GENERAL GOVERNMENT
JOINT SUBCOMMITTEE
CLOSING LIST #3
April 30, 2015

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Title: ADMINISTRATION - IT - OFFICE OF CIO **Budget Page:** ADMIN-38, **Volume I**
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Revenues	2013-14 Actual	2014-15 WP	% Chg	2015-16 GOV REC	% Chg	2016-17 GOV REC	% Chg
BALANCE FORWARD	(9,772)	111,195	(1237.89)	72,999	(34.35)	174,184	138.61
GENERAL FUND							
INTERAGENCY TRANSFER	674,589	576,216	(14.58)	1,958,002	239.80	1,609,329	(17.81)
OTHER FUND	457						
Total Revenues	665,274	687,411	3.33	2,031,001	195.46	1,783,513	(12.19)
Total FTE		4.00		11.51		11.51	

Adjustments to Revenue

Dec Unit	Cat	GL	Description	2015-16	2016-17
				Gov Rec	Gov Rec
Sub-total				0	0
Line Item Changes to Revenues				0	0

Adjustments to Expenditures

Dec Unit	Cat	GL	Description	2015-16	2016-17
				Gov Rec	Gov Rec
Sub-total				0	0
Line Item Changes to Expenditures				0	0
Total				0	0
Grand Total General Fund Impact of Closing Changes				0	0

Overview

The Division of Enterprise Information Technology Services (EITS) provides state agencies of the Executive Branch with a centralized source of information technology-related services. Services provided include programming, project management, planning, database management, computing, communications, as well as other technical services. The Office of the Chief Information Officer (CIO) establishes enterprise vision and strategies for both common and specialized Information Technology (IT) services for state agencies, and oversees the division's operational units. The Office of the CIO budget is fully supported by cost allocation reimbursements.

Major Closing Issues

1. Staffing Increases
2. Overtime, Shift Differential, Standby and Call Back Pay in EITS Budgets

Discussion of Major Closing Issues

1. Staffing Increases (E-500, E-502, E-506, E-510, ADMIN 40-41, and E-900, E-902, E-906, E-910, ADMIN-43-45): The Executive Budget recommends transferring in eight positions (7.51 FTE) to the Office of the CIO budget, representing a staffing increase of 188 percent from the four positions legislatively approved for the 2013-15 biennium. The Subcommittee should note that Office of the CIO

recovers its costs through a cost allocation to other EITS budgets, where the cost is built into the rates EITS charges for IT services. Accordingly, cost increases in the Office of the CIO budget increase the rates for all IT services EITS provides to state agencies. The recommended duties of the transferred positions are described below.

- Establish Project Management Unit (E-502, ADMIN-40 and E-902, ADMIN-44): As part of the Governor's recommendation to integrate Department of Public Safety (DPS) IT services into EITS budgets, Decision Unit E-902 transfers in four positions, including one Chief IT Manager and three IT Professionals and associated operating costs totaling $918,112 over the upcoming biennium from the DPS IT Consolidation budget to this budget. Decision Unit E-502 realigns revenues in Decision Unit E-902 and recommends additional funding totaling $43,250 over the biennium to increase reserves.

  According to the agency, the four transferred positions would establish a Project Management Unit within the Office of the CIO. Within DPS, the agency indicates that the transferred positions performed IT project management functions, a service not currently offered by EITS. With the integration of DPS IT services into EITS, the agency proposes to retain this service in order to provide dedicated project management support for significant IT projects. According to the agency, this would allow for proper project planning and documentation, resulting in projects being completed in a more timely and efficient manner.

  The Office of the CIO recovers its costs through a cost allocation to other EITS budgets, where the cost is built into the rates EITS charges for IT services. The Governor's recommended budget proposes to support the costs associated with project management services through this cost allocation. The agency provided a list of projects that would be managed by the Project Management Unit. It appears that the majority of projects are related to specific customers or services that EITS provides. For example, the project list includes project management for the Offender Tracking Information System, a project that is directly related to the Department of Public Safety. During the March 11, 2015, budget hearing, the agency indicated that locating the Project Management Unit within the Office of the CIO would allow the project managers to work on projects located in any EITS budget.

  As discussed in the closing document for the DPS IT Consolidation budget, Fiscal staff worked collaboratively with the Budget Office, EITS, and the Administrative Services Division to evaluate whether costs transferred from the DPS IT Consolidation budget were properly allocated among existing EITS cost pools. In this budget, it was determined that two of the four positions transferred to establish the Project Management Unit would be dedicated to DPS-related projects in the 2015-17 biennium. Accordingly, Fiscal staff recommends that the costs associated with two project management positions, amounting to approximately $412,000 over the biennium, be removed from the Office of the CIO cost allocation and charged directly to DPS in the 2015-17 biennium. Fiscal staff has discussed this cost allocation plan with DPS. Since the costs of the Office of the CIO are included in all EITS service rates, charging DPS directly for the costs of the two project management positions would result in a corresponding decrease in all EITS service rates.

  Does the Subcommittee wish to approve transferring four positions from the DPS IT Consolidation budget to establish a Project Management Unit? If so, Fiscal staff recommends that the costs associated with two project manager positions totaling approximately $412,000 over the 2015-17 biennium be directly charged to DPS.

- Transfer In Manager of Application Services (E-500, ADMIN-40 and E-900, ADMIN-43-44): In Decision Unit E-900, the Governor recommends additional funding totaling $274,972 over the upcoming biennium to transfer in an unclassified Manager of Enterprise Application Services and associated operating costs from the Application Support budget. Decision Unit E-500 reallocates funding transferred in to the correct funding source, and recommends additional funding to increase reserves by $8,994 over the 2015-17 biennium.

  The agency indicates that the position transfer is proposed because the position currently serves as support staff for the CIO. Testimony by the agency at the March 11, 2015, budget hearing indicated that the 2011 merger of EITS and the Division of Human Resource Management with the Department of Administration resulted in duplication in high-level management positions. As a result of this duplication, the Manager of Enterprise Application Services position, which appears to have originally been intended to manage the Application Support budget, was repurposed to develop enterprise IT standards, perform policy research, analyze and draft organizational strategy, among other duties. A classified Chief IT Manager position in the Application Support budget assumed day-to-day management responsibility of the unit.

  Nevada Revised Statutes 242.101 specifies that the EITS Administrator shall appoint the heads of certain units, including the Enterprise Application Services Unit, in the unclassified service. With the transfer of this position to the Office of the CIO, the head of the Enterprise Application Services Unit would be a classified Chief IT Manager, as noted above. Senate Bill 72, currently in the Senate Committee on Finance, proposes to revise a number of provisions in NRS 242. If enacted as amended, the bill would remove the requirement that the Chief of the Enterprise Application Services Unit be in the unclassified service and allow the Administrator to appoint personnel as deemed necessary.

  The Governor's recommended budget does not propose to change the title of the unclassified Manager of Enterprise Application Services position to reflect the job duties of the position within the Office of the CIO budget. The full money committees will make decisions regarding the titles of unclassified positions when considering the Unclassified Pay Bill.

  Does the Subcommittee wish to approve transferring the Manager of Application Services from the Application Support budget? Fiscal staff requests authority to make technical adjustments based upon final decisions made by the money committees.

- Dedicated IT Strategic Planning Positions (E-510, ADMIN-41 and E-910, ADMIN-45): With Decision Unit E-910, the Governor recommends transferring in two unclassified positions, including a Chief of Planning, Research and Grants Management (1.0 FTE), and a Chief Assistant, Planning (0.51 FTE), and associated operating costs totaling $344,986 over the biennium from the Budget and Planning budget, in the Department of Administration, to this budget. Decision Unit E-510 realigns revenue transferred in, and recommends additional funding totaling $12,884 over the upcoming biennium to support reserve increases.

  The two positions are currently located in the Research and Planning section of the Office of Grant Procurement, Coordination, and Management, and are responsible for strategic planning, development of performance indicators, research and analysis, and grant fund development. The agency indicates the positions would focus on statewide IT strategic planning. The agency also indicates there is a need for a statewide comprehensive plan for information technology systems, as well as coordination of the platforms used by each agency for their systems' operations.

Prior to the 2011 Legislative Session, the position which is now the Chief of Planning, Research and Grants Management was located in the Office of the CIO budget as an IT Professional. As part of the reorganization of the Department of Administration, the 2011 Legislature approved transferring the position to the Budget and Planning budget and reclassifying the position. In the Budget and Planning budget, the position continued to perform certain planning-related duties for EITS, such as producing its quarterly Capacity Plan.

Currently, the agency has access to IT-related expertise necessary for statewide IT strategic planning through its Administrator and Deputy Administrator. The agency also has five high-level IT managers who serve as chiefs of the agency's operational units who could provide insight for IT strategic planning. In addition, as previously mentioned, The Executive Budget recommends transferring one additional high-level IT position from Application Support to the Office of the CIO to perform what appear to be strategy-related duties. EITS also has access to IT expertise through the Information Technology Advisory Board (ITAB). Pursuant to NRS 242.124, the ITAB shall advise EITS regarding IT development, acquisition, consolidation, policies, planning and standards, as well as review statewide strategic plans. The ITAB may also recommend goals and objective for EITS, with EITS's consent. In an April 10, 2015, follow-up memo, the agency indicated that the two positions transferred in with Decision Unit E-910 would research, document and communicate the strategic efforts of the division, assist with the organizational structure of the agency, and analyze potential service billing models. The Subcommittee approved transferring the two positions to this budget in closing the Budget and Planning budget on April 23, 2015.

Staff recommends the Subcommittee approves transferring the two positions from the Budget and Planning budget, consistent with its previous action.

- Transfer In and Reclassify Position (E-506, ADMIN-41 and E-906, ADMIN-44-45): With Decision Unit E-906, the Governor recommends additional funding totaling $113,954 over the 2015-17 biennium to transfer in one Administrative Aid position and associated operating costs from the Telecommunications budget. Decision Unit E-506 reallocates funding transferred in to the correct funding source and reclassifies the position to an Administrative Assistant at an additional cost of $7,826 over the biennium.

  According to the agency, the position currently answers and routes incoming telephone calls on the state telephone line to state agencies. The recently implemented core telephone system allows for automated call routing, decreasing the need for staff dedicated to call routing. In the Office of the CIO, the position would assist with various administrative activities, including document management, scheduling, mail routing, and reception. The Office of the CIO currently has one Administrative Assistant, and the agency indicates that increasing administrative support would allow high-level staff to focus on their core job duties rather than administrative tasks. Testimony by the agency at the March 11, 2015, budget hearing indicated that EITS currently has a 30 staff to 1 administrative support staff ratio, compared with a 12 to 1 administrative support ratio in other state agencies.

  Does the Subcommittee wish to approve transferring one position from the Telecommunications budget?

2. Overtime, Shift Differential, Standby and Call Back Pay in EITS Budgets: The Executive Budget includes funding of $79,227 in each year of the biennium to establish ongoing support for overtime, shift differential, standby and call back pay in several EITS base budgets. According to the Budget Instructions published by the Budget Office, overtime, shift differential, standby and call back pay should be removed from base budgets as one-time costs unless the agency has been

legislatively approved to budget for such costs on an ongoing basis. In order to establish these personnel related costs as an ongoing expense, an enhancement with well thought-out justification should be submitted for legislative consideration, according to the Budget Instructions. The table below displays additional personnel costs included in the Governor's recommended 2015-17 budget that were not legislatively approved during the 2013-15 biennium.

Additional Personnel Costs Included in EITS Base Budgets			
Budget	**Pay Type**	**FY 2016**	**FY 2017**
Application Support (BA 1365)	Overtime and Shift Differential	$ 9,248	$ 9,248
Computer Facility (BA 1385)*	Overtime	$ 38,949	$ 38,949
Data Communications and Network Engineering (BA 1386)	Overtime, Standby and Call Back	$ 15,319	$ 15,319
Network Transport Services (BA 1388)	Overtime, Standby and Call Back	$ 15,711	$ 15,711
Totals		**$ 79,227**	**$ 79,227**
* The Computer Facility budget is currently Legislatively approved to budget for shift differential, standby, and call back pay due to the nature of its services.			

The Governor's budget also recommends transferring overtime, shift differential, standby and call back pay from the DPS IT Consolidation budget to the Application Support, Computer Facility and Data Communications and Network Engineering budgets as part of the dissolution of that budget.

In an April 10, 2015, follow-up memo, the agency indicated that it is increasingly expected to support critical systems 24/7 and that EITS historically managed overtime, shift differential, standby, and call back pay, within the parameters of the available budget authority and reasonable customer expectations. Flexible work schedules and assigned shift work are employed where practicable, while overtime, standby and call back duties are used to cover shifts during unexpected staff illnesses or leave, and during times of afterhours emergency work. <u>The agency's response did not indicate why it is no longer feasible for the agency to continue managing personnel costs in this manner as the majority of state agencies do</u>.

Fiscal staff reviewed work program revisions for the Personnel category for the accounts in the table above, as well as the DPS IT Consolidation account and the DPS Technology budget, for FY 2012, FY 2013 and FY 2014 and found that six Personnel category work program revisions were processed for these budgets over the three-year period, one of which was ultimately not necessary. Out of these five necessary work programs, it appears that two work programs (out of a total of 15 possible work programs for five budgets over the three-year period) were necessary primarily due to terminal leave and compensatory time payouts.

The Subcommittee should note that budgeting for overtime, shift differential, standby and call back pay will factor into the calculation of the service rate EITS charges its customers and result in rates that would be higher than if these pay items are not included in the budget. If overtime, shift differential, standby and call back pay costs are not incurred to the degree budgeted, the excess revenue will accumulate in reserves.

Does the Subcommittee wish to approve establishing authority for overtime, shift differential, standby and call back pay in EITS, as specified in the table above, as an ongoing base budget expense?

Other Closing Items

1. Replacement Equipment (E-710, ADMIN-42): The Governor recommends additional funding totaling $6,459 over the 2015-17 biennium to replace laptop and desktop computers that have reached the end of useful life. **This recommendation appears reasonable to staff.**

2. Cost Allocation Adjustments (E-801 and E-804, ADMIN-42-43): The Governor recommends additional cost allocation reimbursements of $790 and decreases in reserves of $14,370 over the 2015-17 biennium to support adjustments associated with the Department of Administration's internal cost allocations. **This recommendation appears reasonable to staff.**

   Fiscal staff recommends the Other Closing Items be closed as recommended by the Governor and requests authority to make technical adjustments as necessary.

Additional Information – No Action Required

1. Budgeted Reserves in EITS Budgets: During the March 11, 2015, budget hearing, the Subcommittee discussed budgeted reserve levels in EITS budgets and the potential for federal reimbursements due to excess reserves. To minimize the potential for future federal reimbursements, the agency indicated that it is proposing lower reserves in the 2015-17 biennium and pursuing lease agreements over capital purchases.

   It should be noted that EITS rates and assessments will be recalculated based on the Legislature's closing actions in EITS accounts as well as EITS utilization levels in other accounts. Staff will work with the agency to set EITS rates and assessments at a level to align budgeted reserves with the thresholds established by federal regulations. No action is required on this item.

2. Senate Bill (S.B.) 72: Senate Bill 72, currently in the Committee on Government Affairs, proposes various changes to the statute governing EITS. The bill proposes to eliminate the existing units of the division, allow the Administrator to appoint staff, allow EITS to define policy for the Nevada Criminal Justice Information System, revise the composition of the Information Technology Advisory Board, allow the Administrator to prohibit agencies from utilizing EITS services, revise provisions governing the Fund for Information Services, and eliminate the requirement for the division to maintain a list of confidential records. No action is required on this item.

Title: ADMINISTRATION - IT - APPLICATION SUPPORT **Budget Page:** ADMIN-47, **Volume I**
Account: 721 - 1365

Revenues	2013-14 Actual	2014-15 WP	% Chg	2015-16 GOV REC	% Chg	2016-17 GOV REC	% Chg
BALANCE FORWARD	(141,522)	573,501	(505.24)	747,037	30.26	1,285,049	72.02
INTERAGENCY TRANSFER	4,512,520	4,487,631	(0.55)	9,419,392	109.90	8,631,559	(8.36)
OTHER FUND	142						
Total Revenues	4,371,140	5,061,132	15.79	10,166,429	100.87	9,916,608	(2.46)
Total FTE		38.00		73.00		73.00	

Adjustments to Revenue

Dec Unit	Cat	GL	Description	2015-16	2016-17
E227	00	3816	Eliminate operating costs for contract programmers.	(19,387)	(2,019)
E501	00	3816	Eliminate agency-owned vehicles that are no longer needed per the agency	(250)	
E501	00	3816	Reestablish rent for Campos Bldg. eliminated in error	5,023	5,225
E501	00	4230	Eliminate agency-owned vehicles that are no longer needed per the agency	250	
E501	00	4230	Reestablish rent for Campos Bldg. eliminated in error	(5,023)	(5,225)
E901	00	4230	Eliminate agency-owned vehicles that are no longer needed per the agency	(250)	
E901	00	4230	Reestablish rent for Campos Bldg. eliminated in error	5,023	5,225
Sub-total				(14,614)	3,206
Line Item Changes to Revenues				(14,614)	3,206

Adjustments to Expenditures

Dec Unit	Cat	GL	Description	2015-16	2016-17
E227	04	7000	Eliminate operating costs for contract programmers.	(967)	(1,040)
E227	05	7000	Eliminate operating costs for contract programmers.	(1,500)	
E227	05	8000	Eliminate operating costs for contract programmers.	(9,560)	
E227	26	7000	Eliminate operating costs for contract programmers.	(2,328)	(979)
E227	26	8000	Eliminate operating costs for contract programmers.	(5,032)	
E901	04	7000	Eliminate agency-owned vehicles that are no longer needed per the agency	(250)	
E901	04	7000	Reestablish rent for Campos Bldg eliminated in error	5,023	5,225
Sub-total				(14,614)	3,206
Line Item Changes to Expenditures				(14,614)	3,206

Total	0	0
Grand Total General Fund Impact of Closing Changes	0	0

Overview

Application Support is responsible for business analysis, application development and maintenance programming, production support, web page development and support, database development and administration, and customer support, including helpdesk and desktop support.

Major Closing Issues

1. Staffing Increases
2. Transfer Out Positions
3. Contract Software Development Staff
4. Integration of Department of Public Safety IT Services

Discussion of Major Closing Issues

1. Staffing Increases (E-246, E-248, and E-249, ADMIN-49-51): The Governor recommends additional funding totaling $560,597 in the 2015-17 biennium to support four new positions and associated operating costs. The new positions, which are all recommended to start October 1, 2015, are described below.

   - New Desktop Support Position (E-246, ADMIN-49-50): Additional funding totaling $192,810 is recommended over the 2015-17 biennium to add one Information Technology (IT) Technician position to the Desktop Support Unit to respond to customer support requests. According to documentation provided by the agency, the new position is requested to replace a position that was reassigned from the Desktop Support Unit to provide support for the Symantec Altiris Endpoint application, the agency's statewide desktop security solution, which was deployed in FY 2013.

     According to the agency, the reallocation of a position from the Desktop Support Unit to the Symantec Altiris Endpoint application has left the Desktop Support Unit understaffed, resulting in delays to customer assistance. In an April 10, 2015, follow-up memo, the agency indicated that the Desktop Support Unit is responsible for supporting 60 locations throughout the state with nine staff. Currently, the agency reports that customer requests for desktop support have an eight-day average resolution timeframe. The agency indicates that the average time to resolve support requests negatively impacts the business operations of its customers. The agency states it currently maintains a 1:400 staff-to-device ratio for its Desktop Support Unit, with nine employees supporting 3,600 devices. If this new position is approved, the ratio would be 1:360. The agency indicates that the industry standard staff to device ratio is 1:150-180.

     It should be noted that the new position in Decision Unit E-246 is budgeted at a step ten. Typically, new positions are budgeted at a step one. Testimony by the agency during the 2013 Legislative Session indicated that the agency has difficulty hiring technical positions at a step one. However, The Executive Budget recommends that two other new IT Technician positions in Decision Unit E-248 be budgeted at a step one. Budgeting the position at a step one rather than a step ten would result in cost savings of $45,922 over the 2015-17 biennium, and budgeting the position at a step five rather than a step ten would result in cost savings of $28,219 over the 2015-17 biennium.

     Does the Subcommittee wish to approve one new IT Technician position for the Desktop Support Unit? If so, does the Subcommittee wish to approve budgeting the new position at a step ten as recommended in The Executive Budget, at a step one, generating cost savings of $45,922 over the 2015-17 biennium, or at a step five, generating cost savings of $28,219 over the 2015-17 biennium?

   - New Positions to Support the Highway Patrol Mobile Data Computer Project (E-248, ADMIN-50): Additional funding totaling $272,033 over the upcoming biennium is recommended to add two IT Technician positions to the Desktop Support Unit to provide customer support for the Highway Patrol's Mobile Data Computer project (E-550, PUBLIC SAFETY-51). The Highway Patrol

Mobile Data Computer project is an initiative to equip all patrol vehicles with tablet computers, allowing law enforcement personnel to access public safety information in the field wirelessly.

The agency indicates that two new positions are requested to provide for a staff-to-device ratio of 1:150-180. In comparison, the agency indicates it currently maintains a 1:400 staff-to-device ratio for its Desktop Support Unit, with nine employees supporting 3,600 devices. Over a four-year period, the Highway Patrol plans to purchase 484 tablets to implement the Mobile Data Computer project. The Highway Patrol's tablet purchase schedule is displayed in the following table, along with the recommended desktop support staff-to-device ratio:

Scheduled Highway Patrol Tablet Purchases and EITS Staffing Ratio			
Year	**Tablet Purchases Scheduled**	**Cumulative Number of Tablets**	**EITS Desktop Support Staffing Ratio**
FY 2015	35	35	0
FY 2016	150	185	93
FY 2017	160	345	173
FY 2018	139	484	242

As previously noted, both new positions are recommended to start October 1, 2015, resulting in a FY 2016 staff-to-device ratio of 93, compared to the agency's stated staff-to-device ratio of 150-180. Testimony by the agency at the March 11, 2015, budget hearing, indicated that Desktop Support staff needed to be able to respond expeditiously due to requests for support for the Highway Patrol tablets, due to the public safety function of the devices.

Considering the Highway Patrol's anticipated device deployment schedule, the Subcommittee asked the agency whether it would be feasible to delay the start date of one position from FY 2016 to FY 2017 to align staffing with the agency's stated staff-to-device ratio. Testimony by the agency at the March 11, 2015, budget hearing indicated that it would be preferable to add both new positions at the same time to create support redundancies. The agency further indicated that the Highway Patrol mobile data project would require support in both the northern and southern regions of the state.

Does the Subcommittee wish to approve two positions to support the Highway Patrol Mobile Data Computer project, contingent upon the approval of Decision Unit E-550 in the Highway Patrol budget?

- New Administrative Support Position (E-249, ADMIN-51): Additional funding totaling $95,754 over the 2015-17 biennium is recommended to add one Administrative Assistant and associated operating costs to provide administrative support for Application Support staff. Currently, Application Support does not have any administrative support staff. According to information attached to The Executive Budget, the position would perform budgeting, billing, travel, payroll, human resource, and other administrative functions. In addition, the agency indicates that the position would develop IT policies, development standards, and other agency strategic plans.

