MINUTES OF THE
JOINT SUBCOMMITTEE ON GENERAL GOVERNMENT AND ACCOUNTABILITY
OF THE SENATE COMMITTEE ON FINANCE
AND THE ASSEMBLY COMMITTEE ON WAYS AND MEANS

Seventy-fifth Session
March 19, 2009

The Joint Subcommittee on General Government and Accountability of the Senate Committee on Finance and the Assembly Committee on Ways and Means was called to order by Chair Steven A. Horsford at 8:06 a.m. on Thursday, March 19, 2009, in Room 2134 of the Legislative Building, Carson City, Nevada. Exhibit A is the Agenda. Exhibit B is the Attendance Roster. All exhibits are available and on file in the Research Library of the Legislative Counsel Bureau.

SENATE SUBCOMMITTEE MEMBERS PRESENT:

Senator Steven A. Horsford, Chair
Senator Dean A. Rhoads
Senator Joyce Woodhouse
Senator Warren B. Hardy II

ASSEMBLY SUBCOMMITTEE MEMBERS PRESENT:

Assemblyman Mo Denis, Chair
Assemblywoman Kathy McClain, Vice Chair
Assemblyman Marcus Conklin
Assemblyman Pete Goicoechea
Assemblyman Joseph M. Hogan
Assemblywoman Ellen Koivisto

STAFF MEMBERS PRESENT:

Steven J. Abba, Principal Deputy Fiscal Analyst
Brian M. Burke, Principal Deputy Fiscal Analyst
Rick Combs, Senior Program Analyst
Joi Davis, Program Analyst
Heidi Sakelarios, Program Analyst
Mark W. Stevens, Assembly Fiscal Analyst
Julie Waller, Program Analyst
Patricia O'Flinn, Committee Secretary

OTHERS PRESENT:

Michael E. Skaggs, Executive Director, Nevada Commission on Economic Development
Brian K. Krolicki, Lieutenant Governor, State of Nevada
Charles Geocaris, Director, Nevada Film Office
Andrew Clinger, Director, Department of Administration
Des Craig, Director, Community Development Block Grant Program
Rick Horn, Director, Procurement Outreach Program
Chuck Alvey, President and CEO, Economic Development Authority of Western Nevada
Stephen C. Woodbury, MPA, Interim Director, Nevada Commission on Tourism
Julyn Laney, Deputy Director, Marketing and Advertising, Division of Tourism

Janet Geary, Publisher, *Nevada Magazine*
Ryan Sheltra, Commissioner, Nevada Commission on Tourism
Van V. Heffner, President and CEO, Nevada Hotel and Lodging Association
Ralph Witsell, Executive Director of Tourism Sales, Reno-Sparks Convention and Visitors Authority
Bill Chernock, Executive Director, Carson Valley Chamber of Commerce and Visitors Authority
Marvin Minnick, Chair, Nevada Silver Trails, Pahrump Tourism Board
Candace Duncan, Executive Director, Carson City Convention and Visitors Bureau
Dorothy Nylen, Board Member, Wild Horse Preservation League
Betty Retzer, Least Resistance Training Concepts
Carol Infranca, Carol Infranca & Associates Marketing and Public Relations
Dennis M. Castleman, Vice President, Industry Relations, U.S. Travel Association
Dianna Borges, Borges Carriages and Sleighs
Scott J. Kipper, Commissioner of Insurance, Division of Insurance, Department of Business and Industry
Robin V. Reedy, Deputy Director of Administration, Department of Business and Industry
Bob Ostrovsky, Representative, Employer's Insurance
Jack H. Kim, Vice President, State Government Affairs, UnitedHealth Group
Kim Huys, Deputy Commissioner, Division of Insurance, Department of Business and Industry
Dianne Cornwall, Director, Department of Business and Industry
L. Tom Czehowski, Chief Administrative Officer, Occupational Safety and Health Administration, Division of Industrial Relations, Department of Business and Industry
Lori Myer, Administrative Services Officer, Division of Industrial Relations, Department of Business and Industry
Jan G. Rosenberg, Chief Administrative Officer, Safety Consultation and Training Section, Division of Industrial Relations, Department of Business and Industry
Edward M. Tomany, CMSP, Chief Administrative Officer, Mine Safety and Training Section, Division of Industrial Relations, Department of Business and Industry
Steven J. Redlinger, Representative, Southern Nevada Building and Construction Trades Council
Nancyann Leeder, Nevada Attorney for Injured Workers

CHAIR HORSFORD:
We will open the hearing on the Nevada Commission on Economic Development (NDEC).

MICHAEL E. SKAGGS (Executive Director, Nevada Commission on Economic Development):
The handout in front of you (Exhibit C) will be the guide for my presentation. The NDEC has two offices: one in Carson City; the other in Las Vegas. We work with a network of Economic Development Authorities representing the counties across the State. Representatives of many of these organizations are here today: Churchill Economic Development Authority; Economic Development Authority of Western Nevada (EDAWN); Mineral County Economic Authority;

Nevada Development Authority (NDA) from Las Vegas; and the Northern Nevada Development Authority. The NDEC was created in 1983 to develop nongaming employment in the State. The graph on page 4 of Exhibit C illustrates the success we have had: employment has risen in the State while the percentage of gaming employment has fallen.

Although employment has diversified over the last 25 years, the recent unemployment figures are distressing. As of January, there were 143,000 people unemployed in the State of Nevada. Northeastern Nevada has an unemployment rate of seven percent or less; the highest unemployment rates range from 10 percent in Clark County to 15.1 percent in Lyon County. In Washoe County there are 25,000 people out of work, an unemployment rate of 11 percent. Clustered around Carson City the unemployment rate ranges from 11.1 percent to 15.1 percent: the highest in the State. There is a lot of work ahead to recreate the jobs to turn that around.

COMMERCE AND INDUSTRY

ECONOMIC DEVELOPMENT AND TOURISM

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

The original budget for fiscal year (FY) 2008-2009 was $6.1 million. The current budget for FY 2008-2009 is $4.1 million, increasing to approximately $4.5 million each year over the biennium. However, much of the General Fund appropriation to this budget account is directly passed through to various programs as shown on page 6 of Exhibit C. The effective operating budget for budget account (B/A) 101-1526 is $1.8 million for FY 2008-2009 and $1.3 million a year over the biennium.

The marketing budget has been cut three times. Although there are no jobs associated with those dollars, the cuts limit the agency's outreach. We have reduced the Train Employees Now (TEN) program funds from $500,000 to $300,000. We are working on a contingency plan with the Department of Employment, Training and Rehabilitation (DETR) to make more training dollars available by partnering with them. The NCED will lose four full-time equivalent (FTE) employees, including the deputy director whose main duties include the EB-5 Visa program.

CHAIR DENIS:
Where is the office for the deputy director?

MR. SKAGGS:
The deputy director's office is in Las Vegas.

CHAIR DENIS:
The EB-5 program is located in Las Vegas, and the person in charge of it will no longer be there?

MR. SKAGGS:
The deputy director is one of the positions scheduled to be eliminated to meet the $400,000 target. The functions remaining in Las Vegas would be the Film Office and the Procurement Office.

CHAIR DENIS:
Everything else would have to be done out of the Carson City office?

MR. SKAGGS:
We would have to move all the administrative work to Carson City.

CHAIR DENIS:
How much of the work is in Carson City versus in Las Vegas?

MR. SKAGGS:
Regarding the Procurement Outreach Program, the work is split evenly between Carson City and Las Vegas. The majority of our work, such as the Community Development Block Grants (CDBG), the business location efforts and our work with the counties themselves, is in the rural counties. In Las Vegas, we rely on our partners at the NDA.

CHAIR HORSFORD:
Can you explain what would happen if the Deputy Director position is not restored? How would the Las Vegas office function?

MR. SKAGGS:
I would have to operate with existing personnel in Carson City and fly business development staff to Las Vegas when needed. Procurement can assist to some degree, but they have a specific mission with which they are fully occupied. The Film staff has a separate mission entirely. The NCED office in Las Vegas was thin to begin with, and this exacerbates the problem. I will just have to reorganize the agency entirely to spread the duties.

CHAIR HORSFORD:
Can you explain the role of the EB-5 program and why that is primarily done out of the Las Vegas office?

MR. SKAGGS:
The EB-5 program is a Visa program. For a $500,000 investment, a Visa granting permanent resident status is granted after a few years. There are investment and job creation requirements for this program. Foreign direct investment comes to the NCED looking for target areas where unemployment levels are 150 percent of the national average. It is an efficient vehicle for creating foreign investment. It is a powerful tool to bring in foreign investment, particularly in Clark County because that is where most of the interest is centered.

CHAIR HORSFORD:
If you do not have a deputy director in Las Vegas, how will that affect your ability to preserve the EB-5 Visa program?

MR. SKAGGS:
It will severely limit my ability to preserve this program.

CHAIR HORSFORD:
Can you quantify that? What is the investment requirement?

MR. SKAGGS:
Each investment is $500,000.

CHAIR HORSFORD:
Without the deputy director, would you need to maintain a southern Nevada presence?

MR. SKAGGS:
Definitely, I would have to fly to Las Vegas.

CHAIR HORSFORD:
Who would supervise the staff in Las Vegas?

MR. SKAGGS:
I would probably use the director of the Film Office.

CHAIR DENIS:
I know we are talking about the deputy director, but at least two other positions are being eliminated. How many positions will be left in Las Vegas?

MR. SKAGGS:
There will be eight remaining positions split between the Film Office and Procurement. To explain my approach to the targeted $400,000 reduction, the fairest thing was to look at those staff members who were eligible for retirement. The budget target indicated I would have to layoff personnel; in doing so, I chose positions where the incumbent would be able to leave the NDEC as opposed to those who were in midcareer.

CHAIR DENIS:
That does not take your mission into consideration.

MR. SKAGGS:
It means I have to rely more on my partners. The NDA has a staff of eight. I will have to count on them much more in the future.

CHAIR DENIS:
Do we know if they are facing reductions?

MR. SKAGGS:
They are in this budget I am talking about; they could be impacted as well.

CHAIR DENIS:
You will rely on someone who may have less to rely on.

MR. SKAGGS:
It is a true partnership. We know our mission is to create these jobs. The best way I can see to do this is to keep the Business Development group intact, but that will mean I will have to fly them to Las Vegas. The NDA has private-sector funding for all their personnel. The State funds they receive are all advertising and marketing money. They are not dependent on those funds for payroll expenses, and that is why I can rely on them.

There were some questions about the priorities used to arrive at a 30-percent cut to the rural counties versus a 14-percent cut to the urban counties. The formula we used for funding the rural counties was to ensure the $595,000 spent in FY 2008-2009 subsidized their operations. The supplemental grant funding of approximately $400,000 was cut from the budget at the end of last year. The list of agencies we fund and the amount of money put into their operations is on page 8 of Exhibit C.

We also talked about the Valley Center Opportunity Zone (VCOZ) program which is a business counseling program based in Las Vegas. Although the agreement the NDEC has with the VCOZ does not require them to report directly to us, they have voluntarily given us quarterly reports. It is an efficient program: of the 30 companies they have funded, 28 are still in business.

CHAIR HORSFORD:
Can you provide a more detailed explanation of the proposed 30-percent cut to the rural agencies when the urban agencies will receive only a 14-percent cut?

