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MEMBERS PRESENT: Vice Chairman Hickey  
Mr. Bergevin  
Mr. Brady  
Mr. Coulter  
Mr. Glover  
Mrs. Hayes  
Mr. Horn  
Mr. Marvel  
Mr. Rhoads  
Mr. Robinson  
Mr. Vergiels  
Mrs. Westall

Chairman Bremner was excused

ALSO PRESENT: Bill Bible, Fiscal Analyst; Judy Matteucci, Deputy Fiscal Analyst; Mike Alastuey, Deputy Budget Director; Mr. Joe Nusbaum, NIC; Mr. Richard Bunker, Gaming Control Board

Vice Chairman Hickey called the meeting to order at 8:05 a.m.

Nevada Industrial Commission

Mr. Joe Nusbaum, Chairman of NIC, distributed a handout (EXHIBIT A) to the committee and pointed out that the state insurance fund is actuarially sound with sufficient monies reserved to cover every liability of the fund. Mr. Nusbaum said a compliance audit by the Legislative Auditor and an Advisory Board of Review as mandated by the 1979 Legislature had been accomplished during the 1979-81 biennium. He added that a major recommendation of the Advisory Board was to reorganize NIC by splitting the insurance and regulatory functions and restore state regulation in one agency. This recommendation, which is now being drafted in bill form, provides for a successor to NIC's insurance operation which is called the State Industrial System, a public corporation solely providing workers compensation insurance, consulting safety services and rehabilitation services. Additional comments by Mr. Nusbaum are contained in EXHIBIT B.

Mr. Hickey referred to the Governor's Task Force study and asked why it was recommended that 100 positions be eliminated from the NIC budget. Mr. Nusbaum noted that when the Task Force made the recommendation, NIC had 611 filled positions out of 711 budgeted positions and assumed that the unfilled positions were unnecessary. Mr. Nusbaum said that NIC responded to this recommendation by reducing 25 positions from the initial proposed budget submitted to the Budget Office, 37 positions in the NIC administration budget are being held pending recommendations from the Advisory Board and the Legislative Auditor on the assessment of work load, and 13 positions are being transferred to the Rehabilitation Center. Mr. Hickey asked for an explanation of the remaining 25 positions. Mr. Nusbaum said the 25 positions were authorized, but unfilled. He added that the Task Force assumed that if 100 positions were vacant, they were not needed.

Mr. Hickey asked how many positions were vacant at the present time. Mr. Nusbaum said he would provide the committee with that information.

In response to Mr. Glover's question on the turnover rate at NIC, Mr. Nusbaum said that overall the rate is comparable to other state agencies, but a high turnover rate does exist in the area of "Safety Inspectors." Additionally, Mr. Glover asked if NIC has complied with the rules and regulations of the State Personnel Division in the selection of employees. Mr. Nusbaum said that NIC has hired attorneys and doctors without aid from State Personnel. Mr. Glover referred to the high turnover rate that exists in the Safety Inspector area and noted that according to information he has received, the reason is due to poor management, not the pay scale.

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Mr. Horn asked for detailed information on the number of vacancies at the present time as opposed to the number that are intended to be filled or are in the process of being recruited for. Additionally, Mr. Horn referred to the Task Force recommendation that would merge the 8 existing sections of the division into 4 sections and asked if steps have been taken to implement that recommendation. Mr. Nusbaum said that, in response to a recommendation by the Advisory Board, the agency is implementing an alternative reorganization structure. Mr. Horn asked Mr. Nusbaum to provide the committee with a detailed organizational chart.

In response to a question from Mr. Horn on the existing surplus, Mr. Nusbaum said that at the conclusion of the current fiscal year there would be \$42 million in surplus for contingencies. Additionally, Mr. Horn questioned that \$42 million was an excessive amount to have as surplus. Mr. Nusbaum said that the provision for contingency is currently set at 20% of total premiums. He said private insurance companies usually average 30-50% of total premiums. He said if the provision for contingency is established at 30%, that would provide \$43 million for provision for contingencies and the \$7 to \$9 million over that represents surplus. He said the remaining surplus can be returned to policyholders either as a dividend or by reductions in the following years' premium. He further noted that the decisions relating to the surplus are to be made at a public hearing scheduled for the next several months. Mr. Horn asked when the dividend would be paid and Mr. Nusbaum said if the dividend is declared, it would be paid in October of 1981. In response to Mr. Horn's question on what amount of money is expected to be generated this year, Mr. Nusbaum said that the underwriting profit or loss will be very little. He said the surplus for the last several years has been produced by investment income which has been abnormally high and added that \$10 million would be a likely guess.

Mr. Horn referred to the Task Force recommendation to reduce the public information activities to \$50,000 and asked if this recommendation had been accomplished. Mr. Nusbaum said that the Task Force recommended that NIC reduce the public information budget from \$500,000 to \$50,000. Mr. Nusbaum said the \$500,000 was budgeted based on a report that NIC should be improving its public assistance information but no program was ever implemented. He added that before the Task Force made the recommendation to reduce the public relations budget, the agency had already reduced its PR budget to \$50,000. Mr. Hickey pointed out that the line item in the budget for advertising and public relations for the coming biennium totals \$149,000. Mr. Nusbaum said that \$50,000 is budgeted for "media" type advertising.

