GENERAL GOVERNMENT
JOINT SUBCOMMITTEE
CLOSING LIST #4
May 1, 2015

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Title: B&I - INSURANCE REGULATION **Budget Page:** B & I-34, **Volume II**

Account: 504 - 3813

Revenues	2013-14 Actual	2014-15 WP	% Chg	2015-16 GOV REC	% Chg	2016-17 GOV REC	% Chg
BALANCE FORWARD	(178,504)	3,614,422	(2124.84)	3,929,285	8.71	2,384,610	(39.31)
FEDERAL FUND	898,476	1,605,878	78.73	1,257,442	(21.70)	997,095	(20.70)
INTERAGENCY TRANSFER	1,039,145	948,608	(8.71)	336,074	(64.57)	338,307	0.66
OTHER FUND	6,830,191	6,609,111	(3.24)	9,242,431	39.84	9,378,958	1.48
Total Revenues	8,589,308	12,778,019	48.77	14,765,232	15.55	13,098,970	(11.29)
Total FTE		74.00		81.00		81.00	

Adjustments to Revenue

Dec Unit	Cat	GL	Description	2015-16	2016-17
E226	00	2511	Adjust balance forward revenues to reflect technical adjustment to provide equipment for one position instead of two.		1,787
Sub-total				0	1,787
Line Item Changes to Revenues				0	1,787

Adjustments to Expenditures

Dec Unit	Cat	GL	Description	2015-16	2016-17
E226	26	7000	Technical adjustment to provide equipment for one position instead of two.	(505)	
E226	26	8000	Technical adjustment to provide equipment for one position instead of two.	(1,282)	
E226	86	9000	Increase reserves to reflect technical adjustment to provide equipment for one position instead of two.	1,787	1,787
Sub-total				0	1,787
Line Item Changes to Expenditures				0	1,787
Total				0	0
Grand Total General Fund Impact of Closing Changes				0	0

Overview

The Division of Insurance (DOI) is responsible for regulating the insurance industry in Nevada and for protecting the rights of consumers and the public in general in dealings with the insurance industry. The division regulates and licenses insurance companies, producers/agents, brokers and other professionals; sets ethical and financial standards for insurance companies; and reviews rates. The division also reviews programs operated by self-insured employers for workers' compensation claims and investigates claims of insurance fraud. The division is primarily funded through a combination of interagency transfers, assessments and fees.

Major Closing Issues

1. Consolidate Three Budgets into the Insurance Regulation Budget and Restructure Fees
2. Four New Positions

Discussion of Major Closing Issues

1. Consolidate Three Budgets into the Insurance Regulation Budget and Restructure Fees (E-501, E-502, E-503, E-901, E-902, E-903, E-904, E-905, E-906, B&I-39-40 and B&I-42-45): The Executive Budget recommends reducing the number of Division of Insurance budgets from eight to three, which the agency indicates would reduce the complexity of managing the budgets. Budget Amendment A150523821 requests the continuation of the Insurance Recovery budget, instead of being eliminated as recommended in The Executive Budget. Consdering the amendment, one budget is recommended for elimination, three budgets would remain as separate budgets, and three budgets would be consolidated into the Insurance Regulation budget. The proposed reorganization would eliminate four sources of revenue and modify the Corporate Assessment, which is one of the DOI's main revenue sources, from a fixed fee to a variable fee based on the size of insurance premium written in the state.

   The agency indicates many of the current fees and assessments supporting the agency were developed when General Fund appropriations were used to support the DOI. The agency reports that since the funding structure changed from a General Fund supported agency to an industry supported agency in 2009, eight unique budgets are no longer needed. Furthermore, the DOI indicates the proposed fiscal restructuring would provide the DOI the ability to control revenues and reserves and reduce the administration time spent on budgeting tasks and accounting. The DOI has submitted Assembly Bill (A.B.) 486, which currently resides in the Assembly Ways and Means Committee, to effectuate the reorganization and associated fee restructuring.

