MINUTES OF THE MAY 23, 2008
MEETING OF THE
INTERIM FINANCE COMMITTEE
LEGISLATIVE COUNSEL BUREAU
Carson City, Nevada

Chairman Morse Arberry Jr. called a special meeting of the Interim Finance Committee (IFC) to order on May 23, 2008, at 3:05 p.m. in Room 4401 of the Grant Sawyer State Office Building in Las Vegas, Nevada. Exhibit A is the agenda. Exhibit B is the guest list. All exhibits are available and on file at the Fiscal Analysis Division of the Legislative Counsel Bureau.

Committee members and other persons attended or observed the meeting in various locations and provided testimony through a simultaneous videoconference conducted at one of the following locations:

Grant Sawyer State Office Building
Room 4401 Main Conference Room
555 East Washington Street
Las Vegas, Nevada

NSHE System Administration
Main Conference Room
2601 Enterprise Road
Reno, Nevada

Greenhaw Technical Arts Building #118
Great Basin College
1500 College Parkway
Elko, Nevada

Legislative Building
Room 3137
401 South Carson Street
Carson City, Nevada

COMMITTEE MEMBERS PRESENT:

Assemblyman Morse Arberry Jr., Chairman, Las Vegas
Senator William J. Raggio, Chairman, Reno
Senator Bob Beers, Las Vegas
Senator Barbara Cegavske, Las Vegas
Senator Bob Coffin, Las Vegas
Senator Steven Horsford for Senator Titus, Las Vegas
Senator Bernice Mathews, Reno
Senator Dean Rhoads, Elko
Assemblywoman Barbara E. Buckley, Las Vegas
Assemblyman Marcus Conklin for Assemblywoman McClain, Las Vegas
Assemblyman Moises (Mo) Denis, Las Vegas
Assemblywoman Heidi S. Gansert, Reno
Assemblyman Tom Grady, Carson City
Assemblyman Joseph P. (Joe) Hardy, Las Vegas
Assemblywoman Ellen Koivisto, Las Vegas,
Assemblywoman Sheila Leslie, Reno
Assemblyman John Oceguera for Assemblyman Hogan, Las Vegas
Assemblyman John W. Marvel, Carson City

Assemblyman David R. Parks, Las Vegas
Assemblywoman Debbie Smith, Carson City
Assemblywoman Valerie E. Weber, Las Vegas

COMMITTEE MEMBERS EXCUSED:

Senator Dina Titus
Assemblyman Joseph Hogan
Assemblywoman Kathy McClain

OTHER LEGISLATORS:

Senator Joyce Woodhouse, Las Vegas

LEGISLATIVE COUNSEL BUREAU STAFF:

Lorne Malkiewich, Director, Legislative Counsel Bureau
Brenda J. Erdoes, Legislative Counsel
Eileen O'Grady, Chief Deputy Legislative Counsel
Mark W. Stevens, Fiscal Analyst, Assembly
Gary L. Ghiggeri, Fiscal Analyst, Senate
Steve Abba, Principal Deputy Fiscal Analyst
Connie Davis, Interim Finance Committee Secretary
Becky Lowe, Fiscal Analysis Division Secretary

A. ROLL CALL.

Lorne Malkiewich, Director, Legislative Counsel Bureau, and Secretary of the Interim Finance Committee, called the roll and announced that a quorum of each House was present.

B. WORK PROGRAM REVISION IN ACCORDANCE WITH NRS 353.220(5)(b) – INFORMATIONAL ONLY – REQUIRED EXPEDITIOUS ACTION WITHIN 15 DAYS.

Department of Transportation – Administration – FY 08 – Transfer of $200,000.00 from the Personnel Services category to the Airplane Operations category to provide adequate authority for unanticipated repairs required for the Department's Commander Aircraft. Requires Interim Finance approval since the amount transferred to the Airplane Operations category exceeds $50,000.00. **Work Program #C33515**

Mark Stevens, Assembly Fiscal Analyst, Fiscal Analysis Division, Legislative Counsel Bureau, advised the Committee members that the work program listed under Item B was requested pursuant to NRS 353.220(5)(b), which required expeditious action within 15 days of receipt. The work program, provided for informational purposes only, did not require action by the Committee because the 15-day time limit had expired.

There were no questions relative to Item B.

*C. WORK PROGRAM REVISIONS IN ACCORDANCE WITH NRS 353.220(5)(b) – REQUIRES EXPEDITIOUS ACTION WITHIN 15 DAYS.

Andrew Clinger, Director, Department of Administration, appeared before the Committee to request approval of the 320 work program revisions submitted under Item C. Mr. Clinger advised that approval of the work program revisions would transfer funding to implement a portion of the 4.5 percent agency budget reductions that totaled approximately $236 million over fiscal year 2008 and fiscal year 2009.

Mr. Clinger referenced a document entitled, *Work Program Summary – May 23, 2008 – Interim Finance Committee*, (Exhibit C), and highlighted the following 4.5 percent reductions by departments and/or agencies:

$55.2 million	Department of Education - approximately $30 million in work program revisions not yet received
$46.5 million	Nevada System of Higher Education
$14.2 million	Health Care Financing and Policy
$18.5 million	Mental Health and Developmental Services
$4.5 million	Child and Family Services
$6.7 million	Department of Corrections
$4.3 million	Department of Public Safety
$56.0 million	Department of Transportation - funding for Interstate-15 and the Blue Diamond Highway

Mr. Clinger pointed out that during the January and April 2008 Interim Finance Committee (IFC) meetings, the Committee approved 27 work programs for the 4.5 percent budget reserve totaling $43.8 million. Mr. Clinger said that the Budget Division currently had "at least 11 more work programs," totaling a little over $1 million for transfer to the budget reserve, scheduled for the June IFC agenda. Additionally, he said that work programs were being submitted for the Public Employees Benefit Program (PEBP) rate holiday that would allow state employees to skip the July premium payment and for the elimination of pre-funding for retiree group insurance. Additionally, he said that Capital Improvement Program (CIP) project scope changes would also appear on the June IFC agenda.