Mr. Vergiels requested more detail on the procedure used to arrive at the projected amounts of the commission income and surplus. Mr. Nusbaum said he would provide that information.

Mr. Robinson referred to the program statement which reflects insurance and investment counsel fees and asked if they were contained in the budget as line items. Mr. Nusbaum said these expenditures are not reflected as line items. Mr. Alastuey commented that these fees are an insurance related expense and reduces the overall fund balance but is not reflected as part of the administrative budget.

Mr. Robinson noted the increase in their insurance cost from \$307,000 to \$611,000 and asked for an explanation. Mr. Nusbaum explained that the increase is due to the substantial increase in insurance rates. Mr. Robinson asked if a doubling of the investment counsel's fees as shown in the program statement was reasonable. Mr. Nusbaum said that based upon recommendations from the Advisory Board of Review and the consulting actuary, and upon review of the performance of the existing investment manager, NIC has expanded to 3 investment managers and that was the reason the costs had risen. He said the existing managing firm was retained to handle fixed income, a second firm was hired for equities and one firm was retained to manage a mixed account of equities and fixed incomes. He noted that investment counsel fees are only 2 1/2% of investment income. In response to

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Mr. Robinson's question on the amount of reserve invested in stocks, Mr. Nusbaum said that approximately 20% is invested in stocks depending on market conditions and that the maximum allowed by law is 30%.

Mr. Robinson asked why \$21,692 more than authorized was paid on the declared dividend. Vice Chairman Hickey asked Mr. Nusbaum to provide that information to the committee.

Mr. Vergiels asked why drug prescriptions for NIC claimants are higher than drugs for the private sector. Mr. Nusbaum said that a margin to cover the costs of fraudulent claims is built into the costs of prescription drugs.

Mr. Vergiels further noted that a standard checkpoint should be initiated to stop the fraud in this area. Mr. Nusbaum said pharmacists have the option of calling NIC to verify if a claim has been filed before providing the drugs. He noted that all pharmacy bills are reviewed by a review board (3 contract pharmacists) to determine if any charges are excessive. Mr. Vergiels asked Mr. Nusbaum to provide him with a list of the maximum amounts paid by NIC on various drugs in order to compare the figures with various drug stores.

Mr. Robinson expressed his concern that perhaps NIC was not getting full value from investments by retaining Scutter & Clark as investment counselors in light of the fact the Public Employees Retirement System's investment income increased substantially when they changed from Scutter & Clark to a new firm. Additionally, Mr. Robinson requested the percentage amount of investment dollars being handled by Scutter & Clark. Mr. Nusbaum noted that Scutter & Clark was doing a poor job on the investment equities and because of that the investment equities have been transferred to another investment counselor.

Mr. Horn noted the estimated \$52 to \$62 million surplus projected for the biennium and asked if consideration had been given to reducing the contribution rates. Mr. Nusbaum said that a portion of the surplus has to be retained for provision for contingency; however, it should be noted that much of the surplus is due to investment increases resulting from the increased interest rates. He said each year the premium rates are set to recover the cost of the insurance for the next year and new rates will be set in May 1981.

Mr. Nusbaum said that due to the large number of vacancies within NIC, the spending in the current year for personnel will be approximately \$1 million less than was budgeted. Mr. Nusbaum referred to EXHIBIT A which details the administrative expenditures for the coming biennium.

Mr. Robinson asked for an explanation of the reduction of 11 word processing machines to 8 for fiscal year 1982-83 as reflected under the "Equipment" line item. Mr. Nusbaum said that a data processing change is being implemented and the decline is reflected in the cost of the claims system.

Mr. Robinson additionally questioned the ratio of counselors and nurses at both the Reno and the Las Vegas locations. Mr. Nusbaum said the greater number of nurses at Reno is due to the fact that the hospital is located there.

Vice Chairman Hickey referred to information that revealed that the Rehabilitation Center in Las Vegas was operating at only 10% of capacity. Mr. Nusbaum said the estimated capacity of the facility is 250 and at present, 115 people are utilizing the facility.

Mr. Horn questioned the agency's request for 5 1/2 new positions in lieu of the fact that there were 100 positions unfilled. Mr. Nusbaum said he would file a report on the number and nature of the present vacancies. Additionally, Mr. Horn asked for an explanation of the previous statement whereby Mr. Nusbaum said

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that many expenses are not in the administration budget. Mr. Nusbaum said that approximately 10% of the costs of running the "insurance business" represented by the industrial commission reflected in administrative budget.

Mr. Nusbaum outlined the new positions requested and noted that they are related to work load projections.

Mr. Glover asked what steps have been taken by NIC in regards to the MX missile project. Mr. Nusbaum said that the emphasis would be placed on locating a new field office depending on the final location of the project.

Mr. Glover asked if the number of new employees required to handle the influx has been anticipated. Mr. Nusbaum said the greatest impact on NIC will be in the area of increased growth of businesses.

