is the normal cost; one is this unfunded liability. At what time do you start moving? We are always trying to fund 100 percent, but we know that we do not fund 100 percent of the liability. When do you start shifting a new liability into the second bucket? It is always getting bigger, partly because we are adding employees and the structure of our PERS system does not fully pay for the defined benefit that they receive. That ends up shifting eventually, but does it shift down to the second bucket? How do you contemplate that working in the future?

Sarah Coffman:
The unfunded liability is based on a 20-year amortization rate and is built into the contributions that are actuarially determined by the PERS system. For example, if there is a significant increase in the number of employees as a result of all this, you could potentially see more contributions going into PERS, which could offset those costs. That is all determined every two years by PERS, and so it fluctuates. It is difficult to say what is going to happen in the future, but ultimately the unfunded liability would be placed exclusively on the state.

Senator Seevers Gansert:
If you create separate buckets, does the unfunded liability bucket get the credit if they get ahead on the top bucket, the first bucket? That is what you are suggesting right now versus a reset and starting over? I think we need to understand how those would work moving

forward if we were to do something like this again, because you are separating the buckets, but you are also suggesting that there is an overflow from one and two—the unfunded liability from the normal cost bucket. We can talk about it later offline, but I just want to make sure everybody understands how complicated the PERS adjustments can be.

Senator Cannizzaro:
I think what we are seeing here is something that is fairly unprecedented and is an investment in where some of our greatest value is—our state workers. They are the folks that provide all these very essential services. We all sat through these budget hearings, and it is everything from children's mental health, to education, to our roads, to our public safety. It is everything across the board—all these touch points—and the biggest touch point for every one of our constituents starts and ends with state employees and how they affect our constituents' lives. If we are not investing in the people who are supporting all of us and the people who we represent, then we are doing a huge disservice to our constituents and to our state.

I want to thank Fiscal Analysis Division staff for providing so much data in terms of what we have seen since 1979. We make sure that employees can continue to serve our state and have a good retirement they can count on, in a way that does not leave them without money to provide for their family. I hope that everyone here, and all the agencies who talked to us about the great work that employees are doing, know that we appreciate and value them. We are going to take these steps in order to recruit and retain more of these wonderful people, so we can keep running the state of Nevada and keep providing services for our constituents.

I am really appreciative of all the work that Fiscal staff has done because it has been a lot to come up with all of these pieces that fit together in a way that I think we should be proud to support.

Chair Monroe-Moreno:
Are there any more questions or comments? [There were none.] I will close this presentation, and I thank Fiscal Analysis Division staff for the many hours of work put into this presentation, and thank you to the agencies that are here in the audience that have been working with Fiscal staff. We will close the presentation, and we will move to the last item on our agenda which is public comment.

[Public comment was heard. Exhibit E, Exhibit F, and Exhibit G were submitted.]

[The meeting adjourned at 11:17 a.m.].

RESPECTFULLY SUBMITTED:

____
Anne Bowen
Committee Secretary

APPROVED BY:

____
Assemblywoman Daniele Monroe-Moreno, Chair

DATE: _________________________________

____
Senator Marilyn Dondero Loop, Chair

DATE: _________________________________

EXHIBITS

Exhibit A is the Agenda.

Exhibit B is the Attendance Roster.

Exhibit C is a document titled "State of Nevada 2022 Salary Survey," submitted by the Fiscal Analysis Division, Legislative Counsel Bureau.

Exhibit D is a document titled "Summary of Compensation Enhancements Discussed in March 30, 2023 Compensation Work Session Document," submitted by the Fiscal Analysis Division, Legislative Counsel Bureau.

Exhibit E is public comment with attachments submitted by Mark Cukrov, Private Citizen.

Exhibit F is public comment submitted by Kent Ervin, State President, Nevada Faculty Alliance, dated March 30, 2023.

Exhibit G is public comment submitted by Douglas Unger, UNLV Chapter President, Nevada Faculty Alliance, and Government Affairs Representative, dated March 30, 2023.