

SPECIAL PURPOSE AGENCIES

Special purpose agencies have a specialized function or have a different statutory relationship to the Executive Branch of government than most state agencies. This group includes the Public Employees' Retirement System, which serves both state and local governments, the Public Employees' Benefits Program, the Office of the Military and the Office of Veteran's Services.

The Governor has recommended General Fund support for special purpose agencies totaling \$7.1 million, a 25.4 percent increase over FY 2006-07, and \$8.2 million in FY 2008-09, which represents an additional increase of 14.9 percent. Amounts recommended from all funding sources total \$179.6 million, a 1.9 percent decrease from FY 2006-07, and \$219.2 million, an increase of 22.1 percent over FY 2007-08, after interagency transfers are deducted.

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

The Public Employees' Retirement System (PERS) provides retirement, disability and death benefits to long-term employees. PERS includes employees of Nevada counties, cities, school districts, state government, and miscellaneous public employers. The retirement system's budget is not subject to the Budget Act or to review by the Budget Division, but is included in The Executive Budget for review by the Legislature. The requested level of funding is provided through an administrative assessment charged to each member and benefit recipient. PERS is requesting a total of \$10.8 million in FY 2007-08 and \$10.6 million in FY 2008-09 to support its operations.

The Public Employees' Retirement System actuary has determined that retirement contribution rates for regular members in the Employer Pay Plan should be increased 0.75 percent; regular members in the Employee/Employer Pay Plan will not be affected. For all police/fire members (Employee Pay and Employee/Employer Pay), the actuary recommends a 1.50 percent increase in the contribution rates. Since the employer and employee are each responsible for one-half of any increase or decrease in the retirement contribution rate, The Executive Budget recommends funding to increase retirement contributions by .375 percent of payroll for regular members in the Employer Pay Plan; these members will receive a decrease of .375 percent in compensation effective July 1, 2007. For police/fire members, The Executive Budget recommends funding to increase retirement contributions by 0.75 percent of payroll. Police/fire members will be responsible for paying the remaining 0.75 percent of payroll, which will result in a decrease of 0.75 percent in compensation for police/fire members effective July 1, 2007.

PUBLIC EMPLOYEES' BENEFITS PROGRAM

The Public Employees' Benefits Program (PEBP) provides various insurance coverages for state employees, retirees, and their dependents, if the participant chooses to cover

their dependents. In addition, any non-state public agency can join the program to provide coverage for their employees, retirees and dependents. The insurance coverage includes health, life, accidental death and dismemberment, travel accident and long-term disability. Other voluntary optional insurance coverages are available for those participants who elect to purchase additional coverage.

The largest portion of the program is health insurance, which includes dental, vision, mental health, substance abuse and prescription coverage; the majority of this health coverage is self-insured. The program does allow participants to elect to be covered by a Health Maintenance Organization (HMO) rather than the self-funded plan. Accidental death and dismemberment, travel accident, long-term disability, and life insurance benefits are fully insured by outside carriers.

The program continues to experience positive financial results and anticipates ending the current biennium with the Incurred But Not Reported (IBNR) claims liability fully funded at \$24.0 million, the Rate Stabilization/Catastrophic Reserve funded at \$24.1 million and excess reserves of \$24.5 million. The recommendations included in The Executive Budget anticipate the spending-down of the excess reserves over the upcoming biennium, leaving IBNR fully funded at \$29.7 million and the Rate Stabilization/Catastrophic Reserve funded at \$28.5 million.

The Executive Budget for the 2007-09 biennium recommends expenditures (not including reserves) in the amounts of \$307.5 million for FY 2007-08 and \$363.2 million for FY 2008-09, for a total of \$670.7 million, in comparison to the legislatively-approved amount for the 2005-2007 biennium of \$475.5 million. The recommendations include the continuation of the current program, growth in the number of participants, medical trend and inflation, and two significant enhancements: partial pre-funding of the liability resulting from the implementation of the Governmental Accounting Standards Board (GASB) Statement 43 and a smaller enhancement dealing with the cardiac wellness and disease management program.

