

# The State of the State



Governor Bob Miller

*to the*

67th Session

*of the*

Nevada Legislature



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President Wagner, Speaker Dini, Chief Justice Rose, distinguished justices of the Supreme Court, ladies and gentlemen of the 67th Nevada Legislature, honored guests and fellow Nevadans.

There are winds of change blowing all across America. A new president rallies us to an era of renewed activism in government.

This president challenges us as public servants to a new standard of leadership, asking we address our most serious problems in an honest and straightforward manner, to have the courage to reform and change our government even when it may be difficult or unpopular.

He issues a new call to citizenship asking all Americans to make a commitment to personally participate in finding and implementing tough solutions.

In his inaugural address, President Clinton said, and I quote, "We know we have to face hard truths and take strong steps." That is true for America and certainly has been true for Nevada over these past two years as we have struggled out of the worst recession since the Great Depression.

Twice during these past two years I have had to make hard choices, ordering major budget cuts totalling \$173 million.

I imposed a hiring freeze across state government. Every department and agency was affected. As of today we have 1,452 positions that have either been completely eliminated or are standing vacant.

When it became necessary, state government tightened its belt.

Wall Street's most respected professional financial analysts, Moody's and Standard and Poors, judged our efforts a total success.

During 1991 and 1992 these rating agencies lowered bond ratings on over 800 state and local government bond issues. Meanwhile, three times they reaffirmed Nevada's bond rating, each time reporting it as "stable." They described our response to the budget crisis in glowing terms, calling it "swift and credible," "decisive," "conservative" and "strong."

Early in this session I will need your approval of some of the agonizing budget cutting decisions that I was responsible for making in your absence.

I need you to support and pass my bill that appropriates \$51 million to public schools to cover their continuing revenue deficit. Fortunately, the \$51 million is available without new taxes, the result of savings from our hiring freeze and two rounds of budget cuts.

Included in that supplemental appropriation bill is legislative approval of the 5 percent reduction in school spending needed to make possible the overall budget cutting program ordered last year.

We need to complete the reductions which kept our budget balanced.

Let me take this opportunity to express my appreciation to many of you here tonight, Republicans and Democrats, who put politics aside and spoke in support of the tough budget cutting decisions I was forced to make.

And to those most affected by the cuts in programs and services let me again express the depth of my sorrow and anguish for the load you have been carrying during these difficult economic times.

As I prepared myself for this 1993 Legislative session, and for this message, I was confronted with a mix of emotions. I am saddened and disappointed that I could not approach you today as I have twice before with an ambitious list of new programs, new ideas and enhanced funding to improve existing programs.

But I am resolved to attack our problems, confront the economic realities of Nevada, and take all the necessary steps to insure that whoever stands before you two years from now is facing a healthy economy, a stable and predictable budget in a prosperous state. These are the key elements any chief-executive needs to be progressive and innovative.

There are many issues facing us and much legislation that will be crafted, debated and voted on during this legislative session. I will take part in many if not all of those debates. But tonight there are three main areas I have focused on. I will use every resource I have as Governor to insure legislative approval

and public support in each of these vital areas.

Number One. I am presenting to you a budget which will elate some and disappoint others. But as I stand here today I believe that Nevada's best hope for the future is for us in government to use these next two years to build a sound and stable budget. That means setting strict spending limits, finding more efficient ways to provide better services and allowing Nevadans to achieve their own personal economic recovery without fear of paying higher taxes.

Number Two. I am asking that you endorse and approve my plan for making state government more efficient, more economical and more responsive to our constituents by reorganizing and streamlining our current structure. I am joined by many Nevadans in asking you ladies and gentlemen of the 1993 Legislature to put politics aside and to adopt the belief that no one is being criticized for how state government has worked, but to accept the challenge to make it work better.

Number Three. Quite possibly our greatest challenge is to reform our injured workers insurance program. I am presenting to you a dramatic package to reform SIIS. Let me caution you that there are neither easy answers nor politically safe cures for the system. If we act aggressively today Nevada's injured workers can be guaranteed a system that helps them heal, rehabilitate and re-enter the work place. But at the same time neither employers nor taxpayers should shoulder the unnecessary burden of inefficiency.

Now let us talk about Nevada's economy and my budget plan.

Today, there are signs of a recovery. Employment is up. So are housing sales. Las Vegas is home to over \$2 billion in new destination resort construction. Tax revenues have begun to rebound.

Our state budget continues to be severely strained. School and university enrollments are climbing rapidly, almost as if the economy were in full bloom. At the same time, welfare and Medicaid case loads are climbing fast, as if the recession were still in total control. This combination has driven our state expenses far beyond the reach of these recent tax revenue increases.

We must keep Nevada among the lowest tax burden states in America.