MR. SKAGGS:
The best explanation I can give you is to look back at the map of unemployment by county on page 5 of Exhibit C. The highest unemployment is in the urban areas: of the 143,000 people unemployed in the State, approximately 140,000 of them are in Clark and Washoe Counties and Carson City. I want to retain funds in those markets because that is where the most serious problems are.

CHAIR HORSFORD:
Is there a funding formula for the process? There is also a volume issue, as there are more people employed in southern Nevada and the other urban markets. The NDEC is centered primarily on rural development because you have partners that do some of the other work.

MR. SKAGGS:
When marketing money flows into either the EDAWN or the NDA, these agencies do not restrict their activities to just Washoe County or Clark County. Because they are well-known city names, they have more inbound traffic in terms of prospects. Because of land prices, labor availability issues and site preference, we see a heavy bias for the rural areas. Companies will come to the metro areas, and EDAWN or NDA will take them to the rural counties. We have evidence of deals that came through the EDAWN in Reno, for example, but the business was ultimately located in Churchill County. The urban development agencies have enough money in their private sector budgets to allow them to use substantial marketing and advertising programs to attract companies. This further allows the NDEC to leverage as much money as possible. For each dollar

that goes to the development agencies from the NDEC, they receive a private sector dollar.

CHAIR HORSFORD:
Do all of the authorities receive these private sector dollars?

MR. SKAGGS:
Yes. The $1.1 million the NDEC allocates to the NDA is matched by $1.1 million in private money available for marketing there. It helps us get the message out. The NDEC marketing budget is nearly gone.

CHAIR HORSFORD:
Is the rate of return or match different for the rural development authorities?

MR. SKAGGS:
It is the availability of money: a bigger market has more money and they can do more advertising. The rural markets can do minimum marketing because they have fewer funds. They rely on the NDEC and the two metro development authorities to provide more deals to flow to them.

CHAIR HORSFORD:
It seems that the rural authorities would need more of the resources. The 30-percent cut to the rural authorities seems incongruent with the other cuts.

MR. SKAGGS:
The 30-percent cut to the rural authorities will hurt. If we could restore some of these funds, I would like to put money back into those accounts.

CHAIR HORSFORD:
Can you provide staff with an explanation of how the money is allocated for each of the development authorities?

MR. SKAGGS:
Yes.

The reductions to the TEN program may impact federal match money of up to $100,000 each year. We have worked with the DETR to expand the resources available to our clients. When times are hard, these partnerships are the strongest things we can do.

CHAIR DENIS:
How will the partnership with the DETR work? Is it a long-term agreement or merely a stopgap for this crisis? How will this new partnership affect the federal match money?

MR. SKAGGS:
The agreement with DETR will be a long-term measure. We have planned to assure the flow of training money coming into the State. Mr. Larry Mosely, Director of the DETR, plans to appoint a response team within his agency which will be able to propose a training plan to the company, using both federal and State money.

CHAIR DENIS:
Will you lose the $100,000 federal match?

MR. SKAGGS:
That money comes through the management assistance project. They implement the TEN program. It is possible they could lose the $100,000 that goes to them as a match.

If money were returned to my budgets, there are four areas in which it would be used: first, to restore the deputy director position in Las Vegas; second, to train remaining staff in the technical skills required by eliminated positions, for example, the consular officer in Las Vegas. One proposal is to appropriate $75,000 in contract funds through FY 2009-2010 to train existing staff in the skill set by employing those laid off for one year as trainers. It would cost less than the salaries by far. Third, I would like to restore at least $100,000 to the rural development fund. If we can secure the operations grants for them, I would have $200,000 in project money they could call upon when they are going to get a real project going we could make a real investment in them. Fourth, we would restore some of the marketing funds.

CHAIR HORSFORD:
Do you know what the average advertising and marketing budget is for other economic development agencies across the country, particularly in western states?

MR. SKAGGS:
The last time I looked for this information was about five years ago. Twelve years ago, when I was the corporate site selection manager in Oklahoma, my advertising budget was $750,000. Generally, these budgets are $500,000 to $750,000. Some of the more aggressive states are higher; New Mexico's budget is $1.5 million. Instead of running advertising, we use public relations to get stories published in trade magazines.

CHAIR HORSFORD:
If the Governor's reduced funding were approved, what outreach and promotional activities would be prioritized over the biennium?

MR. SKAGGS:
The campaign being launched today, to target 600 California companies with an opportunity to move their operations to Nevada, is one we could sustain over the next two years. I could target 100 new companies a month, every month, but I would be restricted to that. I could afford one trade show. The NDEC would be dependent on partners such as NVEnergy to help us get to renewable energy trade shows to pick up more business. All direct marketing would be done through databases. I am concerned about reaching Nevada businesses to tell them about programs like Procurement, the Export Assistance program or Made in Nevada. These companies are already here and they need to know we can help them open up new markets. If they are only selling their services in the State of Nevada, this economy is going to be rough for them. If they can get into either the government or global markets, they can be adding jobs and growing. The only way to reach them is through promotional programs and literal advertising to find them. Any advertising we do is normally in the State.

CHAIR HORSFORD:
Can you highlight which of the functions you would not be able to perform based on the proposed reductions?

MR. SKAGGS:
The one that concerns me the most is the outreach to Nevada-based companies. I would be limited in trade shows. I could attend one trade show a year. Currently, since the renewable energy industry is so popular, they have turned into a gold mine for us. Luckily, the last two of these trade shows have been in Las Vegas, but the next few shows will be in Austin, Texas and Florida. I can only afford one, and there will be at least six next year.

CHAIR DENIS:
How important is it for economic development to be able to market what you are doing?

MR. SKAGGS:
It is the first thing.

CHAIR DENIS:
It does not make sense to cut the budget to the item most important to your mission.

CHAIR HORSFORD:
Your number three priority is to restore $200,000 in each fiscal year for advertising and marketing. Can you tell us what that campaign would consist of? Do you have a written plan and deliverables we can hold you accountable to if we are able to restore that funding?

MR. SKAGGS:
I will get copies of the strategic plan to you. The jobs we pursue through marketing are those that pay $20 an hour or more. Currently, we are most interested in manufacturing, especially as it relates to renewable energy, because we have built up some synergy in this State on our approach to this industry. I would be spending most of those funds to further develop more of those leads and bring more of those companies into the State. We would use database marketing for that campaign. We have workshops once a month to expose people to growth in procurement, international trade or exporting. At each of those workshops we sign up at least ten new customers who have to be brought into the system and trained to use it. That stabilizes a Nevada company. I would split that increase in two ways: one would be jobs at existing companies in the State; the second would be bringing jobs into the State that pay a minimum of $40,000 a year. I want to create 300 to 400 jobs a month.

ASSEMBLYWOMAN MCCLAIN:
The proposed consolidation of the NCED and the Nevada Commission on Tourism (NCOT) does not make sense to me. Your missions are completely different. Will it create one dysfunctional unit and dilute the effectiveness of both organizations?

MR. SKAGGS:
The real essence of my concern about the merger is the customer groups are different. Both agencies are in the marketing business, but NCOT utilizes more advertising than we do because they are trying to reach consumers. The NCED does not use much advertising.

ASSEMBLYWOMAN MCCLAIN:
That is our concern. Sometimes consolidation makes sense, but that is not always true.

BRIAN K. KROLICKI (Lieutenant Governor, State of Nevada):
This merger makes very little sense. In fact, it makes harmful sense. These Commissions have different missions, different purposes, different skill sets, different audiences and different timings. The missions of both Commissions would be diminished by this merger. They are Nevada. Tourism is our bread and butter; we must not dilute it. Economic development is our future; we do not need to diminish that. Remember, the people who really depend on the NCED and the NCOT to accomplish their missions are in rural Nevada. Working with our partners in the urban areas, we have unanimously declared that this merger makes no strategic sense and will bring great harm. Mr. Skaggs has done a great job in a difficult environment, and we are lucky to have him.

ASSEMBLYWOMAN MCCLAIN:
Are there any cost savings in this merger?

MR. SKAGGS:
There are some administrative cost savings and three overlapping positions. Those savings are offset by the cost of moving the NCED into the building and rewiring the building.

CHAIR DENIS:
To create the cost savings, we are eliminating positions. When asked how the functions of those positions will be taken care of, we are told you will be cross training. It seems everyone will be so busy cross training, they will not be able to get any work done.

MR. SKAGGS:
I share your concern. I take personally the responsibility of this agency to create jobs. I will appreciate anything you can do to help me keep the NCED performing and creating jobs for the 143,000 people currently out of work.

CHAIR HORSFORD:
Please provide us with that strategic plan for marketing with deliverables. If we are able to find the money to restore that funding, it has to come with specific deliverables that reflect the new environment. For future discussion on the economy throughout this Session, can you produce a graph, like the one on page 4 of Exhibit C, showing where major industries exist and opportunities for new industries as well as where you have done specific projects? It is an important visual, particularly with the overlay of the unemployment figures. I would appreciate it if you would help us do that.

MR. SKAGGS:
I will be glad to provide you with that. Each of the counties has a bias toward a type of enterprise they are trying to grow.

CHAIR HORSFORD:
There is also one for the green economy now based on where certain renewable projects can occur throughout the State. That would be an important overlay as well.

CHAIR DENIS:
Regarding renewable energy, it is important for us to see your specific plan detailing how you intend to attract that type of industry to the State.

MR. SKAGGS:
I will get that to you.

CHAIR HORSFORD:
We will now open the hearing on the Film Office budget.

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

MR. SKAGGS:
We are still waiting for a meeting with the Budget Office to get a budget amendment for this Department. Historically, the Film Office has been a beneficiary of the room tax. Their funds have flowed through the NCOT and then to us. Under the new budget, they will receive General Fund appropriations.

CHARLES GEOCARIS (Director, Nevada Film Office):
We are concerned about the elimination of the associate film position in decision unit E-610. It is critical as we have only seven FTEs. The position to be terminated is our public relations coordinator who works directly with the media, creates press releases, coordinates the Nevada Screenplay Competition and is in charge of community outreach. This screenplay competition is the oldest in the country; it has been running for 22 years. This competition creates an opportunity for people all over the world to write about Nevada. This position educates the public about the film industry in Nevada by making presentations to colleges and universities and facilities for Kindergarten through Grade 12 (K-12) Education. Along with our production directory, this community outreach alerts Nevadans to the kinds of careers available in the film industry. Over the last nine years, we have had $100-million plus years.

E-610 Staffing and Operating Reductions – Page ECON DEV & TOURISM-12

CHAIR HORSFORD:
If the position is not restored, how will the Film Office absorb the functions?

MR. GEOCARIS:
We will have to reorganize and cross train. I am not sure if the screenplay competition would survive without this position.

CHAIR HORSFORD:
Is that true of the media relations and community education programs as well?

MR. GEOCARIS:
Yes.

CHAIR DENIS:
Is most of the Film Office staff in Las Vegas?

MR. GEOCARIS:
Last year, we brought $110 million into the State as a result of our efforts. The majority of it is in southern Nevada.

CHAIR DENIS:
How important is the screenplay competition to Nevada?

MR. GEOCARIS:
In the criteria of the competition, we ask that people write about Nevada. Seventy-five percent of the locations must be in Nevada. There are people all over the world writing about our State. As a result, through our judging system in Los Angeles and elsewhere, people in the industry are reading about Nevada. The winning scripts themselves are sent to production companies and studios in Hollywood. The competition brings attention to our State and opens the doors for the winners. This past year the winning screenplay came from a Las Vegas English teacher. It brings great visibility to the State and provides opportunities for the winners to get into the film industry.