Partial Pre-funding of the GASB Liability – During 2004, GASB issued Statements 43 and 45. These accounting standards, which must be implemented by the state in fiscal year 2008, establish standards for the measurement, recognition and display of Other Post Employment Benefit (OPEB) costs and the liabilities related to those costs. For the state, those costs are the subsidies provided to retirees for their health insurance.

Currently the state provides the funding necessary for these retiree insurance subsidies on a pay-as-you-go basis, and only the current cash outlay for those subsidies is reported. To partially address the liabilities recorded through the implementation of GASB Statement 45, the Governor is recommending the reclassification of the Retired Employees' Group Insurance account to an irrevocable trust fund with a recommendation to initiate partial pre-funding of the retiree group insurance subsidy. The initial funding recommendations provide for \$25 million in each year of the 2007-2009 biennium which would be funded through the Retired Employee Group Insurance Assessment.

Cardiac Wellness and Disease Management Program – During FY 2006-07, the program initiated a test phase (30 participants) in a “Cardiac Wellness program.” This test phase was designed to identify administrative issues that cause barriers to participant utilization of the program’s wellness benefit. The Public Employees’ Benefits Program indicates that this test phase demonstrated successful reductions in risk factors. The Governor recommends approximately \$3.0 million each year of the upcoming biennium to expand this effort into a pilot project of 1,000 active and 250 retired participants. The Public Employees’ Benefits Program plans to include a formal study of the costs and outcomes from the pilot project in order to determine the effectiveness if such a program were available for all participants.

Funding for the Public Employees’ Benefits Program is provided by the state contribution for active and for retired employee participants, premiums paid by plan participants, miscellaneous revenue (application fees from entities wishing to participate, pharmacy rebates, charges for copies) and Treasurer’s interest. While there is no direct General Fund support in this account, a significant portion of the state contribution for state employees and retirees is funded through accounts supported with General Funds.

The following table identifies the state contribution rates for state employees since FY 2001-02 and includes the Governor’s recommendations for the upcoming biennium. It is intended that this funding provide for 90 percent of the cost of the employees’ insurance.

| FY 2002 | FY 2003 | Oct. 2002* | FY 2004 | FY 2005 | FY 2006 | FY 2007 | FY 2008 Gov. Rec. | FY 2009 Gov. Rec. |
|----------|----------|------------|----------|----------|----------|----------|-------------------|-------------------|
| \$357.50 | \$384.50 | \$465.78 | \$495.68 | \$558.07 | \$481.19 | \$500.20 | \$557.30 | \$626.16 |
| (3.1%) | 7.6% | 21.1% | 6.4% | 12.6% | (13.8%) | 4.0% | 11.4% | 12.4% |

*Mid-year increase approved in Senate Bill 3 of the 18th Special Session

Medical trend and inflation (as recommended by the program’s consultant/actuary) is included in the recommended budget in the amount of \$51.8 million for FY 2007-08 and \$79.5 million for FY 2008-09. These inflationary increases include medical (including prescriptions) – 11.4 percent, Dental – 7 percent, and fully-insured products inflated per the contractual agreement through the expiration of the contract (beyond the end of the contract, inflation is included at 10 percent per year).

RETIRED EMPLOYEE GROUP INSURANCE

The Retired Employee Group Insurance program was designed to defray a portion of health insurance premiums for employees who retire from state service and continue to participate in the state’s group insurance plan. Funding for the program is through payroll assessments to state agencies to cover the costs of the state subsidy. This assessment (as a percent of budgeted salaries) is recommended to increase from 2.03 percent in FY 2006-07 to 4.29 percent in FY 2007-08 and 4.50 percent in FY 2008-09. This increase is designed to provide for both the ongoing subsidy

expenses for the 2007-2009 biennium and the \$25 million per year partial pre-funding amount discussed above.

Nevada Revised Statute 287.046 provides that retirees who retired prior to January 1, 1994, are entitled to 100 percent of the base subsidy amount to be applied against the total premium for insurance coverage. Retirees who retired on or after January 1, 1994, are entitled to 25 percent of the base subsidy amount for five years of service and 7.5 percent for each additional year of service, up to 20 years of service which entitles them to 137.5 percent of the base subsidy amount.