Recently Money Magazine reported Nevadans pay the second lowest taxes in the country. It must remain so.

Now more than ever the obligation we all must accept is to spend money wisely and spend it frugally. I have recommended strict general fund spending limits for every segment of state government.

Except for education, welfare/Medicaid, and our mental health, mental retardation division, every single agency in state government is held to the same or less funding than was authorized for them during this past biennium. Most agencies experience continued reductions.

Our public employees continue to respond to these challenges, handling increased workloads with a decrease in the workforce. I am proud of their dedication.

My goal is to maintain essential services without pulling the rug out from under our economic recovery. Therefore, this must be a hold the line, bare essentials budget.

One area of service continues to be first in our hearts, first in priority: our children.

Each child deserves the best chance, the best opportunities we can possibly offer.

If we are to rebuild America as a world economic leader, we absolutely must adequately fund the growth in our schools, community colleges and universities.

Therefore, while other budgets are held at or below present funding levels, I propose increasing education funding by \$96 million. Let me stress that this increase only insures that we can maintain and meet the costs of existing programs.

Sandy and I are parents of two school age children and care very much about their education. We are also grateful for the good health all three of our children enjoy. These are the first priorities of all parents.

We believe we must help all parents have healthy children. We must pursue preventative care programs. As Governor, my budget will enhance the overall health and well being of Nevada's youngest through new initiatives in pre-natal and maternal health, and family support programs including "Baby Your Baby" and MOMS.

These will improve the quality of life for each child they touch, and they will also return this year's modest investment many times over in the future.

The health and well being of all Nevadans is a priority that demands increased funding in welfare and Medicaid. Despite hard times, we have a responsibility to protect the poor and nurture the ill.

Medicaid services are essential. But increased case loads and a growing list of services the federal government requires we provide have created an almost insatiable, budget busting black hole in our budget. Still, it is our moral and legal responsibility to adequately fund these programs.

To help in that funding, I propose we continue the hospital assessment you passed last year known as the "Medicaid Miracle." This program will help fill the funding deficit in Medicaid by adding \$77 million in federal matching funds.

Even with the use of this federal money, we will have to increase the state's general fund contribution to Medicaid by 32 percent.

We must deal with the very tough and delicate issue of welfare reform.

Nevadans know America became great because we prided ourselves on individual responsibility, each person carving out his or her place in our society and in our economy. Of course, we absolutely must help those who cannot support themselves or their children. Yet we owe each of these people every opportunity to find their own place, standing on their own, working and living in our society.

Welfare has become a system that for many breeds dependency. We must rebuild the system, creating incentives that help families become self supporting again.

If we give a family no more than basic support benefits, they become dependent on us again each succeeding month. The cycle repeats. But if we also offer education, training, and employment experience, we give the head of that family the opportunity to succeed in our economy.

During the coming weeks our human resources administrators and I will present to you programs that create incentives for parents to get back on their feet; incentives for job training and incentives to help their children work successfully in a school environment; incentives to stay on the job, rather than quit to go on welfare.

We have heard the popular phrase many times: workfare not welfare. And that is the thrust of the programs I propose.

I want Nevada's effort to be known for its compassion, and for its commitment to help build self reliant families who live and function with pride. These are good people coping with hard times.

We must remember they need a helping hand, not a heavy hand. But it has got to be a hand up, not just a hand out.

The tight budget situation we face means the state hiring freeze must continue for most or all of the next two years. In fact, my budget, even before reorganization, permanently eliminates 710 positions in the state work force.

And, unfortunately, there will be no pay raises for state workers, teachers and other workers in our schools and university system. These hard working public servants all deserve salary increases. They have dedicated their careers to public service, and have done a great job. However, there just is no money for increases at this time. I cannot propose any increases in light of our most recent economic instability.

I have recommended a modest \$3 million tax increase for slot route operators so that gaming taxes across the state are collected on an equitable basis. But for the general public the budget I have submitted to you proposes there be no new taxes.

One area of taxation needs immediate attention. We must fix the business



license fee.

Two years ago my proposal promised to protect small businesses from the business tax. Unfortunately, the small business exemption I proposed did not make it into law.

I know everybody in this room shares my belief that small businesses are big businesses under construction. I have always intended these growing companies be protected against burdensome taxation.

Today, I recommend we deliver on our commitment to small business. I will bring forth legislation which creates an exemption for all small businesses with four employees or less.

This exemption means that once a business files its one time \$25 registration fee, and as long as it remains with four employees or less, that business will not pay another dime to the state in business license fees. This step alone will exempt nearly 18,000 of our smallest, most fragile businesses from any further payment.

In order to accomplish this small business exemption, I propose we remove the cap which applies to a handful of the state's largest corporations, thus the tax will fall on those who can most afford it.