CHAIR DENIS:
Has it brought film projects to Nevada?

MR. GEOCARIS:
It has. Some of the scripts have been filmed here.

ASSEMBLYWOMAN MCCLAIN:
Movie productions have decreased quite a bit lately. Do you know of any reasons for that?

MR. GEOCARIS:
We saw an increase in our calendar year, but there was a decrease in FY 2007-2008 mainly due to the Writer's Guild of America strike in the fall that lasted 100 days and shut down the industry in California and elsewhere.

ASSEMBLYWOMAN MCCLAIN:
Do you expect any more big reductions in revenues?

MR. GEOCARIS:
Unfortunately, we have continuing labor problems. The Screen Actor's Guild has been working without a contract since last summer. They have received the final offer from the producers recently. If they go on strike, we could see a reduction again. We are at the mercy of the Director's Guild, the Writer's Guild and Screen Actor's Guild as to how our revenue forms: if they strike, nothing gets produced and Nevada hurts.

ASSEMBLYWOMAN MCCLAIN:
Are there many problems getting productions to come into Nevada? I ask because there was a bill in the Assembly Committee on Taxation to create a tax break for film production. We do not really need to do that.

MR. GEOCARIS:
Tax breaks and tax incentives have become popular throughout the states. There are currently only about eight states without one or the other. How and why they are put together is quite complicated, and there are a lot of questions about the return on investment.

ASSEMBLYWOMAN MCCLAIN:
Tax breaks are not high on the list this year.

CHAIR HORSFORD:
Mr. Clinger, can you come up and answer questions regarding the budget for the Film Office? Can you speak about the Governor's proposal to shift from room tax to General Fund appropriations and the omission of the revenue in the budget for the Film Office? When can we expect to receive the amendment?

ANDREW CLINGER (Director, Department of Administration):
The Governor's budget recommends redirecting the 0.375-percent room tax from the NCOT budget to the General Fund and funding the NCOT with a General Fund appropriation. The NCOT has various transfers they make to other agencies: the Department of Wildlife; the Department of Cultural Affairs; the Division of State Parks; and the Film Office. In preparing the budget, those transfers were eliminated with the exception of the Nevada Film Office. That left the $1.4-million hole to which you refer. At this time, we do not have a recommendation to fix that, and I do not know when we will have one.

CHAIR HORSFORD:
With all due respect, then, the Governor has not submitted a balanced budget.

MR. CLINGER:
It is something we are looking at. If we had a recommendation, we would bring it forward. I do not have one at this point.

CHAIR HORSFORD:
If the Governor's Office does not submit an amendment, would that indicate there is not the intent to fund this office?

MR. CLINGER:
I cannot say that at this point. I would need to speak to the Governor's Office about that.

CHAIR HORSFORD:
Can you get that information back to us?

MR. CLINGER:
I can.

CHAIR HORSFORD:
We will now open the hearing on the Rural Community Development.

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

MR. SKAGGS:
This is the Community Development Block Grant Program. For the State investment of $257,681 we are able to access CDBG funds for the rural counties of approximately $2.7 million. There will be additional funds from the stimulus package that will impact the rural infrastructure availability. This is one of the more efficient investments we have. We can use this money for water and sewer lines, roads and industrial parks as well as strategic planning for a rural community. They are having to rebuild their plans based on the unforeseen changes in the economy.

ASSEMBLYWOMAN MCCLAIN:
I want to make sure we do not see any of these funds being changed at the federal level.

MR. SKAGGS:
No we do not, it is very stable.

ASSEMBLYMAN GOICOECHEA:
Are the CDBG also partially funded by local government?

DES CRAIG (Director, Community Development Block Grant Program):
Community Development Block Grants require no match at the local level.

CHAIR HORSFORD:
There are different pots of CDBG money, however. Let us not confuse this one with others; some local programs do require a match.

We will open the hearing on B/A 101-4867 for the Procurement Outreach Program.

Economic Development - Procurement Outreach Program – Budget Page ECON DEV & TOURISM-22 (Volume II)
Budget Account 101-4867

MR. SKAGGS:
We work with Nevada companies to expose them to contract opportunities from the Defense Logistics Agency. This program requires an annual allocation of approximately $88,000 from the State General Fund to receive approximately $425,000 in federal dollars. This is the fastest-growing program in the agency right now. To survive, businesses need new markets.

CHAIR HORSFORD:
Why has the amount of federal contract dollars awarded to Nevada businesses been declining? According to the information we have, Nevada ranks 41st in the percentage of contracts awarded to Nevada businesses.

RICK HORN (Director, Procurement Outreach Program):
The low ranking of the State of Nevada can be attributed to the fact that many companies enjoyed the commercial marketplace in the State, and not many companies looked at the public sector. Many people had the opinion that doing business with the government was difficult due to the bureaucracy and complicated paperwork. The federal government responded by creating Procurement Technical Assistance Centers to introduce more companies into this marketplace. The State of Nevada has had this cooperative agreement with the federal government since 1986. We are now being exposed to companies that have never dealt with the government sector at any level: city; county; state; or federal.

We are picking up 30 to 50 new companies a week. Our active database is a little over 1,000 companies in the State. Some companies are very successful; some are not. For example, one of our manufacturers in Sparks just lost a $152 million contract because he qualified his bid and the U.S. Air Force rejected it. We are now assisting him through the Government Accountability Office protest to try to save his contract. I met with seven companies yesterday who want to move here from Albuquerque, New Mexico. We are active with this program. If you look at the fedspending.gov Website, you can see a steady increase in Nevada's government contract awards since 2001. In 2008, they reported over $2 billion in federal government contract awards in Nevada. Contracts under $100,000 and those to subcontractors are not required to be reported to the federal procurement data system.

CHAIR HORSFORD:
Mr. Skaggs, we can discuss this further outside of the Committee. The government sector is a key growth sector. A lot of technical assistance is provided through this program, but it must be aligned with some of the other programs available through the Workforce Investment Act of 1998 and other workforce system training programs. I have some experience with this process: it is about moving workers, growing workforces and meeting the demands of the private sector over time. You do not just recruit a business. You have to maintain that relationship and grow it and build it over time. There are ways we can improve that process in the State of Nevada.

MR. SKAGGS:
I would appreciate that opportunity. We are trying to do the same thing with the renewable energy program. This would be a sister program to that.

CHAIR HORSFORD:
We will open the hearing for public comment on these budgets.

CHUCK ALVEY (President and CEO, Economic Development Authority of Western Nevada):
There are 13 of my trustees here today to support funding for the NCED. In the last 3.5 years, 30 percent of the projects we have developed through our public relations campaigns have ended up in counties outside of Washoe County. Douglas, Carson, Lyon, Storey, and Churchill Counties have received these projects. We make the contacts and work to serve those companies' needs: we do not tell them where to go. We work together cooperatively and would appreciate any support you can give us. Regarding the question about the

merger between the NCED and the NCOT, they are completely different. One is business to business, and the other is business to consumers.

CHAIR HORSFORD:
We will open the hearing on the Commission on Tourism budget.

Tourism - Tourism Development Fund – Budget Page ECON DEV & TOURISM-27 (Volume II)
Budget Account 225-1522

STEPHEN C. WOODBURY, MPA (Interim Director, Nevada Commission on Tourism):
I will follow the outline of the budget overview distributed to you (Exhibit D, original is on file in the Research Library). Statewide, tourism is a $57-billion industry. We are successful. Our $4.7-million advertising buy alone generated about $92 million in State and local taxes last year, $68 million of which went to the General Fund. At the national level, positive comments have been made in recent days by President Obama encouraging travel and distinguishing between legitimate business travel and inappropriate travel by banks and other industries using bailout funds.

I would like to highlight a few of our achievements. Our Website is better than ever: more content; strong visitation; high rankings in search engines; and recently recognized by *Entrepreneur Magazine* for our achievements in search engine optimization. We have also successfully launched mobile Websites, aggressively pursued e-mail marketing, and conducted an active social network marketing campaign with pages on MySpace, Flicker, Facebook, YouTube, Issuu.com and Twitter.

We have achieved broader representation in our primary international markets at a lower cost. We have seen great results from desk-side visits with travel journalists. A meeting with *Rock & Ice Magazine* in Denver resulted in a writer-photographer team visiting Mesquite for a story. A meeting with travel writers at the *Los Angeles Times* convinced them to visit Nevada and write about historic Goldfield. A meeting with the *San Jose Mercury News* resulted in a story about attractions in Reno. Just one of the visits with the *Los Angeles Times* convinced the paper to send the writer to Nevada. He then went on to write 16 articles over a one-year period that ran in 15 different newspapers. For the cost of a plane ticket to Los Angeles, we got stories on Nevada valued at $1.6 million. These trips, along with familiarization tours we conduct here, produced magazine and newspaper articles valued at over $48 million last year and exposed hundreds of millions of consumers all over the world to Nevada.

The NCOT's made-for-television outdoor adventure competition, Nevada Passage, reached a pinnacle last spring when we teamed with Land Rover North America, Inc. to stage the G4 Challenge Nevada Passage in Clark and Lincoln Counties. The show was our fourth and most exciting program, reaching 99 broadcast markets across the United States. In July, FOX Sports Network will begin running the program which will reach a potential 90 million U.S. households.

The *Executive Budget* recommends eliminating nine positions from B/A 225-1522. The budget proposes to change our funding source from a dedicated portion of the room tax to a General Fund appropriation, decision unit E-125, and to reduce our current budget of $21 million to $8.2 million in FY 2009-2010 and $8.7 million in FY 2010-2011. Decision unit E-126 removes various transfers to other General Fund agencies which is logical if the NCOT becomes a General Fund agency itself. These reductions are intended to help solve the State's budget shortfall.

E-125 Equitable, Stable Tax Structure – Page ECON DEV & TOURISM-29

E-126 Equitable, Stable Tax Structure – Page ECON DEV & TOURISM-30

Our projections indicate the room-tax receipts for this fiscal year will be $16.2 million, down 14.91 percent from FY 2007-2008. For FY 2009-2010, we project a 3.05-percent decrease to $15.7 million, and an increase of 3.35 percent to $16.2 million in FY 2010-2011.

We formerly reported total domestic and international public relations value, which was $48.5 million last year, but budget cuts this year forced us to eliminate the service that calculated the value of the domestic travel stories we influence.

The NCOT faces three main issues and challenges: the economy; the economy; and the economy. People are cutting back on both business and leisure travel. There are fewer flights. A bit of good news: the U.S. Travel Association reported this month that 60 percent of adults plan at least one leisure trip in the next six months. This is a slightly higher percentage than the same survey showed last year

By offering incredible deals and exclusive packages, we will create urgency in consumers' minds to book a trip to Nevada. We are also promoting in-State travel. We want all Nevadans to get out and explore their own State.

CHAIR HORSFORD:
Some states are increasing their tourism budgets because they recognize the opportunity to position their states as destinations. People will continue to travel. The amenities Nevada has to offer are unique: first-class hotels and accommodations; great retail and dining; and the great variety of outdoor environments. We have an opportunity to grow our visitor base because people will be discriminating about where they travel. We should determine how to invest more, not less, to position Nevada through this bad economy.

