

**MINUTES OF THE NEVADA LEGISLATURE'S  
INTERIM FINANCE COMMITTEE'S SUBCOMMITTEE  
TO REVIEW AND ADVISE ON THE DEVELOPMENT OF PRIORITIES  
AND PERFORMANCE BASED BUDGETING**

**January 9, 2014**

Chairwoman Debbie Smith called the meeting of the Nevada Legislature's Interim Finance Committee's Subcommittee to Review and Advise on the Development of Priorities and Performance Based Budgeting (PPBB) to order at 12:08 p.m. on January 9, 2014, in Room 3137 of the Nevada Legislative Building, 401 South Carson Street, Carson City, Nevada. The meeting was videoconferenced to Room 4401 of the Grant Sawyer State Office Building, 555 East Washington Avenue, Las Vegas, Nevada.

**COMMITTEE MEMBERS PRESENT IN CARSON CITY:**

Senator Debbie Smith, Chairwoman  
Senator Ben Kieckhefer  
Senator Joyce Woodhouse  
Assemblyman Paul Anderson  
Assemblyman David Bobzien

**COMMITTEE MEMBERS PRESENT IN LAS VEGAS:**

Assemblywoman Maggie Carlton, Vice Chair

**COMMITTEE MEMBERS ABSENT:**

None

**LEGISLATIVE COUNSEL BUREAU STAFF PRESENT:**

Mark Krmpotic, Senate Fiscal Analyst, Fiscal Analysis Division  
Cindy Jones, Assembly Fiscal Analyst, Fiscal Analysis Division  
Jeff Ferguson, Senior Program Analyst, Fiscal Analysis Division  
Cathy Crocket, Program Analyst, Fiscal Analysis Division  
Eileen O'Grady, Chief Deputy Legislative Counsel, Legal Division  
Tracie Battisti, Committee Secretary, Fiscal Analysis Division

**EXHIBITS:**

Exhibit A: Agenda

Exhibit B: Priorities and Performance Based Budget – Executive Budget Office

Exhibit C: 2013-2015 Biennium – Governor's Recommended PPBB – Executive Budget Office

**I. ROLL CALL.**

Chairwoman Smith called the meeting of the Nevada Legislature's Interim Finance Committee's Subcommittee to Review and Advise on the Development of Priorities and Performance Based Budgeting (PPBB) to order. The secretary called roll, all members were present.

## **II. OPENING REMARKS.**

Chairwoman Smith welcomed everyone to the meeting. She thanked the staff from the Legislative Counsel Bureau (LCB) and the Executive Branch for their work in preparation for the meeting.

## **III. PUBLIC COMMENT.**

There was no public comment.

## **IV. APPROVAL OF MINUTES OF THE AUGUST 28, 2013, MEETING.**

This agenda item was taken out of order.

ASSEMBLYMAN ANDERSON MOVED TO APPROVE THE MINUTES OF THE AUGUST 28, 2013, MEETING OF THE INTERIM FINANCE COMMITTEE'S SUBCOMMITTEE TO REVIEW AND ADVISE ON THE DEVELOPMENT OF PRIORITIES AND PERFORMANCE BASED BUDGETING.

SENATOR WOODHOUSE SECONDED THE MOTION.

THE MOTION CARRIED UNANIMOUSLY.

## **V. DISCUSSION OF POTENTIAL MODIFICATIONS TO PRIORITIES AND PERFORMANCE BASED BUDGETING FOR THE 2015-2017 EXECUTIVE BUDGET.**

Jeff Mohlenkamp, Director, Department of Administration, said he appreciated the opportunity to present before the Subcommittee again. He said Performance Based Budgeting was a subject about which he was passionate. He noted a lot of time and effort had gone into discussing the PPBB process, and he appreciated the opportunity to continue the discussion. He hoped the discussion would result in improvements to the transparency of how state money was spent, and accountability in state government.

Mr. Mohlenkamp presented information on the PPBB structure contained in the handout "Priorities and Performance Based Budget" (page 1, Exhibit B).

Chairwoman Smith encouraged staff to ask questions as they moved to the technical aspects of PPBB. Additionally, she reminded staff and Subcommittee members that the "Results First" program from the PEW Charitable Trusts Foundation could be helpful in evaluating the results of the program.

Mr. Mohlenkamp said he attended the webinar and reviewed the information, and agreed that Results First would supplement the PPBB process.

John Borrowman, Budget Analyst V, Department of Administration, presented information on the current challenges and possible solutions for balancing and translating the line-item budgets contained in the handout, Priorities and Performance Based Budget (page 4, Exhibit B).

Chairwoman Smith said she thought in the last couple of years they had more mapping issues and problems with work programs during the interim than in the past.