In addition, I have proposed legislation which will allow businesses with 50 employees or less to provide group health insurance to their employees. This plan allows small businesses to be included in a group health insurance pool thus benefiting from of the state's enormous purchasing power.

This will enable many more businesses and their employees to have access to affordable health insurance.

This budget preparation has been very difficult for me. I do not seek political gain for the seemingly popular label of the fiscal conservative. Nor do I challenge you to read my lips.

What I do know is what I have heard from hard working Nevadans from all corners of this state. Their message to you, and to me, is: Get state



government under control, show us you are spending every tax dollar effectively and efficiently, and prove to us that state programs are working before you ask us to invest more of our tax dollars in state government.

We must show Nevadans that state government can work, even when times are tough.

Holding the line on spending, no new taxes on the general public, maintaining strict spending limits and an across the board hiring freeze are only temporary fixes. Necessary, but temporary. There are many reasons we must look at long term changes in the way we do business in state government.

Foreign gaming. Eight other states have approved casino style gaming. Every state except Hawaii and Utah now have some form of legalized gambling.

Indian gaming. Fourteen states have approved Indian owned and operated casinos within their borders and 12 more are considering approval.

We have no idea what long term impact the proliferation of casino style gaming will have on our economy. Whatever the impact, the effect on state government will be immediate. Gaming and tourism fund over 50 percent of Nevada's state budget.

Furthermore, the rapidly deteriorating California economy will hit us hard. Forty percent of Nevada's tourists come from California, and thousands of Nevada companies depend on a healthy California.

This tight budget and these long term uncertainties mean Nevada must begin to build a state government based on efficiency and accountability. I can tell you from my four years experience serving as Governor that state government is rife with duplication, overlaps, inefficiencies. We cannot leave this issue unaddressed.

Nevada currently has 47 different agencies that report directly to the governor. In addition there are approximately 170 boards and commissions that free float. They set policy and create regulation, yet work through no formal structure in our government.

All together, the Governor's theoretical span of control in this government is about 200 to 1. That is foolish and unworkable.

Last year I empaneled an independent commission, headed by Dr. Kenny Guinn, to look at state government from a business point of view. That commission built a reorganization plan which I strongly endorse, and I intend to do whatever it takes to convince you it is critical to the future of state government.

This reorganization proposal brings state government down to 13 departments, three major boards and four major commissions. All other boards and commissions will report to the governor through various state agencies. This reduces the span of control down to 20 to 1, a more workable ratio for proper review and good management.

There are some very important improvements that can result from your approval of this plan. For example, today businesses have to cope with waves of auditors coming from all over state government. The Insurance Department, Employment Security Department, Taxation Department and State Industrial Insurance System each has a staff of auditors that visit businesses and repeatedly audit essentially the same books.

It is time for us to merge all of the tax audit teams and tax collecting responsibility into one agency! One stop shopping.

The merger works. Business will have more confidence in us and government will be more efficient. We can immediately save nearly \$4 million in unnecessary duplication.

On another front it makes absolutely no sense for us to have seven different payroll systems. The Department of Transportation, Public Employees Retirement System, State Industrial Insurance System, our University System, the Legislative Counsel Bureau, the State Controller and State Personnel all have their own individual systems. In the science of computer payroll systems today, bigger is cheaper. We must reorganize and merge some of these systems.

There is no better example of how out of control Nevada's bureaucracy has become than to look at our purchasing system. When our state employees

report they can go to any major retail business supply store and make purchases for less money than through our state system, something is very wrong.

Elimination of the red tape and delay makes them more productive, it also immediately saves us \$1.2 million.

I could give you many other examples. But the bottom line is: If you approve this reorganization plan as submitted, we save \$27 million over this first biennium and reduce the bureaucracy by an additional 266 positions.

Let us set the priorities, tighten our belts where we can, eliminate waste, reorganize, cut the cost of bureaucracy by \$27 million and use that money to provide services for families who need it, elderly who have earned it and our children who deserve it.

With your help, 1993 will be a year of genuine restructuring and reform. One area that cries out for reform and improvement is Nevada's elections process.

There is no greater insult to people who go to the polls on election day, with justifiable pride in their citizenship, only to be denied their right to vote. Campaign hijinks and election department inefficiencies have turned the voting booth into a place of confusion, intimidation and manipulation.

If we are to build confidence in our leadership and our government, we have got to make the voting booth safe again.

Assemblywoman Myrna Williams' Elections and Procedures Committee will take the leadership role in this vitally important area. They will consider a comprehensive plan that includes increasing the accountability of election departments; increasing penalties for election fraud; and eliminating intimidation at the voting booth.

We must encourage all Nevadans to vote. To do so we must not only eradicate fraud, but the perception of fraud.

The first step in this process must be eliminating commissions paid to voter registrars: There must be no more bounties.