MR. WOODBURY:
In an article I read last week, the state of Georgia specifically mentioned Nevada and our cutbacks in regard to expanding their market share. There are people who will travel. It is about market share, where they will go and being as aggressive as we can to attract as many people as possible to Nevada. Some states are increasing their tourism budgets and others are decreasing them.

CHAIR HORSFORD:
Tourism is our No. 1 industry. When other states, whose No. 1 industry is not tourism, see the value of investing in tourism, it seems shortsighted to neglect it in Nevada.

MR. WOODBURY:
In addition to routine adjustments to our Base Budget, the following reductions were made by the Budget Division to reach target funding levels: $180,000 in shipping which is used to send travel information to consumers and industry partners; $3,000 in training; $2.7 million in marketing and advertising category; and $325,000 in the Rural Grants Program.

CHAIR DENIS:
Are the projections you have made regarding the room-tax revenues in agreement with the projections made by the Budget Office?

MR. WOODBURY:
The projections we have provided are internally produced. I have not seen other projections and I do not know on what they are based. Ours factor in new rooms coming online, occupancy rates and everything our internal staff has been able evaluate. I cannot comment on other projections I have not seen.

CHAIR DENIS:
My question, then, is to the Budget Office as they have different numbers than you do.

MR. CLINGER:
We have not reforecast room tax revenue. We have looked at the forecast from the NCOT, and we agree that it is reasonable.

CHAIR DENIS:
Then there must be an adjustment.

MR. CLINGER:
All the adjustments we are talking about, whether it is the advisory question, which is approximately $60 million less than the *Executive Budget*, or some of the other changes, will have to be funded from the freed-up Medicaid dollars. Based on the projections the Department of Health and Human Services (DHHS) has put together, approximately $254 million is freed up as a result of the stimulus package. Any of these shortfalls we are talking about would be funded from those funds.

CHAIR DENIS:
Can you explain why the funding mechanism has been changed from a percentage of room-tax revenues to a General Fund appropriation? Is it to increase the amount of money to the General Fund or is there some other policy decision?

MR. CLINGER:
The reason for the change was to generate a net savings to the State. The appropriation to the NCOT is less than the room-tax revenue received by the General Fund.

CHAIR DENIS:
We could do it the other way; we could fund the NCOT with the room-tax revenue and revert the difference back to the General Fund.

MR. CLINGER:
Currently, the room tax revenue goes directly to the NCOT. They do not revert; they balance forward what is left at the end of each year. Our recommendation is to direct the room-tax revenue to the General Fund and make a direct appropriation to the NCOT which would create a net savings.

CHAIR DENIS:
Is there a bill draft request to make that change?

MR. CLINGER:
Yes, there is.

MR. WOODBURY:
Decision unit E-610 is part of the statewide effort to reduce staffing and operations to generate additional revenue to the General Fund.

E-610 Staffing and Operating Reductions – Page ECON DEV & TOURISM-30

The impacts of this decision unit, combined with the adjustments in the Base Budget, will result in: reducing 9 positions, or one-third of our staff; reducing advertising placements by more than $2 million over the biennium; cutting the Rural Grants Program by more than half; conducting fewer familiarization tours with travel journalists and tour operators; and eliminating or reducing brochures for consumers requesting information and for brochure racks. These publications include the *Adventure Guide*, the State map, the golf brochure, the *Rides Guide*, *Events & Shows*, and the *Nevada Magazine*. We are not suggesting eliminating the *Nevada Magazine*, but we will no longer be able to afford to give it away to consumers requesting information.

CHAIR DENIS:
Are the reductions in the operating budget reflective of the Governor's intent, or was there a mistake in the preparation of the budget? There appears to be a duplication of reductions in decision unit E-610 that were already made in the adjusted Base Budget.

MR. CLINGER:
We do not believe the recommendations in the Governor's budget are in error.

CHAIR DENIS:
How will the 74-percent decrease in outside postage and the 49-percent decrease in marketing and advertising impact your mission?

MR. WOODBURY:
All of these cuts will impact awareness of Nevada as a travel destination. We will use the resources we have to promote travel to the State. The more resources we have, the more impact we will have and the more visitors we will be able to influence to come to Nevada. The reductions in shipping mean fewer people who request information will be able to receive that information. We had

to make cuts across the board. We tried to maintain funding for those things that have the most influence. We tried to keep as much money as possible for advertising and familiarization tours.

CHAIR DENIS:
Are you using more electronic delivery to cut down on postage costs?

MR. WOODBURY:
Most of our information is online. There are online guides people can access. Most people who travel, however, want a hard copy to take with them on their trips. We will fulfill as many requests as we can with the funds available, about 25 percent of our current fulfillment level. Beyond that, we will refer people to the Website and have them access it electronically.

CHAIR HORSFORD:
How many other states have a visitor's guide?

MR. WOODBURY:
To my knowledge, every state has a visitor's guide.

CHAIR HORSFORD:
The resort destination of the world would not have a visitor's guide. Consumers would have to go online.

MR. WOODBURY:
We would have a limited distribution.

CHAIR HORSFORD:
Were you asked to do across-the-board cuts, or were you asked to come up with a certain number of cost savings and you prioritized based on that?

MR. WOODBURY:
It was the latter. We were not given specific program activities to cut. We were given target funding levels, and we made our own internal prioritization about what we would cut.

CHAIR HORSFORD:
My concern is that some cuts will cause certain functions not to work properly. How will your sales team accomplish their goals if you cut their travel budget? If people in sales positions cannot accomplish their function, what will they be doing?

MR. WOODBURY:
We will have to choose which travel industry trade shows have the biggest attendance and represent the markets most significant to us. Attending fewer trade shows will mean less representation of Nevada and less impact.

CHAIR HORSFORD:
Will the cuts to the Rural Grant Program impact your core mission?

MR. WOODBURY:
The NCOT is the only entity that ties everything together and promotes the entire State with a focus on rural Nevada. There will be an impact on the rural counties.

ASSEMBLYWOMAN MCCLAIN:
To reiterate your response to Chair Horsford: you were told your budget is getting cut in half, see what you can do with it.

MR. WOODBURY:
Those were not the exact words, but that is the essentially what we were told.

CHAIR HORSFORD:
We want to understand how this will work if it is imposed. We have to find a different solution. With the cuts to the postage budget, how will you fulfill the delivery of the materials you develop?

MR. WOODBURY:
We would fulfill fewer requests. Since we will have less of a presence, there will also be fewer requests for information. We will be able to fulfill about 83,000 requests for information compared to the 327,000 requests we fulfilled in FY 2007-2008.

CHAIR HORSFORD:
Can you explain what you mean when you say there will be fewer requests?

MR. WOODBURY:
If we cut the advertising that drives people to our Website, we will have fewer requests for information.

CHAIR HORSFORD:
We are contributing to the fact that fewer people will know about us as a resort destination and lose out on the opportunity to market to them.

MR. WOODBURY:
Our biggest concern is loss of market share.

ASSEMBLYMAN CONKLIN:
It is easy to sit here and get angry. I would like to sum up my opinion of this whole budget. Your budget lacks vision and general business understanding. In a down market, businesses do not cut sales. A business looks at a down market and sees an opportunity to call on the customers it does not have because the competition may not be making those calls. We are the competition that will not be making those calls. Those customers who would traditionally come to Las Vegas will be aggressively marketed to by everyone else while we are sitting here playing tiddlywinks. It is frustrating to listen to the lack of understanding of how important these provisions and some of the provisions in the NCED are being cut. This is the worst time to do so. I support the efforts of the Chair and Assemblywoman McClain.

CHAIR HORSFORD:
There is a lot of concern about the approach. We care deeply about the economic reality and the need to balance the budget, but there are certain ways to do it that make sense and other ways that do not.

SENATOR HARDY:
I know this is a difficult budget. I want everyone to know this is a bipartisan concern.

CHAIR HORSFORD:
What are the implications of these reductions? What specific products and projects will be cut, and why have you chosen those things rather than others? If people do not know about Nevada, they will not come to Nevada.

JULYN LANEY (Deputy Director, Marketing and Advertising, Division of Tourism):
With the cuts we are facing, the first thing we will have to eliminate is our television campaign. Last year, we increased awareness from 9 to 16 percent with our television campaign. We had an aggressive three-month campaign in our feeder markets. Why would we cut that? If our advertising budget is going to be cut so drastically, television is expensive and we cannot afford it.

CHAIR HORSFORD:
Can you submit to staff what your advertising and marketing budget has been in the past biennium, what you spent money on and what you are proposing to do this time based on the proposed reductions?

MS. LANEY:
Yes, we will get that to you.

CHAIR HORSFORD:
Do you know if the Convention and Visitor Authorities in Clark and Washoe Counties will be able to fill any of the gaps? Are they planning to increase their budgets in these areas?

MR. WOODBURY:
The NCOT markets Nevada as a whole, while Reno markets Reno, and Las Vegas markets Las Vegas. It would be fairly unusual for the local tourism authorities to market the State as a whole.

ASSEMBLYWOMAN MCCLAIN:
The local authorities are not going to lose their room-tax funding. Something is missing here. It would make sense for the money you generate to support your Division. The room-tax revenue is increased by the work of the NCOT, so it makes sense to pay for the NCOT with a part of these funds.

MR. WOODBURY:
That was the logic when the Commission was established. Most states have a tourism-based funding mechanism for their department, whether it is a car-rental fee or room tax. Knowing our funding is dependent on how well we do our job is an incentive for the NCOT.

ASSEMBLYWOMAN MCCLAIN:
You have done a good job. The funding mechanism should stay with the NCOT.

CHAIR HORSFORD:
Mr. Clinger, can you help us understand the policy reasons for the recommendation to move from room tax to General Fund?

MR. CLINGER:
The recommendation for the change was not a policy decision: it was a decision to realize savings to the General Fund. The revenue received from the room-tax revenue is greater than the appropriation to the NCOT.

CHAIR HORSFORD:
As you have heard here today, you have underfunded the core function of the NCOT. You have affected their ability to maintain the promotion of the State of Nevada.

MR. CLINGER:
Making these decisions was not easy. When there are limited resources and the choice is between funding the NCOT and the NCED or funding K-12 Education and Child Welfare programs, the decisions were difficult.

CHAIR DENIS:
As you prepared the budget, did you have priorities based on policy decisions regarding how the decisions were made?

MR. CLINGER:
That is exactly the process. We did not take across-the-board cuts from every agency. We originally asked the agencies to submit a 14-percent budget reduction, and then we requested a 24-percent reduction. As we looked at those reductions, we realized that the cuts to departments like Health and Human Services could not be made. That is when we began to look at places like the Department of Cultural Affairs, the NCOT and the NCED, areas in which we could make cuts without having a direct impact on client services or the education of our children.

CHAIR DENIS:
Do you have a written plan you could share with us? It would be important to us to know what your priorities are.

MR. CLINGER:
That document is the Governor's *Executive Budget*. If you are asking about the decision making that went into creating the budget, there are volumes of information we studied.

CHAIR DENIS:
When I prepare a budget, I have a list of priorities. If the priorities are education and health care, every time you looked at a budget you would adequately fund your priorities and cut other areas. It is difficult to see where the priorities are.