   A. Budget Consolidation: The budget consolidation and revenue restructuring are discussed in this closing document; however, each of the five budgets that would be impacted by the reorganization contain a summary of their specific issues in their respective closing documents. The Committee should note that the Captive Insurers and Self-Insured Workers' Compensation budgets, which are untouched by the reorganization, were closed by the money committees on April 3, 2015. A summary of the proposed budget reorganization, including the before and after expenditures and positions, is shown in the table below. Depending upon the outcome of A.B. 486, the decision units associated with the consolidation and revenue restructuring may require modification or deletion.

Division of Insurance Budget Reorganization

<table>
<tr><th>Budget name and number</th><th>Proposed Action</th><th>2015-17 base revenue & expenditures (millions)</th><th>Proposed revenue & expenditures after reorganization & enhancements (millions)</th><th>Positions Before</th><th>Positions after consolidation, not considering other enhancement decision units</th></tr>
<tr><td>Regulation (3813)</td><td>Remain</td><td>$21.6</td><td rowspan="4">$27.9</td><td>74</td><td rowspan="4">77</td></tr>
<tr><td>Examiners (3817)</td><td>Consolidate in Regulation</td><td>$5.2</td><td>2 - expiring in FY 2015</td></tr>
<tr><td>Ed. & Research (3824)</td><td>Consolidate in Regulation</td><td>$4.0</td><td>2</td></tr>
<tr><td>Cost Stabilization (3833)</td><td>Consolidate in Regulation</td><td>$0.3</td><td>1</td></tr>
<tr><td>Recovery (3821)</td><td>Eliminate (Budget Amendment A150523821 requests to retain)</td><td>$1.7</td><td>$0.0</td><td>0</td><td>0</td></tr>
<tr><td>National Assoc. of Ins. Commissioners (3828)</td><td>Eliminate</td><td>$0.1</td><td>$0.0</td><td>0</td><td>0</td></tr>
<tr><td>Captive Insurers (3818)</td><td>Remain</td><td>$2.6</td><td>$2.5</td><td>2</td><td>2</td></tr>
<tr><td>Self-Insured Workers Comp (4684)</td><td>Remain</td><td>$1.1</td><td>$1.1</td><td>4</td><td>4</td></tr>
<tr><td colspan="2">Total</td><td>$36.6</td><td>$31.5</td><td>85</td><td>83</td></tr>
</table>

Cost Allocation Concerns
Narrative contained in The Executive Budget indicates the function of developing the cost allocation is costly in terms of the time required to determine how various expenses should be allocated. The current internal cost allocation method used by the agency was based on a study, which examined the amount of time each employee in the Insurance Regulation budget spent doing work associated with other budgets within the DOI. Based on this time study, each budget must transfer revenue to the Insurance Regulation budget for its allocated portion of personnel and operating expenses.

Subsequent to the budget hearing, the agency indicated its cost allocation ratios are out-of-date, and reports the administrative time spent conducting the previous time study was too time consuming. Instead of conducting another time study, the DOI indicates the budget consolidation recommended in The Executive Budget would eliminate a large portion of the cost allocation function. However, the cost allocation function would not be entirely eliminated, as it would be necessary for the Captive Insurers and Self-Insured Workers' Compensation budgets. Staff notes this budget receives up to 50 percent of the salary costs associated with 42 out of 74 positions through the current DOI cost allocation.

B. Modify the Corporate Assessment From a Fixed Fee to a Variable Fee (E-227, B&I-38): The Governor recommends modifying the Corporate Assessment to a sliding scale set by the DOI to correlate the fee amount to the gross premium written in Nevada, which would increase the projected revenue by $455,944 in each year of the biennium. Currently, NRS 680C.110, 4(d) requires a fixed Corporate Assessment of $1,300 that must be paid by each licensed insurer. The agency reports that providing authority for the Commissioner of Insurance to set the fee would allow the agency to change the funding levels when reserves get out of balance. According to the agency, the variable Corporate Assessment would replace the revenue lost due to the elimination of four fees (Property and Casualty Assessment and Fines contained in E-503, B&I-40; Recovery Fee contained in E-225, B&I-59; and Insurance Business Assessment contained in E-225, B&I-68) in the DOI's proposed budget consolidation plan. Because the fixed Corporate Assessment is required in statue, A.B. 486 includes enabling language to support this recommendation.