Speaking from the Elko location, Senator Rhoads advised that S.B. 579, 2007 Legislature, authorized $500,000 from the General Fund to expand commercial air services in rural Nevada. Senator Rhoads reported that after nearly two years without air services in northeastern Nevada, a commercial airline company had tentatively agreed to begin operating on July 3. Although uncertain as to whether the agreement was currently viable, Senator Rhoads requested consideration for the provision of at least $200,000 of the funding for commercial air services in northeastern Nevada.

Chairman Arberry thanked Senator Rhoads for his testimony and asked Mr. Clinger to highlight some of the larger work program revisions that were before the Committee.

Mr. Clinger begin with Budget Account 3155, Health Care Financing and Policy (HCFP), Department of Health and Human Services, which he said would revert $2.3 million for the Health Insurance Flexibility and Accountability (HIFA) Waiver based on capping pregnant women at 200 recipients and capping the Employer Subsidy Insurance for adults with children at 100 recipients.

Mr. Clinger moved on to Budget Account 3161, Division of Mental Health and Developmental Services, Department of Health and Human Services, which reflected a $1.4 million reduction in medications in fiscal year 2008.

Senator Beers noted on page 65 of the Committee's packet, (Exhibit D) a $9 million savings over the biennium by expanding the Temporary Assistance to Needy Families (TANF) and Child Health Assurance Program (CHAP) Managed Care Program to five counties and questioned the lack of a reimbursement rate for providers.

Charles Duarte, Administrator, Division of Health Care Financing and Policy, Department of Health and Human Services, indicated that the issue involved more than just a reimbursement rate to the health plans. Mr. Duarte said that prior to development of the reimbursement rate for rural communities, HCFP representatives were waiting for a decision by one of the health plans on whether they intended to remain a part of the program in Nevada.

Senator Beers questioned whether the $9 million should be removed from the list of planned reductions.

Mr. Duarte advised that after consulting with the Director of the Department of Health and Human Services, it was determined that, if necessary, other budget reductions would be brought forward to ensure the availability of the appropriate funding in the reserve but perhaps not in that particular program.

Chairman Arberry indicated that some confusion existed concerning a 14.12 percent budget reduction and asked Mr. Clinger to clarify that the work program revisions before the Committee would implement the 4.5 percent reduction, not the 14.12 percent reduction.

Mr. Clinger advised that staff from the Budget Division and the Fiscal Analysis Division working together with legislative leadership members had identified a $913.7 million shortfall in the current biennium, and, if approved, the work programs before the Committee would implement a portion of the 4.5 percent reductions to balance the budget for the current biennium

Mr. Clinger explained that the Governor asked state agencies to submit plans for a 14.12 percent reduction for fiscal years 2010 and 2011, in part, because of one-time adjustments that were proposed to address the $913.7 million shortfall in the current biennium. The one-time adjustments included a $267 million transfer from the Fund to Stabilize State Government and a $190 million transfer from the Capital Improvement Program. Mr. Clinger advised that preliminary projections, based on ongoing revenue and expenditures, indicated a shortfall for fiscal years 2010 and 2011, and information relative to the 14.12 percent reduction would assist in determining the impact such an action would have on state agency budgets.

In response to questions Chairman Arberry asked relative to whether the 14.12 percent included or was in addition to the 4.5 percent reductions, Mr. Clinger explained that if state agencies were required to reduce their budgets for the 2009-2011 budget cycle, the reduction would be a maximum of 14.12 percent. He provided an example that if agencies reduced operating expenditures by only 2 percent in the current biennium, they would be required to reduce operating expenditures by 12 percent for fiscal years 2010 and 2011.

Assemblywoman Buckley discussed the reduction to the Remediation Trust Fund made in the first round of 4.5 percent reductions and pointed out that legislation would be required in the 2009 Legislative Session to revert the funds to the General Fund. Assemblywoman Buckley asked Mr. Clinger whether the funding would be restored to the Remediation Trust Fund if the Legislature did not pass legislation authorizing the reversion of Remediation Trust Funds to the General Fund.

Mr. Clinger responded that if the legislation to revert the $40 million from the Remediation Trust Fund to the General Fund was not approved, the $40 million would have to come from an "as yet" unspecified account.

Assemblywoman Buckley questioned the method in which the funding was reverted from the Remediation Trust Fund since Nevada Revised Statutes (NRS) prohibited such a reversion.

Mr. Clinger advised that discussion took place during the January 2008 IFC meeting that the Budget Division would be required to submit a bill draft request to the 2009 Legislature to revert $40 million from the Remediation Trust Fund to the General Fund. Additionally, Mr. Clinger pointed out that the school districts proposed reverting $9.5 million from the Remediation Trust Fund rather than the Distributive School Account to avoid affecting basic support.