The following table identifies the monthly base subsidy amounts for retirees since FY 2001-02 and includes the Governor's recommendations for the upcoming biennium. For the upcoming biennium, it is intended that this subsidy provide for 59 percent of the cost of the insurance.

| FY 2002 | FY 2003 | Oct. 2002* | FY 2004 | FY 2005 | FY 2006 | FY 2007 | FY 2008 Gov. Rec. | FY 2009 Gov. Rec. |
|----------|----------|------------|----------|----------|----------|----------|-------------------|-------------------|
| \$202.34 | \$217.84 | \$263.89 | \$280.78 | \$316.26 | \$321.27 | \$336.97 | \$365.34 | \$410.48 |
| (3.1%) | 7.7% | 21.1% | 6.4% | 12.6% | 1.6% | 4.9% | 8.4% | 12.4% |

*Mid-year increase approved in Senate Bill 3 of the 18th Special Session

INTERIM STUDY OF THE PUBLIC EMPLOYEES' BENEFITS PROGRAM

Assembly Concurrent Resolution No. 10 of the 2003 Legislative Session directed a four-year interim study of the operations of the Public Employees' Benefits Program. The committee has completed the study and developed recommendations addressing the following topics:

- Composition of the PEBP Board;
- Local governmental entity participation in the program;
- Administration of the program;
- Medicare-eligible participants; and
- Collection of retiree subsidies from local governmental entities.

None of the recommendations of the committee would substantially impact the budget of the Public Employees' Benefits Program.

OFFICE OF THE MILITARY

The Office of the Military is responsible for the supervision of the military affairs of the state, which includes both state and federal roles. The primary state mission is to respond to emergency situations such as civil or national disasters. The primary federal mission is to provide combat-ready reserve forces for the United States Armed Forces. The department consists of three major units: Army National Guard, Air National Guard, and the Office of the Adjutant General. There are 15 federally recognized mobilization Army Guard units and 19 Air Guard units throughout the state.

Funding for the office is provided primarily through federal funding and state General Fund appropriations. For the 2007-09 biennium, The Executive Budget recommends state General Fund at \$8.7 million, which reflects an increase of 76.1 percent over the \$5.0 million approved by the 2005 Legislature. The Governor recommends funding of \$3.5 million over the 2007-09 biennium to develop and implement a Project ChalleNGe program in Nevada. Funding is recommended at \$1.7 million in state General Funds and \$1.8 million in federal funds. The Project ChalleNGe program is a National Guard community-based education program and consists of a five-month “quasi-military” residential phase and a one-year post-residential phase. One of the goals of the program is for students to obtain a General Education Diploma (GED). The Governor also recommends \$415,000 in each fiscal year of the biennium to continue the Patriot Relief Fund. Assembly Bill 580, as approved by the 2005 Legislature, created the Patriot Relief Account as a special account in the state General Fund and appropriated \$500,000 in each fiscal year of the 2005-07 biennium to the account. The funding in the account is utilized to pay premiums on group life insurance, to fund textbooks for courses of study in higher education, and to provide monetary relief from economic hardships experienced by members of the Nevada National Guard who have been called into active service.

OFFICE OF VETERANS’ SERVICES

The Office of Veterans’ Services is responsible for assisting veterans and their families in obtaining services, compensation and government benefits to which they are entitled. In addition, they are responsible for serving as the court-appointed guardian for those veterans determined by the courts as unable to handle their own financial matters. The office is also responsible for supervising the operation and maintenance of the two State Veterans’ Memorial Cemeteries located in Boulder City and Fernley and for overseeing the operation of the State Veterans’ Home in Boulder City. The nine-member Nevada Veterans’ Services Commission advises the Executive Director and the Deputy Executive Director of the office and also makes recommendations to the office, the Governor and the Legislature regarding aid or benefits to veterans.