Vice Chairman Hickey asked for an explanation of the "Salary Savings" figure. Mr. Alastuey said the salary savings is the difference between the computerized figures by the Budget Office and the manually computed projections by NIC. Mr. Bible asked for an estimate of the salary savings over the next biennium.

Mrs. Hayes asked why contract attorneys in Las Vegas are paid more than attorneys in Carson City. Mr. Nusbaum said the attorneys in Carson City were newer employees and lower on the pay scale. Additionally, he said it is more difficult to hire attorneys in Las Vegas and they command a higher pay scale.

Mr. Horn asked for an explanation of the increase in "Host" expense from \$1,751 to \$7,000. Mr. Nusbaum said a new marketing unit will utilize this allocation in a "public relations" capacity in meetings, communication expense, etc. Mr. Horn asked for written detail of this requested appropriation. Additionally, Mr. Horn questioned the increase in vehicle expense from \$79,000 to \$208,000. Mr. Nusbaum said much of the increase is reflective of the higher gasoline costs. Mr. Tom Farrah, Budget Analyst, explained further that the agency has 94 authorized vehicles. He said their fleet now has only 81 vehicles and they are leasing the remainder and that they intend to buy 17 new vehicles in the upcoming biennium. He said because of the increase in fleet size, costs will go up in the coming biennium. He continued that higher gasoline prices (\$1.82 a gallon) were also estimated in the vehicle operation line item.

Mr. Horn asked for an explanation of the \$212,000 appropriation requested for the line item "Bad Debts." Vice Chairman Hickey said that in the interest of time, Mr. Nusbaum would be requested to return at a later meeting. Vice Chairman Hickey asked Mr. Nusbaum to respond in writing to Mr. Horn's question and asked committee members to make their additional information requests at this time.

Mr. Glover asked for a list of all persons who are assigned a motor pool car on a 24-hour basis.

Vice Chairman Hickey asked for justification of the "Public Relations" expense line item.

Mr. Robinson asked for a categorical breakdown of the actual contract services for 1979-80 and the projected contract services for the coming biennium.

Mr. Nusbaum said he would provide all the information to the committee.

#### GAMING CONTROL BOARD

Mr. Richard Bunker, Chairman of the Gaming Control Board, presented to the committee several slides depicting the increased productivity of the agency as a result of a complete reorganization of the Gaming Control Board. Included on the charts were the numbers for the applications filed and are as follows: Junket Representatives for 1979 were 450 and for 1980, 732; Equity Applications

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for 1979 were 125 and for 1980, 105; Key Employee Applications for 1979 were 256 and 244 applications were filed in 1980; and Manufacturers and Distributors filed 20 applications in 1979 and 21 in 1980.

Vice Chairman Hickey asked the percentage increase in adults as a result of additional personnel allotted to the Gaming Control Board by the 1979 Legislature. Mr. Bunker said that the present staff of 80 auditors produced 52 audits during fiscal year 1979-80. He added that it is difficult to equate an audit to one individual because it takes several people in the audit process. Vice Chairman Hickey questioned how a judgment on the need of additional personnel could be made if there was no scale to judge production.

In addition, Vice Chairman Hickey asked the result of the 1899 completed investigations in fiscal year 1979-80. Mr. Bunker said that number of people were either licensed or denied, which would include key employees, new corporations, new equity holders, or new junket representatives.

#### One-Shot -- Electronic Gaming Testing Devices

Mr. Bunker referred to the requested appropriation of \$56,802 for equipment for an electronics lab and one new position. He added that NRS 463.670 states that the Gaming Control Board inspect all electronic and mechanical devices that are used in gaming. At the present time, in order to comply with this statute, it is necessary to contract out of state at a cost of \$3,500 per inspection. He said that fee is paid by the applicant of any particular piece of equipment that has been submitted for inspection. Mr. Bunker went on to say that last year the Control Board required 56 inspections and that he estimated should this one-shot be approved, over the next biennium \$185,000 would be generated from the inspection fees and be returned to the General Fund. He said the one-shot is contained in S.B. 339.

Mr. Robinson asked what is involved in an investigation of the electronic devices. Mr. Bunker said an inspection is necessary to insure the randomness of opportunity, pay-back possibilities and to check the possibility of cheating. Additionally, Mr. Robinson asked if each machine was checked and Mr. Bunker said that only the prototype was inspected. However, he further noted that once the machines are in operation, a random inspection is sometimes made on them.

Mr. Glover asked what the time span is from the time a prototype is introduced until the time it is in use in a casino. Mr. Bunker said depending on work load, within a 6 month period.

Mr. Vergiels asked if, upon determination of a machine malfunction, the casino has the equipment to double check the problem. Mr. Bunker said that in most cases, the manufacturer is responsible for malfunctioning machines. In addition, Mr. Vergiels asked if the new electronic machines were more or less difficult to inspect for malfunctions. Mr. Bunker said that the electronic machines are easier to monitor for cheating.