Assemblywoman Buckley indicated that Senator Coffin made a "strong" point during the January 2008 IFC meeting that members of the Legislature should have been involved in the first round of budget reductions, an argument with which Department of Administration representatives disagreed. However, since that time the Legislative Counsel and the Attorney General ruled otherwise and supported Senator Coffin’s opinion.

Assemblywoman Buckley noted that budget reductions for the Committee's consideration included:

- o Decisions regarding implementation of the initial 4.5 percent cuts for the first year of the biennium in which legislative members were not included.
- o Decisions regarding construction delays, one-time adjustments, and deferred maintenance in which legislative leadership members were involved.
- o Call for a special legislative session to eliminate the cost-of-living increase.
- o 14.12 percent across-the-board cuts

Assemblywoman Buckley indicated that she had received many calls and email correspondence within the past several days regarding the cost-of-living adjustment and the 14.12 percent budget reductions. Assemblywoman Buckley asked that the record reflect that neither the cost-of-living adjustment nor the 14.12 percent reduction was before the Committee for consideration and that the Governor would be required to call a special session to eliminate the cost-of-living increase. Additionally, Assemblywoman Buckley pointed out that if a 14.12 percent across-the-board reduction for fiscal years 2010 and 2011 was determined to be necessary, it would be presented to the entire legislative body for consideration. Assemblywoman Buckley suggested that interested parties contact the Governor and their legislators relative to their opinions regarding the proposed budget reductions.

Assemblywoman Buckley indicated that representatives from the school districts, the Nevada System of Higher Education (NSHE), and health care agencies were in the audience and asked that the Chairman permit them to address the 4.5 percent reductions.

Senator Raggio also provided clarification that the Committee was only considering work program revisions appropriate for approval and that he had not heard the Governor or the Budget Director indicate that a special session was being proposed to eliminate the cost-of-living adjustment. Additionally, Senator Raggio agreed that a misunderstanding had occurred regarding the 14.12 percent reduction but that, in his opinion, representatives of the Governor's Office and the Department of Administration acted in a prudent manner by asking General Fund agencies to address the impact a 14.12 percent budget reduction would have on their budgets. Senator Raggio pointed out, however, that no one was suggesting that the Governor or the Legislature was bound to the implementation of across-the-board 14.12 percent budget reductions.

Chairman Arberry expressed his thanks to Senator Raggio and Assemblywoman Buckley for the additional clarification they provided and asked representatives from the school districts and the Nevada System of Higher Education (NSHE) to come forward if they wanted to provide testimony.

Jeff Weiler, Chief Financial Officer, Clark County School District, appeared before the Committee representing Dr. Walt Rulffes, Superintendent, Clark County School District, who was in Washington, D.C. testifying on the No Child Left Behind Act.

Mr. Weiler testified that the Clark County School District, had "with difficulty," accommodated the 4.5 percent state budget reductions for fiscal year 2008 and fiscal year 2009. He said that accommodation included suspending the implementation of the district's "enterprise resource planning system" that was recommended in a prior legislative audit; holding administrative positions vacant; returning previously awarded Remediation Trust Fund grant funding; delaying expansion of all-day kindergarten; returning funding approved for additional Empowerment Program schools; and deferring purchases of replacement school buses. Mr. Weiler advised that beyond the $63 million in total funding reductions over the current biennium, the Clark County School District would also save the state over $66 million because of a slowdown in enrollment growth.

While Mr. Weiler understood that the 14.12 percent reduction was not before the Committee for consideration on the current agenda, he said that if the shortfall continued and the district was required to cut approximately $130 million in each year of the next biennium, the district's per student DSA funding would decrease by 12 percent from the current biennium funding. Additionally, Mr. Weiler pointed out that because of inflation, the district had to add over $9 million in their fiscal year 2009 budget for utility and fuel cost increases and another $20 million for health benefit cost increases.

Mr. Weiler told the Committee that while school district representatives had worked "diligently" to accommodate the reductions without a direct impact to schools to date, future cuts that totaled $130 million a year would directly affect schools. Although he indicated he could not speculate on specific reductions, he said school district representatives were looking at all possible options including increasing class sizes to implementation of a four-day school week. Mr. Weiler also indicated that the district would ask for suggestions from stakeholders and advised that in a recent informal poll of principals, options such as increasing class size or salary reductions were unacceptable.

Mr. Weiler said that rescinding the legislatively adopted funding for 4 percent salary increases would be very challenging for the district after bargaining in good faith with employee groups and providing assurance that salary increases were funded. While Mr. Weiler indicated he could not specifically comment on the negotiations with employee groups, he said the district was legitimately beyond the point of not providing the 4 percent increase approved by the Legislature. Mr. Weiler said that over 85 percent of the district's General Fund budget was designated for salaries and benefits to employees making it difficult to absorb significant cuts without limiting salaries and/or reducing staffing. Mr. Weiler advised that either increasing class sizes or limiting salaries would be devastating in a district that held some of largest class sizes in the nation and in an area where teachers and administrative staff found it difficult to get by on the salaries the district could afford.

In closing, Mr. Weiler asked the Committee members to keep the issues he had spoken of in mind as they faced the challenging financial decisions ahead and in working together, he indicated he was hopeful that the best could be made of a difficult situation for the children of Clark County.