For the 2007-09 biennium, the Governor’s budget recommends General Fund support of \$3.4 million in the Office of Veterans’ Services account which represents a 47.4 percent increase over amounts approved for the 2005-07 biennium. The budget recommends three state-funded capital improvement projects for the Boulder City Veterans’ Cemetery, including project C23, which recommends \$1,242,173 for off-site street improvements; project M11, which recommends \$57,931 to replace the HVAC system; and project P05, which includes \$408,625 to plan for expansion.

VETERANS’ HOME

The Nevada State Veterans' Home is a 180-bed, 24-hour skilled nursing facility located in Boulder City. The home admitted its first residents in August 2002 and provides a wide range of residential and support services for veterans, their spouses, and Gold Star residents (parents who had a child that died while in military service). While total

funding recommended in The Executive Budget for the 2007-09 biennium is recommended to increase by 20.9 percent over the amount legislatively approved for the 2005-07 biennium, the recommended General Fund support represents a 17.2 percent decrease from the legislatively-approved amount for the 2005-07 biennium. The recommended budget includes funding to accommodate a projected census of 175 residents in each year of the 2007-09 biennium, compared to the average daily census of 170 residents year-to-date in FY 2007.

The Veterans' Home currently has 181 FTE existing positions, and the budget recommends five new FTE positions for the 2007-09 biennium. In addition, the Governor recommends \$741,561 in General Fund support for a two-grade salary increase for all nursing positions employed by the home. The budget also recommends a \$650,610 General Fund one-shot appropriation for the home for the repair of showers, carpet replacement, new computers, appliances, resident tubs and other equipment. A General Fund one-shot appropriation of \$261,991 is also recommended for the Department of Administration's technology improvement budget for computer hardware, software and installation of a replacement billing and medical records system for the Veterans' Home. The budget also includes funding for CIP C25, a central dining room for the home. The 2005 Legislature approved funds to construct the dining facility. Delays in the receipt of federal funding allocated to the project resulted in the project incurring additional costs. The \$1,633,736 in state and federal funds recommended in project C25 would provide sufficient funding to complete the dining facility.

Nevada Legislative Counsel Bureau
Source of Funds Summary
2007 - Fiscal Report

| | 2005 - 2006 Actual | 2006 - 2007 Work Program | 2007 - 2008 Governor Recommended | % Change | 2008 - 2009 Governor Recommended | % Change |
|---|-----------------------|-----------------------------|--|--------------|--|--------------|
| SPECIAL PURPOSE AGENCIES | | | | | | |
| PUBLIC EMPLOYEES RETIREMENT SYSTEM | | | | | | |
| PUBLIC EMPLOYEES' RETIREMENT SYST | 7,850,324 | 8,275,218 | 10,761,650 | 30.05 | 10,645,763 | -1.08 |
| GENERAL FUND | 103,302 | | | | | |
| BALANCE FORWARD | 200,000 | 200,000 | 200,000 | | 200,000 | |
| OTHER FUND | 7,547,022 | 8,075,218 | 10,561,650 | 30.79 | 10,445,763 | -1.10 |
| TOTAL-PUBLIC EMPLOYEES RETIREMEN | 7,850,324 | 8,275,218 | 10,761,650 | 30.05 | 10,645,763 | -1.08 |
| GENERAL FUND | 103,302 | | | | | |
| BALANCE FORWARD | 200,000 | 200,000 | 200,000 | | 200,000 | |
| OTHER FUND | 7,547,022 | 8,075,218 | 10,561,650 | 30.79 | 10,445,763 | -1.10 |
| PUBLIC EMPLOYEES BENEFITS PROGRAM | | | | | | |
| PUBLIC EMPLOYEES BENEFITS PROGRA | 212,061,732 | 327,435,800 | 362,638,489 | 10.75 | 421,433,803 | 16.21 |
| BALANCE FORWARD | -21,869,524 | 94,069,356 | 72,579,189 | -22.85 | 55,155,353 | -24.01 |
| INTER AGENCY TRANSFER | 168,904,620 | 177,705,462 | 223,081,663 | 25.53 | 268,969,233 | 20.57 |
| OTHER FUND | 65,026,636 | 55,660,982 | 66,977,637 | 20.33 | 97,309,217 | 45.29 |
| ACTIVE EMPLOYEES GROUP INSURANCI | 90,609,437 | 150,002,962 | 186,549,641 | 24.36 | 224,920,970 | 20.57 |
| BALANCE FORWARD | -1,288,820 | 1,288,820 | 1,288,820 | | | -100.00 |
| INTER AGENCY TRANSFER | 91,898,257 | 148,714,142 | 185,260,821 | 24.58 | 224,920,970 | 21.41 |
| RETIRED EMPLOYEE GROUP INSURANC | 28,479,026 | 28,991,320 | 61,532,022 | 112.24 | 94,048,263 | 52.84 |
| BALANCE FORWARD | | | | | 25,000,000 | |
| INTER AGENCY TRANSFER | 28,479,026 | 28,991,320 | 61,532,022 | 112.24 | 69,048,263 | 12.22 |
| TOTAL-PUBLIC EMPLOYEES BENEFITS P | 331,150,195 | 506,430,082 | 610,720,152 | 20.59 | 740,403,036 | 21.23 |
| BALANCE FORWARD | -23,158,344 | 95,358,176 | 73,868,009 | -22.54 | 80,155,353 | 8.51 |
| INTER AGENCY TRANSFER | 289,281,903 | 355,410,924 | 469,874,506 | 32.21 | 562,938,466 | 19.81 |
| OTHER FUND | 65,026,636 | 55,660,982 | 66,977,637 | 20.33 | 97,309,217 | 45.29 |