Mark Krmptotic, Senate Fiscal Analyst, Fiscal Analysis Division said having worked at the Executive Budget Office he understood the pressures involved in developing the Governor's recommended budget. He said going through that process was very difficult, and the key was that it was being done a year before The Executive Budget was published for the next biennium, and without other pressures. Mr. Krmptotic said he hoped it would set the stage for more accurate assumptions going forward, especially with the line-item mapping, which was key to ensuring proper General Fund and Highway Fund levels were recommended going forward.

Vice Chair Carlton asked if the PPBB process would allow a comparison of the original agency requests, and the Governor's recommended budget.

Mr. Mohlenkamp replied that mapping would take place within the agency request budget, and throughout all processes. He said whether mapping occurred through the legislatively approved budget was something to discuss with the Fiscal staff. He said the agency budget requests that do not go forward to the Legislature were a completely separate topic.

Vice Chair Carlton asked if that meant the two budget versions could not be compared.

Chairwoman Smith asked Mr. Mohlenkamp to clarify his answer about the agency request budget, whether it fit into the PPBB program or not.

Mr. Mohlenkamp explained that all the expenditures that were suggested by the agency would be mapped to the revenues. He said the process started with the agencies, who had the task of mapping the budget and submitting it to the Budget Division. He said there would be some modifications of the agency requested budget by the Budget Division before it was submitted to the Legislature on October 15, but the mapping principles would not change. He had not discussed with the Governor whether any changes that took place between the initial submission and the official submission would be forwarded to the Legislature.

Chairwoman Smith asked if there were any other questions. There were none so she asked Mr. Mohlenkamp to continue.

Mr. Mohlenkamp thanked Mr. Borrowman for all of his work. He said it was essential to have a good accurate budget, and to identify what was being spent and for what service.

Mr. Mohlenkamp continued his presentation discussing information on budgeting at the right level contained in the handout, Priorities and Performance Based Budget (page 9, Exhibit B).

Senator Kieckhefer commented on page 11 (Exhibit B) DCFS Example, regarding the Nevada Youth Training Center and Caliente Youth Center. He asked, if it was decided to bring those programs together as an activity for juvenile correctional care, how would the PPBB process maintain an understanding of the different costs that go into maintaining the different facilities?

Mr. Mohlenkamp replied there were several ways to compartmentalize the expenditures; it could be done regionally or statewide. He said expenditures could be broken down by categories or by geographic location within a merged activity base.

Senator Kieckhefer said it was important to be able to get specific information about a program's budget, particularly when making cuts. He said the budget details of one facility verses another needed to be maintained as a knowledge base.

Mr. Mohlenkamp completed his presentation with the DETR Example discussing information on current budget account structure and activity-based account structure contained in the handout Priorities and Performance Based Budget (page 12, Exhibit B).

Senator Kieckhefer asked if institutional control was at the departmental level or the institution level. He then asked how it was ensured that it was taking place.

Mr. Mohlenkamp referred to page 13, in the handout Priorities and Performance Based Budget (Exhibit B) Corrections Example, and said there was value in looking at each group to identify managerial issues. From a management prospective, it made sense to look at the relative operational efficiencies of each group independently. He said that Legislators would also want to have access to that data.

Mr. Mohlenkamp referred to (Exhibit C) 2013-2015 Biennium – Governor's Recommended PPBB. He said regardless of the budget level, he thought they could do a better job of delivering the information. The decision-makers and the public want to see where the money is being spent. He commented that the public wanted to know geographically where the money was being spent, and what county the construction money was going to. Mr. Mohlenkamp said the current budging structure was not easy for people to follow. He said the PPBB process could improve the flow of information so people would have a better understanding of where their tax dollars were going.

Chairwoman Smith thanked Mr. Mohlenkamp for his presentation.

Mr. Krmptic said the current structure included a mix of different budgeting approaches, including elements of activity-based budgeting. He referred to the handout, Priorities and Performance Based Budget (page 13 Exhibit B) combining close, medium and maximum-security incarceration. He recalled that the previous Administration wanted to close Nevada State Prison (NSP) during an interim period. He said there was discussion about legislative intent through the appropriation to NSP to keep the institution open. He said activity-based budgeting allowed the Administration to make decisions like that without there being any real legislative intent. In the DCFS example, referring to page 11 (Exhibit B), he said there was a benefit to combining activities and the budgets of Caliente, Elko and Summit View. He said that was attempted by the Administration in the last budget cycle, but the Legislature did not approve it. He said there were potential unintended consequences associated with that approach. If the administration is in a retrenchment mode or if a new administration has different ideas.

Mr. Krmptic said activity based budgeting, taken to its logical conclusion, would not only transform The Executive Budget, but also how staff constructs the appropriations and authorizations acts and how the accounting system is organized.

Assemblyman Anderson asked about budgeting with objectives verses managing within the budgets. He said it was not the job of the Legislatures to manage the day-to-day activities of the agencies. He said there was a lot of micro managing in our budgeting, and a lot of dollars were sent with distinct intent. Assemblyman Anderson asked how the PPBB approach would change this aspect of budgeting.