#### \* One-Shot -- Automated Information System

Mr. Bunker went on to say that the second one-shot requested appropriation is for the implementation of a management information system in the amount of \$972,518. He added that the basic elements of the proposed system are the records processing, text processing, document distribution, and an added security aspect that would be provided to gaming control. He further pointed out that while costs of increasing personnel are on the rise, the costs of this technology are decreasing. He said that projections are that at the end of the 5th year after the implementation of the management information system, a cost savings in the amount of \$282,000 in data processing costs would be experienced.

\* S.B. 340

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Vice Chairman Hickey asked if the projected savings of \$282,000 would be reflected in a decrease in personnel. Mr. Bunker said personnel is one area of reduction, however, in projecting the Central Data Processing charges over the next 5 years versus the cost of the proposed equipment, just those figures alone reveal the approximate savings of \$282,000. He added that the costs from CDP are astronomical in relation to the degree of service that is being experienced.

In response to Mr. Hickey's question on what percentage of data coming into the Gaming Control Board is confidential, Mr. Bunker said that at least 90% of all information is treated as being confidential.

Vice Chairman Hickey asked for a detailed explanation of the projected \$282,000 savings that will be experienced with the implementation of the new management information system.

Mrs. Hayes asked if security information was shared between local licensing entities and the Gaming Control Board. Mr. Bunker said the primary problem with the sharing of any information is that the Board has to have assurances that the information will be kept secure.

Mr. Robinson asked Mr. Bunker if it was the Gaming Control Board's opinion that once an investigation is complete and a license granted at the state level that additional investigation by local entities is really necessary. Mr. Bunker said that an investigation by the Gaming Control Board is thorough and complete. Additionally, Mr. Robinson asked if previously there were circumstances whereby a license granted by the Gaming Control Board was revoked due to information revealed from an investigation by the local licensing agency. Mr. Bunker noted that in a few instances the local licensing agency has gone contrary to the state recommendation but never has a license been revoked due to outside information not uncovered by the state investigation.

#### GAMING CONTROL BOARD

Mr. Bunker continued by noting that a major problem in the agency is the stabilization of movement of senior gaming control personnel to the industry or other collateral industries that relate to gaming. He said that the salary averages requested increase for the professional staff, is 15.44% per employee. Vice Chairman Hickey questioned the possibility of placing a control on the movement of personnel from the Gaming Control Board to gaming industry related jobs by not allowing them to enter the industry for 2 years after they terminate with the state. Mr. Bunker said that he could not answer that question as it may be "self-serving." In response to Vice Chairman Hickey's question on the turn-over rate within the agency, Mr. Bunker said that in fiscal year 1979, the turn-over rate was 18.5%, fiscal year 1980, it was 32.9% and in fiscal year 1981, thus far, the rate is 13.2%. Mr. Bunker pointed out that the turn-over rate has tapered off because of the possible increase in salaries. Vice Chairman Hickey noted that the turn-over rate in the classified employees was 60% according to a report generated from personnel trends.

Mr. Horn referred to the budget and noted the unclassified position of a Senior Agent Auditor with a salary of \$14,137 and asked for an explanation of the requested increase of that salary to \$29,000. Mr. Bunker said the requested increase in the position's salary reflects the maximum annual salary that could be paid to the incumbent. He said in so doing, flexibility is allowed within the agency to move employees "up the ladder." He said there will be considerable salary savings because only a few instances of senior management positions would salaries be increased from the present amount to this top salary.

Mrs. Hayes asked if the turn-over rate has increased with many people going to the gaming industry in New Jersey. Mr. Bunker stated that in the last two years no one from the Gaming Control

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Board has moved to New Jersey to work in the gaming industry. Additionally, Mrs. Hayes asked if salaries paid to Gaming Control Board personnel are comparable to those paid in New Jersey. Mr. Bunker said that Nevada's salaries are less than New Jersey. In addition, he noted that more concern should be directed to the movement of personnel to the gaming industry in Nevada rather than in New Jersey as the salaries for Gaming Control Board personnel are sizeably lower than the salaries for the casino industry and the public accounting sector.

Mr. Robinson noted that a possible conflict of interest could be avoided by placing a specified time limit on employment by a Gaming Control Board employee going to work for anyone that had a voice in licensing. Mr. Bunker said that many problems could arise if such a restriction were implemented. He said that consideration would be given to paying the salary of those people under the restriction until the time that they could return to work since the state would be restricting their ability to make a living. Mr. Robinson noted that it could be a constitutional issue if such a law were passed whereby a person would be restricted from gaining employment; however, he thought there is also an ethical question on this issue.

Mr. Bunker pointed out to the committee that legislation has been requested that would remove everyone in the agency, but the three members of the Gaming Control Board, from the unclassified salary bill. He said over the past 10 years there has developed an approximate \$3,000 disparity in the raises granted to classified employees versus the unclassified employees.

In response to Vice Chairman Hickey's question on the number of vacancies in the agency, Mr. Bunker said that of the 11 existing vacancies, 7 are in the investigative process or are in the finalization process of letters of employment.

Mrs. Westall asked if the Gaming Control Board went through State Personnel to hire new employees. Mr. Bunker said that the processing of classified employees (clerical) is handled through State Personnel, however, the professional staff positions are not processed by State Personnel.