MR. CLINGER:
We did that by prioritizing the cuts as they came in. We went through all the cuts recommended for the DHHS and threw out most of those reductions. That was the process. We were working back to a finite number necessary to present a balanced budget. We recognize the importance of the NCOT and the Department of Cultural Affairs. We wanted to leave the infrastructure in place so when our economy does recover, we can restore those functions back to previous funding levels.

CHAIR DENIS:
That assumes we accept many of these agencies will barely function while we are waiting for the economy to recover.

MR. CLINGER:
That is true.

CHAIR HORSFORD:
The problem with this particular budget is this is the Commission that could help our economy recover. The fact this was not prioritized indicates the Governor does not believe tourism is important even though it is our No. 1 industry, provides one-third of the employment in the State and brings 50 million visitors from around the world to our State. It is shortsighted.

ASSEMBLYMAN HOGAN:
I want to briefly focus on one aspect that has not been mentioned but is important. I have had the opportunity to work in some large federal establishments: the Pentagon; NASA; and the Department of Labor. In every case, I saw efforts in those agencies to build a team and instill a vision to get a team working for the government, for the people, to achieve a goal. In today’s testimony, both agencies have demonstrated those traits. There was innovation at work and new plans being made about how to proceed to meet current conditions in both Tourism and Economic Development. There are effective teams in both agencies. We have statistics to show a good deal of success and the possibility of more to come because of the vision. We have assembled teams of energetic people who came hoping to be drivers at a Daytona 500 who find themselves entered into a demolition derby. The motivation and the spirit of the people of these agencies is a factor. Our job is to focus on the dollars, but we need to realize the most valuable people with the strongest and the wisest vision may be the first ones we lose when we tell them we cannot afford their ideas.

CHAIR HORSFORD:
We need to address the budget cuts to your staff.

MR. WOODBURY:
We have an amazing group of people. The positions proposed to be eliminated include: the southern Nevada sales manager; an information technology systems administrator; a marketing research analyst; a production artist; a data analyst; a rural programs coordinator; an accounting assistant; and two administrative assistants. Without these positions, we will be less able to sell Nevada as a tourism destination, assist rural Nevada through the Rural Grants Program, conduct various research, use consumer and industry partner databases and

e-mail marketing programs, produce advertising production and design, provide internal IT support, accounting services, reception and other administrative support.

CHAIR HORSFORD:
Will you need to hire contract labor to fulfill some of the functions of these eliminated positions? Is funding for contracts in your budget?

MR. WOODBURY:
We have a Webmaster who would take over the day-to-day IT support. It will be a challenge. There are certain functions that will simply be eliminated. We will do the best we can to absorb the other functions with existing staff.

CHAIR HORSFORD:
What will happen to the conversion project you started under the development specialist position that will be eliminated?

MR. WOODBURY:
In the last six years, the NCOT has been very concerned about performance and measurement. We have built a strong research team. The conversion study looks at real people who have visited the State. We are able to determine the percentage of people who are aware of us, who then went to our Website and ordered an information package, and then came to Nevada and said, "I came to Nevada because you influenced me." Every dollar we can afford to put into research to validate what we do, and ensure that our efforts have the biggest impact they can, is important. We will cut those items that are good, but are not the best research we can produce.

CHAIR HORSFORD:
Can you address the merger and the impact it will have on your operations?

MR. WOODBURY:
It will save some money. There are up-front costs to make it happen, like an upgraded phone system and smaller furniture to accommodate more people in the same space. I echo the comments made by my colleague, Mr. Skaggs, and the Lieutenant Governor, there will be some savings and we can make it work. I am concerned that the rebuilding as described by Mr. Clinger would be difficult if the two agencies are collocated in one building in tight quarters. It would cost money again to allow for growth.

CHAIR HORSFORD:
Have the two agencies discussed this issue? It seems the Governor has offered this as a short-term solution to a long-term problem. Have you made any plans about how the two agencies will work when the economy recovers?

MR. WOODBURY:
Functionally, there is not a lot of crossover between the agencies. There would be collocating with a couple of organization charts next to each other and some savings from accounting. Most of what we have worked on so far is logistics: where would we fit everybody; what would we need to make it work. The functions, the audiences, and the missions are so different there will never be a complete combination of the agencies.

CHAIR HORSFORD:
Is there a plan for the merging of these two agencies on paper?

MR. WOODBURY:
In terms of the layout of the building, where people would fit, there is a plan.

CHAIR HORSFORD:
Does that plan include an organizational chart, and functions and reporting?

MR. WOODBURY:
Yes, we have an organizational chart. Since there is so little overlap, it is essentially two charts underneath a single director.

CHAIR HORSFORD:
It is two agencies collocating.

MR. WOODBURY:
We went through every position with the Budget Office and merged wherever it made sense. Business office functions and leadership were the two areas that overlapped.

CHAIR HORSFORD:
The budget eliminates two positions with the merger, the Executive Director and a development specialist. Would these positions be added back?

MR. WOODBURY:
No positions would be added back.

CHAIR HORSFORD:
Can you highlight the *Nevada Magazine* budget?

<u>Tourism - Nevada Magazine</u> – Budget Page ECON DEV & TOURISM-37
(Volume II)
Budget Account 530-1530

MR. WOODBURY:
The mission of the *Nevada Magazine* is to educate the general public about our State and foster awareness and appreciation of Nevada's heritage, culture, history and natural beauty. The *Nevada Magazine* is the publications division of the NCOT. In addition to publishing the magazine, they provide publications, products and services to the NCOT such as *Events & Shows* and the Nevada Visitor Guide. Currently this budget account has 11.43 FTEs. The *Executive Budget* recommends eliminating 4.78 FTEs, two of which are being transferred to B/A 225-1522. Budget account 530-1530 is an enterprise fund and the magazine is required to be self-sustaining. Revenue is generated primarily from advertising sales and subscriptions. The magazine also earns revenue from the Nevada Historical Society's calendar sales and single-issue sales. Due to proposed funding reductions in B/A 225-1522, revenue to the magazine from that account has been reduced requiring the elimination of the following positions: associate editor; marketing and circulation manager; part-time production assistant; and a part-time clerical position. The impacts of

these reductions will be a reduced work product and the absorption of the remaining duties by other staff.

CHAIR HORSFORD:
Is it realistic to expect six people will produce this magazine at the level of quality it has previously maintained?

MR. WOODBURY:
If any six people could do, it would be the staff working with Ms. Janet Geary, the Publisher. It will be a challenge.

JANET GEARY (Publisher, *Nevada Magazine*):
It would be very difficult. We will be losing several people who maintain our Events & Shows calendar, one of the most popular parts of our magazine and our Website. Losing the funds to pay independent photographers and writers will obviously affect what we will be able to do. We have a plan in place to encourage writers at the colleges who would like to be published in our prestigious magazine to offer their services. We will encourage amateur photographers to submit their work. We have several very good photographers on our staff who are currently out taking pictures all the time. We are trying to put together a database of those photographs as well.

CHAIR HORSFORD:
I understand that is what they are doing today but, when the staff is reduced from eleven to six, they will be picking up additional duties. How will they be able to pick up the additional duties and continue to do the work they already do?

MS. GEARY:
I will take over the circulation manager's duties as well as the calendar sales. My editor and associate editor will assist with the database entry and our two publication production people will take care of putting the magazine and the *Events & Shows* together. That is our plan at the present time. We hope to keep the quality of the magazine intact.

ASSEMBLYWOMAN MCCLAIN:
Did you say this is an enterprise fund? Your sales support your operation.

MS. GEARY:
Our sales do support us. We will be losing the funds from the NCOT's purchase of collateral materials: *Events & Shows*, *Nevada Magazine* and the Visitor's Guide. They will no longer be purchasing those from us, and that is the source of the funding reductions in our budget.

ASSEMBLYWOMAN MCCLAIN:
What is the amount of that reduction?

MS. GEARY:
That is about $500,000 annually.

ASSEMBLYWOMAN MCCLAIN:
If you are an enterprise fund and you are losing all this staff, will not the quality go down? Perhaps the demand will not be there, although I still want my copy.

MS. GEARY:
We do not expect the demand to go down. We are encouraged by the recent upturn in our subscriber base. However, we have reduced the quality of the paper on the inside of the magazine. Other than that, we hope the quality of the magazine will not go down.

MR. WOODBURY:
Although the *Nevada Magazine* staff is being reduced from eleven to six, two of those eleven positions are funded 100 percent by the NCOT, so they will essentially be reduced from nine positions to six.

ASSEMBLYWOMAN MCCLAIN:
If your budget is restored, will those two positions continue? My concern is we are being penny-wise and pound foolish. If you cannot get the advertising revenue to support your operations, it will have a spiraling effect on your entire operation.

MS. GEARY:
We do not expect our advertising revenues to decrease. What the NCOT has provided to us is help in our printing costs and the purchase of the extra copies in support of their fulfillment efforts. The only issue would be having to reduce our advertising rates because we will not be producing as many magazines to distribute.

CHAIR HORSFORD:
When did the two positions you are referring to begin to work solely for B/A 225-1522? Why were those positions not previously transferred?

MR. WOODBURY:
I do not know. I can follow up and provide that information. The magazine provides editorial services to the NCOT. We had an agreement to pay them when they provided editorial services and content for our brochures and other items. These positions were originally full-time *Nevada Magazine* positions, but as they provided more and more work for the NCOT, we funded more and more of the position. It has been four or five years.

CHAIR HORSFORD:
Please get that information and provide it to our staff.

MR. WOODBURY:
I will.

CHAIR HORSFORD:
We will now open the hearing on B/A 225-1523.

<u>Tourism - Tourism Development</u> – Budget Page ECON DEV & TOURISM-44
(Volume II)
Budget Account 225-1523

MR. WOODBURY:
This is an interest-bearing budget account for projects related to the tourism grants program designed to help develop rural Nevada's tourism infrastructure. The *Executive Budget* recommends eliminating funding for this program. It was $200,000 each biennium. The program was started in 2001. We are hoping to build on it in the future. It is important to not only promote what rural Nevada has to offer, but to help them develop the infrastructure of their tourism product.

CHAIR HORSFORD:
If there is anyone who would like to testify on this budget? We will take about five minutes.

LT. GOVERNOR KROLICKI:
Besides being Lieutenant Governor, I chair both the Commissions under discussion: the NCED and the NCOT. There are a lot of people here today wearing buttons that say, "Preserving Tourism as We Know It." I am heartened and gladdened to see how the Committee, in a bipartisan manner, seems to understand the importance of these two Commissions. You have received a letter from former Governor Richard Bryan (Exhibit E). In the early 1980s when he first became Governor, the State was facing a similar economic challenge. They were having difficulties making payroll. His response, with the Legislature, was to create these Commissions dedicated to ensure we diversify and propel our economy in such a way that we never have to deal with this again. Although we are facing similar economic challenges, it is ironic and disappointing we are going backwards. This Committee has a difficult position. You have to triage between children, seniors and those who truly need help and the future revenue. If we loot our future to balance the budget, these problems will continue to grow. We must nurture and preserve in a viable way these most important Commissions.