In response to Chairman Arberry, who questioned the district's increased fuel-cost projections, Mr. Weiler advised that the district added over $2 million in fiscal year 2008 for diesel fuel, which he said was "significantly" more expensive than gasoline. Mr. Weiler also advised that the district purchased fuel in a cooperative with other agencies in the area in order to obtain the best available prices. Although biodiesel was more expensive than diesel, Mr. Weiler said that the district used more biodiesel because it was better for the environment, and he reiterated that for fiscal year 2009, the district projected a $9 million increase in fuel and utility costs over fiscal year 2008.

Chairman Arberry questioned whether the budget reductions would affect the construction of new schools in Clark County.

Mr. Weiler responded that the district was in the process of "winding down" the 1998 capital program, and all new schools were on schedule as promised.

Senator Beers indicated he had frequently observed school buses that did not carry a full complement of students and asked if state or federal law required that school buses run whether or not they carried a full load of students.

Mr. Weiler advised that recommendations that resulted from a transportation system study conducted by the Clark County Board of School Trustees were being implemented, although he said, for the most part, the district's transportation system was considered very efficient. Mr. Weiler further advised that the Board asked district representatives to review transportation options that included extending the boundaries within which students could be transported and purchasing smaller buses. Additionally, he said that transportation issues were at the "top of the list" of areas to review.

Senator Beers discussed a letter he had received from a teacher that included a list of potential efficiencies that included placing a moratorium on all out-of-state travel for employees.

Mr. Weiler advised that a moratorium on travel, although not yet implemented, was being reviewed. Additionally, he advised that the Board of School Trustees had reduced their travel by at least 4.5 percent. However, Mr. Weiler indicated district representatives would argue that some travel, including the Superintendent's travel to

Washington, D.C. to testify on the No Child Left Behind Act and its funding, was important and necessary. Mr. Weiler also said that out-of-state travel was sometimes necessary to achieve appropriate staff development and that, in some cases, state or federal grants were received that included funding for travel.

Senator Beers questioned whether teachers on extended year-round contracts to write blogs could be returned to the classroom to which Mr. Weiler responded that he was not aware of the practice.

Senator Beers asked whether the district could return teachers to the classrooms, who were on special assignment or who were currently working in the Regional Professional Development Program to train other teachers.

Mr. Weiler indicated that the district currently could not return Regional Professional Development Program teachers to classroom teaching positions.

Senator Beers discussed concerns that were raised regarding the district not investigating the cost to move portable classroom units before implementing re-zoning decisions and the current number of reading specialists in district schools. Senator Beers learned that during a former superintendent's administration, each school in the district had one reading specialist who worked with small groups of low-grade level students from each classroom. He noted, however, that some schools currently had as many as seven reading specialists, who could perhaps return to the classroom to fill vacancies or reduce the student-teacher ratio.

Senator Coffin indicated that he had also received the email to which Senator Beers referred along with a number of other well-written messages and asked that those documents (Exhibit E) be made a part of the record.

Assemblywoman Weber noted that the state of California had to layoff 14,000 teachers and questioned whether layoffs would affect Clark County school teachers or other teachers around the state.

Mr. Weiler advised that the Clark County School District did not implement any teacher layoffs for the current year and did not project layoffs for the next school year. He said, however, that funding for the next budget cycle would determine the possibility of future layoffs.

In response to Assemblywoman Weber, who asked if anyone could respond to teacher layoffs in the other 16 counties, Paul Dugan, Superintendent of Washoe County School District and incoming President of the Nevada Association of School Superintendents, confirmed that the Washoe County School District did not initiate any layoffs based on the 4.5 budget reductions. He indicated, however, that smaller districts did layoff some teachers, and while he did not have the data with him, he said he would provide the information to Assemblywoman Weber.

Assemblywoman Smith attributed the reversion of a portion of the Remediation Trust Fund to address budget reductions as the reason school districts did not have to layoff teachers.

Keith Rheault, Ph.D., Superintendent of Public Instruction, Department of Education, agreed that implementation of one-time adjustments allowed the districts to avoid classroom teacher reductions and meet the requirements of the 4.5 percent budget reduction. However, Dr. Rheault pointed out that the $9.5 million Remediation Trust Fund reversion included funding for specialists, after-school tutoring teachers, and the districts would have hired 120 teachers if the implementation of full-day kindergarten had occurred as scheduled. Dr. Rheault indicated that additional funding the districts returned beyond the one-time adjustments was taken from either Reserve funding, ending fund balances, or elimination of capital projects.

Mr. Dugan addressed the 4.5 percent cuts and advised that Governor Gibbons had recommended the reduction of funding proposed for the Empowerment Program, expansion of full-day kindergarten, pay for performance and that the remainder of the budget reductions be provided from basic support funding. Mr. Dugan said that while many students throughout the state would lose the promise that those programs afforded them, district representatives also understood the "significant" financial dilemma that the state faced, and all 17 school districts' budgets were adjusted accordingly for the 2008 and 2009 school years although he said that ultimately every reduction would affect the classroom.

Although the 14.12 percent reduction was not on the agenda, Mr. Dugan expressed concern regarding the permanent effect such a large reduction would have on students and education in Nevada. Mr. Dugan said that early discussions relative to a 14.12 percent reduction suggested a $28 million reduction in each year of the next biennium for the Washoe County School District and equally devastating cuts to the other school districts. To gain some perspective, Mr. Dugan recalled that in 2003, the Washoe County School District reduced their budget by $8.5 million, which included increasing middle and high school class size and the elimination of 124 proposed positions; reducing the number of textbooks; decreasing the number of attendance officers, school police, and behavior management consultants; and cutting planned facilities. In fiscal year 2004, the Washoe County School District cut an additional $4.6 million and 75 positions, primarily by increasing class size even further; cutting the Center for Teaching and Learning, and nursing staff. Mr. Dugan advised that a future 14.12 percent reduction exceeded past budget reductions and would be far more damaging.