  The Subcommittee should note that EITS was previously a stand-alone department. In FY 2011, EITS merged with the Department of Administration. As part of the merger, budgeting, accounting, billing, and human resource functions were transferred out of EITS to the department's Administrative Services Division and Division of Human Resource Management. EITS continues to have access to budgeting, accounting, billing, and human resource services through these divisions. Additionally, policy development and strategic planning functions appear to be more appropriate for high-level management staff rather than administrative support staff.

During the March 11, 2015, budget hearing, the Subcommittee asked the agency whether the new position would be strictly performing duties that align with the Administrative Assistant class specification, and the agency indicated that it intended the position to only provide administrative support and not to perform higher level duties. The agency further indicated that the new position would not duplicate any of the duties performed by the Administrative Services Division.

The agency indicates that the new position would allow technical staff to focus on their core job duties. Currently, the agency indicates technical staff is responsible for administrative duties, including ordering supplies, routing mail and completing administrative paperwork. The agency indicates that the new position would allow technical staff to dedicate additional time to IT-related duties.

Does the Subcommittee wish to approve one new Administrative Assistant for Application Support?

2. <u>Transfer Out Positions (E-903 and E-904, ADMIN-55-56)</u>: The Governor recommends decreasing funding by $780,459 over the 2015-17 biennium to transfer out three programmer/developer IT Professional positions. Two positions would be transferred to the Department of Transportation (NDOT) and one position would be transferred to the Department of Education (NDE).

   The agency indicates that the positions are fully dedicated to agency-specific applications, and that the NDOT and the NDE requested the positions be transferred to the individual departments. EITS indicates that no issues exist with the current location of these positions. However, according to the NDOT, the coordination of employee management and billing for services creates inefficiencies that would be solved by the proposed transfer. Testimony by the agency at the March 11, 2015, budget hearing indicated that it does not believe that NDE and NDOT are well served by having IT staff that are dedicated to supporting their departments located within EITS.

   Transferring two positions to the Department of Transportation results in Highway Fund savings of $116,503 in FY 2016 and $117,750 in FY 2017 in the Transportation Administration budget, and transferring one position to the Department of Education results in General Fund savings of $90,465 in FY 2016 and $91,298 in FY 2017 in the Data Systems Management budget. The savings in the other budgets are primarily due to the difference between personnel costs and the rate EITS charges for programmer/developer services, which includes EITS overhead costs. Overhead costs in this budget were not reduced with the transfer out of the three positions and would be distributed to remaining EITS customers through service rates. Accordingly, transferring the positions does not appear to generate an overall cost savings to the state.

   In 2012, the Information Technology Advisory Board, which advises EITS on issues relating to IT pursuant to NRS 242.124, issued an advisory opinion which identified improving the efficiency of the state's IT environment through consolidation and improved governance and standardization. The 2013 Legislature expressed support for this concept in approving the transfer of the Department of Public Safety's IT services to EITS. Testimony by the agency at the March 11, 2015, budget hearing indicated that the agency is currently focusing on infrastructure support and fully consolidated agency support rather than pursuing a consolidated approach for all state IT services.

Does the Subcommittee wish to approve the transfer of two positions to the Department of Transportation and one position to the Department of Education, contingent upon the approval of the transfers in the Department of Transportation and the Department of Education budgets?

3. Contract Software Development Staff (E-227, ADMIN-49): The Governor recommends additional programmer/developer revenues totaling $1.2 million over the 2015-17 biennium to support contract software development staff and associated equipment and operating costs. The recommended funding would support approximately 5,500 hours of contracted services annually, at $100 per hour. This equates to approximately 2.6 FTE (52 weeks x 40 hours per week = 2,080 hours per year. 5,500 hours / 2,080 hours = 2.6 FTE).

   According to the agency, the contract software developers would provide application development for the Department of Public Safety (DPS) Technology Investment Request projects. Specifically, the contractors would work on the Nevada Criminal Justice Information System (NCJIS) modernization project (E-550, PUBLIC SAFETY-132) and the Offender Tracking Information System (OTIS) replacement (E-550, PUBLIC SAFETY-80). According to DPS, the NCJIS modernization project is estimated to be complete in FY 2021 and the OTIS replacement project is estimated to be complete in July 2017. During the March 11, 2015, budget hearing, the agency indicated that contract software development staff would be eliminated at the conclusion of the DPS projects.

   It should be noted that the costs associated with the contract software development staff are included in the programmer/developer cost pool in the Governor's recommended budget. As a result, the programmer/developer rate recommended in The Executive Budget is much higher than it would have been if costs for contract software development staff had not been included. In an April 10, 2015, follow-up memo, the agency indicated that the programmer/developer rate increased by over $19 per hour as a result of including contract software development costs in the programmer/developer cost pool, representing a 23 percent increase over the FY 2014 actual programmer/developer rate of $83.33 per hour.

   To ensure that the costs of using contract software developers for DPS projects are not distributed to other state agencies through an increase in the programmer/developer rate, it would be appropriate for contract costs to be removed from the programmer/developer cost pool and be directly billed to DPS in the 2015-17 biennium. Pursuant to NRS 242.131(4), EITS may contract with independent contractors for services, with the provision that EITS be responsible for administering the contract. Therefore, the contract should be retained within EITS rather than be located within DPS. Fiscal staff has discussed this billing approach with the Budget Office, EITS, and DPS. In order to track contract costs, it would be reasonable to locate contract costs in a special use category rather than the Information Services category.

   DPS budgets request total EITS programmer/developer utilizations amounting to 9,600 hours annually, at a cost of $1.1 million annually, for the NCJIS modernization and OTIS replacement projects. In comparison, this decision unit supports 5,500 hours annually for contract software development services. Staff asked the agency whether state staff would provide programming services for the NCJIS modernization and OTIS replacement projects. The agency indicated that EITS staff would train the contract staff and provide project management and database support. However, the agency did not indicate that EITS staff would provide programming services for the DPS projects. Testimony by the agency at the March 11, 2015, budget hearing indicated that EITS does not typically request resources to fully meet agency need. Considering that it appears that development for the NCJIS modernization and OTIS replacement projects would be completely supported by contract staff, it would be appropriate to increase the number of contract software development hours budgeted in this decision unit to provide sufficient resources to meet DPS programming needs.

Fiscal staff asked the agency to project how many contractor hours would be necessary to provide sufficient support for the DPS NCJIS modernization and OTIS replacement projects in the 2015-17 biennium. In an April 23, 2015, email, the agency indicated that EITS recommended six full-time contractors at 2,000 hours annually each, or 12,000 hours annually in total. At the budgeted rate of $100 per hour, the cost would be $1.2 million annually. This would be an increase of approximately $194,000 annually over the amount recommended in The Executive Budget for EITS programmer/developer utilizations within DPS budgets for the NCJIS modernization and OTIS replacement projects, if DPS were to be directly billed for contractor services. The decision regarding the amount of funding to allocate to the NCJIS modernization and OTIS replacement projects will be made by the Joint Subcommittee on Public Safety, Natural Resources, and Transportation in closing the Criminal History Repository and Parole and Probation budgets.

As noted above, this decision unit includes funding for equipment and operating costs. Specifically, $21,406 is recommended for purchasing computer and office equipment and various operating costs. Typically, contract staff provide their own tools and supplies, which is reflected in the hourly compensation contractors receive. Staff has completed technical adjustments, as shown on the closing document, to eliminate these costs.

Does the Subcommittee wish to approve contract software development staff for the NCJIS modernization and OTIS replacement projects, contingent upon the approval of Decision Units E-550 in the Parole and Probation and Criminal History Repository budgets, with the noted technical adjustment? If so, staff recommends that contract costs be removed from the Programmer/Developer cost pool and be directly billed to DPS, and that contract costs be moved to a special use expenditure category for tracking purposes. Fiscal staff requests authority to align contract programmer hours in this budget with the amount of funding approved in the Parole and Probation and Criminal History Repository budgets.

4. Integration of Department of Public Safety IT Services (E-501, ADMIN-51-52 and E-901, ADMIN-55): With Decision Unit E-901, the Governor recommends transferring in additional funding totaling $6.8 million over the biennium to transfer in 35 positions and associated operating costs from the DPS IT Consolidation budget to complete the integration of DPS IT services with EITS. Decision Unit E-501 reallocates funding transferred in to the correct sources and increases reserves by $665,609 over the biennium, bringing total additional costs associated with the integration of DPS IT services in this budget to $7.5 million over the biennium. The 35 transferred positions, which include 16 IT Professionals, 15 IT Technicians, and 4 IT Managers, represent a 92 percent increase in Application Support staffing when compared to 38 positions legislatively approved for the 2013-15 biennium.

   The table below summarizes the $7.5 million in costs added to this budget with Decision Units E-501 and E-901.

Summary of Costs Transferred from the DPS IT Consolidation Budget to the Application Support Budget

Item	FY 2016 Cost	FY 2017 Cost
Personnel	$ 2,934,410	$ 2,986,264
In-State Travel	$ 40,029	$ 44,481
Operating Expenses	$ 168,634	$ 168,333
Information Services	$ 172,692	$ 170,498
Training	$ 7,555	$ 7,555
Departmental Cost Allocations	$ 67,444	$ 68,178
Reserve Increase	$ 647,809	$ 17,800
Totals	$ 4,038,573	$ 3,463,109

Of the $7.5 million in costs recommended to be added to this budget in the 2015-17 biennium, The Executive Budget recommends that $4.3 million, or 57 percent, be integrated into existing EITS service rates. The Executive Budget recommends that the remaining $3.2 million, or 43 percent, be supported by DPS on a cost reimbursement basis to charge DPS directly for costs associated with 24/7 help desk operations.

As discussed in the closing document for the DPS IT Consolidation budget, Fiscal staff worked collaboratively with the Budget Office, EITS, and the Administrative Services Division to evaluate whether costs transferred from the DPS IT Consolidation budget were properly allocated among existing EITS cost pools. In this budget, it was determined that the costs associated with several positions and software packages specifically related to DPS do not align with an existing EITS cost pool. These costs, which amount to $1.6 million in FY 2016 and $1.4 million in FY 2017, are outlined below:

- 24/7 help desk operations: Eleven positions, including one IT Manager and ten IT Technicians, would be 100 percent dedicated to DPS-specific duties related to operating a help desk 24/7 for DPS staff and other public safety users throughout the state.
- Geographic information systems (GIS): One IT Professional position would be 100 percent dedicated to supporting specialized DPS GIS applications.
- NCJIS modernization and OTIS replacement projects: Two positions would be partially dedicated to project coordination, employee supervision, recruiting contractors, and developing reports in relation to the NCJIS modernization and OTIS replacement projects, including one IT Manager who would be 50 percent dedicated to these projects and one Chief IT Manager who would be ten percent dedicated to these projects.
- Enterprise Application Architect: One IT Professional position would be 50 percent dedicated to providing services specific to DPS applications.
- DPS-specific software: Software for the Oracle database platform and GIS-specific software are directly related to DPS-specific applications.

Accordingly, Fiscal staff recommends that the costs outlined above, amounting to approximately $1.6 million in FY 2016 and $1.4 million in FY 2017, be charged directly to DPS in the 2015-17 biennium. This is approximately $300,000 less than DPS was originally recommended to reimburse EITS for 24/7 help desk support in The Executive Budget. Fiscal staff has discussed this cost allocation plan with DPS.

Fiscal staff has completed technical adjustments in Decision Units E-501 and E-901 to add rental costs that were inadvertently omitted from The Executive Budget and remove costs for agency-owned vehicles that are no longer needed. The technical adjustments, shown on the closing sheet, result in a net revenue increase totaling $9,998 over the 2015-17 biennium.

Does the Subcommittee wish to approve transferring 35 positions from the DPS IT Consolidation budget with the noted technical adjustments? If so, staff recommends that DPS-specific costs totaling approximately $1.6 million in FY 2016 and $1.4 million in FY 2017 be removed from existing EITS cost pools and directly charged to DPS in the 2015-17 biennium.

Other Closing Items

1. Replacement Equipment (E-710 and E-711, ADMIN-52-53): The Governor recommends additional funding totaling $9,521 over the 2015-17 biennium to replace equipment that has reached the end of its useful life, including desktop computers, laptop computers, monitors, and office chairs. **This recommendation appears reasonable.**

2. Cost Allocation Adjustments (E-801 and E-804, ADMIN-53-54): The Governor recommends additional funding of $5,590 and reserve decreases of $103,465 over the 2015-17 biennium to support adjustments associated with the Department of Administration's internal cost allocations. **This recommendation appears reasonable.**

3. Transfer Out Position (E-900, ADMIN-54): The Governor recommends decreasing funding by $274,972 over the 2015-17 biennium to transfer out the Manager of Enterprise Application Services and associated operating costs to the Office of the Chief Information Officer (CIO). This recommendation is further discussed in the Office of the CIO budget. **Fiscal staff requests authority to make adjustments based on the Subcommittee's action for the position transfer in the Office of the CIO budget.**

4. Vacancy Savings: The Vacancy Savings schedule for this budget was not configured to include enhancement decision units, as specified in the Budget Instructions. The Governor's recommended budget contains vacancy savings totaling $155,960 over the 2015-17 biennium, compared with vacancy savings of $262,070 calculated, including enhancement decision units as specified in the Budget Instructions. **Fiscal staff requests authority to make technical adjustments to include vacancy savings for enhancement decision units as specified in the Budget Instructions.**

Fiscal staff recommends the Other Items be closed as recommended by the Governor, and requests authority to make the noted technical adjustments and further technical adjustments as necessary.

Title: ADMINISTRATION - IT - COMPUTER FACILITY **Budget Page:** ADMIN-58, **Volume I**
Account: 721 - 1385

Revenues	2013-14 Actual	2014-15 WP	% Chg	2015-16 GOV REC	% Chg	2016-17 GOV REC	% Chg
BALANCE FORWARD	(671,195)	2,574,077	(483.51)	2,574,821	0.03	1,541,865	(40.12)
INTERAGENCY TRANSFER	11,602,542	12,523,821	7.94	13,656,226	9.04	14,470,792	5.96
OTHER FUND	2,057						
Total Revenues	10,933,404	15,097,898	38.09	16,231,047	7.51	16,012,657	(1.35)
Total FTE		44.00		47.00		48.00	

Adjustments to Revenue

Dec Unit	Cat	GL	Description	2015-16	2016-17
B000	00	3809	Eliminate cloud-based e-mail from base budget.	(512,100)	(512,100)
B000	00	3809	Increase Proofpoint e-mail encryption software costs in base budget to align with licenses necessary for a state-owned e-mail system.	50,456	60,691
E503	00	3809	Eliminate backup battery maintenance that is no longer necessary and reestablish rent for Campos Bldg. eliminated in error.	(6,702)	(6,651)
E503	00	4230	Eliminate backup battery maintenance that is no longer necessary and reestablish rent for Campos Bldg. eliminated in error.	6,702	6,651
E720	00	3809	Adjust amount budgeted for virtual server equipment to align with price quote.	(26,152)	
E903	00	4230	Eliminate backup battery maintenance that is no longer necessary.	(7,958)	(7,958)
E903	00	4230	Reestablish rent for Campos Bldg. eliminated in error	1,256	1,307
Sub-total				(494,498)	(458,060)
Line Item Changes to Revenues				(494,498)	(458,060)

Adjustments to Expenditures

Dec Unit	Cat	GL	Description	2015-16	2016-17
B000	26	7000	Eliminate cloud-based e-mail from base budget.	(512,100)	(512,100)
B000	26	7000	Increase Proofpoint e-mail encryption software costs in base budget to align with licenses necessary for a state-owned e-mail system.	50,456	60,691
E720	26	8000	Adjust amount budgeted for virtual server equipment to align with price quote.	(26,152)	
E903	04	7000	Eliminate backup battery maintenance that is no longer necessary.	(7,958)	(7,958)
E903	04	7000	Reestablish rent for Campos Bldg. eliminated in error	1,256	1,307
Sub-total				(494,498)	(458,060)
Line Item Changes to Expenditures				(494,498)	(458,060)

Total	0	0
Grand Total General Fund Impact of Closing Changes	0	0

Overview

Computer Facility staff is responsible for managing, operating, and supporting the state's mainframe server, Internet servers, and application servers in a secure 24/7 environment. Staff provides computer operation and production services, server systems software support, tape library management, disk storage management, help desk services, data security functions, printing services, server maintenance, Internet infrastructure monitoring and maintenance, web application hosting and e-mail management.

Major Closing Issues

1. State E-mail Update
2. Disaster Recovery
3. Integrate Department of Public Safety IT Services
4. Cloud Computing Pilot Project
5. New Archiving System

Discussion of Major Closing Issues

1. State E-mail Update (Base, ADMIN-58): The 2013 Legislature approved the Governor's recommendation to migrate the state's e-mail system from a state-owned and hosted Microsoft Exchange system to an outsourced cloud-based e-mail solution. According to information provided by the agency during the 2013 Session, the transition to the outsourced cloud-based e-mail solution was expected to be complete by January 2014.

   Although the transition to cloud-based e-mail was to be complete by January 2014, a request for proposal (RFP) for cloud-based e-mail was not released until January 24, 2014. No contract resulted from the initial RFP. The Purchasing Division released a second RFP for cloud-based e-mail on July 15, 2014, with vendor responses due by August 21, 2014. However, the agency did not identify a cloud-based e-mail vendor prior to the budget hearing. During the March 20, 2015, budget hearing, the Subcommittee discussed the status of transitioning to cloud-based e-mail. The Director of the Department of Administration indicated that it is unlikely the state would transition to cloud-based e-mail in the immediate future and that the agency is considering phasing in the transition to cloud-based e-mail, beginning in FY 2017, rather than transitioning all user agencies to cloud-based e-mail at one time as originally intended. Furthermore, the Director indicated that the intent is to transition users over a two to three-year period and to phase out the state-owned e-mail system during the 2017-19 biennium.

   At its April 9, 2015, meeting, the Interim Finance Committee approved a work program for this budget to utilize existing authority and reserve funding totaling $1.0 million in FY 2015 to upgrade the existing Microsoft Exchange Server 2007 software to Microsoft Exchange Server 2013 software to provide e-mail and messaging services to state agencies and purchase e-mail encryption software for 13,500 users. The agency indicated that the software upgrade would be deployed on existing hardware and that the upgrade would allow the state-owned e-mail system to remain functional for approximately four years.

   The Governor's recommended base budget for this account includes funding of $512,100 in each year for cloud-based e-mail. As the exact timeline for transitioning to cloud-based e-mail remains uncertain, it appears that it would be reasonable to remove costs associated with cloud-based e-mail from the base budget. The Budget Office agrees that this is appropriate.

   Fiscal staff has completed base budget adjustments, shown on the closing document, to eliminate costs totaling $1.0 million over the 2015-17 biennium relating to cloud-based e-mail and to increase costs by $111,147 over the 2015-17 biennium for Proofpoint e-mail encryption software, based on cost projections provided by the Budget Office. Together, these adjustments result in net decreases in e-mail user charges of $913,053 over the 2015-17 biennium. According to the Administrative Services Division, these adjustments would lower the e-mail service rate from $6.71 per user per month rate recommended in The Executive Budget for FY 2016 to approximately $3.40 per user per month, based on preliminary calculations. A similar reduction would occur in FY 2017. **Staff recommends the**

Subcommittee approve the noted adjustment, consistent with the Interim Finance Committee's actions regarding the state e-mail system.

2. Disaster Recovery (E-240, ADMIN-61): The Executive Budget recommends additional computer facility charges totaling $1.0 million over the 2015-17 biennium to enhance the state's disaster recovery plan. The table below summarizes the additional costs included in this decision unit.

Disaster Recovery Recommendations for the 2015-17 Biennium				
		FY 2016		**FY 2017**
New IT Professional position	$	-	$	104,601
Disaster recovery consulting services	$	158,183	$	-
Operating costs, training, new computer equipment and enhanced network services	$	-	$	703,699
Reserve increase	$	19,773	$	17,501
Totals	**$**	**177,956**	**$**	**825,801**

The Subcommittee should note that the 2013 Legislature approved the Governor's recommendation for additional funding totaling $1.1 million over the 2013-15 biennium to implement dedicated disaster recovery planning to address weaknesses identified by a 2012 Legislative Counsel Bureau audit. In a report to the October 6, 2014, meeting of the Legislative Commission's Audit Subcommittee, the Legislative Counsel Bureau Audit Division indicated that EITS had fully implemented corrections to the 2012 audit findings. The additional $1.1 million in funding approved in 2013 was approved to support upgrading the Las Vegas mainframe, purchasing disaster recovery software and disaster recovery equipment, relocating disaster recovery equipment, providing additional bandwidth, and engaging a disaster recovery consultant to develop a disaster recovery plan. In addition, one existing position was repurposed to manage disaster recovery documentation and testing.

The additional disaster recovery enhancements recommended for the 2015-17 biennium in Decision Unit E-240 are described below.

New Position: One new IT Professional position is recommended beginning July 2016 to perform tasks related to disaster recovery, including backing up data, replicating data between the Carson City data center and the Las Vegas disaster recovery site, and continuous disaster recovery testing. As noted above, the 2013 Legislature approved dedicating one existing position to disaster recovery efforts by transferring one IT Professional position from the Application Support budget to the Security budget. Testimony by the agency at the March 20, 2015, budget hearing indicated that the disaster recovery position located in the Security budget is responsible for developing an enterprise-level disaster recovery plan. The new position recommended for this budget would be dedicated to disaster recovery specifically for Computer Facility-related items, such as the mainframe, servers, and storage systems.

It should be noted that the new position is budgeted at a step ten. Typically, new positions are budgeted at a step one. Testimony by the agency during the 2013 Legislative Session indicated that the agency has difficulty hiring technical positions at a step one. Budgeting the position at a step one rather than a step ten would result in savings of $31,885 in FY 2017, and budgeting the position at a step five rather than a step ten would result in savings of $19,453 in FY 2017.

Disaster Recovery Consulting Services: A disaster recovery consultant is recommended in FY 2016 to develop a disaster recovery plan. The agency indicates that the consultant would deliver a written disaster recovery plan at the conclusion of the contract. As previously noted, the 2013 Legislature approved funding for a disaster recovery consultant to develop a disaster recovery plan in the 2013-15 biennium. However, the agency did not engage a disaster recovery consultant and EITS staff developed the disaster recovery plan. Testimony by the agency at the March 20, 2015, budget hearing indicated that the consulting services recommended in this decision unit would be for developing disaster recovery plans for Computer Facility-specific systems and that it intends to utilize the consultant rather than state staff to develop the plan. It appears that a disaster recovery plan specifically for Computer Facility services would not be duplicative of the enterprise-level plan developed during the 2013-15 biennium.

Other Recommendations: Additional funding is recommended in FY 2017 to support disaster recovery efforts, including specialized disaster recovery trainings, the purchase of storage hardware and software, and a redundant data connection between Carson City and Las Vegas.

During the March 20, 2015, budget hearing, testimony by the agency indicated that additional resources for EITS disaster recovery are likely to be necessary in future biennia, as the resources in this decision unit are specific to Computer Facility Services. The agency indicated that if this decision unit is approved, approximately 30 percent of EITS disaster recovery needs would be met. Additional disaster recovery resources may be necessary in the future for disaster recovery for the state's microwave communications system and SilverNet.