RYAN SHELTRA (Commissioner, Nevada Commission on Tourism):
The Commissioners of the Nevada Commission on Tourism have submitted a letter (Exhibit F) signed by all members stating we do not support the budget submitted to you by the Governor. The comments of the Board today could not be more apt. Assemblyman Conklin's remarks regarding sales and investment are right on the mark. Assemblywoman McClain's statement about spiraling effects illustrates what is a self-fulfilling prophecy for failure: if we keep cutting this budget, we will lose market share. The only thing the NCED and the NCOT have in common is we both generate revenue for the State of Nevada. The NCOT generated $92 million in tax revenue last year. If we cut our budget, the revenue generated will decrease. This Commission is made up of industry leaders in the State. Two of them are the head of the Las Vegas Convention and Visitors Authority (LVCVA) and the head of the Reno-Sparks Convention and Visitors Authority (RSCVA). It is an impressive list. We offer our experience to you. We do not support this budget. It is the wrong direction.

VAN V. HEFFNER (President and CEO, Nevada Hotel and Lodging Association):
On behalf of the No. 1 industry in Nevada, we represent over 200 properties and 150,000 hotel rooms, and we employ over 260,000 Nevadans from the smallest towns to the largest cities. For the record, there are some specific things we would like to include as our testimony. You have all received the

Nevada Hotel and Lodging Association Board's resolution which unanimously supports the NCOT (Exhibit G). We were part of the master plan in 1983 when Governor Richard Bryan and the rest of us worked hard to develop the framework that created the NCOT and the NCED. As noted in this resolution, every $1 spent on advertising produces $20 in revenue. Therefore, the $4.7 million spent in 2008 for advertising generated $92 million in profits. The Rural Grants Program makes every single dollar in those small communities go around a minimum of seven times. We need to retain and increase funds for the Rural Grants Program.

The Las Vegas market has already experienced an 11.95-percent decrease in January visitors; the average citywide occupancy rate was a mere 71.9 percent. The recent downturn in business travel, which has been exacerbated by political reprimands for companies holding meetings during the recession, has cost Las Vegas $131.6 million in lost revenue. In 90 days, 340 groups have cancelled resulting in 236,800 lost room nights, diverting lodging-tax revenue, which further deteriorates marketing for Nevada. This is the time to increase those marketing and public relations efforts. We understand the demands on the budget and the needs to make spending reductions to balance the budget. However, if it is necessary to move forward with this diversion, we ask that you minimize the impact as best you can. We also request that the diversion be temporary, and we seek your support of a sunset clause that would retire this proposed provision at the end of the 2009-2011 biennium. This plan would provide the agency with a reduced but reasonable level of funding to maintain a competitive position in the marketplace until the economic crisis has passed.

ASSEMBLYMAN HOGAN:
I appreciate the views of business being made available to us. We have heard other budgets in which agencies are being combined to make reductions for the sake of reductions without regard to the effectiveness of the resulting agency. We are fighting a terrible budget crunch, but to some extent it is artificial. There is a determination before everything else is considered that we can only deal with the spending side, we cannot deal with the revenue side. That puts us in a box. We are not able to pick those agencies that need more investment and to hit hard those agencies that may not be efficient and effective. We seem to be hitting the agencies that are getting the job done and earning money for the State. I trace it back to the artificial box we find ourselves in. As more and more perceptive members of our business community realize this is artificial, there is increasing support for looking at the revenue side in ways that are fair and balanced. Instead, we say no matter how painful and destructive it may be, we cut. With more support from all elements of the community in Nevada, we could be more flexible and increase revenue where it can be done fairly while ruthlessly cutting any waste we can find.

MR. HEFFNER:
I appreciate your remarks and vision. We have to look at the structure of the entities to provide services. We have 14,000 new hotel rooms coming online this year alone in Las Vegas. It is important we are there to serve. There is a frightening story you should all remember: the Colorado story. Colorado was first in advertising and publicity, and they chose to eliminate their tourism office. They soon fell to 15th in the nation. They believed that because the mountains were there, everyone would come. The students who are not leaving

the continental United States for Spring Break, due to the economy and violence in Mexico, are coming to Las Vegas. Las Vegas and Nevada offer a total resort destination: it is not only gaming.

CHAIR HORSFORD:
What is odd about this is by cutting this agency, the Governor is sending the opposite message we want to send to tourists. Yes, times are difficult, but invest the few dollars you have to take a break and recoup so you can return to work and get back at it again. We are Americans. We will get out of this.

MR. HEFFNER:
By statute, the Governor must present a balanced budget. The ideas, vision and passion of the Legislature are invaluable. If you shoot the goose that lays the golden eggs, however, you will have no more golden eggs. I have a daughter who is a school teacher at Valley High School, and I am concerned about her. At the same time, if you derail the train that generates the money, there will be no funds for education.

RALPH WITSELL (Executive Director of Tourism Sales, Reno-Sparks Convention and Visitors Authority):
I appreciate your vision regarding the importance of tourism. The Board of Directors of the RSCVA voted unanimously to support the continuation of the NCOT's marketing budget (Exhibit H). It is critical for the NCOT's out-of-state efforts to promote Nevada be maintained and for the dedicated room-tax Base Budget not to be diverted to the State's General Fund. The NCOT complements what Las Vegas and Reno do to promote southern and northern Nevada. The NCOT's efforts are not a duplication, and they uniquely emphasize the rural parts of the State which is important to the local economies.

BILL CHERNOCK (Executive Director, Carson Valley Chamber of Commerce and Visitors Authority):
It is gratifying to hear the comments and questions from the Committee. My rural colleagues and I have issues with the merging of the two organizations. We have grave concerns about the dismantling of a funding system that has worked remarkably well for 25 years. Further, we have concerns about a proposed 60-percent budget cut. Assemblyman Hogan spoke of a sense of team; in the rural counties that sense of team extends far beyond the Laxalt Building. There are literally hundreds of volunteers in the rural communities who take the NCOT funds and leverage them with their efforts. In 2007, tourism in the State of Nevada generated nearly $3 billion in State and local taxes from roughly 50 million visitors. That equates to $60 from each visitor. This budget takes approximately $12 million from the NCOT funding and diverts it to the General Fund. If we lose 200,000 visitors because of a 60-percent cut in funding, roughly 0.05 percent, the State is officially upside down in that transaction: you have lost more than you have gained. You have been given a report describing that methodology in detail (Exhibit I). Less than 0.05 percent of incremental visitation loss and the financial gain has disappeared.

CHAIR HORSFORD:
Due to the lack of time, we will be unable to hear further testimony on the NCOT budgets. The following people were present to testify, those with written testimonies have been made part of the record: Marvin Minnick (Exhibit J),

Candace Duncan (Exhibit K), Dorothy Nylen (Exhibit L), Betty Retzer, Carol Infranca, Dennis M. Castleman, and Dianna Borges.

CHAIR HORSFORD:
We will now open the hearing on the Department of Business and Industry.

COMMERCE AND INDUSTRY

BUSINESS AND INDUSTRY

B&I-Insurance Regulation – Budget Page B&I-8 (Volume II)
Budget Account 101-3813

SCOTT J. KIPPER (Commissioner of Insurance, Division of Insurance, Department of Business and Industry):
I will be following the outline distributed to you (Exhibit M). The Division of Insurance (DOI) will provide the very best in consumer protections for all insurance consumers in our State, while providing fair, consistent, effective and efficient regulatory oversight on our $12-billion industry.

The Division is statutorily obligated to perform roughly 150 financial examinations annually which encompass a thorough review of a company's financial health as well as their accounting practices. This does not include market conduct examinations. In the past, our performance indicators stated we should initiate 40 examinations annually, which does not come close to meeting our statutory obligations.

CHAIR HORSFORD:
What is the plan to alleviate the current backlog of examinations, and what is the current status of those examinations?

MR. KIPPER:
We currently have 32 open financial examinations. We have instructed our examination staff to expeditiously finalize those open examinations. In addition, we have roughly 217 open examinations of other types. Forty-two of those examinations are premium tax audits; the balance are either market conduct issues or simple examinations of title and funeral home programs. We have set a goal of four examinations a week; this might be a little ambitious. With the new work performance of 150 examinations in a year, we may simply be treading water and be unable to make up that backlog as quickly as we would like.

ASSEMBLYMAN GOICOECHEA:
What is the new fee structure and what were the old fees?

MR. KIPPER:
The fee structure you are referring to is a proposal to move a portion of the Division's funding mechanism out of the General Fund into an enterprise fund.

ASSEMBLYMAN GOICOECHEA:
I understand the new fees are $60 for an insurance producer and $1,200 for all other carriers. What are the fees currently?

MR. KIPPER:
They pay a portion of some fees. We are looking for that information. The fees you are speaking of will be in addition to those fees.

ROBIN V. REEDY (Deputy Director of Administration, Department of Business and Industry):
The fee structure the industry currently pays is convoluted as far as funds that go into the General Fund from the insurance industry. The new assessment we are discussing will go directly to the Insurance Division to support their work.

ASSEMBLYMAN GOICOECHEA:
Are you saying that in the past you do not know what the fee was, it was mixed up?

CHAIR HORSFORD:
Due to our time constraints, we would like to ask you the questions we have and receive your presentation as answers to these questions.

ASSEMBLYWOMAN MCCLAIN:
Will the old convoluted fees still exist and remain a revenue source for the General Fund?

MS. REEDY:
That is correct.

ASSEMBLYWOMAN MCCLAIN:
Will the DOI be entirely supported by the new fee?

MS. REEDY:
That is the plan.

ASSEMBLYWOMAN MCCLAIN:
What does the insurance industry think of this plan?

MS. REEDY:
We have had many conversations with the industry. While they do not want to throw open their pocketbooks, they recognize the benefits they would receive from the DOI being fee funded, fully staffed and able to respond to them as well as their customers. So far, the industry has been in favor of this plan.

ASSEMBLYWOMAN MCCLAIN:
Is this fee considerably more than they are already paying? What do they pay now?

MS. REEDY:
This is not my area of expertise, but I can answer in broad terms. The insurance industry brings about $300 million into the General Fund.

ASSEMBLYWOMAN MCCLAIN:
You are essentially doubling the fee with the new structure.

MS. REEDY:
It is anticipated the new fees will bring in about $4 million a year, and they currently bring into the General Fund about $300 million.

ASSEMBLYWOMAN MCCLAIN:
Revenues for FY 2008-2009 are currently almost $4 million. The actual revenues for calendar year 2008 were $3.8 million.

CHAIR HORSFORD:
Perhaps some industry representatives could give a perspective on this.

ASSEMBLYMAN CONKLIN:
The General Fund is 10-percent funded by the insurance-premium tax which is roughly $300 million a year. That is in addition to any fee paid by the insurance industry: the fees and taxes are separate. Most industry representatives I have spoken to are not opposed to the fees; however, they want to ensure the fees directly fund the agency. The DOI provides stability to the marketplace for insurers. My only concern is once the industry is allowed funds through direct donation to the agency that governs them, we need to make certain there are consumer protections in place to ensure the agency still represents the balance necessary between the consumer and the insurer in the marketplace.

CHAIR HORSFORD:
That is a very important point especially since the regulatory role is to protect the interests of the consumer.

BOB OSTROVSKY (Representative, Employer's Insurance):
We support the proposed new budget methodology. We currently pay annual license fees. We also pay fees for audits as well as premiums on the audit. Our proposal is that all these fees be shifted back to the General Fund, and the new fee will pay for the DOI. Because there are so many fees and so many producers, those fees are relatively small compared to the amount of business we write. It is ultimately fair to have the Division funded this way and avoid the accreditation problems we have had, being able to keep the staff levels high enough to perform necessary audits and being able to respond to consumer complaints. A well-functioning DOI on the lookout for consumer interests, which includes the interests of the good insurers, will see the bad guys are regulated and out of this market. At a time when the biggest insurance companies in the world, like AIG, have the potential to go bankrupt, these financial audits are even more important. The caveat is, the Legislature did this once before. Almost 20 years ago a fee was applied to fund the DOI, but at the last minute the budget director moved that money into the General Fund. We do not want that to happen again.