In closing, Mr. Dugan expressed an understanding of the challenging economic situation and an appreciation of the difficult discussions in which the Committee was engaged.

In response to questions Assemblywoman Smith asked relative to teachers’ salaries and the school districts' collective bargaining agreements, Mr. Dugan advised that after bargaining in good faith, the school districts were required by law to provide the 4 percent salary increase to teachers. Mr. Dugan indicated that Senator Raggio's declaration that the 4 percent cost-of-living increase was not being considered for reduction was good news for the 17 school districts.

Charlotte Hales, Douglas County School Board member and President of the Nevada Association of School Boards, appeared before the Committee as a representative for the 107 Nevada school board members. On behalf of those members, Ms. Hales expressed an understanding of the efforts being made to stretch tax dollars that would meet the needs of all constituents especially the youngest and most dependent whose need, she said, had to be met to allow them to develop into "healthy, stable, contributing citizens" that would make Nevada strong. Ms. Hales indicated that past education budget reductions demonstrated that once reduced, programs and staff were rarely restored.

Ms. Hales discussed the list of school district budget reductions that would be submitted to the Committee in the following week, a list that she said would provide a "real sense" of what the districts gave up and what the Legislature needed to address during the 2009 Legislative Session. Ms. Hales advised that each school district made sacrifices and each district "worked hard" to obtain participation from educators and community members to reduce their budgets with the least amount of damage.

Ms. Hales pointed out that even though each school district budget was unique, commonalities existed including reduction of contingency funds and minimizing ending fund balances. She recalled that during previous audit presentations, accountants advised that ending fund balances were too low at a time that balances were several percentage points higher than the current statutory minimum. Ms. Hales pointed out that low ending fund balances placed the districts in precarious financial situations with little or no room for unexpected events, such as mercury spills or school bus recalls. Additionally, Ms. Hales pointed out that the districts could only reduce ending fund balances once, and, for the most part, balances above the minimum amount were gone.

Ms. Hales also reiterated previous testimony that the school districts were contractually obligated to provide the 4 percent cost-of-living increase to teachers and that rescinding the increase would incur litigation.

In closing, Ms. Hales said that additional budget cuts would be devastating to every schoolchild and reiterated her previous comments regarding the urgency to provide the youngest, most dependent constituents the education they needed to graduate from high school, attend college, and work to make Nevada strong. Ms. Hales expressed her thanks to Committee members for taking care of K-12 to the extent they could and for providing the opportunity to share her comments.

Dan Klaich, Executive Vice Chancellor, Nevada System of Higher Education (NSHE), advised the Committee that the NSHE approached the 4.5 percent budget reduction by relying on representations for resolution of a short-term revenue issue and met the shortfalls by the following deferrals, reversion of one-time appropriations, and imposition of student surcharges:

- Reversion of a $10 million Legislative appropriation to fund a portion of the cost to integrate computing resources
- Deferral of $5.6 million for maintenance on buildings
- Reversion of over $6 million for Capital Improvement Program projects
- Imposition of $5 million in student surcharges
- Reversion of approximately $1.5 million in one-time appropriations
- Deferral of $4.5 million in faculty merit salary increases
- Reduction in department operating budgets

Mr. Klaich advised that if the reductions were permanent, the NSHE would be placed in an "extraordinarily difficult position" going forward and if the reductions were tripled in the next biennium, the NSHE would be required to eliminate about $96 million from state General Fund appropriations.

Mr. Klaich said that meetings had not yet been scheduled with the Board of Regents to discuss reductions for the following biennium and that it would be premature to provide a plan but asked the Committee members to "entertain for a moment" what reductions of the magnitude proposed would mean by reviewing the following options:

- Reduce the budgets of the two universities by 30 percent
- Close the College of Southern Nevada, which served 40,000 students a semester
- Close all three other community colleges, the Nevada State College, and the Desert Research Institute to reach the $100 million target
- Close the School of Medicine for a reduction of approximately $32 million
- Close the law school and the dental school to achieve about a third of their reductions
- Increase student tuition costs and fees

Mr. Klaich made it clear that he was speaking in "hyperbole" and while not recommending any of the options, he wanted the record to reflect what the possibilities could mean.

Mr. Klaich explained that if the NSHE imposed an additional $50 a credit hour surcharge, a working father or single mother taking several community college courses a semester would face an additional $600 a year cost, and full-time students at the universities would face an additional $2,000 per year cost. Mr. Klaich discussed the pride the NSHE took in maintaining affordable tuition for students in Nevada's colleges and universities. He pointed out that while tuition in Nevada was currently below the median in western regions, the imposition of a $50 surcharge would move tuition in Nevada from substantially below median to substantially above median with no increase in the quality of education.

Mr. Klaich discussed the likelihood that the major building projects in Clark County would generate 145,000 new jobs in the next two years and move the state out of recession. He pointed out, however, that colleges faced a challenge in training workers to fill those positions because of the magnitude of the costs for faculty.

In closing, Mr. Klaich said that the NSHE could not "turn on a dime" to reduce budgets and that a $100 million reduction would increase class sizes, eliminate some classes, program quality would suffer or stagnate, access to every institution including community colleges would be limited, and students would take a longer period of time to graduate.