Mr. Bunker said that the Governor is recommending 44 new positions for the Gaming Control Board. In addition to those 44 positions, the agency is presenting a priority list of 16 new positions which are not recommended by the Governor at this time due to funding constraints. He said in the first year of the biennium, the cost would be \$483,000 for a total cost of \$1,026,496.

Mr. Bunker noted that with the existing staff the Gaming Control Board cannot, as mandated by the Legislature, complete an investigation within 90 days.

Mr. Robinson asked how many of the pending investigations have exceeded the 90 day limit. Mr. Bunker said that of the 1,102 total, approximately 900 to 1,000 cases have exceeded the 90 day period. In response to Mr. Robinson's question on the number of cases being investigated over 1 year, Mr. Bunker said that, particularly in the area of "junket" representatives, many are over 1 year old because, at the present time, the Gaming Control Board does not have an ongoing junket investigative program. Mr. Robinson asked what areas are given priority. Mr. Bunker noted that priority is given to equity applications because of its importance in bringing new money into the state.

Mr. Horn asked Mr. Bunker which of the additional 16 positions requested by the agency are of the most importance. Mr. Bunker said that the original budget submitted to the budget office included a request for 90 new positions. He said these 90 had been cut back from the original agency request of 139 positions. He stated that the Gaming Control Board needs the 44 positions recommended by the Governor and the additional 16 not recommended and any other positions that the Legislature feels can be funded.

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Mr. Glover asked the number of license applicants that have filed a Writ of Mandamus against the Gaming Control Board for failing to complete the investigation in the 90 day time period. Mr. Bunker noted that when an application is filed the applicant is asked to sign a waiver of the 90 day stipulation. In one instance, however, the waiver was not signed and a Writ of Mandamus was filed. Mr. Bunker pointed out that the "Key Employee" applicant that is being investigated is allowed to work so the time lag presents no restriction on his employment. Additionally, Mr. Glover asked how long it took for Frank Sinatra to acquire his license. Mr. Bunker said that license was issued in 13 months.

Mrs. Hayes asked if Mr. Bunker would recommend the repeal of the 90 day stipulation. Mr. Bunker said that legislation is being proposed that would eliminate the 90 day investigation requirement.

Mr. Hickey asked for an explanation of the appropriation requested for training. Mr. Bunker said that \$46,500 of the total \$150,000 requested for training is reflected in the need to maintain the C.P.A. certification program for the auditing staff. The additional monies are necessary for training the investigative staff.

Mr. Robinson asked for a categorical break down of the actual contract services for 1979-80 and the projected contract services for the coming biennium. Mrs. Hayes asked for an explanation of the microfilm project category. Mr. Bunker said that the microfilm project will reduce the back log of files in the office to microfilm and will eliminate some storage costs.

He said that after the Gaming Control Board has been on the information system and after all the old files are microfilmed, this project will not need to be continued.

Mrs. Westall referred to Mr. Bunker's previous statement whereby it was noted that a "Key Employee" applicant is allowed to work while the investigation is being completed and asked why Mr. Sinatra was not allowed to work. Mr. Bunker said a "Key Employee" applicant that has been previously denied a license is not allowed to work until the investigation is complete.

Mrs. Westall asked if now that Frank Sinatra has been licensed as a "Key Employee" does the Gaming Control Board have the ability to prevent him from being licensed as an owner. Mr. Bunker said the Gaming Control Board was not deluded to the fact that in conducting the investigation they were probably conducting an equity investigation. He added that in the event new material may come forward in an update of his application, then certainly anything is possible but based on the present facts and the present investigation as conducted the possibility would be that the same result would happen, Mrs. Westall asked if up to now had most of the denials been because of "association." Mr. Bunker said that is a whole different subject and would take a long time to explore.

Mrs. Westall asked for an explanation of the public relations and advertising expenses. Mr. Bunker said that he would provide the committee with that information.

Mr. Brady asked what precautions are taken by the Gaming Control Board to reduce the incidence of cheating in casinos. Mr. Bunker noted that a new division was implemented as a result of the over all reorganization of the agency (Special Investigations and Intelligence Bureau) that has the responsibility of investigating the existing licensees. Mr. Bunker said that historically there had been no unit in gaming control that took care of the investigations of those people who had already been licensed. He added that the significance of that is the fact that all of the federal cases that have been brought against licensees in the State of Nevada have been against present licensees; yet gaming control never had any specific division to handle that. There is an exposure for any type of illegal activity anyone would want to perpetuate in moving money through pervayors and it has been found

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that to be the case in some instances and that is why the Board asked for additional auditing powers to handle the financial records of pervayors and/or lease holders of licensed gaming establishments.

Vice Chairman Hickey asked for an explanation of the Special Projects and reports line item.

Vice Chairman Hickey requested, due to time constraints, that the Gaming Control Board return at a later date and adjourned the meeting at 10:50 a.m.