Does the Subcommittee wish to approve additional funding totaling $1.0 million over the 2015-17 biennium to enhance disaster recovery for the Computer Facility, including one new IT Professional position? If so, does the Subcommittee wish to approve budgeting the new position at a step ten as recommended in The Executive Budget or at a step one, generating cost savings of $31,885 in FY 2017 or a step five, generating savings of $19,453 in FY 2017?

3. Integrate Department of Public Safety (DPS) IT Services (E-503, ADMIN-61-62 and E-903, ADMIN-65): As part of the Governor's recommendation to integrate Department of Public Safety (DPS) IT services into EITS budgets, Decision Unit E-903 transfers in four IT Professional positions and associated operating costs totaling $3.0 million over the upcoming biennium from the DPS IT Consolidation budget to this budget. Decision Unit E-503 realigns revenues in Decision Unit E-903 and recommends additional funding totaling $184,140 over the biennium to increase reserves and eliminate infrastructure assessment charges. The positions would primarily be assigned to supporting servers.

The table below summarizes the $3.2 million in costs added to this budget with Decision Units E-503 and E-903.

Summary of Costs Transferred from the DPS IT Consolidation Budget to the Computer Facility Budget

Item	FY 2016 Cost		FY 2017 Cost	
Personnel	$	346,973	$	358,566
Operating Expenses	$	26,697	$	26,688
Information Services	$	1,227,543	$	990,808
Departmental Cost Allocations	$	7,709	$	7,792
Reserve Increase/Expenditure Adjustment	$	204,319	$	(20,179)
Totals	**$**	**1,813,241**	**$**	**1,363,675**

Fiscal staff has completed technical adjustments in Decision Units E-503 and E-903 to add rental costs that were inadvertently omitted from The Executive Budget and to eliminate backup battery maintenance costs that are no longer necessary, based on information provided by the Budget Office. The technical adjustments, shown on the closing sheet, result in a net revenue decrease totaling $13,353 over the 2015-17 biennium.

As discussed in the closing document for the DPS IT Consolidation budget, Fiscal staff worked collaboratively with the Budget Office, EITS, and the Administrative Services Division to evaluate whether costs transferred from the DPS IT Consolidation budget were properly allocated among existing EITS cost pools. In this budget, it was determined that costs associated with web filtering software, Spillman infrastructure maintenance, EMC2 storage systems, and IBM Tivoli Storage

Manager maintenance, amounting to approximately $777,000 over the 2015-17 biennium, were specific to DPS and do not appear to align with existing EITS cost pools. Accordingly, Fiscal staff recommends that costs totaling approximately $777,000 over the 2015-17 biennium be removed from existing EITS cost pools and charged directly to DPS in the 2015-17 biennium. This cost allocation plan has been discussed with DPS. Within DPS, adjustments may be necessary to Unix and Disk Storage utilizations to account for charging DPS directly for services in this budget.

Does the Subcommittee wish to approve integrating DPS IT costs and staff into this budget? If so, staff suggests that DPS-specific costs totaling approximately $777,000 over the 2015-17 biennium be removed from existing EITS cost pools and directly charged to DPS. Fiscal staff will make appropriate adjustments to appropriate EITS and DPS budgets resulting from the Subcommittee's closing actions.

4. Cloud Computing Pilot Project (E-226, ADMIN-60): The Governor recommends additional computer facility charges totaling $105,266 over the 2015-17 biennium to support an outsourced cloud computing pilot project. Cloud computing utilizes groups of remote servers and software to allow on-demand computing service delivery via the Internet on a pay-for-use basis. The agency has not identified specific projects for the cloud computing pilot project at this time. The agency indicates that the recommended amount of funding would support 14 instances of both Windows and Linux cloud-based services, including related database and storage support.

   Testimony by the agency at the March 20, 2015, budget hearing indicated cloud computing may provide computing capabilities at a lower cost than providing computing services internally. The agency indicated that it plans to test and evaluate cloud computing services to determine whether it would be feasible and cost-effective to migrate some state computing to the cloud in future biennia. The agency further indicated that it plans to prepare a written analysis of its findings at the conclusion of the pilot project.

   Does the Subcommittee wish to approve additional funding totaling $105,266 over the 2015-17 biennium for a cloud computing pilot project?

5. New Archiving System (E-225, ADMIN-60): The Executive Budget recommends additional computer facility charges totaling $386,790 over the upcoming biennium to purchase a new 30 terabyte data archiving system and associated software. According to the agency, this enhancement is necessary to address a federal archiving mandate imposed on the Division of Welfare and Supportive Services (DWSS) which states that certain records must be securely retained for five years.

   The new archiving system is fully allocated to the Unix cost pool. EITS recovers the cost of the Unix cost pool by charging state agencies based on Unix processor usage. Considering the storage-based nature of the new archiving system, Fiscal staff asked EITS how customer utilization of data storage is properly accounted for through the processer usage billing model for Unix. The agency indicated that there is currently no mechanism in place to account for differences in customer utilization of Unix-based storage.

   Considering that the new archiving system is requested to address a federal mandate imposed on the DWSS, staff reviewed DWSS budgeted Unix utilizations. In the 2015-17 biennium, DWSS Unix utilizations are budgeted to decrease by approximately 30 percent from actual FY 2014 utilizations, from 65 processors per year in FY 2014 to 46 processors per year in both FY 2016 and FY 2017. The increase in Unix costs to address the DWSS federal mandate with no corresponding DWSS utilization increase is contributing to the Unix rate increasing from $10,789 in FY 2014 to $28,196 in FY 2016 and $24,433 in FY 2017 for all Unix customers.

If the Subcommittee wishes to approve the new archiving system, it may wish to consider issuing a letter of intent instructing the agency to review the Unix billing model and evaluate whether there is a means of charging customers more equitably for Unix-based storage and archiving, and submit its evaluation to the Interim Finance Committee. If the Subcommittee approved issuing a letter of intent regarding the agency's analysis of its billing model, specific provisions regarding the Unix storage issue could be integrated into that letter of intent.

Does the Subcommittee wish to approve the new archiving system? If so, does the Subcommittee wish to issue a letter of intent instructing EITS to evaluate whether there is a means of charging customers equitably for Unix-based storage and archiving?

Other Closing Items

1. Replacement Servers (E-710, ADMIN-62): The Governor recommends $301,466 over the 2015-17 biennium to replace virtual servers that have reached the end of their useful life. According to the agency, the existing virtual servers were purchased in 2004 and 2007 and have reached the end of their useful life. **This recommendation appears reasonable.**

2. Replacement Printer (E-712, ADMIN-63): The Governor recommends computer facility charges of $151,266 over the upcoming biennium to replace one of the agency's two high-speed laser printers and support associated maintenance costs. According to the Data Warehouse of Nevada, the existing printer was placed into EITS service in 2004, and the agency indicates that the existing printer has reached the end of its useful life. **This recommendation appears reasonable.**

3. New Virtual Server Equipment (E-720 and E-721, ADMIN-63-64): The Governor recommends additional computer facility charges of $192,329 in FY 2016 to purchase one additional virtual server blade center and associated equipment. According to the agency, the additional hardware is necessary to meet increasing customer demand for virtual server services. The agency indicates that the new hardware will be used to enhance customer disaster recovery capabilities.

   Fiscal staff has completed a technical adjustment for Decision Unit E-720, as shown on the first page of the closing document, to align the amount budgeted for virtual server equipment with the quoted price. This technical adjustment decreases costs by $26,152, bringing the total cost of the two decision units to $166,177 in FY 2016. **Decision Units E-720 and E-721 appear reasonable with the noted technical adjustments.**

4. Cost Allocation Adjustments (E-801 and E-804, ADMIN-64-65): The Governor recommends additional funding of $3,455 and reserve reductions of $67,540 over the 2015-17 biennium to support adjustments associated with the Department of Administration's internal cost allocations. **This recommendation appears reasonable.**

5. Transfer In Software Costs (E-900, ADMIN-65): The Governor recommends reserve reductions of $100,000 in each year of the upcoming biennium to transfer in approximately 20 percent of the annual software maintenance costs for Software AG, a portfolio management software, from the Department of Public Safety Criminal History Repository budget. According to the agency, maintenance costs for Software AG were historically housed within EITS. In 2014, software licensing for Software AG was expanded to a statewide enterprise licensing model to allow the Department of Public Safety to utilize the software for its Nevada Criminal Justice Information System modernization project. Decision Unit E-550 in the Criminal History Repository budget includes ongoing maintenance costs for the software. This decision unit would locate a portion of the Software AG maintenance costs within EITS to reflect the portion of costs that the agency believes should be allocated to EITS to reflect projected software utilization. **This recommendation appears reasonable, contingent upon the approval of Decision Unit E-550 in the Department of Public Safety Criminal History budget.**

6. Transfer Out Position (E-906, ADMIN-66): The Governor recommends reducing funding by $183,720 over the 2015-17 biennium to transfer out one IT Professional position to the Security budget. This recommendation is further discussed in the closing document for the Security budget. **Fiscal staff requests authority to make adjustments based on the Subcommittee's action for the position transfer in the Security budget.**

7. Mainframe Upgrade Status (Base, ADMIN-58): During the March 20, 2015, budget hearing, the Subcommittee discussed the agency's recent mainframe computer upgrade and the fact that mainframe utilization had been trending downward in recent months. The Subcommittee expressed an interest in knowing whether the base budget for the mainframe should be reduced to account for utilization trends. Testimony by the agency at the March 20, 2015, budget hearing indicated that March 2015 mainframe utilizations show utilizations increasing rather than trending downward. Based upon the most recent mainframe utilization information, the agency indicated in an April 10, 2015, follow-up memo that it does not recommend a base budget adjustment for mainframe-related costs. **This item is informational only; no action is required by the Subcommittee.**

   Fiscal staff recommends the Other Closing Items be closed as recommended by the Governor with the noted technical adjustments and requests authority to make other technical adjustments as necessary.

Title: ADMINISTRATION - IT - DATA COMM & NETWORK ENGIN **Budget Page:** ADMIN-68, **Volume I**
Account: 721 - 1386

Revenues	2013-14 Actual	2014-15 WP	% Chg	2015-16 GOV REC	% Chg	2016-17 GOV REC	% Chg
BALANCE FORWARD	(119,521)	436,224	(464.98)	508,642	16.60	465,337	(8.51)
INTERAGENCY TRANSFER	3,538,312	4,113,926	16.27	5,660,928	37.60	5,099,106	(9.92)
OTHER FUND	371						
Total Revenues	3,419,162	4,550,150	33.08	6,169,570	35.59	5,564,443	(9.81)
Total FTE		12.00		16.00		16.00	

Adjustments to Revenue

Dec Unit	Cat	GL	Description	2015-16	2016-17
E227	00	3850	Remove unnecessary Winnemucca bandwidth increase	(17,328)	(17,328)
E504	00	3850	Eliminate agency-owned vehicles that are no longer needed per the agency	(250)	
E504	00	3850	Eliminate hardware maintenance for switches that are already included in DPS budgets.	(12,015)	(12,015)
E504	00	3850	Reestablish rent for Campos Bldg. eliminated in error	1,256	1,307
E504	00	4230	Eliminate agency-owned vehicles that are no longer needed per the agency	250	
E504	00	4230	Eliminate hardware maintenance for switches that are already included in DPS budgets.	12,015	12,015
E504	00	4230	Reestablish rent for Campos Bldg. eliminated in error	(1,256)	(1,307)
E904	00	4230	Eliminate agency-owned vehicles that are no longer needed per the agency	(250)	
E904	00	4230	Eliminate hardware maintenance for switches that are already included in DPS budgets.	(12,015)	(12,015)
E904	00	4230	Reestablish rent for Campos Bldg. eliminated in error	1,256	1,307
Sub-total				(28,337)	(28,036)
Line Item Changes to Revenues				(28,337)	(28,036)

Adjustments to Expenditures

Dec Unit	Cat	GL	Description	2015-16	2016-17
E227	26	7000	Remove unnecessary Winnemucca bandwidth increase	(17,328)	(17,328)
E904	04	7000	Eliminate agency-owned vehicles that are no longer needed per the agency	(250)	
E904	04	7000	Reestablish rent for Campos Bldg. eliminated in error	1,256	1,307
E904	26	7000	Eliminate hardware maintenance for switches that are already included in DPS budgets.	(12,015)	(12,015)
Sub-total				(28,337)	(28,036)
Line Item Changes to Expenditures				(28,337)	(28,036)

Total	0	0
Grand Total General Fund Impact of Closing Changes	0	0

Overview

The Data Communications and Network Engineering Unit of the Communications Section is responsible for all tasks related to developing, operating, and maintaining statewide data communications infrastructure. This includes the state's wide area network (SilverNet) that provides Internet access and data communication lines for state agencies. The unit supports over 8,500 network nodes, including personal computers, servers and network devices, in over 150 statewide locations.

Major Closing Issues

1. Increase Network Capacity
2. Relocate Las Vegas Network Equipment
3. Integrate Department of Public Safety IT Services

Discussion of Major Closing Issues

1. Increase Network Capacity (E-226 and E-227, ADMIN-70–71): The Executive Budget recommends additional telecommunications charges totaling $1.1 million over the biennium to increase bandwidth for SilverNet, the state's wide area network, in order to meet state agency demand for data transmission services. The agency would purchase data transmissions services from a vendor in order to provide bandwidth increases. Network capacity would be increased for Reno, Winnemucca, Ely, Pahrump, and between Carson City and Las Vegas, as discussed below.

   - Decision Unit E-226 recommends additional funding of $586,500 over the 2015-17 biennium to increase bandwidth between Carson City and Las Vegas. The funding would support ongoing monthly charges of approximately $23,000 and associated reserve increases. The agency indicates that the data transmission rate would increase by 100 percent, from one gigabit per second to two gigabits per second.

   - Decision Unit E-227 recommends additional funding totaling $561,000 over the upcoming biennium to increase bandwidth for four SilverNet locations. The funding would support ongoing monthly charges of $22,000 and associated reserve increases. The agency indicates that the bandwidth increases include the following:

     - Ely – Increase bandwidth by 100 percent, from 4.6 megabits per second (mbps) to 9.2 mbps, at a cost of $34,344 annually.
     - Pahrump – Increase bandwidth by 900 percent, from 5 mbps to 50 mbps, at a cost of $15,000 annually.
     - Reno – Increase bandwidth by 122 percent, from 45 mbps to 100 mbps, at a cost of $197,328 annually.
     - Winnemucca – The Executive Budget narrative indicates that bandwidth for Winnemucca would increase, but detailed information on the increase was not provided.

   The agency indicates that SilverNet is at capacity on the circuits discussed above. Testimony by the agency at the March 20, 2015, budget hearing indicated that a circuit is considered to be at capacity when circuit utilization exceeds 70 percent. According to the agency, EITS has received numerous callers complaining about the speed of SilverNet and requesting increased network capacity, and noted that state agencies indicate that they are unable to perform their core functions. The agency anticipates that the need to increase network capacity will continue in the future as the state's reliance on IT services continues to grow.

   During the March 20, 2015, budget hearing, the Subcommittee asked the agency for detail on the recommended bandwidth increase for Winnemucca. At that time, the agency was unable to provide further detail. In an April 10, 2015, follow-up memo, the agency indicated that it had reallocated existing bandwidth to Winnemucca and determined that the Winnemucca bandwidth increase is no longer necessary. The Budget Office informed Fiscal staff that costs associated with the Winnemucca bandwidth increase of $17,328 in each year should be eliminated from this decision unit. Accordingly, Fiscal staff recommends that the Winnemucca bandwidth increase not be approved. Fiscal staff has completed adjustments, shown on the first page of the closing document, to eliminate costs associated with the Winnemucca bandwidth increase.

Does the Subcommittee wish to approve additional funding totaling $1.1 million in over the 2015-17 biennium for bandwidth increases between Carson City and Las Vegas and for Ely, Pahrump and Reno and to disapprove a bandwidth increase for Winnemucca?

2. Relocate Las Vegas Network Equipment (E-225, ADMIN-70): The Governor recommends additional telecommunications charges totaling $577,604 over the 2015-17 biennium to relocate network equipment in Las Vegas from the Grant Sawyer building to Via West facility, a data colocation center. The funding would support monthly rental charges of $21,375, installation charges, installation equipment, and an increase in reserves.

   The agency indicates that the equipment which provides SilverNet services to state agencies in Southern Nevada, including routers, switches, firewalls and data distribution equipment, is currently located in a makeshift utility closet in the Grant Sawyer building. The agency reports ongoing issues with leaking pipes and maintaining room temperature at an appropriate level, thereby risking damage to critical communications equipment. In addition, the available power supply does not allow for the installation of additional equipment and causes customer service interruptions. Testimony by the agency at the March 20, 2015, budget hearing indicated that the Grant Sawyer building is not an appropriate location for enterprise-level networking equipment. The agency further indicated that moving the network equipment to a colocation center would allow for anticipated future equipment growth.

   The Governor's recommendation would support moving the equipment from the Grant Sawyer building to a data colocation center, which provides space, power, cooling and physical security for computer equipment. Rental charges at the Grant Sawyer building amount to approximately $4,500 annually, including equipment space and office space. In comparison, rental charges for the data collocation facility would be $256,500 annually, or $21,375 monthly, representing a 5,600 percent increase in costs associated with space for the Las Vegas networking equipment. The agency indicates that it would continue to utilize office space at the Grant Sawyer building.

   In a March 28 follow-up memo to the budget hearing, staff asked the agency to discuss other equipment relocation options that were considered, including installing facility improvements, improving and leasing space in a new or existing state building, or locating the equipment with other EITS equipment in the Switch data center. In an April 10, 2015, response, the agency indicated that the Grant Sawyer building is not suitable for state equipment and that it should not be considered for improvements. The agency indicated that locating equipment at Via West provides a network "ring" around Las Vegas. However, it is unclear that such a "ring" could not be created with equal efficiency at some other location. The agency did not provide information on any other options that were considered. Fiscal staff asked the agency to provide other options for relocating the network equipment. The agency did not provide a response at the time this document was written.

   Does the Subcommittee wish to approve additional funding totaling $577,604 over the 2015-17 biennium to relocate Las Vegas network equipment from the Grant Sawyer building to a data colocation facility?

3. Integrate Department of Public Safety (DPS) IT Services (E-504 ADMIN-71 and E-904, ADMIN-74): With Decision Unit E-904, the Governor recommends transferring funding totaling $1.1 million over the 2015-17 biennium to transfer in four Information Technology (IT) Professional positions and associated IT and operating costs from the DPS IT Consolidation budget as part of the agency's effort to integrate DPS IT services into EITS budgets. Decision Unit E-504 reallocates revenues in Decision Unit E-904 with the correct funding source, and recommends additional funding totaling $170,405 over the biennium to increase reserves. The four additional positions represent a 33 percent increase in staffing for this budget.

   Considering that this budget derives approximately 92 percent of its revenue from SilverNet, and that DPS purchased SilverNet services from EITS prior the transfer of its IT services, staff asked the agency to explain why transferring DPS IT services to EITS results in such a large staffing increase in this budget. The agency indicates that it now manages DPS's entire network, which entails providing services and hardware relating to DPS's internal network. Typically, agencies are responsible for maintaining their own internal networks, which connect to SilverNet, which is a separate IT service. However, EITS did not develop a service rate to charge DPS for managing its internal network. During the March 20, 2015, budget hearing, the agency indicated that it would be appropriate to charge a separate rate for providing services related to DPS's internal network.

   As discussed in the closing document for the DPS IT Consolidation budget, Fiscal staff worked collaboratively with the Budget Office, EITS, and the Administrative Services Division to evaluate whether costs transferred from the DPS IT Consolidation budget were properly allocated among existing EITS cost pools. In this budget, it was determined that 70 percent of the efforts of the four positions transferred in with Decision Unit E-904 would be dedicated to providing services for DPS's internal network. Additionally, cost associated with hardware maintenance for network devices that are physically located at DPS are included in Decision Unit E-904. Costs related to devices physically located at DPS should be transferred back to DPS and DPS should be responsible for budgeting for replacement equipment as necessary in the future. As a result of these changes, the rates EITS charges state agencies for SilverNet and virtual private network services would be aligned with the actual costs of providing these services in the 2015-17 biennium.

   If the Subcommittee wishes to approve Decision Units E-904 and E-504, Fiscal staff recommends that the costs associated with 70 percent of the four transferred positions, amounting to approximately $545,000 over the biennium, be removed from existing EITS cost pools and be charged directly to DPS in the 2015-17 biennium. In addition, Fiscal staff recommends that costs totaling approximately $201,000 be transferred to DPS to locate hardware maintenance costs in the appropriate budget. Fiscal staff has discussed this cost allocation plan with DPS.

   Fiscal staff has completed technical adjustments in Decision Units E-504 and E-904 to eliminate switch hardware maintenance costs included in The Executive Budget that are no longer needed. The technical adjustments, shown on the closing sheet, result in a revenue decrease totaling $24,030 over the 2015-17 biennium.

   Does the Subcommittee wish to approve transferring four positions and associated operating costs from the DPS IT Consolidation budget with the noted technical adjustment? If so, Fiscal staff recommends that DPS be directly charged for 70 percent of the costs of four positions and that costs associated with hardware that is physically located at DPS be transferred to DPS. Fiscal staff will make appropriate adjustments to appropriate EITS and DPS budgets resulting from the Subcommittee's closing actions.

Other Closing Items

1. Replacement Computer Equipment (E-710, ADMIN-72): The Executive Budget recommends additional telecommunications charges of $46,083 over the upcoming biennium for replacement computer equipment that has reached the end of its useful life, including laptop computers, desktop computers, and servers. **This recommendation appears reasonable.**

2. Replacement Network Security Equipment (E-711, ADMIN-72): The Governor recommends additional telecommunications charges totaling $491,812 over the 2015-17 biennium to replace outdated network security devices. The funding would also support hardware maintenance contract costs. **This recommendation appears reasonable.**

3. Replacement Network Devices (E-712, ADMIN-73): The Governor recommends additional telecommunications charges of $169,034 over the upcoming biennium to replace network devices and associated maintenance costs that have reached the end of their useful life. **This recommendation appears reasonable.**

4. Cost Allocation Adjustments (E-801 and E-804, ADMIN-73-74): The Governor recommends additional funding of $1,199 and net reserve decreases of $22,992 over the 2015-17 biennium to support adjustments associated with the Department of Administration's internal cost allocations. **This recommendation appears reasonable.**

Fiscal staff recommends the Other Items be closed as recommended by the Governor and requests authority to make technical adjustments as necessary.

Title: ADMINISTRATION - IT - TELECOMMUNICATIONS **Budget Page:** ADMIN-76, **Volume I**

Account: 721 - 1387

Revenues	2013-14 Actual	2014-15 WP	% Chg	2015-16 GOV REC	% Chg	2016-17 GOV REC	% Chg
BALANCE FORWARD	(243,373)	653,298	(368.43)	656,905	0.55	398,985	(39.26)
INTERAGENCY TRANSFER	3,191,526	3,413,562	6.96	3,422,103	0.25	3,631,501	6.12
OTHER FUND	31						
Total Revenues	2,948,184	4,066,860	37.94	4,079,008	0.30	4,030,486	(1.19)
Total FTE		10.00		9.00		9.00	

Adjustments to Revenue

Dec Unit	Cat	GL	Description	2015-16	2016-17
				Gov Rec	Gov Rec
Sub-total				0	0
Line Item Changes to Revenues				0	0

Adjustments to Expenditures

Dec Unit	Cat	GL	Description	2015-16	2016-17
				Gov Rec	Gov Rec
Sub-total				0	0
Line Item Changes to Expenditures				0	0
Total				0	0
Grand Total General Fund Impact of Closing Changes				0	0

Overview

The Telecommunications Unit of the Communications Section provides state agencies with telephone communications and related services through the statewide telephone network and integrates state-owned PBX switches and commercial telephone systems. The unit develops, administers, and maintains state agency telecommunication services, including coordinating agency telephone system design, installation and maintenance. Specific services provided include state phone lines, voicemail, long distance, toll free service, conference calling, state operators, and state agency PBX connections.