Nevada Legislative Counsel Bureau
Source of Funds Summary
2007 - Fiscal Report

| | 2005 - 2006 Actual | 2006 - 2007 Work Program | 2007 - 2008 Governor Recommended | % Change | 2008 - 2009 Governor Recommended | % Change |
|-----------------------------------|-----------------------|-----------------------------|--|--------------|--|--------------|
| SPECIAL PURPOSE AGENCIES | | | | | | |
| OFFICE OF MILITARY | | | | | | |
| MILITARY | 9,998,583 | 11,770,962 | 13,948,731 | 18.50 | 16,921,615 | 21.31 |
| GENERAL FUND | 2,217,557 | 2,633,398 | 3,559,376 | 35.16 | 4,286,405 | 20.43 |
| BALANCE FORWARD | -489,048 | 554,685 | | -100.00 | 15,803 | |
| FEDERAL FUND | 6,807,301 | 8,193,136 | 10,036,201 | 22.50 | 12,209,152 | 21.65 |
| INTER AGENCY TRANSFER | 1,462,773 | 389,743 | 353,154 | -9.39 | 410,255 | 16.17 |
| PATRIOT RELIEF FUND | | | 415,000 | | 415,000 | |
| GENERAL FUND | | | 415,000 | | 415,000 | |
| NATIONAL GUARD BENEFITS | 16,308 | 20,000 | 25,250 | 26.25 | 25,250 | |
| GENERAL FUND | 16,308 | 20,000 | 25,250 | 26.25 | 25,250 | |
| ADJUTANT GENERAL CONSTRUCTION FI | 80 | 35,488 | 35,908 | 1.18 | 36,408 | 1.39 |
| BALANCE FORWARD | 80 | 34,988 | 35,408 | 1.20 | 35,908 | 1.41 |
| OTHER FUND | | 500 | 500 | | 500 | |
| TOTAL-OFFICE OF MILITARY | 10,014,971 | 11,826,450 | 14,424,889 | 21.97 | 17,398,273 | 20.61 |
| GENERAL FUND | 2,233,865 | 2,653,398 | 3,999,626 | 50.74 | 4,726,655 | 18.18 |
| BALANCE FORWARD | -488,968 | 589,673 | 35,408 | -94.00 | 51,711 | 46.04 |
| FEDERAL FUND | 6,807,301 | 8,193,136 | 10,036,201 | 22.50 | 12,209,152 | 21.65 |
| INTER AGENCY TRANSFER | 1,462,773 | 389,743 | 353,154 | -9.39 | 410,255 | 16.17 |
| OTHER FUND | | 500 | 500 | | 500 | |
| VETERANS' AFFAIRS | | | | | | |
| COMMISSIONER FOR VETERANS' AFFAIR | 1,920,159 | 2,123,722 | 2,543,890 | 19.78 | 2,712,356 | 6.62 |
| GENERAL FUND | 1,112,841 | 1,176,771 | 1,648,202 | 40.06 | 1,727,972 | 4.84 |
| FEDERAL FUND | 717,962 | 748,500 | 762,750 | 1.90 | 798,750 | 4.72 |
| INTER AGENCY TRANSFER | | 122,332 | 55,438 | -54.68 | 106,384 | 91.90 |
| OTHER FUND | 89,356 | 76,119 | 77,500 | 1.81 | 79,250 | 2.26 |