The agency indicates that fixed fees stipulated in the NRS limit the DOI's ability to control revenue, which has led to higher than optimal reserve balances in this budget. Staff notes that in this budget, six of the eight fees and assessments are fixed in statute and represented 75 percent of the total revenue in FY 2014. The DOI indicates that regardless of changes in staffing or workload, it has little ability to control its revenue. Currently, the DOI has reserves in excess of 150 days of operating costs, or $3.6 million. Over the past two fiscal years, reserves in the Insurance Regulation budget grew by approximately 5.1 percent annually, from $3.27 million in FY 2013 to $3.61 million in FY 2017.

Operating Reserve Concerns
The Insurance Regulation budget currently has 16 revenue sources and 19 expenditure categories. This recommendation would result in the budget having 18 revenue sources and 22 expenditure categories. Five revenue sources are recommended to transfer into the Insurance Regulation budget (E-901, B&I-42; E-902, B&I-42; E-903, B&I-43); however, 3 would be eliminated through A.B. 486. Staff notes the elimination of the 3 revenue sources totaling $1.9 million over the 2015-17 biennium is more than the projected increase in the Corporate Assessment of $0.9 million, which reduces projected operational reserve to less than 30 days at the end of FY 2017. Operating reserves are necessary to ensure adequate cash flow for a certain period of time and typically reserves of 30 to 60 days are recommended. The DOI reports that a 30-day reserve level in FY 2017 would equate to $1.0 million; however, FY 2017 reserves in The Executive Budget are projected to be $386,395, which amounts to approximately 11 days of operating expenses.

Subsequent to the budget hearing, the DOI provided staff with a revised Corporate Assessment schedule, which increased the expected revenue by $182,300 in each year of the biennium in addition to the expected increase shown in The Executive Budget. The new projections amount to an estimated 22 days of reserves, which is still below the DOI's target of 30 days of operating reserves. The original 5-tiered Corporate Assessment ranged from $1,000 to $2,500; whereas the updated Corporate Assessment ranges from $1,700 to $2,000, as shown in the table below.

Revised Corporate Assessment Schedule

Tiers	Premium	Assessment	Number of Carriers
Level 1	less than $100,000	$1,700	578
Level 2	$100,000 or more, but less than $1,000,000	$1,700	275
Level 3	$1,000,000 or more, but less than $10,000,000	$1,800	350
Level 4	$10,000,000 or more, but less than $50,000,000	$1,900	133
Level 5	$50,000,000 or more	$2,000	49
Total Traditional Companies			1381

The Subcommittee questioned whether some companies may experience "sticker shock", once they see the higher fee. In response the DOI indicated the industry supports the consolidated fees because they would like to pay one annual fee rather than pay an annual fee followed by three smaller fees. During an A.B. 486 bill hearing on April 2, 2015, one industry member testified in favor of the modified Corporate Assessment, indicating that is was his understanding the new fee, in his case, would decline from $1,300 to $1,000. Since his testimony, the DOI has revised the Corporate Assessment as originally proposed in The Executive Budget to generate an appropriate operating reserve, which increased the minimum Corporate Assessment to $1,700.

The table below shows the revenue sources that are proposed for elimination, in addition to the expected increase in the Corporate Assessment after applying the updated revenue projections provided by the DOI subsequent to the budget hearing.

Gained and Lost Revenue from Revenue Restructuring

Decision Unit	Budget	Fees / Assessment	2015-17 biennial Increase	2015-17 biennial decrease due to proposed elimination
E-227, B&I-38	Regulation (3813)	Corporate Assessment	$1,276,487	
E-502, B&I-39	Education & Research (3824)	Transfer From Insurance Recovery (B/A 3821, Insurance Recovery Fee)		($1,604,960)
E-503, B&I-40	Cost Stabilization (3833)	Property & Casualty Assessment		($230,584)
E-503, B&I-40	Cost Stabilization (3833)	Fines		($50,750)
		Total	**$1,276,487**	**($1,886,294)**
Net change in fees equates to a ($609,807) reserve decrease.				