Major Closing Issues

1. Telephone System Replacement Status
2. IT Manager Position

Discussion of Major Closing Issues

1. Telephone System Replacement Status: In 2009, the money committees issued a letter of intent directing the agency to provide specific plans for the state's telecommunications system. After an initial analysis, the agency recommended a technical and financial study and analysis of the state's existing telephone systems be performed, and the 2011 Legislature approved funding of $160,000 to support such a study. Based on the study's findings, the 2013 Legislature approved the Governor's recommendation to replace the existing outdated state-owned telephone system with a modernized

leased system at a cost totaling $1.24 million over the 2013-15 biennium. Additionally, the 2013 Legislature approved appropriating General Funds of $800,000 to the Interim Finance Committee for allocation to state agencies to connect to the telephone system and allocation to EITS to support unanticipated costs associated with replacing the telephone system.

During the March 20, 2015, budget hearing, the Subcommittee asked the agency for an update on the status of the replacement telephone system. The agency indicated that replacement core telephone systems were in place in both Carson City and Las Vegas. According to the agency, 68 locations and approximately 9,500 telephone lines were identified to be transferred from the outdated state-owned telephone system to the new leased system. The agency reports that the project to transition locations to the core telephone system is currently 59 percent complete, with 40 of the 68 locations migrated to the new system. The agency anticipates that the remaining locations will be migrated by June 2015.

Testimony by the agency indicated that EITS has identified 134 state locations with stand-alone telephone systems. The agency indicates that each stand-alone system would have to be evaluated independently to determine if it could be migrated to the state telephone system. The Subcommittee expressed concern that the state does not currently have a plan for determining whether the stand-alone telephone systems could be integrated with the state core telephone system at a lower cost than maintaining the systems stand-alone.

The Subcommittee may wish to issue a letter of intent instructing the agency to develop a timeline for evaluating the 134 identified stand-alone telephone systems for consolidation with the state core telephone system and submit the timeline to the Interim Finance Committee.

Does the Subcommittee wish to issue a letter of intent instructing the agency to develop a timeline for evaluating the 134 identified stand-alone telephone system for consolidation with the state core telephone system?

2. IT Manager Position: The agency submitted an informational item to the April 9, 2015, meeting of the Interim Finance Committee indicating that the 1.0 FTE IT Manager position in this budget was being split to two IT Manager positions, including one 0.49 FTE and one 0.51 FTE. At that time, the Budget Office indicated that the change was being made to accommodate the existing IT Manager incumbent, who would be assigned to the 0.49 FTE position, and that EITS does not intend to fill the 0.51 FTE position in the near future. It should be noted that the IT Manager incumbent has been in the position since 2010 and has filled the IT Manager position at 0.49 FTE since that time.

   Given the fact that the IT Manager position has been filled at 0.49 FTE for five years, it appears that it would be reasonable to budget for one IT Manager position at 0.49 FTE to align with anticipated expenditures in this budget, at a cost savings of $100,055 over the 2015-17 biennium. Budgeting for expenditures that are not likely to be incurred results in telephone service rates that are higher than necessary to recover the costs of providing telephone services and results in the accumulation of excess reserves in this budget. If necessary, the agency could seek to increase this position to a 1.0 FTE when the incumbent leaves. **Does the Subcommittee wish to approve budgeting for one IT Manager at 0.49 FTE in this budget?**

Other Closing Items

1. Increase In-State Travel (E-227, ADMIN-78): The Governor recommends additional funding totaling $7,282 over the 2015-17 biennium to support additional in-state travel. According to the agency, the additional funding would support two annual trips from Carson City to Las Vegas for the Telecommunications Unit Manager, as well as additional agency site visits. **This recommendation appears reasonable.**

2. Spare Licenses (E-228, ADMIN-78-79): The Governor recommends additional funding totaling $63,686 over the 2015-17 biennium to purchase 90 spare telephone and voicemail licenses for the state's core telephone system. The agency indicates that the spare licenses would be used to meet demand for short-term telephone and voicemail services and expand services to agencies that do not have funding for EITS telephone services in their budgets. The agency indicates that it has had to establish waiting lists for service in the past due to the number of licenses available. **This recommendation appears reasonable.**

3. Increase Training (E-229, ADMIN-79): The Executive Budget recommends additional funding of $18,008 in the 2015-17 biennium to support two additional annual trainings for Telecommunications staff on the newly acquired telephone system. **This recommendation appears reasonable.**

4. Replacement Equipment (E-710, ADMIN-80): The Governor recommends additional funding of $4,089 over the upcoming biennium to replace outdated desktop computers. **This recommendation appears reasonable.**

5. Spare Equipment (E-720, ADMIN-80): The Executive Budget recommends additional funding of $35,020 over the 2015-17 biennium to purchase spare telephones and networking cards. According to the agency, the spare parts would be used to replace failed equipment and provide equipment to new customers. **This recommendation appears reasonable.**

6. Cost Allocation Adjustments (E-801 and E-804, ADMIN-81): The Governor recommends additional funding of $750 and net reserve decreases of $12,933 over the 2015-17 biennium to support adjustments associated with the Department of Administration's internal cost allocations. **This recommendation appears reasonable**.

7. Transfer Out Position (E-906, ADMIN-81-82): The Governor recommends reducing funding by $113,954 in the 2015-17 biennium to transfer out one Administrative Aid from this budget to the Office of the CIO budget. According to the agency, the position recommended to transfer out is one of three positions currently assigned to answer incoming telephone calls on the state telephone line and route calls to the appropriate state agency. The core telephone system upgrade implemented during the 2013-15 biennium allows for automated call routing, decreasing the need for staff dedicated to that activity. Given the enhanced capabilities of the upgraded core telephone system, the agency indicates that it plans to evaluate re-purposing the remaining two call routing positions. In an April 10, 2015, follow-up memo, the agency indicated that the state telephone line continues to receive some calls that require a live operator. **Fiscal staff requests authority to make adjustments to align this decision unit with the Subcommittee's closing action in the Office of the CIO budget.**

   Fiscal staff recommends the Other Closing Items 1 through 6 be closed as recommended by the Governor and requests authority to make technical adjustments as necessary. Fiscal staff requests authority to make technical adjustments to Decision Unit E-906 based on the Subcommittee's closing actions in the Office of the CIO budget.

Title: ADMINISTRATION - IT - NETWORK TRANSPORT SERVICES **Budget Page:** ADMIN-84, **Volume I**
Account: 721 - 1388

Revenues	2013-14 Actual	2014-15 WP	% Chg	2015-16 GOV REC	% Chg	2016-17 GOV REC	% Chg
BALANCE FORWARD	309,852	180,953	(41.60)	179,610	(0.74)	384,634	114.15
GENERAL FUND						2,100,000	
HIGHWAY FUND						3,900,000	
INTERAGENCY TRANSFER	2,334,606	2,383,912	2.11	3,381,339	41.84	3,021,817	(10.63)
OTHER FUND	441,990	421,626	(4.61)	398,412	(5.51)	343,656	(13.74)
Total Revenues	3,086,448	2,986,491	(3.24)	3,959,361	32.58	9,750,107	146.25
Total FTE		13.00		13.00		13.00	

Adjustments to Revenue

Dec Unit	Cat	GL	Description	2015-16	2016-17
E713	00	3806	Align amount budgeted for power generators with quoted price.		(5,625)
E713	00	3827	Align amount budgeted for power generators with quoted price.		(656)
E713	00	4301	Align amount budgeted for power generators with quoted price.		(1,219)
Sub-total				0	(7,500)
Line Item Changes to Revenues				0	(7,500)

Adjustments to Expenditures

Dec Unit	Cat	GL	Description	2015-16	2016-17
E226	08	7000	Relocate contract hours from information services category to microwave radio system category.	84,076	70,364
E226	26	7000	Relocate contract hours from information services category to microwave radio system category.	(84,076)	(70,364)
E713	06	8000	Align amount budgeted for power generators with quoted price.		(7,500)
Sub-total				0	(7,500)
Line Item Changes to Expenditures				0	(7,500)
Total				0	0
Grand Total General Fund Impact of Closing Changes				0	0

Overview

The Network Transport Services Unit of the Communications Section is responsible for the installation, operation and maintenance of the state microwave system and remote communication sites. The unit provides site space rental, microwave channel rental, DS1 circuits and site power to state agencies, other governmental entities and commercial businesses. The unit also supports other agencies within the division that use circuits for data and telephone communications.

Major Closing Issue

Microwave System Replacement.

Discussion of Major Closing Issue

Microwave System Replacement (E-712, ADMIN-89): The Governor recommends additional funding totaling $6.1 million over the 2015-17 biennium, including $2.1 million General Fund appropriations and $3.9 million in Highway Fund appropriations in FY 2017, to replace certain components of the existing state-owned microwave communications system with an outsourced leased system.

Current System

The current microwave system is a state-owned and operated digital system that provides microwave transmission services for voice, data, and video for a number of state, federal, and local governmental entities as well as commercial businesses. The current system, which was completed over a seven-year period ending in 2006, consists of 114 microwave sites and associated communications equipment located throughout the state. The agency indicates that 27 percent of the microwave system is currently at the end of its useful life, meaning that parts are no longer available and the equipment is not supported by the manufacturer, and 66 percent of the system is manufacturer discontinued, meaning that the manufacturer is no longer producing parts, but equipment is still supported by the manufacturer. The remaining 7 percent of the system is current manufacturer-supported equipment.

Nevada Shared Radio System

The microwave system is central to public safety communications throughout the state by providing a platform for the Nevada Shared Radio System (NSRS). The NSRS is a partnership between the Nevada Department of Transportation (NDOT), NV Energy and the Washoe County Regional Communications System. The NSRS provides critical voice communications to more than 90 agencies and organizations statewide, including utilities, governmental entities, and public safety agencies. The NSRS supports approximately 16,000 users statewide, including the state's Department of Public Safety. According to NDOT, the NSRS has reached the end of its useful life and will no longer be supported by the manufacturer after 2017. The NDOT and other NSRS stakeholders are in the initial planning phases of replacing the NSRS, with the replacement expected to begin in FY 2018 and be complete in 2020. According to NDOT, the cost of replacing the NSRS is expected to be $176.5 million, with the state contributing $94.5 million of the total cost.

EITS identifies the impending replacement of the NSRS as the primary factor for replacing the state microwave communications system in FY 2017. The agency indicates the current system is outdated and does not support modern communication technologies. In an April 10, 2015, follow-up memo, the agency indicated that it determined, in consultation with NDOT, that the NSRS replacement would utilize modern communication technologies that are not supported by the existing system. Therefore, it does not appear that there are feasible options for replacing the NSRS with a system that is compatible with the existing microwave communication system. Testimony by the agency at the March 20, 2015, budget hearing indicated that the microwave communications replacement must be complete in order for the NSRS replacement to move forward in the 2017-19 biennium.

Project Plan

The Governor recommends replacing the communications portion of the existing system, which consists of microwave radios, towers, routers, switches, and network management software with an outsourced system leased under an operating lease arrangement, meaning that the state would not own the equipment at the end of the lease. According to the agency, site-related equipment, including buildings, towers, generators, transfer switches, propane tanks, battery power sources, environmental control systems and access control systems would continue to be owned and supported by the state. Testimony by the agency at the March 20, 2015, budget hearing indicated that the replacement project includes 81 of the 114 statewide microwave sites.

At the March 20, 2015, budget hearing, the Subcommittee noted that the microwave communications system is a critical component of public safety communications systems throughout the state and asked the agency how it was determined to pursue an outsourced communication system. The agency indicated that it does not believe it is feasible to replace the existing microwave system with a state-owned system. In particular, the agency noted difficulties with hiring qualified state staff to work on the microwave communications system.

In FY 2016, $130,000 in user charges would support consulting services to draft and release a request for proposal for the replacement system. The agency indicates that it would coordinate consulting services with NDOT to ensure that the replacement microwave system is compatible with the NSRS replacement system. In FY 2017, <u>the Governor recommends funding totaling $6.0 million to fund the initial lease payment and consultant project management services</u>. The agency expects that it would take two years for existing equipment to be replaced with the leased equipment, with the replacement expected to begin in FY 2017.

Fiscal staff asked the agency what the anticipated useful life of the replacement system is expected to be and to provide a schedule of estimated future lease payments for the replacement system. In an April 10, 2015 follow-up memo, the agency indicated that vendors have indicated the useful life of the replacement equipment would be eight to ten years and that a schedule of estimated future lease payments could not be provided until a contract is in place. However, on April 22, 2015, the Budget Office provided a price quote from a prospective vendor, which indicated that lease payments would total $18.7 million over a 12-year period, with a $6.0 million payment in FY 2017, no payment in FY 2018, a $2.6 million payment in FY 2019, a $1.9 million payment in FY 2020, a $2.0 million payment in FY 2021, and $890,000 annual payments until 2028.

<u>Network Transport Services Staffing</u>

Considering that the Governor recommends outsourcing a major component of Network Transport Services operations, staff asked the agency whether any existing costs would be reduced as a result of outsourcing. Due to the fact that the replacement would not be complete until FY 2018, the agency indicated that it would be necessary to retain all staff for the 2015-17 biennium. Currently, Network Transport Services has 13 positions, including 1 IT Manager, 7 IT Professionals, 4 Development Technicians, and 1 Administrative Assistant. The agency indicates that the 4 Development Technicians perform site maintenance and would need to be retained with the outsourced system to support physical infrastructure at the microwave sites. The agency also utilizes contract staff to perform site maintenance. The 7 IT Professionals are responsible for the operation of the communications components of the system, duties that would be assumed by a vendor with an outsourced system. In a March 3, 2014, email to Fiscal staff, the agency indicated that the intent of the outsourced system is to have the duties that are currently performed by the IT Professionals transition to the vendor. Accordingly, it appears that staffing reductions in this budget would likely occur in future biennia, once the existing system is replaced by the outsourced system.

<u>Funding Source</u>

As previously noted, <u>The Executive Budget</u> recommends funding the leased system with General Fund and Highway Fund in the 2015-17 biennium. *Nevada Revised Statutes* 242.211 establishes the Fund for Information Services as an internal service fund. Pursuant to NRS 353.323(4)(a), internal service funds are used to account for self-supporting activities on a cost-reimbursement basis. *Nevada Revised Statutes* 242.211 further specifies that agencies utilizing EITS services must pay a fee to reimburse EITS for the entire cost of providing the service. Therefore, <u>it appears that appropriating General Funds and Highway Funds to EITS to support replacement equipment is inconsistent with statutory provisions governing internal service funds and EITS established cost-recovery model.</u>

Additionally, EITS collects revenue to recover the costs of operating the microwave communications system from other non-state governmental entities and commercial businesses. The agency's 2013-15 legislatively approved budget anticipated that approximately 15 percent of the revenue for this budget would come from other governmental entities and commercial businesses. Funding microwave system costs with General Fund or Highway Fund would result in service rates that do not cover the entire cost associated with providing microwave communications services, meaning that the General Fund and Highway Fund would be subsidizing microwave communications services to other governmental entities and commercial businesses.

Staff discussed the aforementioned funding issues with the Budget Office. The Budget Office agrees that it would be reasonable to appropriate the funding in this decision unit as a one-shot appropriation to a budget outside of EITS for the leased equipment, such as the Special Appropriations budget (1301). Given the statutory provision that indicates agencies must pay EITS for the entire cost of providing services, staff also recommends that EITS be required to pay back any funding that is appropriated in support of the microwave replacement project, unless grant funding is available. The Budget Office agrees that this would be reasonable. Precedent exists for this type of arrangement, and EITS is currently repaying the General Fund for a number of significant projects. Language specifying payback terms could be placed in the 2015 Appropriations Act. The Subcommittee may also wish to consider issuing a letter of intent so that payback provisions are memorialized.

Impact on Rates

As previously mentioned, the estimated cost of the lease for the replacement communications system is projected to be $18.7 million over 12 years. Currently, the rates EITS charges its microwave communications customers, which include state agencies, local governmental entities, and commercial businesses, do not include capital expenditures for the microwave communications system. To recover the costs of the leased system, the rates EITS charges its customers for microwave communications services will increase in future biennia. However, the magnitude of the rate increases will not be known until the agency finalizes the terms of the lease and cost reductions in this budget to align staffing with the outsourced system model have occurred. To smooth the impact of rate increases to EITS customers, microwave communication rates could be increased over the 2015-17 biennium and placed in reserve. These reserves could be used to fund paybacks the General Fund and Highway Fund in FY 2018, lessening the payback amount in subsequent years. The agency does not anticipate that accumulating additional reserves in this budget would create the potential for a federal reimbursement of excess reserves because this budget carries a large accumulated depreciation balance. To smooth the impact of rate increases on EITS customers, the Department of Administration indicates that it would be reasonable to increase microwave communication rates to collect additional revenues of approximately $374,000 in FY 2016 and $1.1 million in FY 2017. The agency indicates that further incremental rate increases would be necessary in FY 2018 and FY 2019. Beginning in FY 2020, it is anticipated that rates would be relatively smooth for the remainder of the lease.

- **Does the Subcommittee wish to approve the Governor's recommendation to replace the communications portion of the existing microwave communications system with an outsourced communications system leased under an operating lease structure?**
- **If so, staff recommends appropriating the $2.1 million in General Fund and $3.9 million in Highway Fund to the Special Appropriations budget, with payback provisions included in the 2015 Appropriations Act.**
- **Does the Subcommittee wish to issue a letter of intent memorializing payback provisions?**
- **Does the Subcommittee wish to approve increasing microwave communications service rates by approximately $374,000 in FY 2016 and $1.1 million in FY 2017**

Other Closing Items

1. Additional Contract Services (E-226, ADMIN-86): The Executive Budget recommends additional funding totaling $183,583 over the 2015-17 biennium to support additional contract services for microwave site maintenance. The recommended funding would support 989 hours and 828 hours of contract services in FY 2016 and FY 2017, respectively, based upon the agency's projected need for contractor services. The base budget for this account contains 1,667 hours of contract services hours annually. According to the agency, the contract services would support microwave site maintenance from the Elko office. The agency indicates that certain aspects of microwave site maintenance are generally outsourced to contractors with specific technical skill sets to minimize safety risks to state employees. **This recommendation appears reasonable.**

2. New Networking Equipment (E-227, ADMIN-87): The Governor recommends additional funding of $28,033 in the 2015-17 biennium to purchase three additional switches and support related maintenance costs. **This recommendation appears reasonable.**

3. Replacement Computer Equipment (E-710, ADMIN-88): The Governor recommends additional funding totaling $11,832 over the 2015-17 biennium to replace outdated computer equipment, including desktop computers and laptop computers. **This recommendation appears reasonable.**

4. Replacement Equipment (E-711, ADMIN-88): The Governor recommends additional funding of $37,098 in FY 2016 to replace three network testing sets that were purchased in 2010. According to the agency, the replacement test kits have expanded functionality that is necessary to test circuitry in the replacement microwave communications system. The existing test kits will not be compatible with the upgraded communications system. **This recommendation appears reasonable.**

5. Replace Power Generators (E-713, ADMIN-89): The Governor recommends additional funding totaling $75,000 in FY 2017 to replace three existing mountaintop emergency power generators at the Pilot Peak, Mount Brock and Fitzpatrick microwave sites. According to the agency, the existing generators are approximately 19 years old and have reached the end of useful life. Staff has completed technical adjustments, shown on the closing document, to align the budgeted amount with price quotes attached to the budget. **This recommendation appears reasonable with the noted technical adjustment.**

6. Replacement Battery Plants (E-714, ADMIN-90): The Governor recommends additional funding of $908,563 over the 2015-17 biennium to replace existing 48-volt battery plants at 61 microwave sites throughout the state. According to the agency, the existing battery plants were either purchased in 1998-1999 or in 2005-2006 and have reached the end of useful life. The agency indicates that the replacement battery plants would have a useful life of ten years. **This recommendation appears reasonable.**

7. Replacement Alarm System (E-717, ADMIN-91): The Executive Budget recommends additional funding of $9,486 in FY 2016 to replace outdated security system software for microwave sites throughout the state. According to the agency, the existing software was purchased in 2005 and discontinued by the manufacturer in 2014. The agency anticipates that the replacement software would have a useful life of ten years. **This recommendation appears reasonable.**

8. Replacement Vehicles (E-715 and E-716, ADMIN-90 – 91): The Governor recommends $256,572 over the 2015-17 biennium to replace six trucks and associated equipment that have reached the end of their useful life. EITS staff utilizes these vehicles to access mountaintop communications sites to perform maintenance and repairs. **This recommendation appears reasonable.**

9. Cost Allocation Adjustments (E-801 and E-804, ADMIN-92): The Governor recommends additional funding of $974 and reserve decreases of $18,681 over the 2015-17 biennium to support adjustments associated with the Department of Administration's internal cost allocations. **This recommendation appears reasonable.**

Fiscal staff recommends the Other Items be closed as recommended by the Governor with the noted technical adjustments and requests authority to make further technical adjustments as necessary.

Title: ADMINISTRATION - IT - SECURITY **Budget Page:** ADMIN-95, **Volume I**

Account: 721 - 1389

Revenues	2013-14 Actual	2014-15 WP	% Chg	2015-16 GOV REC	% Chg	2016-17 GOV REC	% Chg
BALANCE FORWARD	42,231	68,351	61.85	107,307	56.99	280,433	161.34
INTERAGENCY TRANSFER	2,096,644	2,448,471	16.78	2,149,061	(12.23)	1,998,922	(6.99)
OTHER FUND		556					
Total Revenues	2,138,875	2,517,378	17.70	2,256,368	(10.37)	2,279,355	1.02
Total FTE		8.00		10.00		10.00	

Adjustments to Revenue

Dec Unit	Cat	GL	Description	2015-16	2016-17
				Gov Rec	Gov Rec
Sub-total				0	0
Line Item Changes to Revenues				0	0

Adjustments to Expenditures

Dec Unit	Cat	GL	Description	2015-16	2016-17
				Gov Rec	Gov Rec
Sub-total				0	0
Line Item Changes to Expenditures				0	0
Total				0	0
Grand Total General Fund Impact of Closing Changes				0	0

Overview

The Office of Information Security (OIS) provides leadership and oversight of a comprehensive state information security program. The OIS develops security policy and standards, provides security assessments, security incident response, disaster recovery planning, manages physical access control systems in certain state buildings and provides security awareness training to state agencies.