Chairman Arberry indicated Mr. Klaich's remarks were well taken, but reminded speakers that the 14.12 percent budget reductions were not before the Committee for consideration.

Senator Raggio reiterated that the work program revisions for the Committee's consideration would effect the 4.5 percent budget reductions for the current biennium, not the 14.12 percent reductions for the 2009-2011 biennium.

Mike Torvinen, Deputy Director of Fiscal Services, Department of Health and Human Services (DHHS), advised the Committee that the DHHS approached its $82 million target for the 4.5 percent budget reduction by beginning with the reversion of one-time appropriations for Capital Improvement Program projects, technology projects, new programs, and equipment. Although the DHHS incurred the loss of $20 million in Federal Matching Assistance Percentage funds and an increase in the Medicaid caseload, Mr. Torvinen reported that the DHHS had been able to implement the 4.5 percent reduction without a large reduction in services. However, Mr. Torvinen cautioned that that moving forward, additional reductions would "significantly affect services.

Mr. Torvinen reported that the DHHS had mitigated the 4.5 percent reduction with funding from the United Health settlement and from Casey Foundation Partnership Grant funds.

Chairman Arberry indicated he would accept a motion to approve the work programs under Item C and as listed in the 62-page document (Exhibit F).

Senator Coffin questioned whether the Chairman would provide Committee members the opportunity to request a discussion on selected work programs outside of the customary global vote that occurred during typical Interim Finance Committee meetings.

Chairman Arberry indicated that he would accept a motion if Senator Coffin wished to make one.

Senator Coffin indicated being uncertain regarding the rules for the current meeting and said that if there was a motion to approve the work program revisions as presented, he would move to amend that motion.

Senator Beers indicated it was his understanding that the budget reductions would be implemented whether or not the Committee approved the work program revisions and would move to approve the work program revisions as presented.

SENATOR BEERS MOVED APPROVAL OF THE WORK PROGRAMS UNDER ITEM C.

SENATOR CEGAVSKE SECONDED THE MOTION.

Assemblywoman Buckley indicated that she would defer to Legislative Counsel but did not accept Senator Beers' statement as being correct. Assemblywoman Buckley pointed out that the Interim Finance Committee, during the last several months, had focused on the authority needed to transfer agency funds into reserve and that the Controller would not process the work program changes without IFC approval. Assemblywoman Buckley advised that the Attorney General concurred with Legislative Counsel that Interim Finance Committee approval was required to transfer agency funds into reserve, which was the reason that the 320 work programs were before the Committee for consideration.

Senator Beers discussed the existence of a cash flow issue that transcended the legislatively approved budget and the fact that funding that was not available could not be spent. Senator Beers suggested that "with all due respect" the Controller's request was a form of "grandstanding."

Assemblywoman Buckley argued that checks and balances existed between the separate branches of government to provide the opportunity for involvement from officials of each branch and that the Attorney General's ruling that the work programs to implement the 4.5 percent reductions required Interim Finance Committee approval supported the Controller's request. Assemblywoman Buckley indicated that the second process that provided the opportunity for Executive Branch officials and Legislative Leadership to work together to reduce the budget was the correct process.

Senator Coffin discussed the frustration experienced by the members of the Legislature, who had not had the opportunity to engage in budget reduction discussions and for members of the public who were not provided an opportunity to attend public hearings concerning the shortfall problems.

Senator Coffin indicated that there were two budget accounts he wanted to reserve for discussion and that it would be up to other members of the Committee to decide if they were additional budget accounts that they wanted held for discussion. Additionally, Senator Coffin asked for information regarding when the work program for the Distributive School Account (DSA) would be presented and whether it would require expeditious action when it was presented.

Mr. Clinger advised that the reason the work program for the DSA was not presented to the Committee was because the information had not yet been received from the school districts.

Senator Coffin expressed surprise that the school districts had not complied to a request for the information and asked whether the work program for the DSA would be submitted to a regularly scheduled meeting of the IFC or whether it would require expeditious action.

Mr. Clinger clarified that the school districts were in compliance but that the paperwork had not yet been received and that expeditious action depended on the date the paperwork was received. Mr. Clinger explained that fiscal year 2008 work program reductions had to be implemented before the close of the fiscal year, which would require submittal of a 15-day expeditious action item, but a fiscal year 2009 work program would be submitted to a regularly scheduled IFC meeting.

Senator Coffin expressed his intent to oppose the motion on the floor and proposed the following amendment.

> SENATOR COFFIN AMENDED THE MOTION TO APPROVE THE WORK PROGRAMS UNDER ITEM C BY MOVING TO REFUSE TO RECEIVE OR APPROVE THE WORK PROGRAM REDUCTIONS FOR THE DIVISION OF MENTAL HEALTH AND DEVELOPMENTAL SERVICES AND THE DIVISION OF PAROLE AND PROBATION BUDGETS.

Senator Coffin indicated he selected the two budgets out of 320 to provide examples of how seriously the reductions would affect the Legislature's work in rebuilding the budgets since the implementation of previous reductions in 1992. Senator Coffin pointed out that the Division of Mental Health and Developmental Services was only now beginning to deliver better services since previous reductions, and understaffing in the Division of Parole and Probation prevented the adequate supervision of an estimated 17,000 parolees.

ASSEMBLYWOMAN KOIVISTO SECONDED THE MOTION.

Senator Horsford asked for clarification on whether the amendment to the motion was for fiscal year 2009 work programs only.