At the time of the budget hearing, staff was concerned about the modified Corporate Assessment being collected late in the fiscal year, which the agency testified would be collected in the spring of FY 2016. Accordingly, the Subcommittee directed the DOI to work with staff to determine the timing of the implementation of the sliding-scale Corporate Assessment. Since then the DOI has indicated that it expects to collect revenue from the sliding-scale Corporate Assessment in June 2016. However, staff notes that NRS 679C.110 stipulates the Corporate Assessment is due on or before March 1 of each year. Accordingly, in order for the DOI implementation plan to work, A.B. 486 would have to be amended to change the due date from March 1 to June 1.

2011 Budget Consolidation Proposal Not Approved
Staff notes that during the 2011 Session, a similar consolidation plan was proposed to eliminate the aforementioned cost allocation, simplify accounting and foster transparency. The 2011 plan entailed consolidating seven of the eight DOI budgets, which would have resulted in two DOI budgets. The plan was not approved on concerns that consolidating multiple revenue streams into one budget would make determining the source of excess reserves overly complicated, and the 2011 Legislature did not believe the consolidation would increase transparency. During the budget hearings, it was noted that the Department of Wildlife had a single budget prior to 2009-11 biennium, but the legislators in the 75th Session (2009) divided the single budget into multiple budgets after realizing that the single budget had not increased transparency.

If the Subcommittee wishes to approve the restructuring of the DOI, it could consider the following options:

a) Approve the consolidation of the Insurance Examiners, the Insurance Education and Research, and the Insurance Cost Stabilization budgets into the Insurance Regulation budget, including the removal of the Insurance Recovery Fee, Property and Casualty Assessment and Fine revenues; and approve the Governor's recommendation to modify the Corporate Assessment from a fixed fee to a sliding-scale fee based on the amount of insurance premiums written in the state, which together decreases projected revenue by $609,807 in each year of the biennium and is contingent upon passage of A.B 486.

b) Do not approve the consolidation of the Insurance Examiners, the Insurance Education and Research, and the Insurance Cost Stabilization budgets into the Insurance Regulation budget; and approve the Governor's recommendation, contingent upon passage of A.B. 486, to modify the Corporate Assessment from a fixed fee to a sliding-scale fee based on the amount of insurance premiums written in the state, which together decreases projected revenue by $609,807 in each year of the biennium, and would allow the DOI to control its revenue and reserve levels.

Staff requests authority to make adjustments dependent upon passage of A.B. 486.

2. Four New Positions (E-225 and E-226, B&I-37): The Governor recommends reserves totaling $579,957 over the 2015-17 biennium for four new positions. According to the agency, over the last four years, the DOI's workload has increased while staffing levels have remained flat.

   A. Decision Unit E-225 recommends three new positions for consumer protection, licensing, and auditing at a total cost of $446,607 as follows:

      - One unclassified Insurance Counsel/Hearings Officer is recommended to manage hearings in Las Vegas where no DOI legal staff currently exists. The agency reports that it currently has three Insurance Counsel/Hearing Officers based in Carson City; however, approximately 80 to 85 percent of respondents identified in case files are located in Las Vegas. In addition, the position is recommended to address a backlog of cases. At the end of calendar year 2014, the agency reported a backlog of 874 cases and without the recommended position, the division would continue to handle the backlog by prioritizing cases. According to the agency, the new position would prevent lengthy wait times when the DOI is faced with cases having a higher degree of complexity, which require more time and resources. After the backlog is addressed, the DOI indicates the new counsel would have sufficient work because the total caseload is increasing and the cases are becoming more complex. Staff inquired about whether there would be any offsetting travel expenditures because the Carson City attorneys would not have to travel as much to Las Vegas. The DOI indicated that the Las Vegas attorney may need to travel elsewhere in state, and requested the expenditures remain in the budget. For context, the DOI indicated to staff the three incumbent attorneys spent approximately $3,400 in FY 2014 on travel to Las Vegas.

- One Program Officer is recommended in the Producer Licensing section to serve as the staff member responsible for managing the division's State Insurance Regulators Connection (SIRCON) and National Insurance Producer Registry (NIPR) licensing systems and managing the producer licensing education programs. The DOI reports that management of SIRCON and NIPR is currently being handled on a shared basis by two Program Officers as time and resources permit, resulting in a backlog of information technology issues prioritized by importance. The recommended position would be responsible for modifications, ongoing maintenance and implementation of processes and policies involving the website and databases. Recommended duties would also include responsibilities for both pre-licensing and continuing education programs to ensure that insurance education programs are consistent with statutory requirements. The DOI testified at the budget hearing that this new position would enhance to DOI's ability to regulate if the licensee information is updated more frequently, which current staffing levels do not allow.