Major Closing Issues

1. Transfer Chief of Information Security to the Unclassified Service
2. Dedicated Desktop Security Staff
3. Position to Support the Nevada Card Access System

Discussion of Major Closing Issues

1. Transfer Chief of Information Security to the Unclassified Service (Budget Amendment A150481389): On February 18, 2015, the Fiscal Analysis Division received notification from the Budget Office that the vacant Chief of the Office of Information Security position was being transferred from classified state service to unclassified state service, effective immediately. In addition, the Budget Office requested a technical adjustment to the Governor's recommended budget to reflect the change in the Security budget. Staff advised the Budget Office that transferring the position from the classified to the unclassified service would violate NRS 242.101, which specifies that the Chief of the Office of

Information Security is in the classified service. Accordingly, the Budget Office withdrew the transfer and submitted budget amendment A150481389 on March 11, 2015. The budget amendment includes funding reductions of $3,112 in FY 2016 and $2,599 in FY 2017 because the salary of $97,901 for the unclassified position would be lower than the salary of approximately $102,228 or the classified position.

As noted above, NRS 242.101 specifies that the Chief of the Office of Information Security is in the classified service. This statutory provision was added by the 2011 Legislature with the passage and approval of Senate Bill 82. Prior to the approval of S.B. 82, the Administrator had the authority to appoint EITS unit chiefs, including the Chief of the Office of Information Security, in the unclassified service. *Nevada Revised Statutes* 242.183 requires the Chief of the Office of Information Security to investigate breaches of state agency information systems. The EITS Administrator is charged with developing standards to ensure security of the Executive Branch's information systems pursuant to NRS 242.111. Accordingly, the Chief of the Office of Information Security, when investigating information system breaches, evaluates the effectiveness of the security standards put into place by the Administrator. <u>Locating the Chief of the Office of Information Security in the classified service rather than the unclassified service, appointed by the Administrator, provides a degree of independence for the position.</u>

Testimony by the agency at the March 20, 2015, budget hearing indicated that all other Chief IT Manager positions in the division are unclassified. However, the agency's organizational chart shows five Chief IT Manager positions as the heads of the Communications Unit, the Computing Unit, the Application Support Unit, the Client Services Unit and the Office of Information Security. The Chief IT Managers of the Application Support Unit, the Client Services Unit and the Office of Information Security are currently in the classified service. Pursuant to NRS 242.101, the Chiefs of the Computing Unit and Communications unit shall be appointed in the unclassified service. However, pursuant to section 143.5 of S.B. 427 of the 2011 session, any incumbent serving as the head of a unit in EITS that was in the classified service as of October 1, 2011, must remain in the classified service until the incumbent vacates the position. The heads of the Communications Unit and the Computing Unit are occupied by the same incumbents that were in place as of October 1, 2011. Therefore, <u>the agency does not currently have any unclassified positions serving as the Chief of any of its operational units</u>.

Senate Bill 72, currently in the Committee on Finance, proposes to revise a number of provisions in NRS 242. If enacted as amended, the bill would remove the requirement that the Chief of the Office of Information Security be in the classified service and would allow the Administrator to appoint personnel as deemed necessary.

Decisions regarding funding of unclassified positions will be made by the full money committees in considering the Unclassified Pay Bill. Fiscal staff requests authority to make technical adjustments based upon final decisions made by the money committees, contingent upon passage and approval of S.B. 72.

2. <u>Dedicated Desktop Security Staff (E-505, ADMIN-97 and E-905, ADMIN-99-100 and E-506, ADMIN-97 and E-906, ADMIN-100</u>): The Governor recommends transferring funding totaling $327,855 over the 2015-17 biennium to transfer in two IT Professional positions and associated operating costs, including one from the Computer Facility budget and one from the Department of Public Safety (DPS) IT Consolidation budget. Decision Units E-505 and E-506 reallocate funding transferred in with Decision Units E-905 and E-906 to the correct funding sources, and increase reserves by $52,581 over the biennium.

According to the agency, the positions would be dedicated to supporting the agency's desktop security initiative. The positions would support the Symantec Altiris Endpoint software, which is the agency's statewide desktop security software solution. It appears that the two positions are currently assigned to work on the statewide desktop security initiative. Previously, the Computer Facility position performed server maintenance and the DPS IT Consolidation position was assigned to provide desktop support for DPS. It should be noted that an additional position is also recommended in the Application Support budget to augment desktop support staff as a result of the DPS desktop support position being assigned to the desktop security initiative.

The desktop security solution, which provides antivirus, user role management, software update management and application access control for desktop and laptop computers, was purchased in FY 2013. At that time, the agency indicated that no additional staff would be needed to support the desktop security initiative. In an April 10, 2015, follow-up memo, the agency indicated that Symantec recommends one Altiris Endpoint system administrator per 5,000 system endpoints (a desktop or laptop computer). In a March 2, 2015 email, the agency reported that the Altiris Endpoint system covered 10,177 desktops and laptops. The agency indicated that the software is expected to be deployed on 15,000 endpoints in the future. Accordingly, the agency indicates that the vendor recommends three positions after the software solution is fully deployed.

In addition to the two positions recommended to transfer to this budget, the agency indicates that one position in the Computer Facility account dedicates 25 percent of their time to support the Symantec Altiris Endpoint solution.

Does the Subcommittee wish to approve transferring in two positions, including one position from the DPS IT Consolidation budget and one position from the Application Support budget, to provide dedicated support for the desktop security software system?

3. Position to Support the Nevada Card Access System: During Fiscal staff's review of the integration of Department of Public Safety IT staff and services into EITS budgets, it was determined that one existing IT Professional position in the Application Support budget has been dedicated to supporting the Nevada Card Access System (NCAS), a keycard access control system located in this budget. In the Application Support budget, costs associated with this position are assigned to the Desktop Support Unit through the PC/LAN Tech cost pool. As a result of dedicating a desktop support position to NCAS, the PC/LAN Tech cost pool has been absorbing the cost of supporting the NCAS system.

   Within this budget, staff are assigned to other duties and are unable to provide dedicated support to the NCAS system. In order to provide necessary dedicated support for the NCAS system, the Subcommittee may wish to add a new position in the Security budget. This would allow the desktop support position who is currently dedicated to NCAS duties in the Application Support budget to resume their assigned desktop support duties, ensuring that the PC/LAN Tech cost pool appropriately reflects the costs of providing desktop support services.

   It appears that a Program Office position may be the appropriate classification for the NCAS position; however, the actual classification would be determined by the Division of Human Resource Management based on a review of the position's assigned duties. The costs of adding one new Program Officer position beginning October 1, 2015, and associated equipment and operating costs would be $113,430 over the 2015-17 biennium.

   It should be noted that the NCAS service rate for the 2015-17 biennium was calculated assuming that the costs associated with one position would be allocated to the NCAS cost pool. Accordingly, it does not appear that the NCAS service rate would increase significantly if a new position is approved. **Does the Subcommittee wish to approve one new position to support the NCAS system at an additional cost of approximately $113,430 over the 2015-17 biennium?**

Other Closing Items

1. Replacement Equipment (E-710, ADMIN-98): The Governor recommends additional funding of $4,091 over the upcoming biennium to replace outdated equipment, including desktop computers and laptop computers. **This recommendation appears reasonable.**

2. Cost Allocation Adjustments (E-801 and E-804, ADMIN-98–99): The Governor recommends additional funding of $675 and net reserve decreases of $14,370 over the 2015-17 biennium to support adjustments associated with the Department of Administration's internal cost allocations. **This recommendation appears reasonable.**

   Fiscal staff recommends Other Closing Items be closed as recommended by the Governor and requests authority to make technical adjustments as necessary.

Title: ADMINISTRATION - IT - INFO TECH CONSOLIDATION DPS **Budget Page:** ADMIN-102, **Volume I**
Account: 721 - 1405

Revenues	2013-14 Actual	2014-15 WP	% Chg	2015-16 GOV REC	% Chg	2016-17 GOV REC	% Chg
BALANCE FORWARD	(99,745)	99,746	(200.00)				
INTERAGENCY TRANSFER	5,972,194	5,891,488	(1.35)				
Total Revenues	5,872,449	5,991,234	2.02				
Total FTE		48.00					

Adjustments to Revenue

Dec Unit	Cat	GL	Description	2015-16	2016-17
B000	00	4230	Eliminate backup battery maintenance that is no longer necessary.	(7,958)	(7,958)
B000	00	4230	Eliminate hardware maintenance for switches that is already included in DPS budgets.	(12,015)	(12,015)
B000	00	4230	Reestablish rent for Campos Bldg. eliminated in error	7,442	7,442
M100	00	4230	Reestablish rent for Campos Bldg. eliminated in error	95	397
E225	00	4230	Eliminate agency-owned vehicles that are no longer needed per the agency	(499)	
E901	00	4230	Eliminate agency-owned vehicles that are no longer needed per the agency	250	
E901	00	4230	Reestablish rent for Campos Bldg. eliminated in error	(5,023)	(5,225)
E903	00	4230	Eliminate backup battery maintenance that is no longer necessary.	7,958	7,958
E903	00	4230	Reestablish rent for Campos Bldg. eliminated in error	(1,256)	(1,307)
E904	00	4230	Eliminate agency-owned vehicles that are no longer needed per the agency	250	
E904	00	4230	Eliminate hardware maintenance for switches that is already included in DPS budgets.	12,015	12,015
E904	00	4230	Reestablish rent for Campos Bldg. eliminated in error	(1,256)	(1,307)
Sub-total				3	0
Line Item Changes to Revenues				3	0

Adjustments to Expenditures

Dec Unit	Cat	GL	Description	2015-16	2016-17
B000	04	7000	Eliminate backup battery maintenance that is no longer necessary.	(7,958)	(7,958)
B000	04	7000	Reestablish rent for Campos Bldg. eliminated in error	7,442	7,442
B000	26	7000	Eliminate hardware maintenance for switches that is already included in DPS budgets.	(12,015)	(12,015)
M100	04	7000	Reestablish rent for Campos Bldg. eliminated in error	95	397
E225	04	7000	Eliminate agency-owned vehicles that are no longer needed per the agency	(499)	
E901	04	7000	Eliminate agency-owned vehicles that are no longer needed per the agency	250	
E901	04	7000	Reestablish rent for Campos Bldg. eliminated in error	(5,023)	(5,225)
E903	04	7000	Eliminate backup battery maintenance that is no longer necessary.	7,958	7,958
E903	04	7000	Reestablish rent for Campos Bldg. eliminated in error	(1,256)	(1,307)
E904	04	7000	Eliminate agency-owned vehicles that are no longer needed per the agency	250	
E904	04	7000	Reestablish rent for Campos Bldg. eliminated in error	(1,256)	(1,307)
E904	26	7000	Eliminate hardware maintenance for switches that is already included in DPS budgets.	12,015	12,015

Sub-total	3	0
Line Item Changes to Expenditures	3	0
Total	0	0
Grand Total General Fund Impact of Closing Changes	0	0

Overview
The purpose of Information Technology (IT) Consolidation Department of Public Safety (DPS) account was to transfer DPS's IT services to the Division of Enterprise Information Technology Services (EITS) during the 2013-15 biennium. The expenditures are recommended to be integrated into EITS budgets effective July 1, 2015.

Major Closing Issue
Integrate Department of Public Safety IT Services into EITS Budgets

Discussion of Major Closing Issue
Integrate Department of Public Safety IT Services into EITS Budgets (E-901, E-902, E-903, E-904 and E-905, ADMIN-106-108): The 2013 Legislature approved the Governor's recommendation to transfer DPS IT services to EITS. EITS assumed responsibility for providing all IT services to DPS effective July 1, 2013. In the 2013-15 biennium, 48 DPS IT staff and related IT costs totaling $6.0 million annually were transferred from DPS to this temporary budget in EITS. In the 2013-15 biennium, this budget was fully supported by cost allocation reimbursements from DPS. To complete the consolidation in the 2015-17 biennium, the Governor recommends eliminating this temporary budget and integrating staff and IT costs into other EITS budgets and operational units. To effect the integration, The Executive Budget recommends transferring $12.0 million over the 2015-17 biennium in personnel and operating costs, including 48 positions, from the temporary IT Consolidation budget to other EITS budgets. In addition, the Governor's recommended budget includes additional funding totaling $1.1 million over the biennium to fund a one-time incremental increase in reserves necessary to maintain an appropriate level of working capital in EITS budgets following the consolidation, as well as minor expenditure adjustments. The table below summarizes the recommended transfers from this budget to other EITS budgets and associated adjustments to reserves.

Integration of DPS IT Services into EITS Budgets

Budget	2015-17 Costs Transferred	2015-17 Reserve Adjustment	Positions
Office of the CIO (BA 1373)	$ 918,112	$ 43,250	4
Application Support (BA 1365)	$ 6,845,537	$ 656,150	35
Computer Facility (BA 1385)	$ 2,993,857	$ 183,059	4
Data Communications and Network Engineering (BA 1386)	$ 1,137,851	$ 170,405	4
Security (BA 1389)	$ 144,135	$ 31,097	1
Totals	**$ 12,039,492**	**$ 1,083,961**	**48**

The Executive Budget recommends that the majority of costs integrated in to EITS budgets be factored in to the calculation of the rates EITS charges other state agencies for utilizing its IT services, and EITS would largely charge DPS standard rates for utilizing IT services. The DPS would continue to reimburse EITS for certain IT services in the Application Support budget on a cost reimbursement basis.

Integration Plan
The 2013 Legislature approved additional funding of $125,000 in the Office of the CIO budget to support a contracted project manager for the consolidation of DPS IT services. The agency indicated that the project manager would be responsible for day-to-day oversight of the consolidation, establishing a formal project plan and schedule, and tracking consolidation measures of success. The agency utilized a contracted project manager, but the project manager focused on planning and managing the migration of DPS hardware to the EITS computer facility. Consequently, no formal plan for integrating DPS IT services and staff within EITS in the 2015-17 biennium was developed.

Consolidation Measures of Success
During the 2013 Legislative Session, the agency indicated that a successful consolidation with DPS would be defined by four measurements: 1) total DPS IT costs are reduced or remain the same, compared with DPS IT costs in the existing organizational structure; 2) the elimination of the temporary DPS IT Consolidation account; 3) compliance with criminal justice information system security standards does not decline; and 4) additional IT functionality is provided to DPS. During the March 20, 2015, budget hearing, the agency indicated that it believes that the four measures of success have been met to date.

The Subcommittee expressed concern that EITS does not have a means to measure and track the success of the full integration of DPS IT services into EITS budgets planned for the 2015-17 biennium. The agency indicated that it plans to revise its established performance measures to reflect services provided to DPS, as well as other consolidated customers, and enterprise services. The agency did not indicate the anticipated timeframe for revising its performance measures.

Potential Efficiencies Resulting from Consolidation in Future Biennia
The Subcommittee expressed an interest in knowing whether the consolidation generated any efficiencies or cost savings to the state. In particular, the Subcommittee asked whether any duplicative positions have been identified. During the March 11, 2015, budget hearing, testimony by the agency indicated it is common to have duplicative positions following consolidations and mergers, particularly management-level positions. The Subcommittee expressed concern that the consolidation did not create efficiencies through the elimination of duplicative high-level positions. The agency indicated that eliminating duplicative positions was not considered because cost savings was not one of the stated goals of the consolidation.

During the March 20, 2015, budget hearing, testimony by the agency indicated it plans to begin identifying and eliminating redundancies during the 2015-17 biennium. For example, the agency indicated that the consolidation of DPS IT services created redundancies in data center locations. Cost savings may result in the future from consolidating hardware from multiple data center locations into the state Computer Facility, however, no such cost savings have been specifically identified in The Executive Budget. In an April 10, 2015, memo, EITS indicated that it will work to identify potential cost saving opportunities resulting from the consolidation throughout the 2015-17 biennium. The agency indicates that possible cost savings include enterprise licensing agreements, staffing adjustments, and streamlining hardware and software. The agency intends to track any potential savings for inclusion in its 2017-19 biennial budget request.

Fiscal Impact of Integrating DPS IT Services as Recommended in *The Executive Budget*
In the 2013-15 biennium, DPS was legislatively approved to reimburse EITS $11.9 million for IT services. In the 2015-17 biennium, the Governor recommends funding of $11.2 million (excluding Technology Investment Requests) in DPS for IT services, or a decrease of approximately 6 percent. However, it is important to note that this cost decrease to DPS has been redistributed to other state agencies in the form of increased EITS rates as illustrated by the table on the following page. Overall, the consolidation does not appear to generate cost savings for the state. In addition, the Governor's recommended budget includes additional funding totaling $1.1 million over the biennium to fund a one-time incremental increase in reserves necessary to maintain an appropriate level of working capital in EITS budgets following the consolidation, a cost that is passed on to EITS customers through increases in service rates.

Impact on Rates: In general, integrating DPS IT services into EITS budgets as recommended in *The Executive Budget* results in higher rates for EITS customers, according to calculations provided by the agency, excluding the impact of one-time reserve increases. The agency indicates that reserves were excluded from its rate comparison calculations to illustrate the ongoing impact of integrating DPS IT services on EITS service rates. In FY 2016, 32 out of 41 service rates, or 78 percent, are recommended to be higher than they would have been prior to transferring costs from this budget. Four service rates were lower, and five service rates were unchanged. The FY 2017 impact on EITS rates is similar. The table below shows the impact of integrating DPS IT services on the rates EITS charges state agencies for selected IT services in FY 2016.

Impact of Integrating DPS IT Costs on EITS Rates

Service	Rate Excluding DPS IT Costs	Rate Including DPS IT Costs	% Increase/ (Decrease)
Programmer/Developer (per hour)	73.12	76.96	5.3%
Security Assessment (per FTE)	99.10	104.45	5.4%
Database Administrator (per hour)	78.06	94.74	21.4%
SilverNet Access (per account per month)	115.52	128.10	10.9%
Virtual Server (per server per month)	336.75	478.02	42.0%
Batch (per CPU minute)	26.34	26.57	0.9%
E-mail (per account per month)	7.44	6.87	-7.7%

* These rate calculations, which were provided by the agency, do not include the impact of reserves. Accordingly, the rates shown above do not match the rates included in The Executive Budget.

Provision of IT Service to DPS

IT services provided to DPS by its internal IT staff in previous biennia did not exactly mirror IT services offered by EITS to other state agencies. In some cases, EITS does not offer similar IT services as those previously provided internally by DPS. For example, within DPS, IT staff provided Geographical Information Systems services. EITS does not offer a comparable service to state agencies. Testimony by the agency during the 2013 Legislative Session indicated that DPS and EITS would enter into a service level agreement to specify IT services that would be provided by EITS to DPS under the full service IT consolidation model to ensure that DPS would continue to have access to specialized IT services. A draft service level agreement between the two agencies was provided at that time. However, to date, no service level agreement has been executed between DPS and EITS. In January 2015, DPS reported no service level agreement is in effect, but DPS reported in a follow-up to staff that a service level agreement would help to improve communication and establish expectations.

DPS provided a copy of a Management Control Agreement (MCA) between EITS and DPS. The agreement had not been executed by all involved parties. The MCA, which the agency indicates is a Federal Bureau of Investigation requirement for criminal justice information system compliance, describes certain common services to be provided by EITS, such as hosting and providing technical support for the Nevada Criminal Justice Information System (NCJIS) in compliance with the federal security policies. The MCA indicates that EITS agrees to perform specialized IT services for DPS based upon service standards developed jointly by DPS and EITS, suggesting that a service level agreement or a similar agreement between the two agencies is still necessary.

Testimony by the agency at the March 20, 2015, budget hearing indicated that it no longer considers a service level agreement to be an appropriate means of defining services that would be provided to DPS as a fully consolidated IT customer. The agency indicated that it does not have such agreements with other fully consolidated IT customers, such as divisions of the Department of Administration. The agency indicated that it plans to meet with DPS on a regular basis to receive feedback on the level of IT support it is providing to DPS.

Allocation of Costs for Specialized IT Services

As previously mentioned, testimony by the agency during the 2013 Legislative Session noted that DPS provided certain specialized IT services through its in-house IT unit that EITS does not provide its customers. However, in merging DPS IT staff and costs into EITS budgets, the majority of costs were merged into existing EITS cost pools. The Executive Budget recommends one new cost pool in the Application Support budget to charge DPS separately for costs associated with providing 24/7 help desk services that are necessary to support a law enforcement agency.

Testimony by the agency at the March 20, 2015, budget hearing indicated that its existing billing model did not allow the flexibility to charge DPS for specialized IT services. Rather than establishing new cost pools for specialized IT services, The Executive Budget recommends that the costs associated with specialized IT services be merged into existing EITS cost pools that do not align with these specialized services. As a result, EITS service rates included in the Governor's recommended budget do not accurately reflect the true cost of providing the related services to all agencies statewide.

Furthermore, there is some question whether DPS would continue to have access to specialized IT services from EITS in the future if the costs of providing these services are incorporated into the cost pools for other IT services and DPS does not pay EITS for providing these specialized services and there is no service level agreement in place.

In order to ensure that all EITS customers would be charged appropriately for the costs of providing IT services in the 2015-17 biennium and that DPS would continue to have access to specialized IT services, Fiscal staff worked closely with the Budget Office, the Administrative Services Division and EITS to evaluate whether DPS-specific costs were inappropriately merged into existing EITS cost pools. Based upon the results of this collaborative evaluation, Fiscal staff recommends that several DPS-specific costs be charged directly to DPS in the 2015-17 biennium rather than being merged into existing EITS cost pools. These recommendations are discussed in further detail in the closing documents for the Application Support, Office of the CIO, Computer Facility, and Data Communications and Network Engineering budgets. This cost allocation plan has been discussed with DPS.

In total, these recommendations would result in DPS reimbursing EITS an additional $1.1 million over the 2015-17 biennium over the amount recommended in The Executive Budget. However, the $1.1 million that would be directly charged to DPS would be removed from other EITS cost pools, resulting in a corresponding $1.1 million decrease in the total amount EITS would charge state agencies for standard EITS services in the 2015-17 biennium. Therefore, there would be no overall impact to the state associated with DPS reimbursing EITS for specialized IT services in the 2015-17 biennium.

As mentioned above, charging DPS directly would result in lower EITS service rates than were recommended in The Executive Budget. The impact of directly charging DPS for specialized IT services on individual EITS service rates will be determined when rates are recalculated by the Administrative Services Division in early May. DPS will experience other cost reductions associated with EITS service rate reductions resulting from allocating DPS-specific costs directly to DPS. However, the magnitude of these reductions is unknown at this time.

It should be noted that EITS, the Budget Office and the Administrative Services Division plan on conducting a thorough review of EITS's billing model during the 2015-17 biennium to evaluate whether changes to its billing model are necessary to ensure that EITS customers are being charged appropriately for EITS services. According to the Budget Office, the intent is to develop EITS cost pools for specialized IT services for inclusion in the Governor's recommended budget for the 2017-19 biennium. Accordingly, it appears that directly charging DPS for specialized IT services would be temporary for the 2015-17 biennium.

Does the Subcommittee wish to approve transferring 48 positions and associated operating costs from this budget to other EITS budgets and eliminating the DPS IT Consolidation budget? Staff requests authority to make technical adjustments to transfers based upon the Subcommittee's actions in closing other EITS budgets.

If the Subcommittee approves eliminating the DPS IT Consolidation budget, it may wish to consider issuing a letter of intent to EITS, directing it to report the Interim Finance Committee on its analysis of EITS billing model and the development of cost pools for specialized DPS IT services.

Does the Subcommittee wish to issue a letter of intent directing the agency to provide a report on the analysis of its billing model and the development of cost pools for specialized IT services?