I. Administrative Budget

A. Overview of State's Workers' Compensation and Safety Programs

1. Soundness of Fund
2. Benefits, premiums and administrative cost
3. Progressive program

B. Problem Solving

1. Legislative Auditor's compliance audit
2. Advisory Board of Review for NIC's report
3. Reorganization proposal
  - a. State Industrial Insurance System
  - b. Department of Industrial Relations

C. NIC's Workload Increase FY1976-1980

1. CLAIMS

<u>FY</u>	<u>Number of Claims</u>	<u>Annual Increase</u>	<u>Claims Involving Disablement</u>	<u>Annual Increase</u>
76	75% { 42,600 45,900 57,200 67,100 74,400	8%	74% { 8,000 10,300 12,400 14,600 15,300	17%
77		25%		20%
78		17%		18%
79		11%		5%
80				

<u>FY</u>	<u>Claim Disbursements</u>	<u>Annual Increase</u>	<u>Medical Payments</u>	<u>Annual Increase</u>
76	76% { 61,980 65,019 69,030 70,860 79,125		97% { 149,347 173,340 191,643 254,457 294,066	
77		3%		16%
78		28%		11%
79		20%		33%
80		11%		16%

2. EMPLOYER ACCOUNTS

<u>FY</u>	<u>Number of Active Accounts</u>	<u>Annual Increase</u>
76	68% { 16,048 17,310 21,936 25,192 26,921	
77		8%
78		27%
79		15%
80		3%

3. POSITIONS

<u>FY</u>	<u>Budgeted Positions</u>	<u>Positions Filled (average)</u>
76		45% { 325 343 396 439 471
77	372	
78	499	
79	504	
80	539	

4. TOTAL ADMINISTRATIVE EXPENSE

<u>FY</u>	<u>State Insurance Fund Administrative Expense Paid/Premium</u>	
76	6,385/ 53,627	= 11.9%
77	7,634/ 72,468	= 10.5%
78	8,859/ 92,492	= 9.6%
79	11,193/108,374	= 10.3%
80	12,450/122,967	= 10.1%

5. NIC COST OF ADMINISTRATIVE OVERHEAD COMPARED TO  
PRIVATE INSURANCE CARRIERS

<u>FY</u>	<u>Cost of Administering Claims Paid During Fiscal Year</u>	<u>NIC Exp. Ratio*</u>	<u>Stock Co. Exp. Ratio to Written*</u>	<u>Mutual Co. Exp. Ratio to Written**</u>
76	2,237/ 53,626	= 4.2%	18.7%	14.2%
77	2,605/ 72,468	= 3.6%	18.0%	12.5%
78	3,543/ 92,492	= 3.8%	17.9%	11.9%
79	4,445/108,374	= 4.1%	17.8%	11.8%
80	5,490/122,987	= 4.5%	--	--

\*These costs for NIC are equivalent to Private Industry's Expense Ratios. They represent only the expense associated with policy service.

\*\*Percentages shown are for calendar years not fiscal years.

Source: Best's

D. NIC's Vacancies

E. NIC's Budget Process

**F. Budget Assumptions**

1. Inflation: 15% FY1981, 10% FY1982 and 1983
2. Recession in 1980-81, recovery beginning in 1981-82
3. Self-insurance claims losses: 5% per year cumulative for 3 years (15% total)
4. Claims load due to recession, self-insurance and business recovery: FY1981, 69,470; FY1982, 70,495; FY1983, 70,998

**G. Budget Totals**

1. Positions

<u>FY1981</u>	<u>FY1982</u>	<u>FY1983</u>
577.75	566.25	566.50

2. Major categories of increase

	<u>1981-82</u>	<u>1982-83</u>
1980-81 budget level	\$15.7 million	\$15.7 million
Merit increases, other payroll	0.3	0.6
Salary adjustments (14% & 9%)	2.0	2.7
Travel increases	0.1	0.1
Operating expenses increases	0.4	0.8
Depreciation, transfers, etc.	<u>0.2</u>	<u>0.3</u>
Totals	\$18.7	\$20.2

**II. Rehabilitation Center Budget**

A. Background and Planning of the Center

B. Utilization of Center

1. Measures of utilization

2. Obstacles to full utilization

C. Advisory Board's study of utilization

1. Alternatives considered

2. Recommendations

D. Relationship of budget to patient load and fees

	<u>1980-81</u> <u>Budgeted</u>	<u>1981-82</u> <u>Estimated</u>	<u>1982-83</u> <u>Estimated</u>
Positions	152	174	184
Expenditures	3,852,370	4,564,553	5,062,545
Revenues from fees	1,925,594	2,738,732	3,796,908
Fees as % of expenditures	50%	60%	75%
Average daily patients	126	210	242

E. Major categories of increases

	<u>1981-82</u>	<u>1982-83</u>
1980-81 Budget level	\$3.9 million	\$3.9 million
Salary adjustments (14% & 9%)	.5	.7
Merit increases & fringe benefits	.2	.4
New positions	.3	.4
Operating Expenses	<u>.2</u>	<u>.4</u>
Total	\$5.1	\$5.8

NIC BUDGET PRESENTATION

BY JOE E. NUSBAUM

MARCH 1981

EXHIBIT B

NIC BUDGET PRESENTATION

BY JOE E. NUSBAUM, CHAIRMAN

Mr. Chairman, if I may, I would like to spend a few minutes talking about the current status of NIC and its programs and my assessment of some of the problems.