Mr. Mohlenkamp said 90 percent of the budget was managed through a set of processes by the agencies, the Budget Division and LCB Fiscal staff. Some examples of these budget items were one-time expenditures that needed to be eliminated or ongoing expenditures that needed to be recalculated for maintenance costs going forward. Some examples of maintenance cost were increased caseloads, medical inflation, and fuel cost increases. Mr. Mohlenkamp said the major budget initiatives; made up 5 percent of the budget. He said major budget initiatives were new spending initiatives, improved levels of spending, or increased levels of spending to accomplish something new and different. He said major budget initiatives would be the focus of the PPBB process over the next biennium. Mr. Mohlenkamp said analytics needed to be employed, such as looking at cross comparisons, and trend lines, and comparing the state to local government and other states.

Mr. Mohlenkamp said developing the PPBB process would take some time. He hoped the focus on major budget initiatives and the use of the PEW model would give them a platform with which to expand. He said that would need to happen quickly.

Assemblyman Anderson thanked Mr. Mohlenkamp for his presentation. He asked how funds that were allocated with legislative intent would be tracked within an objective pool.

Mr. Mohlenkamp said that would be an essential component of the PPBB process, because legislatively appropriated money had certain limitations and requirements regarding the use of the funds.

Assemblyman Anderson asked what would stop future Legislatures or agencies from creating their own silos to work around the system after the PPBB process was in place.

Mr. Mohlenkamp said the success of the state budgeting was due to the use of sound budgeting principles used by the Executive and Legislative Branches for many years. He said the decisions about how to spend money and allocate resources varied based on who was making the decisions, but as long as the structure remained intact, there was transparency for those processes.

Assemblyman Anderson said the transparency of the PPBB process and reporting mechanism would be an improvement on the current system. He said the current system made it difficult to understand the difference between the state and federal funds, and where the money was being spent. Mr. Mohlenkamp agreed.

Chairwoman Smith asked Mr. Mohlenkamp what kind of input he needed from the Subcommittee members today.

Mr. Mohlenkamp replied that the direction received at the previous meeting allowed forward movement with certain IT elements. He said the two major focuses were budget initiatives and the mapping process, which would bring the two pieces of the budget together. He said the PPBB process should be seamless, and without duplication of efforts. He said it was important to continue discussing what needed to be accomplished during the budget process, the correct budgeting level, and to focus on large-scale resource allocation rather than the minute details. In addition, he would like continued discussion on the overall PPBB process.

Chairwoman Smith said the Subcommittee and the larger money committees had an interest in making good decisions based on data and specific information. She thought they should proceed cautiously and wanted to make the decision-making process open and transparent.

Chairwoman Smith commented on the national reports that placed Nevada last in the area of opportunities for children in our state. She said the reports reinforced the need to focus on higher-level decisions, the priorities for children within the state and how funds are allocated in Nevada. She said those reports made it clear that Legislature had very little time to discuss budgets. The Legislature had 4 out of 24 months to make decisions and get input. Staff maintained continuity, and had all the information necessary to develop a good transparent budget. She said the PPBB process should be done methodically and thoughtfully, and staff needed to be completely involved in the process.

Mr. Mohlenkamp thanked Chairwoman Smith for her comment and the fact that she formed the PPBB Subcommittee. He also appreciated Chairwoman Smith recommending the PEW group. He said his staff was very impressed with the initial concept and looked forward to bringing some of those elements to their major budget initiatives. He thought it would be a great process for the state, but it would take time, and said he would continue pushing his strong belief that analytics could be used far better in the state than they had been.

Mr. Krmpotic said to some extent he agreed with Mr. Mohlenkamp with respect to the use of analytics in evaluating budgets.

Chairwoman Smith said it was important to use the best tools and technology available to move forward. She said it was important that their colleagues were involved in the decision-making of developing a budget.

Chairwoman Smith said the staff had been having discussions with the representatives from the PEW foundation. She said they would continue having those off-line discussions and if there was an interest, PEW would be invited to attend a Subcommittee meeting. Chairwoman Smith asked about the time frame for the next meeting.

#### **VI. DISCUSSION OF FUTURE MEETINGS.**

Mr. Mohlenkamp said he was comfortable with meeting in April or May 2014.

Chairwoman Smith said we would set our site on an April 2014 meeting, and would poll the Subcommittee to see their availability.

#### **VII. PUBLIC COMMENT.**

There was no public comment.

#### **VIII. ADJOURNMENT.**

Chairwoman Smith thanked everyone for attending the meeting and for the information that was brought forward.

There being no further business, Chairwoman Smith adjourned the meeting at 1:30 p.m.

Respectfully submitted,

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Carla Ulrych, Transcribing Secretary

APPROVED:

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Senator Debbie Smith, Chairwoman

Date: \_\_\_\_\_

**Copies of exhibits mentioned in these minutes are on file in the Fiscal Analysis Division at the Legislative Counsel Bureau, Carson City, Nevada. The division may be contacted at (775) 684-6821.**