<u>Other Closing Items</u>

1. <u>Fleet Service Vehicles (E-225, ADMIN-104)</u>: <u>The Executive Budget</u> recommends additional funding of $13,259 over the upcoming biennium to replace two agency-owned vehicles with two Fleet Services vehicles beginning in January 2016. Fiscal staff has completed technical adjustments, shown on the first page of the closing document, to remove costs associated with state-owned vehicles that the agency indicates are no longer necessary. Technical adjustments have also been made to Decision Units E-901 and E-904 to remove the agency-owned vehicle costs that were originally recommended to be transferred to other EITS budgets. **This recommendation appears reasonable with the noted technical adjustment.**

2. <u>New Mobile Data Service (E-227, ADMIN-104)</u>: The Governor recommends additional funding of $8,577 in each year of the 2015-17 biennium to provide mobile data telephone and laptop services for eight desktop support staff, at an average monthly cost of $89 per employee. The agency indicates that mobile data access would allow staff to provide more efficient customer service. **This recommendation appears reasonable.**

3. <u>Replacement Equipment (E-710, ADMIN-105)</u>: The Governor recommends additional funding totaling $60,469 in the 2015-17 biennium to replace desktop computers, laptop computers, servers and monitors that have reached the end of life. **This recommendation appears reasonable.**

4. <u>New Equipment (E-720, ADMIN-105)</u>: The Governor recommends additional funding of $2,205 in FY 2016 for new equipment to support help desk staff, including hard drives and headsets. **This recommendation appears reasonable.**

5. <u>Base Budget Adjustments (Base, ADMIN-102)</u>: On March 23, 2015, the Budget Office informed Fiscal staff that building rental costs had inadvertently been omitted from the base budget and requested a technical adjustment to add these costs back. Fiscal staff has completed technical adjustments, shown on the first page of the closing document, to add building rental costs totaling $14,884 over the 2015-17 biennium for office space for six staff in the Campos Building in Las Vegas. Technical adjustments have also been made to transfer the rental costs to other EITS budgets in Decision Units E-901, E-903 and E-904.

   On April 20, 2015, the Administrative Services Division informed Fiscal staff that costs of $7,958 in each year of the upcoming biennium for backup battery maintenance were no longer necessary and should be removed from the budget. Fiscal staff completed a technical adjustment, shown on the first page of the closing document, to remove backup battery maintenance costs from the base budget. A corresponding technical adjustment was made in Decision Unit E-903 to remove the transfer of the battery maintenance costs from this budget to the Computer Facility budget.

On April 27, 2015, DPS informed Fiscal staff that costs amounting to $12,015 in each year of the upcoming biennium for switch hardware maintenance were included in DPS budgets and were no longer necessary in this budget. Fiscal staff completed a technical adjustment, shown on the first page of the closing document, to remove backup battery maintenance costs from the base budget. A corresponding technical adjustment was made in Decision Unit E-904 to remove the transfer of the switch hardware maintenance costs from this budget to the Data Communications and Network Engineering budget.

The above-noted technical adjustments appear reasonable.

Fiscal staff recommends the Other Closing Items be closed as recommended by the Governor with the noted technical adjustments and requests authority to make further technical adjustments as necessary.

Title: PEBP - PUBLIC EMPLOYEES' BENEFITS PROGRAM **Budget Page:** PEBP-10, **Volume III**
Account: 625 - 1338

Revenues	2013-14 Actual	2014-15 WP	% Chg	2015-16 GOV REC	% Chg	2016-17 GOV REC	% Chg
BALANCE FORWARD	(16,660,602)	168,828,144	(1113.34)	163,205,462	(3.33)	135,413,104	(17.03)
INTERAGENCY TRANSFER	239,938,527	249,700,164	4.07	234,086,545	(6.25)	236,420,293	1.00
OTHER FUND	97,811,727	112,968,130	15.50	92,147,303	(18.43)	89,299,456	(3.09)
Total Revenues	321,089,652	531,496,438	65.53	489,439,310	(7.91)	461,132,853	(5.78)
Total FTE		32.00		32.00		32.00	

Adjustments to Revenue

Dec Unit	Cat	GL	Description	2015-16	2016-17
B000	00	2511	Increase Balance Forward From FY 2016 per Budget Amendment A150821338		2,287,476
M101	00	2511	Decrease Balance Forward From FY 2016 per Budget Amendment A150821338		(6,706,627)
M101	00	4320	Increase Premium Income in FY 2016 per Budget Amendment A150821338		3,393,410
M101	00	4325	Increase State Subsidy Revenue in FY 2017 per Budget Amendment A150821338		9,109,937
M200	00	4320	Decrease Premium Income in FY 2016 and Increase Premium Income in FY 2017 per Budget Amendment A150821338	(494,777)	3,160,266
M200	00	4325	Adjust State Subsidy Revenue in FY 2016 and FY 2017 per Budget Amendment A150821338	1,624,436	5,171,573
M201	00	4320	Adjust Premium Income Revenue in FY 2016 and FY 2017 per Budget Amendment A150821338	2,556,771	(401,659)
M501	00	4320	Adjust Premium Income Revenue in FY 2016 to Reflect Revised Waiting Period Change per Budget Amendment A150821338	23,054	
M501	00	4325	Adjust State Subsidy Revenue in FY 2016 to Reflect Revised Waiting Period Change per Budget Amendment A150821338	56,812	
M502	00	4320	Adjust Premium Income Revenue in FY 2016 and FY 2017 to Reflect Revised Retiree Tricare Exception per Budget Amendment A150821338	20,273	34,450
M502	00	4325	Adjust State Subsidy Revenue in FY 2016 and FY 2017 to Reflect Revised Retiree Tricare Exception per Budget Amendment A150821338	20,683	79,626
Sub-total				3,807,252	16,128,452
Line Item Changes to Revenues				3,807,252	16,128,452

Adjustments to Expenditures

Dec Unit	Cat	GL	Description	2015-16	2016-17
B000	04	7060	Adjust contract expenditures per budget amendment A150821338	(193,200)	(200,400)
B000	10	7075	Adjust self-insured medical claims expenditures per budget amendment A150821338	(750,383)	(604,450)
B000	12	7075	Adjust self-insured medical claims expenditures per budget amendment A150821338	(1,343,893)	(1,343,893)
B000	86	9178	Adjust excess reserve levels per budget amendment A150821338	2,287,476	4,436,219
M101	08	7075	Adjust fully insured contract expenditures per budget amendment A150821338	(1,669,205)	(2,595,364)
M101	10	7075	Adjust self-insured medical claims expenditures per budget amendment A150821338	(662,798)	(725,404)
M101	12	7075	Adjust self-insured medical claims expenditures per budget amendment A150821338	(206,238)	(264,644)

M101	12	7180	Adjust self-insured medical claims expenditures per budget amendment A150821338	2,099,867	2,125,727
M101	12	7183	Adjust self-insured medical claims expenditures per budget amendment A150821338	7,145,001	9,180,193
M101	86	9178	Adjust reserves for self-insured medical claims expenditures per budget amendment A150821338	(6,706,627)	(1,923,788)
M200	04	7060	Adjust contract expenditures per budget amendment A150821338	18,968	35,265
M200	08	7075	Adjust fully insured contract expenditures per budget amendment A150821338	(9,253,151)	(15,204,429)
M200	10	7075	Adjust self-insured medical claims expenditures per budget amendment A150821338	516,627	866,249
M200	10	7076	Adjust self-insured medical claims expenditures per budget amendment A150821338	55,856	106,306
M200	12	7075	Adjust self-insured medical claims expenditures per budget amendment A150821338	(8,829)	(8,866)
M200	12	7180	Adjust self-insured medical claims expenditures per budget amendment A150821338	6,931,345	16,517,753
M200	12	7183	Adjust self-insured medical claims expenditures per budget amendment A150821338	1,161,354	3,290,982
M200	14	7178	Adjust HSA/HRA employer contribution expenditures per budget amendment A150821338	963,863	1,829,280
M200	14	7181	Adjust HRA claims expenditures per budget amendment A150821338	313,800	408,599
M200	15	7182	Adjust Retiree HRA contribution expenditures per budget amendment A150821338	429,826	490,700
M201	04	7060	Adjust contract expenditures per budget amendment A150821338	12,453	(3,845)
M201	08	7075	Adjust fully insured contract expenditures per budget amendment A150821338	2,343,153	4,346,090
M201	10	7075	Adjust self-insured medical claims expenditures per budget amendment A150821338	69,286	(446,381)
M201	10	7076	Adjust self-insured medical claims expenditures per budget amendment A150821338	1,009	(1,968)
M201	12	7075	Adjust self-insured medical claims expenditures per budget amendment A150821338	28,416	51,657
M201	12	7180	Adjust self-insured medical claims expenditures per budget amendment A150821338	245,721	(3,025,496)
M201	12	7183	Adjust self-insured medical claims expenditures per budget amendment A150821338	(143,267)	(1,321,716)
M501	04	7020	Adjust operating expenditures in FY 2016 to reflect revised Waiting Period cost per Budget Amendment A150821338	2,540	
M501	04	7060	Adjust contract expenditures per budget amendment A150821338	211	
M501	08	7075	Adjust fully insured contract expenditures per budget amendment A150821338	8,017	
M501	10	7075	Adjust self-insured medical claims expenditures per budget amendment A150821338	2,507	
M501	10	7076	Adjust self-insured medical claims expenditures per budget amendment A150821338	255	
M501	12	7180	Adjust self-insured medical claims expenditures per budget amendment A150821338	66,336	
M502	04	7260	Adjust HRA expenditures (Tricare Exception) per budget amendment A150821338	40,956	114,076
Sub-total				3,807,252	16,128,452
Line Item Changes to Expenditures				3,807,252	16,128,452
Total				0	0
Grand Total General Fund Impact of Closing Changes				0	0

Overview

The Public Employees' Benefits Program (PEBP) provides various insurance coverages for state employees, state retirees who are ineligible for Medicare, and their dependents, if the participant chooses to cover their dependents. Retirees who are eligible for Medicare receive a contribution they may use toward a health insurance plan of their choosing via the Individual Medicare Market Exchange (OneExchange). In addition, any non-state public agency may join the program to provide coverage for their employees, retirees and dependents. The insurance coverages provided include health (medical, dental, prescription), life, accidental death and dismemberment, and long-term disability. Other voluntary optional insurance coverages are available for those participants who elect to purchase additional coverage.

The largest portion of the program is health insurance, which currently provides medical, dental, and prescription coverage. The majority of this health coverage is self-insured via a High Deductible Health Plan (HDHP) with healthcare services provided through a preferred provider organization (PPO) network. This plan is also referred to as a Consumer Driven Health Plan (CDHP). Participants may elect a Health Maintenance Organization (HMO) plan rather than the self-funded PPO plan. Accidental death and dismemberment, long-term disability, and life insurance benefits are fully insured by outside carriers.

Major Closing Issues

1. Plan Reserve Levels
2. Projected Plan Inflation/Trend Adjustments
3. 2015-17 Biennium Plan Design, Elimination of Wellness Program Expenditures
4. PEBP Caseload Changes
5. 2015-17 Biennium Active Employees' Group Insurance (AEGIS) and Retired Employee Group Insurance (REGI) Contribution Rates

Discussion of Major Closing Issues

1. Plan Reserve Levels (M-102, SUMMARY, PEBP-12, 19): The plan maintains actuarially determined reserves to cover Health Reimbursement Arrangement (HRA) account future expenditures, Incurred But Not Reported (IBNR) claims and Catastrophic claims. The HRA reserve serves as a holding account for unexpended prior year contributions and provides cash flow in the current year. The IBNR reserve provides cash flow should the plan receive prior year claims in excess of available operating cash. The Catastrophic reserve pays extraordinarily large claims to decrease volatility and avoid disruption to the rates in the following plan year. Lower than projected claim costs may result in excess cash, which is placed into the Excess Reserve (Reserve) category. The Executive Budget utilizes Decision Unit M-102 (PEBP-12) to adjust the plan's HRA, IBNR, Catastrophic and excess reserves over the 2015-17 biennium to align with actuarial projections. To achieve the desired reserve levels, operating expenditures for retiree HRA contributions are increased by $7.3 million in FY 2016 and $6.2 million in FY 2017. Additionally, premium income and state subsidy operating revenues decrease by $1.9 million in FY 2016 but increase by $1.5 million in FY 2017.

   Overall, reserves are budgeted to cumulatively decrease in the 2015-17 biennium by 44.6 percent or $72.8 million in comparison to PEBP's current FY 2015 reserve levels. As shown in the summary table on the following page, The Executive Budget recommends that only the HRA reserve increase over the 2015-17 biennium, by $13.7 million or 61.7 percent compared to FY 2015. According to PEBP, the increase is based upon a projected increase in the funded, but unexpended HRA contributions among active and retiree plan participants. Also based upon actuarial projections, the Governor recommends that reserve levels for IBNR and Catastrophic claims decrease by the end of FY 2017 by $15.2 million and $5.2 million, respectively. As a result of reducing the amount of funds actuarially required in the IBNR and Catastrophic reserves, $20.4 million is available over the 2015-17 biennium to fund the $13.7 million increase to the HRA reserve. The $6.7 million balance also becomes available, in conjunction with excess reserves, to fund expected medical, prescription, dental and HMO plan inflation (Major Issue 2) and the maintenance of the current plan design (Major Issue 3).

Budget Account 1338 - Public Employees' Benefits Program: 2015-17 Budgeted Operating Reserves							
PLAN RESERVE TYPE	**FY 2014 (Ending)**	**FY 2015 (Starting)**		**FY 2016 (Gov. Rec.)**	**FY 2017 (Gov. Rec.)**	**FY 2017 Change Over FY 2015**	**% Change**
HRA Reserve	$ 22,266,600	$ 22,266,600		$ 31,312,874	$ 36,008,701	$ 13,742,101	61.7%
IBNR Reserve	$ 44,000,000	$ 44,000,000		$ 27,800,000	$ 28,800,000	$ (15,200,000)	-34.5%
Catastrophic Reserve	$ 30,300,000	$ 30,300,000		$ 23,700,000	$ 25,100,000	$ (5,200,000)	-17.2%
Reserve (Excess Reserve)	$ 66,643,862	$ 66,643,862		$ 52,614,214	$ 473,446	$ (66,170,416)	-99.3%
RESERVES (Totals)	**$ 163,210,462**	**$ 163,210,462**		**$ 135,427,088**	**$ 90,382,147**	**$ (72,828,315)**	**-44.6%**

However, as also shown in the table, excess reserves of only $473,446 are budgeted to be available at the end of FY 2017 to balance forward into FY 2018.

In response to questions about the excess reserve asked by the Subcommittee at PEBP's pre-session budget hearing on January 29, 2015, PEBP provided information on how the plan design for the 2015-17 biennium would need to be changed depending upon the availability of the excess reserves. PEBP's response indicated that the plan design would not change and there would need to be monthly premium increases between $16.20 (HMO) and $37.99 (PPO) for active employees and between $11.95 (HMO) and $33.75 (PPO) for non-Medicare retirees with the state and participants funding the increases at the approved subsidy percentages. Elimination of plan elements was not indicated. PEBP also provided information on how the PEBP Board expended excess reserves on plan enhancements in prior years including increasing contributions to participants Health Savings Account (HSA)/HRA accounts, increasing the year-of-service contribution to Medicare retirees and easing rate increases in subsequent plan years (February 11, 2015, response: Question 3 and Attachment A).

Budget Amendment A150821338, received from the Executive Budget Office on April 24, 2015, does not adjust or otherwise change the recommended HRA, IBNR and Catastrophic reserve levels contained in The Executive Budget and remain as shown in the above table. However, as a result of Budget Amendment A150821338, available excess reserves decrease by $4.4 million in FY 2016, from $52.6 million to $48.2 million. In FY 2017, available excess reserves increase by $2.5 million, from $473,446 to $3.0 million.

Although funding recommendations are based on actuarial determinations, the operating budget would still have little "margin of error" if FY 2017 program-claims costs are higher than expected. More importantly, Fiscal staff would note that as is discussed under Major Closing Issue 3, the FY 2016 and FY 2017 plan design adopted by the PEBP Board is funded through excess reserves which, based upon an ending FY 2017 balance of $3.0 million, will not be sufficient to continue the plan design in FY 2018.

Does the Subcommittee wish to approve the program reserve levels as recommended by the Governor and adjusted by Budget Amendment A150821338, with authority for staff to make technical adjustments as necessary?

2. Projected Plan Inflation/Trend Adjustments (M-101, M-104, PEBP-11-12, 13): The Governor recommends inflation adjustments for PPO medical trend, dental trend, prescription drug trend increases and HMO plan inflation. "Trend" includes both inflation and utilization and is based upon actuarial projection. The budgetary impact of this adjustment is approximately $18.1 million in FY 2016 and $36.7 million in FY 2017. The Governor recommends funding these inflation adjustments primarily through excess reserves.

Budget Amendment A150821338, submitted by the Budget Division on April 24, 2015, increases projected medical and pharmaceutical claims costs by $6.7 million in FY 2016 and $7.7 million in FY 2017 based upon revisions to the actuarially projected trend rates for each fiscal year of the 2015-17 biennium. As shown in the following table, the primary inflationary change is to pharmaceutical/prescription costs. Inflationary increases are also included for HMO plan costs. According to the agency, the 44.48 percent increase in projected pharmaceutical costs includes past inflation that was not previously budgeted. To fund the increased costs, reserve expenditures increase by $6.7 million, to $23.1 million in FY 2016, but decrease by $4.8 million, to $31.8 million in FY 2017. The FY 2017 decrease is a result of adding $12.6 million in premium income and state subsidy revenue to offset FY 2017 costs.

Projected Trend Inflationary Increases for Fiscal Year 2016 and Fiscal Year 2017 as Budgeted in The Executive Budget for the 2015-17 Biennium					Governor Recommends, AS AMENDED	
INFLATION TYPE	**FY 2014 Actual**	**FY 2015 Budgeted**	**FY 2016 Projected (Gov. Rec.)**	**FY 2017 Projected (Gov. Rec.)**	**FY 2016 Inflation REVISED (Gov. Rec.)**	**FY 2017 Inflation REVISED (Gov. Rec.)**
PPO - Medical	-0.24	8.0%	**6.00%**	**6.00%**	**5.97%**	**6.00%**
PPO - Prescription/Pharmaceutical	17.7	8.0%	**6.00%**	**6.00%**	**44.48%**	**12.00%**
PPO - Dental	3.1	3.5%	**3.00%**	**3.00%**	**2.51%**	**2.00%**
HMO Plan - Hometown Health	-	9.5%	**6.00%**	**8.00%**	**0.98%**	**8.00%**
HMO Plan - Health Plan of Nevada	-	-	**6.00%**	**8.00%**	**10.85%**	**11.00%**

Does the Subcommittee wish to approve excess reserve expenditures of $23.1 million in FY 2016 and $31.8 million in FY 2017 and $12.6 million in premium income and state subsidy revenues in FY 2017 to fund the inflationary and trend changes as recommended by the Governor and as adjusted by Budget Amendment A150821338 with authority for staff to make technical adjustments as necessary?

For Medicare-eligible retirees, The Executive Budget (M-104, PEBP-13) recommends $2.4 million in FY 2017 to account for projected premium increases in the cost of Medicare Supplement (4 to 6 percent), Medicare Advantage (3 to 5 percent) and Medicare prescription drug plans (3 to 5 percent). As budgeted, $1.7 million is recommended to be funded with state subsidies while the $672,637 balance represents premium payments by the non-state employers (primarily school districts) from whom participating non-state retirees retired. Medicare-eligible retirees' HRA accounts are recommended to receive an additional $1 per month per year of service contribution (to $12.00 per YOS).

Does the Subcommittee wish to approve premium income of $672,637 and state subsidy revenue of $1.7 million in FY 2017 to fund the Medicare inflationary changes as recommended by the Governor with authority for staff to make technical adjustments as necessary?

3. 2015-17 Biennium Plan Design, Elimination of Wellness Program Expenditures (BASE, M-103, PEBP-10,13): The Executive Budget recommends utilizing excess reserves totaling $25.1 million in FY 2016 and $25.5 million in FY 2017 to continue the plan design approved by the PEBP Board for FY 2015. The Governor recommends continuation of the Preferred Provider Organization-structured (PPO) High Deductible Health Plan (HDHP) and the Health Maintenance Organization (HMO) plan. (Budget Amendment A150821338 does not change the plan design as reflected in Decision Unit M-103). The following plan elements implemented by the PEBP Board for Plan Year 2015 are continued in FY 2016 and FY 2017:

a) Subsidies: As shown in the table, the monthly health insurance premium subsidy for state active employees on the HDHP PPO would continue at 93 percent; the HMO subsidy would remain 78 percent. For state non-Medicare retirees, the base subsidy percentage (15 years of service credit) recommended would continue at 64 percent for the primary insured on the HDHP PPO, and 49 percent on the HMO. Dependent subsidies are set at 20 percent less than that for the primary insured (i.e., 73 percent for active dependents and 44 percent for retiree dependents), assuming those participants choose the HDHP PPO. For participants who elect to join the HMO instead of the PPO, the subsidy is set at 15 percent less than the subsidy for the PPO to reflect the differences in deductibles, out-of-pocket expenses and coinsurance percentages and thresholds.

Monthly Insurance Premium Subsidies for Plan Year (PY) 2016 and PY 2017 as Recommended in The Executive Budget for the 2015-17 Biennium

PARTICIPANT TYPE	PY 2015 PPO Subsidy %	PY 2015 HMO Subsidy %	PY 2016 PPO Subsidy %	PY 2016 HMO Subsidy %	PY 2017 PPO Subsidy %	PY 2017 HMO Subsidy %
State Active (Primary)	93%	78%	93%	78%	93%	78%
State Active (Dependent)	73%	58%	73%	58%	73%	58%
State Non-Medicare Retiree (Primary) (15 Years of Service)	64%	49%	64%	49%	64%	49%
State Non-Medicare Retiree (Dependent)	44%	29%	44%	29%	44%	29%

b) Deductibles: For the PPO, the deductible would be $1,500/individual and $3,000/family *(projected cost: $2.2 million)*;
c) Coinsurance: The coinsurance rate would be 80 percent once the deductible was satisfied *($1.6 million)*;
d) Out-of-Pocket Maximum: For the PPO, the out-of-pocket maximums, after which the plan would pay 100 percent of the cost, would be $3,900/individual and $7,800/family. Under the HMO plan, the amounts would be $6,000/individual and $12,000/family;
e) Health Savings Account (HSA) Contribution: An additional one-time HSA contribution of $400 per primary insured HDHP participant and an additional one-time HSA contribution of $100 per dependent per primary insured participant. These are in addition to the $700 (primary)/$200 (dependent) “base” contribution to each active and retirees’ HSA or HRA *($9.0 million)*;
f) Health Reimbursement Arrangement (HRA) Contribution: An additional one-time HRA contribution of $2 per month per Year of Service (YOS) for Medicare retirees *($4.5 million)*;
g) Dental Benefit: The maximum annual dental benefit would be $1,500 *($3.3 million)*;
h) Vision Benefit: One annual vision exam would be funded *($1.3 million)*;
i) Life Insurance: Life insurance would be $25,000 for actives and $12,500 for retirees *($3.3 million)*;
j) Preventive care: Continue to be covered at 100 percent and the wellness program would be continued with the associated $50 per month (maximum per primary participant) premium reduction for participants who completed the eligibility requirements *($5.9 million)*.