Finally, our most serious challenge. Everybody in this chamber is aware the State Industrial Insurance System, SIIS, is officially insolvent. As of June 30, 1992, SIIS' real debt was \$2.2 billion.

That debt equals all state government spending for education, prisons, welfare, Medicaid, state workers' salaries, environmental protection, senior citizen services, every single part of all general fund spending for not one, but two full years!

SIIS will be penniless as of December 1995. At that time it will leave us a full \$3 billion debt for which there is no revenue. If we do not act forcefully and quickly, it will force a tax payer bailout. I hope we have learned our lesson from the savings and loan crisis.

Each day, the problem gets worse. SIIS' premium revenues for this year alone fall \$394 million short of SIIS' own expenses.

As Governor I declare this a "state emergency." Emergency steps must be taken now before it becomes a financial calamity.

I believe SIIS reform will be effective only when sweeping changes have been made. The only way to implement these changes fairly is to ask all groups to share in the sacrifice.

Injured workers will have less freedom in selecting doctors, more stringent demands made on them to go back to work. Their appeal rights will be altered. Still, our commitment to providing quality care will continue.

Medical providers. Primary care physicians and medical specialists of all kinds must accept a fixed, capped rate.

Chiropractors, as other specialists, will no longer be able to deliver service without first having that patient referred to them by a primary care physician.

Attorneys. I recommend we place a conservative cap on private attorneys fees relative to workers compensation cases.

Businesses, too, are going to have to do their share. They will be

expected to pay a deductible for each of their workers who has a legitimate SIIS claim.

They will have to take responsibility for establishing and running a meaningful safety program in their workplace. And the plain fact of the matter is that all the changes proposed for SIIS may still not be enough to protect against future rate increases.

Another group that will make sacrifices: existing SIIS employees. All management and professional workers will be made more accountable for making the reforms you approve during this session successful. If they cannot do the job they face the very real possibility they will be demoted or even fired.

Each day of the session these halls will fill with people who want to solve the problem, on someone else's back. They will have good stories about why they must be left untouched.

But at night as you go home, on the weekends as you visit your home neighborhoods, look carefully at each person you meet. They are the workers who could be without coverage in the future, the business leaders soon to be forced out of business by skyrocketing payments, people who, except for you, are voiceless in this process.

The bottom line for SIIS reform is that everybody must participate. Everybody must step up to the plate, or we will not be able to avert a real disaster.

The first component of my proposal is:

> > Managed care. Everybody generally agrees on this principle. I believe we must go further than others have gone. Treatment offered by primary care physicians and medical specialists will be performed only as part of a managed care package under an exclusive contract awarded to multiple provider networks resulting from a bid and negotiation process.

The managed care and utilization review program will include capped charges, controls over the type and amount of care, preapproval requirements for all major procedures, and strict cost saving standards.

**> > Next, an early return to work program, requiring all employees and employers, to work aggressively to get workers back to work as soon as possible.**

**> > The system must operate more like a private insurance company and less like a state bureaucracy. It should be removed from the State Budget and Personnel Acts. We should establish clearer and stronger regulatory controls over SIIS by the same insurance commissioner who fully regulates privately held companies.**

**> > We must centralize the fraud unit; consolidate within the Attorney General's office all authority to investigate and prosecute fraud; establish a secret witness, 1-800 hotline for insurance fraud; and provide strict penalties for violators.**

**> > The entire rehabilitation system should be transferred to the state division of rehabilitation.**

**There are many other issues covered in my program including removing stress once and for all as a compensable injury; and allowing groups of companies to establish self insurance programs.**

**All of these are essential. Equally essential is the necessity to have tight control of this system. There is one more major change.**

**I believe the management of our workers compensation program can no longer, given the emergency state of the system, be handled by an appointed board. Therefore, I recommend we abolish the Board of Directors for SIIS and place the responsibility under the direct control of the Governor.**

**People expect their Governor, as the state's chief administrator, to take personal command of an emergency. While I do not relish this task, I accept it as my obligation and my responsibility, and I must have the tools to effectively manage this crisis.**

**I do not want our legacy, yours and mine, as elected leaders of this state's government, to be one of bankruptcy. Only if you and I pull together, work hard together, agree together on the toughest medicine of all, can we hope to be**

successful.

The financial viability of our state's businesses, continued protection of Nevada's workers, the stability of our state government are all at risk.

We are facing many challenges. We will meet each one because the heart and the will are here because we will always put the interests of the great people of this incredible, dynamic state above partisanship or sectionalism.

I believe you are sacrificing time away for your families, your jobs and your businesses because you want to help build a prosperous, progressive, energetic state.

The time has come for us to reach deep inside our hearts to find the courage, and deep into our souls to find the conviction, to serve those who have placed their trust in us as leaders of this great state.

Thank you very much.