After I was appointed chairman one year ago, I soon became aware that NIC had serious problems with claimants and policyholders and consequently with the Legislature. I was puzzled by this because in many respects, Nevada's workers' compensation program and safety program appear to be advanced in comparison with many other states.

The State Insurance Fund is actuarially sound with money reserves sufficient, in the judgment of professional actuaries, to cover every liability of the Fund. Nevada lawmakers can be justifiably proud of this somewhat rare condition which must be due in part to their resistance of the temptation to put the cost of today's benefits on future generations.

By any measure, Nevada's benefits are good and Nevada's premiums and administrative costs are low. This is a record that many states look to with envy as they see their premium rates increasing year after year and the cost of administration, including heavy cost of litigation, spiraling upward. Nevada has not had a rate increase for four years.



The statutory policies governing workers' compensation and safety are in a number of ways ahead of many states. The Nevada workers' compensation system with its lifetime reopening and rehabilitation rights emphasizes incentives for injured workers to return to work. As the Advisory Board of Review has commented, Nevada appears to be in the forefront with its rehabilitation efforts. Within the last year NIC has split out its safety consulting services from its safety regulation functions and has been building a professional staff to provide loss control advice to policyholders.

Nevertheless there were and are problems and I was determined to get on top of them. Fortunately, I had two special avenues for dealing with these problems, both of which were provided by the 1979 Legislature.

One was the compliance audit of NIC. I saw this as an opportunity to get the benefit of a professional staff independent of NIC reviewing in detail its operations and reporting on the deficiencies. I was not disappointed in the report of the Legislative Auditor. The work was thoroughly and well done. We agreed with practically every recommendation made by the Legislative Auditor, have already corrected a number of the deficiencies and are working on the others.

The other opportunity was the Advisory Board of Review for NIC created by the 1979 Legislature. I was determined to work closely with this citizen board in carrying out its legislative mandate to review the organization and operation of NIC and to make recommendations to the Legislature, the Governor and NIC. Jointly we prepared a list of studies of what we saw as some major problem areas and proceeded to tackle them

one by one. As with the Legislative Auditor's report, the Advisory Board issued a thorough and thoughtful report with many recommendations for improvements in the organization, operation and statutory policy for workers' compensation and safety.

Perhaps the single most important recommendation of the Advisory Board is for a major reorganization of NIC's present functions. Due mainly to the introduction of self-insurance and the division of the regulation of workers' compensation between two state agencies, NIC and the Insurance Commissioner, the Advisory Board has recommended a splitting of NIC's insurance functions and its regulatory functions and restoring state regulation to one agency. This recommendation which is now being drafted in bill form provides for a successor to NIC's insurance operation called the State Industrial Insurance System, a public corporation solely providing workers' compensation insurance, consulting safety services and rehabilitation services. The System would be run by a board of directors and a general manager.

The regulatory functions of NIC, under a plan approved by the Governor, would be combined with the functions of the Labor Commissioner into a new Department of Industrial Relations. This department would be responsible for workers' compensation compliance, occupational safety and health, mine inspection and employment standards. The workers' compensation compliance division would be the regulatory agency for all insurers, including the State Industrial Insurance System and self-insured employers. Certification of self-insurers and rate review would remain with the Commissioner of Insurance.

The reports of the Legislative Auditor and the Advisory Board of Review are proof that there are problems in administration. However, other than the organizational problem, none of them appear to be basic deficiencies in policy, financing or administration. They all appear to be subject to relatively easy changes in internal organization and administrative practices.

What I have found somewhat puzzling is that NIC was well aware of a number of its deficiencies. When I asked why we were not doing those things we knew we should be doing to provide better services for policyholders and claimants, I was told that we never seem to get caught up on the basic processing of claims and policies.

A look at the work load increases over the past four years shows dramatically why NIC has been playing a catch up game. From fiscal year 1976 to fiscal year 1980, the total number of claims increased from 42,600 to 74,400 per year an increase of 75% in four years. In claims involving disablement, that is claims involving compensation payments as well as medical payments, the increase was 74%. In total claims disbursements, that is compensation payments, the increase was 76%. In the number of individual medical payments, the increase was 97%. These various measures of claims load are the best indicators of the total volume of work of NIC and they indicate at least a 75% increase in the workload in a four-year period. On the employer accounts side, the number of active accounts increased from about 16,000 to almost 27,000, a 68% increase.

I believe that many of the problems noted by the Legislature in 1979, by the Legislative Auditor in 1980 and by the public hearings we conducted with claimants and policyholders in 1980 were caused by this tremendous increase in work load and the inability of NIC to foresee these increases and to staff to accommodate them. As an indication of the way NIC fell behind, the average number of filled positions in NIC's administrative budget increased from 325 positions in fiscal years 1976 to 471 positions in fiscal year 1980, an increase of 45%. Throughout this period, NIC was playing catch up.