Elimination of Wellness Program Expenditures: The PEBP Board adopted the FY 2016 plan design and rates at its April 2, 2015, meeting. However, as the Subcommittee is aware, on April 16, 2015, the PEBP Board held an emergency meeting and canceled its contract with United States Preventive Medicine (USPM) and eliminated expenditures supporting the wellness program effective July 1, 2015. This action occurred after the Legislature’s Interim Finance Committee, at its April 9, 2015, meeting, deferred approving PEBP’s FY 2015 work program revision request to establish expenditure authority sufficient to pay the contract administrative costs of the wellness program vendor (USPM). The Board approved the following actions on April 16, 2015:

1. Terminated its current contract with U.S. Preventive Medicine (USPM) effective June 13, 2015, by issuing a 60-day termination notice. The USPM contract otherwise expired on September 30, 2015;
2. Cancelled the current RFP, through the Purchasing Division, for a new wellness program vendor that would have been effective October 1, 2015;
3. Allowed biometric screenings to continue through May 6th for individuals already scheduled;
4. Eliminated participant incentives effective July 1, 2015 (Plan Year 2016): These would have been:
   - for primary participants (not dependents) on the high deductible plan, a $50 monthly contribution to the participant's HSA;
   - for primary participants on the HMO plan, a $50 monthly deduction to the participant's cost share.
5. Continued the diabetes care management program component of the wellness program by transferring the program to Hometown Health, which is PEBP's current provider for major disease care management services. Participants will continue to receive reduced doctor's office and pharmaceutical copay incentives;
6. Continued in FY 2016 the existing wellness/preventive screening benefits currently provided to participants: blood pressure, blood sugar, bone density, cholesterol, skin cancer examinations, colonoscopy, depression screening/management, electrocardiogram, fecal occult blood, hearing exam, height & weight, immunizations, sigmoidoscopy, tobacco use counseling and intervention, vision screening;
7. Send a letter to participants currently enrolled (or enrolling) in the USPM wellness program and to agency representatives informing them of the changes and the benefits still available.

Wellness Program Costs

As shown in the following table, wellness program costs were anticipated to total $8.1 million in FY 2016 and $8.2 million in FY 2017, with approximately 75 percent of the annual cost associated with the $50 per month (maximum) premium incentive. The premium incentive was to be funded through excess reserves and represented a reduction in premium income from participating individuals. However, for purposes of rate setting, all costs were included in the Active Employees' Group Insurance (AEGIS) and Retired Employee Group Insurance (REGI) rates.

Expenditure Components of PEBP Wellness Program	**FY15 Program Costs**	**FY16 Anticipated Program Costs**	**FY17 Anticipated Program Costs**
Self Insured Claims Costs			
Biometric Screenings	$ 698,533	$ 733,459	$ 770,132
Biometric Screenings - Cotinine	$ 23,366	$ 24,534	$ 25,761
Self Insured Administrative Costs			
Health Risk Assessment	$ 148,728	$ 156,164	$ 163,972
Non-Interactive Communications	$ 176,767	$ 185,605	$ 194,885
Program Fulfillment	$ 131,661	$ 138,244	$ 145,156
Analytics and Predictive Modeling	$ 732,667	$ 769,300	$ 807,765
Biometric and Contract Costs per year	**$ 1,911,722**	**$ 2,007,306**	**$ 2,107,671**
Premium Incentive Costs (Reduction in Revenue)	$ 6,095,400	**$ 6,095,400**	**$ 6,095,400**
(10,159 individuals x $50.0 x 12)			
Disease Management - Diabetes	$ 136,074	$ -	$ -
(733 individuals x $15.47 x 12 months)			
Total Wellness Program Costs	**$ 8,143,196**	**$ 8,102,706**	**$ 8,203,071**

As originally submitted, and subsequently amended by Budget Amendment A150821338, revenue (excess reserves) and expenditure authority for the wellness program remains in the budget. However, the Subcommittee should be aware that Budget Amendment A150821338 achieves the reduced FY 2016 and FY 2017 AEGIS and REGI state contributions by applying the program savings derived from the wellness program's elimination.

PEBP additionally indicates that state employees also derived a financial benefit in the form of reduced monthly premiums. ATTACHMENT 1 provides a breakdown of the per member per month (PMPM) financial benefit that will be received by all 25,000 active employees and 3,900 non-Medicare retirees. The PMPM premium savings is $1.87 for state actives on the PPO plan and $5.52 on the HMO plan. State non-Medicare retirees receive premium reductions of $9.61 and $12.81 for the PPO and HMO plans, respectively. While these amounts are not large, they do represent out-of-pocket savings for ALL participants. Staff would point out that the majority of the benefit accrues to the state contribution since, as shown in the subsidy table, the state subsidy varies from 93 percent to 78 percent for state actives and 64 percent to 49 percent for state non-Medicare retirees.

First, exclusive of the wellness program, does the Subcommittee wish to approve the use of excess reserves totaling $25.1 million in FY 2016 and $25.5 million in FY 2017 as recommended by the Governor to continue the plan design approved by the PEBP Board for FY 2015, with authority for staff to make technical adjustments as necessary?

In recognition that the amended FY 2017 excess reverse ending balance is projected to be $3.0 million, the Subcommittee may wish to consider recommending that the full committees issue a letter of intent to the PEBP Board directing that no later than July 1, 2016, the PEBP Board report to the Legislature's Interim Retirement and Benefits Committee (IRBC) on the benefits plan design and associated funding plan anticipated for the 2017-19 biennium.

Does the Subcommittee wish to recommend a letter of intent directing that no later than July 1, 2016, the PEBP Board should report to the Legislature's Interim Retirement and Benefits Committee (IRBC) on the benefits plan design and associated funding plan anticipated for FY 2018 and FY 2019?

Regarding the wellness program, the Subcommittee may wish to consider options for recommendation to the full committees when the PEBP budgets are closed on Tuesday, May 12, 2015. Options include:

a. Approve the expenditure of all or part of the $8.1 million in FY 2016 and $8.2 million in FY 2017 to reduce the state contribution and participant's out-of-pocket premium costs as included in Amendment A150821338;
b. Defer making a decision and request that the PEBP Board and the Executive Budget Office provide the full committees with options for utilizing the funding different than the reduced state contribution and participant premium rates contained in Amendment A150821338;

If the Subcommittee selects option b it will need to provide direction to staff to work with PEBP and the Executive Budget Office to determine the cost and feasibility of other options. The following issues would need to be addressed:

- Which participants should receive a benefit e.g., all PEBP primary participants, only those who enrolled in the wellness program, some other group of state employees;
- What type of benefit participants should receive e.g., a monthly premium reduction or subsidy, a one-time HSA/HRA contribution, some other financial benefit;
- The dollar value of the benefit;
- The duration of the benefit e.g., FY 2016, both FY 2016 and FY 2017, or some other time period.

Does the Subcommittee wish to approve a recommendation with regard to either the wellness program or the funding, which was budgeted to support it in the 2015-17 biennium?

4. PEBP Caseload Changes (M-200, M-201, PEBP-14): In follow up to the pre-session budget hearing, the agency has provided FY 2015 year-to-date actual enrollments for both state and non-state participants. The updated information is shown on the following table. Additionally, the table shows updated FY 2016 and FY 2017 projected participant totals.

Public Employees' Benefits Program Participant Count: FY 2014 Actual, FY 2015 Budgeted, FY 2015 Year-To-Date, FY 2016 and FY 2017 Projected						Governor Recommends, AS AMENDED	
PARTICIPANT TYPE	**FY 2014 (Actual)**	**FY 2105 (Budgeted)**	**FY 2015 (Y-T-D)**	**FY 2016 (Projected)**	**FY 2017 (Projected)**	**FY 2016 Enrollments REVISED (Gov. Rec.)**	**FY 2017 Enrollments REVISED (Gov. Rec.)**
STATE PARTICIPANTS							
Actives	23,582	23,852	24,245	23,852	23,852	24,376	25,132
Non-Medicare Retirees	3,865	3,845	3,270	3,882	3,873	3,920	3,910
Medicare Retirees	5,272	5,329	6,277	5,833	6,048	5,925	6,159
Retirees SUBTOTAL	*9,137*	*9,174*	*9,547*	*9,715*	*9,921*	*9,845*	*10,069*
TOTAL STATE	**32,719**	**33,026**	**33,792**	**33,567**	**33,773**	**34,221**	**35,201**
Change	-	307	1,073	541	206	**429**	**980**
% Change	-	0.9%	3.3%	1.6%	0.6%	1.3%	2.9%
NON-STATE PARTICIPANTS							
Actives	14	14	12	6	0	12	12
Non-Medicare Retirees	2,980	2,796	2,046	1,951	1,411	1,952	1,410
Medicare Retirees	4,753	4,787	5,322	5,163	5,379	5,118	5,317
Retirees SUBTOTAL	*7,733*	*7,583*	*7,368*	*7,114*	*6,790*	*7,070*	*6,727*
TOTAL NON-STATE	**7,747**	**7,597**	**7,380**	**7,120**	**6,790**	**7,082**	**6,739**
Change	-	(150)	(367)	(477)	(330)	(298)	(343)
% Change	-	-1.9%	-4.7%	-6.3%	-4.6%	**-4.0%**	**-4.8%**
TOTAL PARTICIPANTS	**40,466**	**40,623**	**41,172**	**40,687**	**40,563**	**41,303**	**41,940**
% Change	**-**	**0.39%**	**1.74%**	**0.16%**	**-0.30%**	**0.32%**	**1.54%**

Budget Amendment A150821338 revises state participant enrollments to increase by 1.3 percent over FY 2015 Y-T-D actuals and then increase again, by 2.9 percent over FY 2016, in FY 2017. As also shown, non-state participants, primarily retirees, continue to decrease by 4.0 percent and 4.8 percent, in FY 2016 and FY 2017, respectively.

a) M-200 State Active and Retiree Caseload: The Executive Budget recommends a decrease in state subsidy contributions of $2.6 million in FY 2016 and $5.5 million in FY 2017 and increases in premium income of $9.0 million and $11.7 million in FY 2016 and FY 2017, respectively. Overall, net revenues increase by $6.4 million in FY 2016 and $6.1 million in FY 2017 based upon projected increases in plan administrative (contract) costs and increased medical claims costs associated with changes in state active and retiree participants over the biennium.

   Budget Amendment A150821338 revises the recommended funding for state active and retiree caseloads by decreasing premium income by $494,777 and increasing state subsidy revenue by $1.6 million in FY 2016. In FY 2017, premium income is increased by $3.2 million and state subsidy revenue is increased by $5.2 million. Overall, total recommended revenues and expenditures increase by a net of $1.1 million in FY 2016 and $8.3 million in FY 2017.

Does the Subcommittee wish to approve net revenue and expenditures of $1.1 million in FY 2016 and $8.3 million in FY 2017 to fund the state active and retiree caseload changes as recommended by the Governor and as adjusted by Budget Amendment A150821338 with authority for staff to make technical adjustments as necessary?

b) M-201 Non-State Active and Retiree Caseload: The Executive Budget recommends a decrease in Premium Income revenues of $10.0 million in FY 2016 and $13.7 million in FY 2017 to reflect the projected decrease in the total number of non-state actives and retirees participating in PEBP and the associated reductions in medical claims and plan contract administrative costs. In total, non-state participants are projected to decline from 7,597 participants in FY 2015 to 6,790 participants in FY 2017. This is a net reduction of 807 participants or 10.6 percent. No non-state active participants are projected in FY 2017. Additionally, non-state early retirees on either the PPO or HMO plans are projected to decrease by 1,385 as a result of either returning to their former employer's health plan or finding less expensive coverage, while an additional 592 become eligible for Medicare coverage.

Plan Tier	FY 2014 Non-State Active and Retiree Enrollments (Actual)	FY 2015 Non-State Active and Retiree Enrollments (Budgeted)	FY 2015 Non-State Active and Retiree Enrollments (Y-T-D)	FY 2016 Non-State Active and Retiree Enrollments (Projected)	FY 2017 Non-State Active and Retiree Enrollments (Projected)	FY 2017 Change From FY 2015	FY 2017 Percentage Change from FY 2015
Actives (PPO + HMO)	14	14	12	6	0	**(14)**	-100.0%
Early Retirees (PPO + HMO)	2,980	2,796	2,046	1,951	1,411	**(1,385)**	-49.5%
Medicare Retirees	4,753	4,787	5,322	5,163	5,379	**592**	12.4%
Total Enrollments	**7,747**	**7,597**	**7,380**	**7,120**	**6,790**	**(807)**	**-10.6%**

Budget Amendment A150821338 revises the recommended funding for non-state active and retiree caseloads by increasing premium income in FY 2016 by $2.6 million. Premium income was budgeted to decrease by $10.0 million, however the budget amendment revises the decrease to $7.5 million. In FY 2017, non-state participant premium income is further decreased by $401,659 to -$14.1 million.

Does the Subcommittee wish to approve a non-state participant premium income revenue reduction of $7.5 million in FY 2016 and $14.1 million in FY 2017 to fund non-state participant caseload changes as recommended by the Governor and as adjusted by Budget Amendment A150821338 with authority for staff to make technical adjustments as necessary?

5. 2015-17 Biennium AEGIS and REGI Contribution Rates **-** Active Employee Group Insurance: The Active Employees' Group Insurance (AEGIS) budget was established by the 2007 Legislature as a mechanism to collect contributions made by each state entity for the benefit of their active employees. The contributions defray a portion of the individual insurance premiums for active employees in state government who participate in PEBP. Assessments on filled positions are charged to all state agencies, boards and commissions, the Legislative and Judicial Branches, the Public Employees' Retirement System, and the Nevada System of Higher Education.

The per person per month (PPPM) monthly contribution is a composite amount based upon the total number of active employees and dependents enrolled by "tier" (participant only, participant + spouse, participant + family) and plan (PPO or HMO). The AEGIS assessment is levied on a per member per month basis on each agency's filled positions.

As shown in the table on the following page, Budget Amendment A150821338 revises the state per member per month (PMPM) contribution between the original and amended AEGIS assessment amount. In FY 2016, the recommended rate decreases from $719.66 PMPM to $701.73 PMPM. The decrease is a result of two changes: the $4.0 million decrease in the needed FY 2015 AEGIS repayment in FY 2016 and the $8.1 million savings from elimination of the wellness program's administrative, biometric screening and participant incentive costs.

Prior Fiscal Year and the Recommended Per Member Per Month (PMPM) State Contribution for Active Employees for the 2015-17 Biennium						Governor Recommends, AS AMENDED	
FY 2012 State AEGIS PMPM Contribution	**FY 2013 State AEGIS PMPM Contribution**	**FY 2014 State AEGIS PMPM Contribution**	**FY 2015 State AEGIS PMPM Contribution**	**FY 2016 State AEGIS PMPM Contribution (Gov. Rec.)**	**FY 2017 State AEGIS PMPM Contribution (Gov. Rec.)**	**FY 2016 State AEGIS PMPM Contribution (Gov. Rec.)**	**FY 2017 State AEGIS PMPM Contribution (Gov. Rec.)**
$ 644.81	$ 733.64	$ 688.37	$ 695.35	**$ 719.66**	**$ 694.20**	**$ 701.73**	**$ 699.25**
% Change	13.8%	-6.2%	1.0%	**3.5%**	**-3.5%**	**0.9%**	**-0.4%**

Retired Employee Group Insurance (REGI)

The REGI program was designed to defray a portion of health insurance premiums for employees who retire from state service and continue to participate in the state's group insurance plan. Funding for the program is collected through payroll assessments to state agencies to cover the costs of the state subsidy of both non-Medicare retiree subsidies as well as Medicare retiree contributions.

The REGI assessment is calculated as a percentage of gross payroll in each budget account. For FY 2016, the recommended assessment is 2.22 percent, and for FY 2017 the recommended assessment is 2.26 percent, which are a decrease from the 2.66 percent assessed in FY 2015. The following table shows the agency's calculation of the base subsidy for state non-Medicare retirees, which equates to 15 Years of Service (YOS) pursuant to *Nevada Revised Statutes* 287.046. Due to differences in participant tier and plan costs, the base subsidy is also a composite amount.

As shown in the following table, Budget Amendment A150821338 revises the state per member per month (PMPM) contribution between the original and amended REGI assessment amounts. As shown in the table, when compared to the Governor's original recommendation, the FY 2016 base state subsidy decreases by less than $1.00 PMPM, from $426.14 to $425.57. However, for FY 2017, while lower than the current fiscal year base subsidy of $462.20, the amended base subsidy amount increases by $25.58 PMPM or 6.0 percent to $451.15 over the originally recommended FY 2016 subsidy of $424.94. According to the agency, the increase in the amended base subsidy for FY 2017 is a result of increased medical and pharmaceutical inflation for the PPO and HMO plans.

Prior Fiscal Year and the Recommended Base Per Member Per Month (PMPM) State Subsidy for State Non-Medicare Retirees (at 15 Years of Service) for the 2015-17 Biennium						Governor Recommends, AS AMENDED	
FY 2012 State REGI PMPM Contribution	**FY 2013 State REGI PMPM Contribution**	**FY 2014 State REGI PMPM Contribution**	**FY 2015 State REGI PMPM Contribution**	**FY 2016 Projected State REGI PMPM Contribution (Gov. Rec.)**	**FY 2017 Projected State REGI PMPM Contribution (Gov. Rec.)**	**FY 2016 State REGI PMPM Contribution (Gov. Rec.)**	**FY 2017 State REGI PMPM Contribution (Gov. Rec.)**
$ 418.42	$ 473.47	$ 452.26	$ 462.20	**$ 426.14**	**$ 424.94**	**$ 425.57**	**$ 451.15**
% Change	13.2%	-4.5%	2.2%	**-7.8%**	**-0.3%**	**-7.9%**	**6.0%**

Does the Subcommittee wish to accept the amended Active Employees' Group Insurance (AEGIS) and Retired Employee Group Insurance (REGI) state contribution rates as recommended by the Governor and revised by Budget Amendment A150821338 inclusive of the elimination of the wellness program with authority for staff to make technical adjustments as necessary?

Other Closing Items

1. Federal Healthcare Reform Mandates: Waiting Period (M-501, PEBP-15): Budget Amendment A150821338 revises the funding recommended in The Executive Budget for FY 2016, $63,074 in premium income (from $40,020) and $159,824 in state subsidy revenue (from $103,012) for total funding of $222,898 in FY 2016 to become compliant with the federal Affordable Care Act (ACA) requirement that the waiting period for new enrollees cannot exceed 90 calendar days. Under federal law, "waiting period" is defined as the period of time that must pass before coverage for an employee or dependent who is otherwise eligible to enroll under the terms of a group health plan can become effective. This requirement applies to health plans and health insurance issuers in the group and individual markets. Covered group health plans include both insured and self-insured. The federal requirement took effect with plan years beginning on or after January 1, 2014. For PEBP, this mandate became effective on July 1, 2014.

   Nevada Revised Statutes (NRS) 287.045 establishes the eligibility, waiting period and effective dates for coverage of otherwise eligible employees and dependents. In general, coverage is effective on the first day of the first month following the completion of 90 days of full-time employment. The $222,898 in recommended funding is based upon the assumption of a one-time cost to transition 294 new hires to no more than a 90-day waiting period. The PEBP indicates that the cost for all future hires would be incorporated into plan rates on a going-forward basis. Notwithstanding NRS 287.045, to ensure compliance with the federal requirement, the Legislative Commission, at its February 25, 2014, meeting, approved PEBP's administrative regulation to reduce the waiting period and make coverage effective on the first day of the month following the completion of 60 days of full-time employment (NAC 287.3105).

   This decision unit is contingent upon passage and approval of Senate Bill 472, which amends NRS 287.045 to revise the effective date for coverage to be either (a) the first day of full-time employment of the state officer or employee, if that date is the first day of the month; or (b) the first day of the month immediately following the first day of full-time employment of the state officer or employee. Senate Bill (S.B.) 472 was amended and passed by Senate Government Affairs on April 08, 2015, and subsequently heard in Senate Finance on April 22, 2015. **This recommendation appears reasonable, as adjusted by Budget Amendment A150821338 and contingent upon passage and approval of S.B. 472.**

2. Federal Healthcare Reform Mandates: ACA Required Fees (M-502, PEBP-16): Budget Amendment A150821338 revises the funding recommended in *The Executive Budget* for the 2015-17 biennium to $1.3 million (from $1.2 million) in premium income and $3.4 million (from $3.3 million) in state subsidy revenue for total funding of $4.7 million in federal ACA required fees; the Patient Centered Outcomes Research Institute (PCORI) fee and the Transitional Reinsurance Fee (which supports state's health insurance exchanges, where established). Both fees are assessed against the 59,815 and 61,018 active and non-Medicare retiree (and dependent) lives projected to be covered by PEBP in FY 2016 and FY 2017, respectively. The PCORI fee is budgeted at $2.00 per covered life in each fiscal year and is projected to cost $241,666 over the biennium. The Transitional Reinsurance Fee is budgeted at $44.00 (FY 2016) and $28.00 (FY 2017) per covered member and dependent and is projected to cost $4.4 million over the biennium. **This recommendation appears reasonable, as adjusted by Budget Amendment A150821338.**

3. Exception for Tricare-Eligible Participants (E-276, PEBP-16): The Executive Budget recommends premium income and state subsidy revenues of $1.0 million in FY 2016 and $1.1 million in FY 2017 to fund the annual Health Reimbursement Arrangement (HRA) contribution and basic life insurance benefit of certain Medicare-eligible retirees without requiring those participants to enroll in a Medicare plan through the state's Individual Medicare Market Exchange. Specifically, the PEBP Board and the Governor recommend that retirees, who are veterans, and eligible for and/or enrolled in Tricare, receive an exception to the NRS 287.046 requirement that eligibility for a monthly HRA contribution and basic group life insurance benefit requires enrolling in an individual Medicare medical plan sponsored by the Public Employees' Benefits Program. This proposed change would benefit an estimated 454 and 471 Tricare-eligible state retirees in FY 2016 and FY 2017, respectively. The cost to the plan is estimated at $2,238 per Tricare-eligible retiree, per year.

   This decision unit is contingent upon passage and approval of Senate Bill 471, which amends NRS 287.046 to provide the exception. Senate Bill (S.B.) 471 was passed by Senate Government Affairs on April 08, 2015, and subsequently heard in Senate Finance on April 22, 2015. **This recommendation appears reasonable contingent upon passage and approval of S.B. 471.**

4. Health Information Exchange Access (E-277, PEBP-17): The Executive Budget recommends premium income revenue of $60,248 and state subsidy revenue of $158,315 totaling $218,563 over the biennium to provide funding to Nevada's Health Information Exchange. The funding supports the cost of a PEBP member's medical records being made available electronically to a member's health care provider(s), should the member elect to make them available. The recommended funding level is calculated at 21.0 cents per participant, including dependents, per month. Non-state participants are also included in the calculation. **This recommendation appears reasonable**.

5. Replacement Equipment (E-710, PEBP-17,18): A total of $284,464, comprised of premium income revenue of $78,359 and state subsidy revenue of $206,105 is recommended over the 2015-17 biennium to fund various replacement equipment, including a telephone call service monitoring/recording software, 9 servers, 6 network switches, 17 desktop computers, 3 printers, 50 battery backup UPS units, data storage and software updates. **This recommendation appears reasonable**.

6. Division of Human Resource Management Cost Allocation (E-804, PEBP-18): The Division of Human Resource Management (DHRM) within the Department of Administration currently provides all personnel services to PEBP. The Executive Budget recommends $2,195 in cost allocation charges over the 2015-17 biennium funded from reserves. **This recommendation appears reasonable**.