- One Insurance Examiner is recommended to address additional procedures in meeting National Association of Insurance Commissioners accreditation standards, to include new analysis procedures and creating and maintaining new documents. The DOI indicates that currently each of its six examiners are assigned between 10 to 12 domestic insurers, which is higher than the national average of 8.3 per examiner. According to the agency, an additional Insurance Examiner would enable the DOI to maintain the current overall workload and improve the workload ratio. Additional duties would include a new function of coordinating with other state insurance divisions on premiums written in Nevada to ensure timely and accurate premium tax paid on that premium. The DOI reports that current staffing levels do not provide for the level of communication and collaboration with other states that the DOI would like.

- **Does the Subcommittee wish to approve the Governor's recommendation to utilize reserves of $446,607 over the 2015-17 biennium for a new unclassified Insurance Counsel/Hearing Officer, a Program Officer, and an Insurance Examiner?**

B. Decision Unit E-226 recommends one new IT Professional to serve as the chief programmer for the division with duties to include analyzing, troubleshooting, monitoring and resolving problems; modifying and supporting existing systems; researching, procuring and writing specifications for new hardware and software purchases; and developing new applications. The agency indicates the current IT Professional assigned from the Department of Business and Industry's Director's Office has proven insufficient in meeting the needs of the division's two offices and 85 employees. The agency reports that the recommended new position would assist the current IT Professional assigned from the Director's Office. In addition, the agency indicates that various projects need to be implemented, and this new position would support those projects.

Staff notes the 2011 Legislature approved the transfer of one IT Professional from the Division of Insurance to B&I Administration. Staff inquired if the Director's Office could provide more support instead of creating another position. The DOI responded the Director's office currently has six IT staff supporting over 300 employees and offices in Carson, Reno and Las Vegas, and if there is a critical need in one of the other B&I Divisions, the DOI's IT support may be dispatched or reassigned to assist, leaving the division without support. The DOI also reports that many of the systems the DOI utilizes are part of the national framework used by the other Divisions of Insurance in the 49 states and 5 US territories, and it is necessary to have onsite support to maintain and modify these systems. During the budget hearing, the Director's Office testified that it requested a dedicated DOI IT Professional because the agency is relatively larger than its other divisions, and the Director's Office would still provide support. Staff notes the agency inadvertently requested to provide two computer equipment purchases when only one is needed. This closing document reflects an adjustment of $1,787 to reduce these equipment expenditures, which adjusts the total reserve reduction for this recommendation to $131,563.

Does the Subcommittee wish to approve Reserve reductions of $131,563 over the 2015-17 biennium for a new Information Technology Professional with the technical adjustments noted by staff?

<u>Other Closing Items</u>

1. <u>Cost Allocation Adjustments (M-800, E-800, E-804, B&I-36 & 41)</u>: The Governor recommends a net increase in reserves totaling $57,367 over the 2015-17 biennium for cost allocation adjustments related to services provided by the B&I Insurance Division and the Department of Administration, Division of Human Resource Management. **This recommendation appears reasonable.**

2. <u>Continue Health Insurance Rate Review Grant Program (E-228, B&I-38)</u>: The Governor recommends federal funds of $325,237 in FY 2016 and $979,576 in FY 2017 in anticipation of the receipt of the Health Insurance Rate Review and Increased Transparency in the Pricing of Medical Services Grant. The division reports the grant would help ensure the continuation and improvement of the division's Effective Rate Review program. According to the agency, the DOI has participated in the Health Insurance Rate Review grant since its inception in 2010. **This recommendation appears reasonable.**

3. <u>B&I Centralization of the Las Vegas Offices (E-230, B&I-38-39)</u>: The Governor recommends reserve reductions of $104,458 of reserves in FY 2017 to fund the Division of Insurance's share of the costs to centralize B&I Las Vegas offices and establish a Business Center. The recommendation is one of the Governor's major budget initiatives and is discussed in detail in the B&I Director's Office budget. **This recommendation appears reasonable.**

4. <u>Unclassified Position Salary Increase (E-806, B&I-41-42)</u>: The Governor recommends reserves of $20,936 over the biennium to increase the salary of the DOI's Senior Attorney. The division reports the position assigns legal cases and supervises the DOI's other two attorneys, but is currently compensated at the same level as the other two attorneys. According to the agency, the requested pay grade is equivalent to a Senior Attorney in Division of Industrial Relations. **This recommendation appears reasonable.**

   Staff recommends approval of all Other Closing Items as recommended by the Governor. Staff requests authority to make technical adjustments to this budget as necessary.