NIC's total administrative budget including the safety functions of Occupational Safety and Health and Mine Inspection, in my judgment should be around 12% of the premiums paid in order to do an adequate job of providing services to claimants and policyholders. In fact, by this measure, the administrative budget dropped from 11.9% in 1976 to 9.6% in 1978 and last year was at 10.1%. The budgeted level for the current year is just below 12%.

Another means of testing NIC's administrative expenses is to use the insurance industry method of computing administrative overhead expense as a percentage of premiums. Under this method, the safety enforcement costs and the direct cost of administering claims are excluded. By that measure NIC's costs have been around 4% per year. During the same period, using the same measure, the average administrative cost of stock companies nationwide has been around 18% and of mutual companies around 12% to 13%. While we can expect that a state fund's cost will be less than that of private carriers, a three-to-one relationship is, in my

judgment, abnormally low. If we were providing adequate services, the relationship should be more like two-to-one.

Fiscal year 1981, the current year, should have been NIC's catch-up year. The claims volume has stabilized and, in fact, has fallen some due to the business recession and the introduction of self-insurance and NIC budgeted adequate staff and other expenses to properly handle our work. For a number of reasons, however, we have not in fact caught up. Some of these reasons are:

1. An outgoing chairman who did not want to commit the agency to major staff additions during his final months and an incoming chairman who wished to maintain the status quo until he had an opportunity to assess the needs of the agency.
2. Major studies and analyses by the Advisory Board of Review and the Legislative Auditor which could impact on the budget and the staffing patterns.
3. An executive policy that restricted the filling of positions, particularly new positions.

The result has been that NIC has continued to have a large number of vacant positions in its budgeted staff level. However, if we are to carry out the recommendations of the Legislative Auditor and the Advisory Board and are to provide a satisfactory level of service for claimants and policyholders, we must proceed with the filling of most of these positions.

The one remaining uncertainty is the reorganization plan which will involve some major changes in staffing patterns and classifications, though not changes in the total number of positions.

Before getting to the figures, let me make one comment about NIC's budget procedures. Most of my background has been in state government budgeting and executive agency administration. I was alarmed when I came into NIC, to find a very different budget system from what I was accustomed to. Until the 1979 Legislative Session, the budget adoption process in NIC was an annual process involving a matter of weeks or a month at most, prior to the beginning of each fiscal year. Likewise, the approved budget was handled in a simplified fashion. I must admit, however, that the final result was not overspending as I expected but, in fact, quite the contrary. In its day-to-day operations, the agency was extremely conservative in authorizing increased cost. Year after year many budgeted positions were not filled and expenditures were typically 10% or more below the budgeted level. I suspect this conservative attitude also played a part in NIC's failure to keep up with the work load increases.

While I do not want to change the prudent approach to spending, we are attempting now to do a better job of biennial planning and are working on a more adequate system of administering the budget so that we have more current and complete information on the status of the budget month by month. We did spend three solid months in the development and analysis of this budget and I hope the first effort by NIC in biennial budget planning is reflected in the quality of information available

you. We do not have the budget administration system in place yet, but these changes are in progress.

I should note certain assumptions that were made in preparing the budget. We assumed inflation of 15% for the current fiscal year over FY 1980 and 10% per year for the next two years. In terms of employment in Nevada and its impact on our claims load, we assumed the recession would follow the pattern of the 1974-1975 recession with recovery beginning in 1981-82. We assumed self-insurance would have a 15% impact on our claims load at the cumulative rate of 5% per year. It now looks like the effect of self-insurance will be greater than 5% at least in the first year. In total we estimated the claims load would drop slightly below 70,000 this year and increase modestly to about 71,000 by the second year of the next biennium due to the normal growth offset of self-insurance losses.

We did not include MX in any of our assumptions.

Now let me get to the specifics of the budget.

The budget we adopted last summer for the current fiscal year provides for a total spending level for administration of \$15.7 million and a staffing level of 577.75 positions. Because of the large number of vacancies, particularly in the first half of this year when we were awaiting the reports of the Legislative Auditor and the Advisory Board and because of the Governor's policy on filling of vacancies, our spending in the current year will fall \$1 million to \$1.5 million below the

budgeted level. The spending level proposed for next year is \$18.7 million covering 566.25 positions. This dollar figure includes approximately \$2 million for the Governor's recommended 14% salary adjustment. The spending level proposed for the second year of the biennium is approximately \$20.2 million, covering 566.50 positions. This includes approximately \$2.7 million for salary adjustments. Though the number of positions drops in the first year of the biennium and stays stable in the second, these total positions for the two years of the next biennium represent some further reductions in the existing positions and a few new positions.

In a very broad way the Administrative Budget can be summarized as follows:

	<u>1981-82</u>	<u>1982-83</u>
1980-81 budget level	\$15.7 million	\$15.7 million
Merit salary & fringe benefits	0.3	0.6
Salary adjustments (14% & 9%)	2.0	2.7
Travel increases	0.1	0.1
Operating expenses increases	0.4	0.8
Depreciation, transfers, etc.	<u>0.2</u>	<u>0.3</u>
Totals	\$18.7	\$20.2

Mr. Chairman, at this point I can either stop to respond to questions on the Administrative Budget or proceed with general comments on the Rehabilitation Center budget.