Staff recommends that all Other Closing Items be closed as recommended by the Governor, including Other Closing Items 1 and 2, as adjusted by Budget Amendment A150821338, with authority for staff to make technical adjustments as necessary.

ATTACHMENT (1 Page)

ATTACHMENT 1

Board Approved Rates March 26, 2015

TABLE 1: (INCLUDES WELLNESS)

State Active Employees	**Statewide PPO**				**Statewide HMO**			
	PPO Consumer Driven High Deductible Health Plan				**Hometown Health Plan & Health Plan of Nevada**			
	Rate	**Base Subsidy**	**Supp Subsidy**	**Participant Premium**	**Rate**	**Base Subsidy**	**Supp Subsidy**	**Participant Premium**
Employee Only	625.37	581.59	-	43.78	773.33	603.20	-	170.13
Employee + Spouse	1,105.33	931.97	-	173.36	1,472.39	1,008.65	-	463.74
Employee + Child(ren)	813.56	718.97	-	94.59	1,095.68	790.16	-	305.52
Employee + Family	1,292.68	1,068.73	-	223.95	1,794.74	1,195.62	-	599.12

Rates with Budget Amend removing Wellness Program April 16, 2015

TABLE 2: (WELLNESS REMOVED)

State Active Employees	**Statewide PPO**				**Statewide HMO**			
	PPO Consumer Driven High Deductible Health Plan				**Hometown Health Plan & Health Plan of Nevada**			
	Rate	**Base Subsidy**	**Supp Subsidy**	**Participant Premium**	**Rate**	**Base Subsidy**	**Supp Subsidy**	**Participant Premium**
Employee Only	598.69	556.78	-	41.91	748.21	583.60	-	164.61
Employee + Spouse	1,078.65	907.15	-	171.50	1,447.27	989.06	-	458.21
Employee + Child(ren)	786.88	694.16	-	92.72	1,070.56	770.57	-	299.99
Employee + Family	1,266.00	1,043.92	-	222.08	1,769.62	1,176.02	-	593.60

Difference in rates March 26th vs April 16th

TABLE 3: PMPM RATE CHANGE

State Active Employees	**Statewide PPO**				**Statewide HMO**			
	PPO Consumer Driven High Deductible Health Plan				**Hometown Health Plan & Health Plan of Nevada**			
	Rate	**Base Subsidy**	**Supp Subsidy**	**Participant Premium**	**Rate**	**Base Subsidy**	**Supp Subsidy**	**Participant Premium**
Employee Only	(26.68)	(24.81)		(1.87)	(25.12)	(19.60)		(5.52)
Employee + Spouse	(26.68)	(24.82)		(1.86)	(25.12)	(19.59)		(5.53)
Employee + Child(ren)	(26.68)	(24.81)		(1.87)	(25.12)	(19.59)		(5.53)
Employee + Family	(26.68)	(24.81)		(1.87)	(25.12)	(19.60)		(5.52)
		$ (4,921,013.88)		$ (30,909.23)		$ (1,845,614.40)		$ (519,785.28)

Board Approved Rates March 26, 2015

TABLE 1A: (INCLUDES WELLNESS)

State Retirees	**Statewide PPO**				**Statewide HMO**			
	PPO Consumer Driven High Deductible Health Plan				**Hometown Health Plan & Health Plan of Nevada**			
	Rate	**Base Subsidy**	**Supp Subsidy**	**Participant Premium**	**Rate**	**Base Subsidy**	**Supp Subsidy**	**Participant Premium**
Employee Only	607.46	388.77	-	218.69	755.42	370.16	-	385.26
Employee + Spouse	1,087.42	599.96	-	487.46	1,454.48	572.88	-	881.60
Employee + Child(ren)	792.30	470.11	-	322.19	1,077.77	463.64	-	614.13
Employee + Family	1,274.77	682.39	-	592.38	1,776.83	666.36	-	1,110.47

Rates with Budget Amend removing Wellness Program April 16, 2015

TABLE 2A: (WELLNESS REMOVED)

State Retirees	**Statewide PPO**				**Statewide HMO**			
	PPO Consumer Driven High Deductible Health Plan				**Hometown Health Plan & Health Plan of Nevada**			
	Rate	**Base Subsidy**	**Supp Subsidy**	**Participant Premium**	**Rate**	**Base Subsidy**	**Supp Subsidy**	**Participant Premium**
Employee Only	580.78	371.70	-	209.08	730.30	357.85	-	372.45
Employee + Spouse	1,060.74	582.88	-	477.86	1,429.36	560.57	-	868.79
Employee + Child(ren)	765.62	453.03	-	312.59	1,052.65	451.33	-	601.32
Employee + Family	1,248.09	665.32	-	582.77	1,751.71	654.06	-	1,097.65

Difference in rates March 26th vs April 16th

TABLE 3A: PMPM RATE CHANGE

State Retirees	**Statewide PPO**				**Statewide HMO**			
	PPO Consumer Driven High Deductible Health Plan				**Hometown Health Plan & Health Plan of Nevada**			
	Rate	**Base Subsidy**	**Supp Subsidy**	**Participant Premium**	**Rate**	**Base Subsidy**	**Supp Subsidy**	**Participant Premium**
Employee Only	(26.68)	(17.07)		(9.61)	(25.12)	(12.31)		(12.81)
Employee + Spouse	(26.68)	(17.08)		(9.60)	(25.12)	(12.31)		(12.81)
Employee + Child(ren)	(26.68)	(17.08)		(9.60)	(25.12)	(12.31)		(12.81)
Employee + Family	(26.68)	(17.07)		(9.61)	(25.12)	(12.30)		(12.82)
		$ (582,974.64)		$ (328,200.72)		$ (152,028.00)		$ (158,455.20)

Distribution of Benefit	
State	$ (7,501,630.92)
Employee	$ (550,694.51)
Retiree	$ (486,655.92)

Title: PEBP - RETIRED EMPLOYEE GROUP INSURANCE

Budget Page: PEBP-20, **Volume III**

Account: 680 - 1368

Revenues	2013-14 Actual	2014-15 WP	% Chg	2015-16 GOV REC	% Chg	2016-17 GOV REC	% Chg
BALANCE FORWARD	2,287,963	295,833	(87.07)				
INTERAGENCY TRANSFER	33,571,881	39,068,235	16.37	35,059,974	(10.26)	36,165,870	3.15
OTHER FUND	7,216	3,212	(55.49)	7,216	124.66	7,216	
Total Revenues	35,867,060	39,367,280	9.76	35,067,190	(10.92)	36,173,086	3.15

Total FTE

Adjustments to Revenue

Dec Unit	Cat	GL	Description	2015-16	2016-17
B000	00	4514	Decrease assessment revenue per Budget Amendment A150831368	(586,788)	(1,513,520)
M100	00	4514	Decrease assessment revenue per Budget Amendment A150831368	(600)	(1,090)
M101	00	4514	Increase assessment revenue per Budget Amendment A150831368		1,335,994
M102	00	4514	Adjust assessment revenue per Budget Amendment A150831368	3,403	(7,044)
M104	00	4514	Decrease assessment revenue per Budget Amendment A150831368		(12,200)
M200	00	4514	Increase assessment revenue per Budget Amendment A150831368	245,916	793,991
M501	00	4514	Increase assessment revenue per Budget Amendment A150831368	8,117	
M502	00	4514	Adjust assessment revenue per Budget Amendment A150831368	(1,878)	3,426
E276	00	4514	Decrease assessment revenue per Budget Amendment A150831368	(2,299)	(5,189)
E277	00	4514	Decrease assessment revenue per Budget Amendment A150831368	(251)	(532)
E710	00	4514	Decrease assessment revenue per Budget Amendment A150831368	(312)	(726)
Sub-total				(334,692)	593,110
Line Item Changes to Revenues				(334,692)	593,110

Adjustments to Expenditures

Dec Unit	Cat	GL	Description	2015-16	2016-17
B000	10	9172	Decrease base transfer to BA 1338 per Budget Amendment A150831368	(586,788)	(1,513,520)
M100	10	9172	Decrease transfer to BA 1338 for statewide inflation per Budget Amendment A150831368	(600)	(1,090)
M101	10	9172	Increase transfer to BA 1338 for PEBP-specific inflation per Budget Amendment A150831368		1,335,994
M102	10	9172	Adjust transfer to BA 1338 for balances for IBNR, Catastrophic and HRA reserves per Budget Amendment A150831368	3,403	(7,044)
M104	10	9172	Decrease transfer to BA 1338 for Medicare-specific inflation per Budget Amendment A150831368		(12,200)
M200	10	9172	Increase transfer to BA 1338 for retiree enrollment increase per Budget Amendment A150831368	245,916	793,991
M501	10	9172	Increase transfer to BA 1338 to implement waiting period change (SB 472) per Budget Amendment A150831368	8,117	
M502	10	9172	Adjust transfer to BA 1338 for PCORI fee payments per Budget Amendment A150831368	(1,878)	3,426

E276	10	9172	Decrease transfer to BA 1338 projected to implement Tricare exception for retirees (SB 471) per Budget Amendment A150831368	(2,299)	(5,189)
E277	10	9172	Decrease transfer to BA 1338 for Health Information Exchange fees per Budget Amendment A150831368	(251)	(532)
E710	10	9172	Decrease transfer to BA 1338 for equipment replacement expenditures per Budget Amendment A150831368	(312)	(726)
Sub-total				(334,692)	593,110
Line Item Changes to Expenditures				(334,692)	593,110
Total				0	0
Grand Total General Fund Impact of Closing Changes				0	0

Staff is responsible for developing recommendations for this budget. The Subcommittee has not previously reviewed this budget account.

Overview

The Retired Employee Group Insurance (REGI) assessment defrays a portion of the health insurance premiums for employees who retire from state service and continue to participate in the state's group insurance plan. Funding for this budget is through payroll assessments to all state agencies, boards and commissions, the Legislative and Judicial Branches, the Public Employees' Retirement Systems (PERS), and the Nevada System of Higher Education (NSHE) to cover the cost of the state subsidy. Funding is transferred to the Public Employees' Benefits Program (PEBP) operating budget (625-1338) from this budget each month to provide the employer portion of the state retirees' insurance premiums.

Major Closing Issues

There are no major closing issues.

Other Closing Items

Budget Amendment A150831368 and Revised REGI Assessment: On April 24, 2015, the Budget Division submitted Budget Amendment A150832368. The amendment decreases the amount of REGI assessments transferred to the PEBP operating budget by a net $334,692 in FY 2016, but increases transfers by a net $593,110 in FY 2017. The adjustments contained in the budget amendment are shown on the first pages of this closing document. The following table identifies the monthly base subsidy amounts for non-Medicare retirees with 15 years of service, and the percentage change from the previous year, for retirees since FY 2012 and includes the Governor's amended recommendation for each year of the 2015-17 biennium. Due to differences in participant tier and plan costs, the base subsidy is a composite amount.

Prior Fiscal Year and the Recommended Base Per Person Per Month (PMPM) State Subsidy for State Non-Medicare Retirees (at 15 Years of Service) for the 2015-17 Biennium						Governor Recommends, AS AMENDED (A150831368)	
FY 2012 State REGI PMPM Contribution	**FY 2013 State REGI PMPM Contribution**	**FY 2014 State REGI PMPM Contribution**	**FY 2015 State REGI PMPM Contribution**	**FY 2016 Projected State REGI PMPM Contribution (Gov. Rec.)**	**FY 2017 Projected State REGI PMPM Contribution (Gov. Rec.)**	**FY 2016 State REGI PMPM Contribution (Gov. Rec.)**	**FY 2017 State REGI PMPM Contribution (Gov. Rec.)**
$ 418.42	$ 473.47	$ 452.26	$ 462.20	**$ 426.14**	**$ 424.94**	**$ 425.57**	**$ 451.15**
% Change	13.2%	-4.5%	2.2%	**-7.8%**	**-0.3%**	**-7.9%**	**6.0%**

As shown in the table, when compared to the Governor's original recommendation, the FY 2016 base state subsidy decreases by less than $1.00 per person per month (PMPM) from $426.14 to $425.57. However, for FY 2017, while lower than the current fiscal year base subsidy of $462.20, the amended base subsidy amount increases by $25.58 PMPM or 6.0 percent to $451.15 over the originally recommended FY 2017 subsidy of $424.94. According to the agency, the increase in the amended base subsidy for FY 2017 is a result of increased medical and pharmaceutical inflation for both the PPO and HMO plans.

Nevada Revised Statutes 287.046 provides that retirees who retired prior to January 1, 1994, are entitled to 100 percent of the base subsidy amount to be applied against the total premium for insurance coverage. For FY 2015, that amount, as shown in the table is $462.20. Retirees who retired on or after January 1, 1994, but who were hired prior to January 1, 2010, are entitled to 25 percent of the base subsidy for 5 years-of-service (YOS) and 7.5 percent for each additional year of service up to 20 YOS, which equates to 137.5 percent of the base subsidy amount. The following table demonstrates the impact of the YOS modifier on the monthly subsidy received by a state, non-Medicare retiree (participant only) covered through the PPO plan in FY 2015. In FY 2015, for each YOS beyond 5 years, the state PMPM contribution increased by $26.11 towards the base monthly subsidy of $348.10 and total monthly premium of $543.91. On average, current retirees have 17.2 YOS; therefore, the state's actual PMPM subsidy would be closer to the $400.32 shown in the table for 17 YOS.

Effect of State Retiree's Years of Service (YOS) on the Amount of the State Monthly Subsidy Received and the Retiree's Corresponding Total Share in FY 2015						
FY 2015 TOTAL PMPM Premium for Participant-Only PPO-HDHP	**FY 2015 BASE PMPM State Subsidy PPO-HDHP**	**Years of State Service (YOS)**	**(NRS 287.406) CY 1994 Retiree PMPM Subsidy Percentage (%) Per YOS**	**FY 2015 Actual PMPM State Subsidy Retiree Received Per YOS**	**FY 2015 Adjustment to Monthly Premium Paid By Retiree Based Upon YOS**	**FY 2015 State Retiree's TOTAL SHARE of PMPM Premium Per YOS**
$ 543.91	**$ 348.10**	5	25.0%	$ 87.03	$ 261.08	$ 456.89
		6	32.5%	$ 113.13	$ 234.97	$ 430.78
		7	40.0%	$ 139.24	$ 208.86	$ 404.67
		8	47.5%	$ 165.35	$ 182.75	$ 378.56
		9	55.0%	$ 191.46	$ 156.65	$ 352.46
		10	62.5%	$ 217.56	$ 130.54	$ 326.35
		11	70.0%	$ 243.67	$ 104.43	$ 300.24
		12	77.5%	$ 269.78	$ 78.32	$ 274.13
		13	85.0%	$ 295.89	$ 52.22	$ 248.03
		14	92.5%	$ 321.99	$ 26.11	$ 221.92
		15	**100.0%**	**$ 348.10**	$ -	**$ 195.81**
		16	107.5%	$ 374.21	$ (26.11)	$ 169.70
		17	115.0%	$ 400.32	$ (52.21)	$ 143.60
		18	122.5%	$ 426.42	$ (78.32)	$ 117.49
		19	130.0%	$ 452.53	$ (104.43)	$ 91.38
		20	137.5%	$ 478.64	$ (130.54)	$ 65.27

Since the decision units with this budget provide the REGI portion of funding for companion decision units within the PEBP operating budget (625-1338), **Fiscal staff recommends closing this budget in accordance with the Subcommittee's closing actions for the Public Employees' Benefits Program budget account (625-1338), and with authority for Fiscal staff to adjust revenues and expenditures in this account and make technical adjustments as necessary.**

Title: PEBP - ACTIVE EMPLOYEES GROUP INSURANCE **Budget Page:** PEBP-25, **Volume III**

Account: 666 - 1390

Revenues	2013-14 Actual	2014-15 WP	% Chg	2015-16 GOV REC	% Chg	2016-17 GOV REC	% Chg
BALANCE FORWARD	(17,823,668)	17,823,669	(200.00)				
INTERAGENCY TRANSFER	221,745,818	191,997,351	(13.42)	207,473,907	8.06	200,097,888	(3.56)
OTHER FUND		11,864					
Total Revenues	203,922,150	209,832,884	2.90	207,473,907	(1.12)	200,097,888	(3.56)

Total FTE

Adjustments to Revenue

Dec Unit	Cat	GL	Description	2015-16	2016-17
B000	00	4542	Increase revenues per Budget Amendment A150841390	586,788	1,513,521
M100	00	4542	Adjust revenues per Budget Amendment A150841390	(239)	681
M101	00	4542	Increase revenues per Budget Amendment A150841390		7,773,943
M102	00	4542	Adjust revenues per Budget Amendment A150841390	(3,403)	7,044
M104	00	4542	Increase revenues per Budget Amendment A150841390		4,569
M200	00	4542	Increase revenues per Budget Amendment A150841390	1,378,519	4,377,582
M501	00	4542	Increase revenues per Budget Amendment A150841390	48,695	
M502	00	4542	Increase revenues per Budget Amendment A150841390	22,561	76,200
E225	00	4542	Decrease revenues per Budget Amendment A150841390	(3,957,413)	
E276	00	4542	Adjust revenues per Budget Amendment A150841390	(919)	3,242
E277	00	4542	Adjust revenues per Budget Amendment A150841390	(100)	332
E710	00	4542	Adjust revenues per Budget Amendment A150841390	(124)	454
Sub-total				(1,925,635)	13,757,568
Line Item Changes to Revenues				(1,925,635)	13,757,568

Adjustments to Expenditures

Dec Unit	Cat	GL	Description	2015-16	2016-17
B000	10	9186	Increase base transfer to BA 1338 per Budget Amendment A150841390	586,788	1,513,521
M100	10	9186	Adjust statewide inflation transfer to BA 1338 per Budget Amendment A150841390	(239)	681
M101	10	9186	Increase PEBP-specific inflation transfer to BA 1338 per Budget Amendment A150841390		7,773,943
M102	10	9186	Adjust transfer to BA 1338 for balances for IBNR, Catastrophic and HRA reserves per Budget Amendment A150841390	(3,403)	7,044
M104	10	9186	Increase Medicare-specific inflation transfer to BA 1338 per Budget Amendment A150841390		4,569
M200	10	9186	Increase enrollment (caseload) transfer to BA 1338 per Budget Amendment A150841390	1,378,519	4,377,582
M501	10	9186	Increase transfer to BA 1338 projected to implement waiting period change (SB 472) per Budget Amendment A150841390	48,695	
M502	10	9186	Increase transfer to BA 1338 for PCORI fee payments per Budget Amendment A150841390	22,561	76,200
E225	10	9186	Decrease transfer to BA 1338 for FY 2016 AEGIS repayment per Budget Amendment A150841390	(3,957,413)	
E276	10	9186	Adjust transfer to BA 1338 projected to implement Tricare exception for retirees (SB 471) per Budget Amendment A150841390	(919)	3,242
E277	10	9186	Adjust transfers to BA 1338 for Health Information Exchange fees per Budget Amendment A150841390	(100)	332

E710	10	9186	Adjust transfer to BA 1338 for equipment replacement expenditures per Budget Amendment A150841390	(124)	454
Sub-total				(1,925,635)	13,757,568
Line Item Changes to Expenditures				(1,925,635)	13,757,568
Total				0	0
Grand Total General Fund Impact of Closing Changes				0	0

Staff is responsible for developing recommendations for this budget. The Subcommittee has not previously reviewed this budget account.

Overview

The Active Employees' Group Insurance subsidy (AEGIS) account provides a centralized collection mechanism for the state contributions paid by state agencies for each employee in each particular budget account. Assessments on filled positions are charged to all state agencies, boards and commissions, the Legislative and Judicial Branches, the Public Employees' Retirement System (PERS), and the Nevada System of Higher Education (NSHE). The state contribution, comprised of all funding sources (General Fund appropriation, Highway Fund appropriation, fees, federal funds, etc.) of funding that support positions defrays a portion of the insurance premiums for state employees and their dependents. Funding is transferred to the Public Employees' Benefits Program (PEBP) budget (625-1338) from this budget each month to provide the employer portion of the state employee's insurance premiums.

Major Closing Issues

There are no major closing issues.

Other Closing Items

1. Budget Amendment A150841390: On April 24, 2015, the Budget Division submitted Budget Amendment A150841390. The amendment decreases the funding to be transferred to the main PEBP operating budget (625-1338) in FY 2016 by a net $1.9 million but increases transfers by a net $13.8 million in FY 2017. In FY 2016, the decrease primarily results from a $4.0 million reduction, from $8.6 million to $4.6 million, in the projected "repayment" of the two months of FY 2015 AEGIS assessments that are recommended to be redirected to support the FY 2015 ending General Fund balance through Senate Bill (S.B.) 505. The two-month AEGIS assessment holiday creates an FY 2015 deficit by redirecting $34.2 million (representing two months of assessment funding) against the budget's $29.5 million available assessment revenue. This adjustment is reflected in Decision Unit E-225 on the first page of this closing document. The other major changes included in the budget amendment are increased assessment revenues and transfers of $7.8 million in FY 2017 for inflation for HMO medical and pharmaceutical costs (M-101) and $1.4 million in FY 2016 and $4.4 million in FY 2017 to reflect projected increases to the number of active employees in each year of the 2015-17 biennium (M-200).

2. State Contribution for Active Employee Insurance: The following table displays the per person per month (PMPM) state contribution amount assessed for each filled state position since 2012, as well as the Governor's original and amended recommendations for each year of the 2015-17 biennium.

Prior Fiscal Year and the Recommended Per Member Per Month (PMPM) State Contribution for Active Employees for the 2015-17 Biennium						Governor Recommends, AS AMENDED (A150841390)	
FY 2012 State AEGIS PMPM Contribution	FY 2013 State AEGIS PMPM Contribution	FY 2014 State AEGIS PMPM Contribution	FY 2015 State AEGIS PMPM Contribution	FY 2016 State AEGIS PMPM Contribution (Gov. Rec.)	FY 2017 State AEGIS PMPM Contribution (Gov. Rec.)	FY 2016 State AEGIS PMPM Contribution (Gov. Rec.)	FY 2017 State AEGIS PMPM Contribution (Gov. Rec.)
$ 644.81	$ 733.64	$ 688.37	$ 695.35	**$ 719.66**	**$ 694.20**	**$ 701.73**	**$ 699.25**
% Change	13.8%	-6.2%	1.0%	**3.5%**	**-3.5%**	**0.9%**	**-0.4%**

As shown in the table, the significant difference between the original and amended AEGIS assessment amount occurs in FY 2016, when the recommended rate decreases from $719.66 PMPM to $701.73 PMPM. The decrease is a result of two changes: the aforementioned $4.0 million decrease in needed AEGIS repayment and $2.0 million savings from elimination of the wellness program administrative and biometric screening costs and an additional $6.1 million in savings from the elimination of the annual incentive payments ($50 per participant per month) that were included in the AEGIS rate calculation.

Since the decision units within this budget provide the AEGIS portion of funding for their companion decision units within the PEBP operating budget (625-1338), **Fiscal staff recommends closing this budget in accordance with the Subcommittee's closing actions for the Public Employees' Benefits Program budget account (625-1338), and with authority for Fiscal staff to adjust revenues and expenditures in this account, and make technical adjustments as necessary.**