CHAIR HORSFORD:
Can you clarify one statement you made regarding the current fees you pay? You indicated in your statement those fees would be eliminated.

MR. OSTROVSKY:
There are a series of little fees for services being provided. We would rather make a single annual payment rather than being billed for each transaction. I believe that is part of the package.

JACK H. KIM (Vice President, State Government Affairs, UnitedHealth Group):
My understanding is that all of the fees we currently pay will remain. The industry has agreed to pay these new fees to help support the Division so the DOI will not have to rely on General Fund appropriations. There are two reasons we agreed. First, the DOI needs to be well-funded so they can answer consumer complaints, inspect and approve insurance products on a timely basis and regulate the industry. When an industry is well-regulated, there are fewer problems. We do not want fly-by-night operators coming to town selling insurance and taking advantage of the people of Nevada. That is not good for the State and it is not good for the industry. Second, the National Association of Insurance Commissioners (NAIC) accreditation is vital for the DOI and the insurance industry in the State. If the DOI loses the NAIC accreditation, domestic carriers will have to leave the State because the financial examinations done by the DOI will not be recognized in other states. The industries in Nevada want to stay here. Therefore, we think these additional fees are important and we support them.

ASSEMBLYWOMAN MCCLAIN:
To be clear, will these new fees replace the other fees currently paid into the General Fund?

MR. KIM:
No. These are new fees.

CHAIR HORSFORD:
These new fees will apply to both producers and carriers. Are industry representatives from both categories generally supportive?

MR. KIPPER:
That is correct.

CHAIR HORSFORD:
Why is the prorated administrative fee for calendar year 2009 only charged to carriers?

MR. KIPPER:
It is only charged to carriers because producers renew on a triennial basis. We thought it would be unfair for those not subject to renewal during the second half of calendar year 2009 to be subject to the new fee.

MS. REEDY:
Because it is a triennial fee, and we would only collect 50 percent, the dollar amount to be collected would be less than the expense of collecting it.

CHAIR HORSFORD:
How did the Division develop the projections for the number of producers and carriers provided to us in the budget?

MS. REEDY:
We used the historical numbers analyzed against those businesses we were legally able to assess.

CHAIR HORSFORD:
The *Executive Budget* had a different revenue projection. Do you agree with the current number of $4,186,320?

MR. KIPPER:
Yes, we agree with that figure.

CHAIR HORSFORD:
How will the DOI operate until the first payments are made by the carriers?

MS. REEDY:
We will be producing an amendment to the budget bill to assess a General Fund loan which we will pay back within the same fiscal year.

CHAIR HORSFORD:
As I understand it, you will need a bill rather than an amendment. I do not believe the DOI is authorized to get a loan.

MS. REEDY:
It is a budget bill amendment. We have a budget bill for the fee structure which we will amend to show the General Fund.

CHAIR HORSFORD:
The Budget Office would then come up with a proposal for how you will fund that amendment? It is not currently in the *Executive Budget* so it creates another hole for us.

MS. REEDY:
It is my understanding that a General Fund loan paid back with the first monies coming in does not create a hole, but, I am not the expert on that.

MR. CLINGER:
What Ms. Reedy is referring to is called a General Fund advance. There are some agencies in statute that have authority to receive an advance of this kind which they must repay before the fiscal year ends. It is not like an appropriation where we have to obligate the funds; it is merely for cash flow purposes.

CHAIR HORSFORD:
I do not understand how you can loan money you do not have.

MR. CLINGER:
It is cash in the Treasury that is advanced to the agency to meet their obligations until the revenue stream starts to generate enough to pay back the advance as well as continue the operations of the agency.

CHAIR HORSFORD:
Will the projection built into the carrier payment cover the full period, not only the period from the loan?

MR. KIPPER:
Yes, that is correct.

CHAIR DENIS:
In future biennia, will this fee be sufficient?

MR. KIPPER:
We have committed to the industry to continue to analyze this issue as we go forward. As expenses grow, so does the cost of regulation. We will continue to ensure we have adequate funding to maintain industry standards.

MS. REEDY:
Within the budget bill, we are asking for an interim committee to analyze the billings and the assessment we are proposing, as well as to look at the processes to determine if there is another solution for the future. We will be able to support the Department for the next two to three years with this fee.

CHAIR HORSFORD:
Can you give us more information about the NAIC accreditation?

MR. KIPPER:
Accreditation standards are determined by the NAIC and are uniform throughout all 50 states. The NAIC has noted some issues the Nevada DOI needs to establish or improve: timeliness of examinations; levels and expertise of staffing; evaluation and update of processes of examinations; and improved external and internal communication. The DOI is in the process of looking at five new examinations at the direction of the NAIC accreditation staff. The rereview team will be in our offices in May to monitor our progress.

CHAIR DENIS:
What status is the Nevada DOI in currently?

MR. KIPPER:
Currently, our accreditation is suspended. Voluntarily, we are not issuing licenses for new risk retention groups (RRGs), but we are allowed to examine current groups.

CHAIR DENIS:
How long will you maintain that status?

MR. KIPPER:
There is no time constraint. The suspension was enacted in September 2008. We have a 12-month window in which to improve; however, we have the ability to request an extension. We participated in a committee review at the quarterly meeting of the NAIC this past weekend in which we received positive feedback with no deficiencies. The next opportunity for full accreditation will be at the June 2009 NAIC meeting.

CHAIR DENIS:
What happens if you do not meet the standards at that meeting?

MR. KIPPER:
We will have another opportunity, at the September 2009 meeting, to address any deficiencies that may be highlighted, and we can also request an extension.

CHAIR DENIS:
Will you be able to make the required changes by September?

MR. KIPPER:
I believe we have the pieces in place to finish and fully realize our accreditation. I have every expectation we will be positively reviewed at the June meeting and granted accreditation.

CHAIR DENIS:
What has changed?

MR. KIPPER:
We have been working with the NAIC to review our processes to bring them in line with the standards required of other states.

CHAIR DENIS:
Has that been completed, or are you in the process of doing it?

MR. KIPPER:
We are in the process of doing it.

CHAIR DENIS:
How many RRGs are chartered in the State each year?

MR. KIPPER:
There are 34 foreign RRGs. The domestic RRGs are rolled into our captive insurers program, of which there are 122.

CHAIR DENIS:
How much insurance-premium-tax revenue is generated annually from the RRGs chartered in Nevada?

KIM HUYS (Deputy Commissioner, Division of Insurance, Department of Business and Industry):
I do not have that figure. I can get it to you.

CHAIR DENIS:
When can you get it to our staff?

MS. HUYS:
I can get it to you tomorrow.

CHAIR DENIS:
Will there be additional examination costs for the RRGs chartered in Nevada because other states may now be involved in the financial examinations?

MS. HUYS:
That is the likely outcome. If our accreditation is not accepted by other states, the results of Nevada examinations would not be accepted by those states and the companies would incur expenses to be examined in another state.

CHAIR DENIS:
Is there a cost for the required rereview for the scope of the RRG examinations?

MR. KIPPER:
No. The cost for the rereview by the NAIC accreditation team is borne by the NAIC.

CHAIR DENIS:
Why are the terms and conditions limited to the RRGs?

MR. KIPPER:
That was a voluntary offer by the Nevada DOI agreed upon by the NAIC. The review of the RRGs is the crux of the issue that generated this whole problem.

CHAIR DENIS:
Does that mean the DOI is maintaining adequate oversight of the other insurers in Nevada according to the NAIC?

MR. KIPPER:
The oversight is adequate, but it needs to be improved.

CHAIR DENIS:
Have other limitations been placed on the State as a result of accreditation being suspended?

MR. KIPPER:
No, they have not.

CHAIR HORSFORD:
Is there a formal corrective action plan?

MR. KIPPER:
We have confidential documentation from the NAIC asking us to address certain issues. We can summarize that and get it to you.

CHAIR HORSFORD:
What other factors can lead specifically to the revocation of accreditation?

DIANNE CORNWALL (Director, Department of Business and Industry):
In the correspondence between the NAIC and the Department, there are two issues consistently identified by the NAIC: the Department is understaffed; and the staff that does exist are not all appropriately educated. Failure to address these issues would subject the DOI to loss of accreditation. My concern immediately became the funding of the agency: there is no money in the General Fund.

CHAIR DENIS:
The 2007 Legislature approved two positions, and the agency approached the Interim Finance Committee for another two positions. One position was left vacant. Why were these three positions added to the corporate financial section insufficient to resolve this problem?

MR. KIPPER:
To achieve the statutorily required number of examinations, we extrapolated the number of hours per examination multiplied by the number of entities to be examined. It became clear we did not have adequate staff to accomplish our obligations. We determined we would need ten full-time analysts and examiners; we currently have six. Of the seven positions we are requesting, three would be management analysts, one would be a financial examiner and the remaining three would be administrative staff for the Corporate and Finance section.

CHAIR DENIS:
Do you know why the Governor is recommending the restoration of funding for four FTEs in this biennium? How will that help in this accreditation process?

MS. HUYS:
We have in our total count seven positions. The partial position is a lead actuary position. The other positions were left vacant or frozen during the current biennium to obtain budget savings. Looking forward at a fully staffed agency, we identified support and actuarial staff necessary to meet our statutory requirements. We did not keep positions vacant only to achieve budget savings; we are also challenged in finding financial examiners and analysts with the skill set necessary to do the financial examinations required. Unless a candidate has come from a state insurance examiner background, she must be trained in the Statutory Audit Practices examination as opposed to the General Audit Practices examination.

CHAIR HORSFORD:
Can you briefly highlight the 14 new positions?

MR. KIPPER:
Seven of the fourteen positions are within the Corporate and Financial section: one would be a financial examiner; three would be management analysts; and three would be administrative positions. The other seven positions would be in various sections: an actuary in the property and casualty section; two actuaries in the life and health section; one administrative position in the Las Vegas office; one personnel analyst in the administrative section; and an additional administrative support position in the Carson City office.

CHAIR HORSFORD:
We have several technical questions regarding the functions and possible classifications of these positions. I will ask our staff to prepare those questions for you and you can respond to them in writing.

Let us proceed to B/A 223-3817.

<u>B&I-Insurance Examiners</u> – Budget Page B&I-19 (Volume II)
Budget Account 223-3817

We will submit the following questions to you in writing: the number of examinations to be scheduled each year by insurer group; the number of examinations initiated; the number of examinations reported or submitted to the Division by contract examiners; the number of reports reviewed by the DOI; the number of examinations pending acceptance; and the number of examinations completed. You can respond to these in writing.

Can you explain how the revenue for the administration fee was determined? It does not appear to fully pay for itself.

MR. KIPPER:
We utilize contract examiners to do our field work. Those contract examiners charge a standardized fee. We pay the contractors directly. We then bill the insurance company being examined their amount of the fees plus the per diem and an examination override equal to roughly 40 percent of the actual examination costs.