Title: B&I - INSURANCE EXAMINERS **Budget Page:** B & I-48, **Volume II**
Account: 504 - 3817

Revenues	2013-14 Actual	2014-15 WP	% Chg	2015-16 GOV REC	% Chg	2016-17 GOV REC	% Chg
BALANCE FORWARD	107,018	286,368	167.59				
OTHER FUND	2,293,368	1,951,994	(14.89)				
Total Revenues	2,400,386	2,238,362	(6.75)				
Total FTE		2.00					

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 Insurance Examination Fund was established to provide for financial or market conduct examinations of insurers, health maintenance organizations, and other organizations for the purpose of determining financial condition, fulfillment of contractual obligations, and compliance with Title 57 of *Nevada Revised Statutes* (NRS). Each insurer applying for an initial certificate of authority is examined as part of the application process, and each authorized insurer is examined not less than every five years. The division contracts with outside examiners to perform examinations. The division charges the insurer for the actual costs of the examination and imposes an additional administrative fee designated to defray administrative expenses incurred by the division. The amount of the administrative fee is established by the division as a certain percentage of the examiners' daily compensation rate (NAC 679B.0335). A portion of the administrative fee is transferred to the Insurance Regulation budget in accordance with the division's cost allocation plan to offset a portion of the personnel and operating expenditures for positions in that budget.

Major Closing Issues

1. Consolidate the Insurance Examiners Budget into the Insurance Regulation Budget
2. Elimination of the Desk Audit Program

Discussion of Major Closing Issues

1. Consolidate the Insurance Examiners Budget into the Insurance Regulation Budget (E-901 and E-904, B&I-52-53): The Governor recommends the transfer of all revenues and expenditures — $2.4 million in FY 2016 and $2.3 million in FY 2017 — from this budget to the Insurance Regulation budget. This transfer is part of the Governor's recommendation to consolidate multiple budgets within the division. The agency indicates the transfer will simplify budget management tasks and update the agency's overall budget structure. This recommendation would require a statutory change to *Nevada Revised Statutes (NRS)* 679B.300 to eliminate the Insurance Examination Account. Assembly Bill (A.B.) 486, which was heard by the Assembly Committee on Ways and Means on April 2, 2015, would effectuate this change.

   There are two fees associated with this budget that would transfer to the Insurance Regulation budget - Examination Fees and Administration Fees. Examination Fees are used solely to pay for the examination expense of an insurer, and are reflected in the Insurance Company Exams expenditure category. The Administration Fee is for administrative expenses incurred by the Division of Insurance (DOI) to provide the insurance examination function. Staff notes from FY 2012 to FY 2014, the entire Administration Fee was transferred to the Insurance Regulation budget. If the consolidation is approved, the two revenue sources would remain and the Insurance Company Exams expenditure category would remain a special use category within the Insurance Regulation budget to track expenditures.

   Subsequent to the budget hearing, the agency indicated its cost allocation ratios are out-of-date, and reports the administrative burden is too inefficient to conduct ongoing time studies. Instead, the DOI would like to consolidate this budget, in part, to avoid the cost allocation function. The division has provided staff its cost allocation calculations, which show this budget pays anywhere from 10 to 50 percent of salary costs associated with 31 positions of the 74 positions in the Insurance Regulation budget.

   At the time of the budget hearing, staff was unsure whether it would be legal to combine Insurance Examination reserves, which were collected for a specific purpose, with Insurance Regulation reserves without a mechanism for accountability. However, the Legislative Counsel Bureau's Legal Division indicated that combining reserves would not present an issue in this case.