Mark Stevens, Fiscal Analyst, Fiscal Analysis Division, Legislative Counsel Bureau, expressed his understanding that the amendment included the work programs for the Division of Mental Health and Developmental Services and for the Division of Parole and Probation listed in the 62-page document for both fiscal year 2008 and fiscal year 2009.

Senator Coffin provided clarification that the amendment he proposed was to remove the work program revisions for the Division of Mental Health and Developmental Services and the Division of Parole and Probation budget reductions for fiscal years 2008 and 2009.

Chairman Arberry spoke in opposition to Senator Coffin's amendment although he expressed an understanding of the Senator's concerns regarding the process involved in the budget reduction process.

Assemblywoman Buckley also said she would oppose the amended motion but expressed concern regarding the Division of Mental Health and Developmental Services' and Division of Parole and Probation budget revisions and indicated that if Senator Coffin wanted to propose changes within those budgets that made more sense, she would support additional discussion. However, Assemblywoman Buckley pointed out that withholding a decision on the two budgets for fiscal year 2008 would prevent balancing the budget but indicated she could support a motion to change the reduction priorities if those changes stayed within the budget target

Assemblyman Denis expressed agreement with Assemblywoman Buckley's statements and indicated that he could not support the amendment because he did not have enough information on the dollar amounts involved in the two accounts. Additionally, Assemblyman Denis indicated that although there were several budgets that he also believed were important, the point had been reached that required tough decisions to be made.

Assemblyman Parks indicated he shared Senator Coffin's concerns but also expressed concerns regarding the loss of federal matching dollars and that some of the reductions scheduled for approval for the first year could have an impact on the second year of the biennium.

Senator Coffin indicated that if Assemblywoman Buckley's support could be won over by removing the reference to withholding approval of the Division of Mental Health and Developmental Services and the Division of Parole and Probation suggested cuts for fiscal year 2008, he would do so.

Assemblywoman Buckley indicated it was her understanding that the Division of Mental Health and Developmental Services and the Division of Parole and Probation work program revisions for fiscal year 2009 could be considered at the June IFC hearing, which would allow more time to ascertain whether or not different items could be chosen to effectuate public policy. However, Assemblywoman Buckley indicated that the time frame for the fiscal year 2008 work program revisions required Committee approval during the current meeting.

Senator Coffin asked for assurance from the Chairman that he would approve of an amendment that the Committee would "reject, in essence, the budget reduction revisions to fiscal year 2009 budgets because of action requiring expeditious action within 15 days of submittal of the work programs to the Interim Finance Committee.

Chairman Arberry indicated it was his understanding that holding the budgets for consideration until the June 26 IFC meeting did not mean that the Committee rejected the revisions.

In response to Senator Coffin's request for additional clarification, Mr. Stevens explained that if the work programs were not considered within 15 days, they were deemed approved; however, the work programs for fiscal year 2009 could be moved to the June 26, IFC meeting agenda for consideration by the Committee at that time.

Chairman Arberry asked Senator Beers if he would consider restating his motion to approve the work program revisions for fiscal year 2008 and to hold the fiscal year 2009 work programs until the June 26 meeting.

Senator Beers declined to change his motion.

Senator Coffin indicated that he would restate his motion, and Assemblywoman Buckley suggested wording the amendment to indicate that the fiscal year 2009 work programs for the Division of Mental Health and Developmental Services and the Division of Parole and Probation budgets be postponed for consideration until the June 26, 2008 meeting.

Senator Coffin agreed to the wording for the motion as suggested by Assemblywoman Buckley and provided the following amendment.

> SENATOR COFFIN MOVED TO AMEND THE MOTION ON THE FLOOR TO REMOVE FROM CONSIDERATION THE REVISIONS TO THE 2009 DIVISION OF MENTAL HEALTH

AND DEVELOPMENTAL SERVICES BUDGET AND THE DIVISION OF PAROLE AND PROBATION BUDGET UNTIL THE JUNE 26, 2008 IFC MEETING.

ASSEMBLYWOMAN KOIVISTO SECONDED THE MOTION.

Although aware of the concerns, Senator Raggio indicated he opposed the amended motion pointing out that the issues regarding the economic downturn were critical, and the projections for the future were not optimistic. Senator Raggio pointed out that the Governor had complied with the Attorney General's opinion that the Legislature had to be provided a formal opportunity to consider and act on budget reductions and had worked together with Legislative leaders to determine reductions that were reasonable and necessary.

Senator Raggio said that if the elimination of several budgets occurred during the current meeting, additional budgets that were priorities to others would also be forthcoming and indicated that he could make a "passionate plea" for Department of Education and Higher Education budgets as well as Department of Health and Human Services' budgets.

Chairman Arberry called for a vote on Senator Coffin's motion to amend the first motion on the floor.

THE MOTION FAILED. (Senator Beers, Senator Cegavske, Senator Mathews, Senator Rhoads, Senator Raggio voted nay; Senator Coffin and Senator Horsford voted aye.

Assemblywoman Buckley, Assemblywoman Koivisto, and Assemblyman Parks voted aye; Assemblyman Denis, Assemblywoman Gansert, Assemblyman Grady, Assemblyman Hardy, Assemblyman Oceguera, Assemblywoman Leslie, Assemblyman Conklin, Assemblywoman Smith, Assemblywoman Weber, Assemblyman Marvel, and Chairman Arberry voted nay.)