CHAIR HORSFORD:
For FY 2009-2010 and FY 2010-2011 what is the administration fee structure proposed?

MS. HUYS:
Regarding B/A 223-3817, the money that comes through that account as an examination fee is directly charged and passed on to the examinee. Fifty percent of the direct examination fee comprises the administrative fee for the examinations. We directly charge the examinee based on the contractor rate: an hourly rate of $135 an hour; and a daily rate. The 50-percent administration charge is then added to the contractor rate. If we need to do a technical adjustment, we can work with staff to ensure we are in accord.

CHAIR HORSFORD:
There appears to be something that is not congruent between the examination fee and the administration fee. Previously, the Legislature has expressed concerns about the administration fee assessed for conducting insurance examinations. The increase has resulted in fee revenue and significant increases in the reserve account. Why is $5 million recommended for this account?

MS. HUYS:
Can you restate the question?

CHAIR HORSFORD:
Why is a $5 million reserve recommended for this account?

MS. HUYS:
If we collect our fees as projected, the reserve would allow us to continue to go forward at the beginning of each year. I can get you further information about how it was calculated and its intended use.

CHAIR HORSFORD:
Has the DOI attempted to determine if the administration fee is appropriate based on the administrative costs incurred on behalf of the insurance regulation account?

MS. HUYS:
We will clarify that and get the information to the Committee.

CHAIR HORSFORD:
We will now open the hearing on Captive Insurers.

B&I-Captive Insurers – Budget Page B&I-23 (Volume II)
Budget Account 101-3818

The major issue in this budget account is the accreditation deficiencies. What are the NAIC's concerns; what steps has the Division taken to increase communication; and what procedures have been put in place to address their concerns?

MR. KIPPER:
Primarily, the NAIC's concerns lie with the staffing levels and timeliness of the reviews. They have also suggested we increase our internal communication between our captive area and our corporate and finance section. We now hold at least biweekly meetings between those groups to ensure the flow of information is rapid and accurate. We have scheduled the NAIC staff trainers to come to our offices in May to train our workers on the examination process.

CHAIR HORSFORD:
As you complete those reviews, you could add them to your performance indicators so it can be tracked over time. Another major issue is the collection rate of the premium tax.

MR. KIPPER:
We have been working with the internal auditor to determine the accuracy of numbers. At our suggestion, we held a meeting that included the Department of Taxation as well as staff from the Internal Auditor's office. It was agreed the DOI, as regulator of those entities, would take the lead in the development of a bulletin or regulation that would specifically ask for the information from the insurance carriers to clarify the level of premium tax reported and if they are accurate. It would be an additional level of review to verify the numbers. We look forward to working with the Department of Taxation on this issue.

CHAIR HORSFORD:
Is that plan in writing?

MR. KIPPER:
Our legal team has been directed to draft a regulation for review by the two entities. We will then have a working group meeting and we would be glad to share that information with the Legislature.

CHAIR HORSFORD:
What is the timing of that? The premium tax makes up 10 percent of our revenue, and collections are declining significantly. Additionally, what is the timing of the implementation, and will there be a review to determine if there was a problem?

MR. KIPPER:
We would like to have that draft ready for review in a matter of two to three weeks. We would also share this with our Internal Auditor. We will go back as far as we legally can to review those returns.

CHAIR HORSFORD:
The Chair of the Assembly Taxation Committee asks if you can get that done within a week to ten days?

MR. KIPPER:
We will be as expeditious as we can in the attempt to meet that request.

CHAIR HORSFORD:
We will open the hearing on the Industrial Relations budget.

B&I-Industrial Relations – Budget Page B&I-179 (Volume II)
Budget Account 210-4680

L. TOM CZEHOWSKI (Chief Administrative Officer, Occupational Safety and Health Administration, Division of Industrial Relations, Department of Business and Industry):
The Division of Industrial Relations is a fee-based agency that receives its funds through an assessment to the workers' compensation insurance providers in the State. There are 220 positions within the Division which is made up of four budget accounts. The first is B/A 210-4680 which includes the workers' compensation section, the administrative services officer and the legal division: there are 82 FTEs.

LORI MYER (Administrative Services Officer, Division of Industrial Relations, Department of Business and Industry):
We are asking for $44,010 in FY 2009-2010 and $39,760 in FY 2010-2011 in decision unit E-710 for replacement equipment. Decision unit E-720 requests $1,400 in FY 2009-2010 for funding to link the fax machine directly to the in-house phone system.

E-710 Replacement Equipment – Page B&I-183

E-720 New Equipment – Page B&I-183

CHAIR HORSFORD:
Has the data system project been completed?

MS. MYER:
They begin user testing on Monday. The new system is scheduled to go live in May.

CHAIR HORSFORD:
Has that improved efficiency in data management?

MS. MYER:
The new system is not yet in operation, but it has been designed to do the management reports we need to provide. We are within budget on the project.

MR. CZEHOWSKI:
Budget account 210-4682 is the Nevada Occupational Safety and Health Enforcement Agency (OSHA) with 93 FTEs.

B&I-Occupational Safety & Health Enforcement – Budget Page B&I-186 (Volume II)
Budget Account 210-4682

MS. MYER:
Decision unit E-275 funds cell phones for the OSHA mechanical unit. Decision unit E-710 requests funding for six replacement vehicles over the biennium: $136,957 for FY 2009-2010 and $86,448 in FY 2010-2011. Decision unit E-715 requests funding for replacement of computers that are over six years old. Decision unit E-720 is a request of $800 in FY 2009-2010 for funding to link the fax machine directly to the in-house phone system.

E-275 Maximize Internet and Technology – Page B&I-188

E-710 Replacement Equipment – Page B&I-190

E-715 Replacement Equipment – Page B&I-190

E-720 New Equipment – Page B&I-191

CHAIR HORSFORD:
Will all of the inspectors have cell phones?

MR. CZEHOWSKI:
Yes, all of the mechanical inspectors will have cell phones.

Budget account 210-4685 has 30 FTEs.

B&I-Safety Consultation and Training – Budget Page B&I-193 (Volume II)
Budget Account 210-4685

MS. MYER:
Decision unit E-325 increases our multimedia program by $25,000 each year of the biennium due to the increasing costs of reproducing materials such as safety program guides. Decision unit E-710 is for basic replacement equipment and one vehicle in 2010: the cost in FY 2009-2010 is $48,828; and the cost in FY 2010-2011 is $10,558.

E-325 Services at Level Closest to People – Page B&I-195

E-710 Replacement Equipment – Page B&I-197

CHAIR HORSFORD:
Have you been able to move from video to DVD reproduction? Are any of the training sessions available on the Internet?

JAN G. ROSENBERG (Chief Administrative Officer, Safety Consultation and Training Section, Division of Industrial Relations, Department of Business and Industry):
We are unable to put videos on the Internet due to file sizes, so that is not an option.

CHAIR HORSFORD:
Is that something you have reviewed?

MR. ROSENBERG:
We reviewed that three to four years ago.

CHAIR HORSFORD:
There may be new technology that can change the file size through reformatting.

MR. ROSENBERG:
While that may be true, the videos we lend in our library are copyrighted and we could not put those on the Internet. The video we make for rights and responsibilities could be loaded on the Internet. We have digitized it in a CD format available for handout.

CHAIR HORSFORD:
Review the performance indicators on this budget and submit them to our staff. They do not appear to have been updated.

MR. CZEHOWSKI:
Yes, we will do that.

Budget account 210-4686 has 15 FTEs.

B&I-Mine Safety & Training – Budget Page B&I-200 (Volume II)
Budget Account 210-4686

MS. MYER:
We are requesting appropriations for replacement equipment in decision unit E-710 totaling $38,502 in FY 2009-2010 and $40,589 in FY 2010-2011. Additionally, we are requesting $4,000 each year of the biennium for new clamp-on ground resistivity testers in decision unit E-720.

E-710 Replacement Equipment – Page B&I-203

E-720 New Equipment – Page B&I-204

CHAIR HORSFORD:
Can you explain the decline in the actual Mine Safety and Health inspections in FY 2007-2008? You had projected 540 and actually performed 293.

EDWARD M. TOMANY, CMSP (Chief Administrative Officer, Mine Safety and Training Section, Division of Industrial Relations, Department of Business and Industry):
We have been short two district inspectors and one industrial hygienist. Additionally, we experienced an increase in demand for new miner and annual refresher training.

CHAIR HORSFORD:
How will this be corrected in the upcoming biennium? You are projecting 540 inspections in the biennium.

MR. TOMANY:
We hired one inspector yesterday which will increase our capacity immediately. We are still short one industrial hygienist, but as soon as we can fill that position, it will increase our capacity further.

CHAIR HORSFORD:
Would anyone like to speak on this budget?

STEVEN J. REDLINGER (Representative, Southern Nevada Building and Construction Trades Council):
There has been a lot of discussion about Nevada OSHA during this Legislative Session. If wholesale changes are going to be made to Nevada OSHA, there are a couple of things to keep in mind. One of the ways Nevada OSHA is funded is through grants from the federal government. On the enforcement side, they receive about $1 million in grant money to help supplement their budget. It is important to remember that any modifications made to Nevada OSHA could affect our status as a plan state and thus the money granted by the federal government. Historically, we believe the Nevada OSHA is underfunded given the broad range of things they are asked to do. Although increased funding is unlikely during this biennium, due to the budget crisis, there is a funding mechanism for the Nevada OSHA: fines. We have repeatedly seen a relaxation of fines as you go through the review process. If there were less relaxation in the fines, the Nevada OSHA could have more funding.

CHAIR HORSFORD:
The enforcement piece is important as well as recognizing the State's role in maintaining the safety and health of its industries and workers. There has been some recommendation to shift all of this responsibility to the federal government, but there is a State role we have to keep in mind.

We will open the hearing for B/A 101-1013, the Nevada Attorney for Injured Workers (NAIW).

<u>B&I-NV Attorney for Injured Workers</u> – Budget Page B&I-206 (Volume II)
Budget Account 101-1013

NANCYANN LEEDER (Nevada Attorney for Injured Workers):
The NAIW represents injured workers by appointment of the Appeals Office or the Department of Industrial Relations Administrator by performing the myriad tasks necessary to ensure the worker can obtain a full and fair hearing regarding his entitlement to workers' compensation benefits. The NAIW receives no revenue from the General Fund; the sole source of funding is the Workers' Compensation and Safety Fund. The budget consists of all the reductions seen in the other budgets and two enhancements: the first is decision unit E-710 for replacement computer equipment; the second is decision unit E-711 for replacement software. Both of these replacements are within the Department of Information Technology (DoIT) schedule.

E-710 Replacement Equipment – Page B&I-209

E-711 Replacement Equipment – Page B&I-210

There is an unfunded section, decision unit E-999. Funds are requested for earthquake safety equipment, interpreting expenses (Exhibit N) and an increase in the contracted price for security services. I have requested technical adjustments for these last two items, but the Budget Division has not had a chance to act on this request.

E-999 Unfunded – Page B&I-211

CHAIR HORSFORD:
As we have no more business before this Committee, and there is no further public comment, we are adjourned at 11:35 a.m.

RESPECTFULLY SUBMITTED:

____
Patricia O'Flinn,
Committee Secretary

APPROVED BY:

____
Senator Steven A. Horsford, Chair

DATE:______________________________

____
Assemblyman Mo Denis, Chair

DATE:______________________________