| VETERANS' HOME ACCOUNT | 13,023,305 | 13,548,470 | 15,682,773 | 15.75 | 16,677,481 | 6.34 |
| GENERAL FUND | 58,239 | 1,839,699 | 1,461,598 | -20.55 | 1,712,935 | 17.20 |
| BALANCE FORWARD | -73,205 | | | | | |
| FEDERAL FUND | 4,044,137 | 4,047,838 | 4,686,648 | 15.78 | 4,699,393 | .27 |
| INTER AGENCY TRANSFER | 3,893,857 | 3,149,233 | 4,277,531 | 35.83 | 5,211,763 | 21.84 |
| OTHER FUND | 5,100,277 | 4,511,700 | 5,256,996 | 16.52 | 5,053,390 | -3.87 |
| TOTAL-VETERANS' AFFAIRS | 14,943,464 | 15,672,192 | 18,226,663 | 16.30 | 19,389,837 | 6.38 |
| GENERAL FUND | 1,171,080 | 3,016,470 | 3,109,800 | 3.09 | 3,440,907 | 10.65 |
| BALANCE FORWARD | -73,205 | | | | | |
| FEDERAL FUND | 4,762,099 | 4,796,338 | 5,449,398 | 13.62 | 5,498,143 | .89 |
| INTER AGENCY TRANSFER | 3,893,857 | 3,271,565 | 4,332,969 | 32.44 | 5,318,147 | 22.74 |
| OTHER FUND | 5,189,633 | 4,587,819 | 5,334,496 | 16.28 | 5,132,640 | -3.78 |
| SPECIAL PURPOSE AGENCIES | | | | | | |
| GENERAL FUND | 3,508,247 | 5,669,868 | 7,109,426 | 25.39 | 8,167,562 | 14.88 |
| BALANCE FORWARD | -23,520,517 | 96,147,849 | 74,103,417 | -22.93 | 80,407,064 | 8.51 |
| FEDERAL FUND | 11,569,400 | 12,989,474 | 15,485,599 | 19.22 | 17,707,295 | 14.35 |

Nevada Legislative Counsel Bureau
Source of Funds Summary
2007 - Fiscal Report

| | 2005 - 2006 Actual | 2006 - 2007 Work Program | 2007 - 2008 Governor Recommended | % Change | 2008 - 2009 Governor Recommended | % Change |
|---------------------------------------|-----------------------|-----------------------------|--|-------------|--|-------------|
| SPECIAL PURPOSE AGENCIES | | | | | | |
| SPECIAL PURPOSE AGENCIES | | | | | | |
| INTER AGENCY TRANSFER | 294,638,533 | 359,072,232 | 474,560,629 | 32.16 | 568,666,868 | 19.83 |
| OTHER FUND | 77,763,291 | 68,324,519 | 82,874,283 | 21.30 | 112,888,120 | 36.22 |
| TOTAL-SPECIAL PURPOSE AGENCIES | 363,958,954 | 542,203,942 | 654,133,354 | 20.64 | 787,836,909 | 20.44 |
| Less: INTER AGENCY TRANSFER | 294,638,533 | 359,072,232 | 474,560,629 | 32.16 | 568,666,868 | 19.83 |
| NET-SPECIAL PURPOSE AGENCIES | 69,320,421 | 183,131,710 | 179,572,725 | -1.94 | 219,170,041 | 22.05 |