Chairman Arberry called for a vote on the motion by Senator Beers to approve the work programs for fiscal years 2008 and 2009 as listed in the 62-page document (Exhibit F)

Senator Coffin expressed his intent to oppose the motion and said that the public was not being served by rushing through the budget reduction process without adequate discussion. He called for the Legislature to work as an equal branch of government to the Executive Branch and to provide an opportunity for the members of the public to be heard.

Additionally, Senator Coffin noted that the work program for the Distributive School Account (DSA) was not included in the 62-page document submitted to the Committee and asked if the Budget Division would submit the DSA as a 15-day expeditious action item

Assemblywoman Smith expressed an understanding of Senator Coffin’s frustration with the process and indicated that many legislators had struggled over the last several months of budget reductions and not being involved in the process early on.

Assemblywoman Smith expressed her intent to support the motion because she said the budget reductions had been under development for a lengthy period and that it was time to move on to other issues.

Additionally, Assemblywoman Smith attributed the reason the DSA work program was not before the Committee to the districts' performance of "due diligence" in their respective districts that required them to meet a public process.

Assemblywoman Smith said that although the 4.5 percent reductions to the K-12 Education budgets were made as painlessly as possible, hundreds of millions of dollars over the biennium would be in jeopardy of being reduced from the budget if the economy failed to stabilize. Assemblywoman Smith expressed concerns regarding the possibility of larger future reductions taking into account that classroom standards for students and teacher expectations had to be met.

Senator Mathews extended her thanks to Senator Coffin for his efforts in the budget reduction process but said that the emergency was before the Legislature and the Committee had to "bite the bullet" and find ways to balance the budget.

Senator Beers recounted paying $5.87 for lunch earlier in the day and the sandwich shop owner asking him not to raise his taxes. Two years ago, he said the same lunch cost 20 percent less, and the shop owner received a larger tip, making a point that economic hard times had not merely befallen government. Senator Beers pointed out that difficult decisions regarding the budgets had to be made because of the economic downturn that included major employers reducing their forces, not providing cost of living raises, and tens of thousands of people out of work because the residential construction industry in Las Vegas was decimated.

Senator Cegavske pointed out that all legislators were troubled by the economic situation and while no one wanted to reduce budgets, each member of the Legislature had the ability to telephone or send email to leadership and/or the Governor with their suggestions or recommendations on how to resolve the budget crisis.

Senator Cegavske expressed her thanks to the many members of the public, who attended the hearing and viewed the process in which the Committee was engaged.

Assemblywoman Buckley expressed her intent to support the motion although she said many legislators would have made different choices relative to the 4.5 percent reductions if they had been consulted. However, she indicated that draining the Fund to Stabilize State Government and reverting one-time appropriations was the best they could do. Assemblywoman Buckley pointed out that most of the money spent at the state level was for education, healthcare, and prisons, costs for which she indicated there was not a lot of control.

Assemblywoman Buckley also expressed her appreciation to the members of the public that attended the meeting and indicated that more people needed to be involved in future discussions if the economy failed to stabilize. Assemblywoman Buckley said that the best decisions were made when legislators, the public, and the Governor worked together and asked for suggestions and assistance from the public to ensure adequate funding existed for education, healthcare, and other needed services.

Chairman Arberry asked the Secretary to conduct a roll call vote for the motion on the floor to approve the proposed work program revisions for fiscal years 2008 and 2009 as listed in the 62-page document (Exhibit F).

> THE MOTION CARRIED. (Senator Beers, Senator Cegavske, Senator Horsford Senator Mathews, Senator Rhoads, Senator Raggio voted aye; Senator Coffin voted nay.
>
> Assemblywoman Buckley, Assemblyman Denis, Assemblywoman Gansert, Assemblyman Grady, Assemblyman Hardy, Assemblyman Oceguera, Assemblywoman Leslie, Assemblyman Conklin, Assemblyman Marvel, Assemblyman Parks, Assemblywoman Smith, Assemblywoman Weber, Chairman Arberry voted aye; Assemblywoman Koivisto voted nay.

D. PUBLIC COMMENT.

Chairman Arberry opened the hearing to public comment.

Joy Kendall, Vice President of Legislation, Nevada Parent-Teacher Association, appeared before the Committee on behalf of the Association to express concern relative to the 4.5 percent budget reductions and opposition to across-the-board reductions.

Ms. Kendall called for a separate review of each budget and told the Committee members that every child, family, voter, taxpayer, and business was vested in education and that no better investment existed than preparing Nevada's children for the competitive workforce.

Karen Miller, a parent of three severely emotionally disturbed children, expressed her appreciation to Senator Coffin for the concerns he expressed relative to the budget reductions for the Division of Mental Health and Developmental Services' budgets.

Hearing no further requests for public comment, Chairman Arberry closed the hearing to further testimony.

E. ADJOURNMENT.

Chairman Arberry adjourned the hearing at 5:03:37 p.m.

Assemblyman Morse Arberry Jr., Chairman
Interim Finance Committee

Lorne Malkiewich, Director
Legislative Counsel Bureau and Secretary
Interim Finance Committee

EXHIBITS INTERIM FINANCE COMMITTEE		
Exhibit	**Witness/Agency**	**Description**
A		Agenda
B		Guest List
C	Andrew Clinger	Work Program Summary
D	Fiscal Analysis Division, Legislative Counsel Bureau	Emergency Meeting Notice and Agenda – May 23, 2008
E	Senator Bob Coffin	Email messages
F		62-Page Reserve Work Programs