   Does the Subcommittee wish to approve the Governor's recommendation to consolidate the Insurance Examiners Budget into the Insurance Regulation budget? Staff requests authority to make adjustments dependent upon the passage of A.B. 486 and to make technical adjustments as necessary.

2. Elimination of the Desk Audit Program (E-490, B&I-50): The Executive Budget recommends eliminating Audit Fees totaling $489,860 over the biennium and two Insurance Examiner positions and associated costs due to the expiration of the Desk Audit Program at the end of the 2013-15 biennium. During the 26th Special Session (2010), the Legislature approved A.B. 6, which required that the Insurance Division implement a desk audit program to ensure that insurers are complying with the insurance premium tax provisions of NRS 680B.027. The DOI reported that desk audits were to be conducted on approximately 85 percent of the market share, and records were to be reviewed retrospectively for the seven years prior to 2010.

   In response to questions about why the Desk Audit Program should be eliminated, the division reports that it now includes an insurance premium check into the general duties of its Insurance Examiners, which eliminates the need for the Desk Audit Program. The division indicates that regular communication occurs between the DOI and the Department of Taxation to report insurance premium records and findings. Subsequent to the budget hearing, the agency reported that it expects 199 desk audits to remain; however, these remaining audits represent the smallest of insurers where there is expected to be minimal findings. The DOI also reports that because the program is set to expire at the end of FY 2015, the division has had a difficult time recruiting the second Insurance Examiner position since the last person left in June 2014. As a result, one Insurance Examiner has been performing all of the audits. The DOI indicates that if the new Insurance Examiner position is approved in the Insurance Regulation budget (E-225, B&I-37), this position could complete the remaining audits.

Does the Subcommittee wish to approve the elimination of the Desk Audit Program, including two Insurance Examiner positions, and associated revenue and expenditures as recommended by the Governor?

Other Closing Item

Cost Allocation Adjustments (M-800, E-800, E-804, B&I-50-52): The Governor recommends reserve reductions totaling $9,602 over the 2015-17 biennium for cost allocation adjustments related to services provided by the Division of Insurance's administrative section and the Department of Administration, Division of Human Resource Management.

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

Title: B&I - INSURANCE RECOVERY **Budget Page:** B & I-59, **Volume II**

Account: 504 - 3821

Revenues	2013-14 Actual	2014-15 WP	% Chg	2015-16 GOV REC	% Chg	2016-17 GOV REC	% Chg
BALANCE FORWARD	76,310	40,000	(47.58)				
OTHER FUND	802,480	606,705	(24.40)				
Total Revenues	878,790	646,705	(26.41)				
Total FTE							

Adjustments to Revenue

Dec Unit	Cat	GL	Description	2015-16	2016-17
E225	00	2511	Undue elimination of balance forward in accordance with budget amendment A150523821	40,000	40,000
Sub-total				40,000	40,000
Line Item Changes to Revenues				40,000	40,000

Adjustments to Expenditures

Dec Unit	Cat	GL	Description	2015-16	2016-17
E225	86	9000	Undue elimination of reserves in accordance with budget amendment A150523821	40,000	40,000
Sub-total				40,000	40,000
Line Item Changes to Expenditures				40,000	40,000
Total				0	0
Grand Total General Fund Impact of Closing Changes				0	0

Overview

The Insurance Recovery budget was established in 1977 to protect an insured person who, after final judgment by a court, has a continuing claim against a licensed agent, broker, surplus lines broker, adjuster, title officer or escrow agent. The Insurance Recovery Fund was created to provide a means of satisfying claims against persons licensed under *Nevada Revised Statutes* (NRS) 683A, 684A, 685A and 692A, replacing the bonding requirement for brokers, surplus lines brokers, and adjusters. Liability for any one licensee is limited to $5,000 per fiscal year. Payment to a claimant on behalf of a licensee is only paid if the licensee has no other assets to pay the claim. The budget is funded by a fee not to exceed $15 (currently $10), which a licensee pays upon initial licensure and renewal. The Insurance Recovery Fund has a maximum fund balance of $40,000. *Nevada Revised Statutes* 679B.305 provides that any excess over the maximum fund balance at the end of any fiscal year is transferred to the division's Education and Research budget.

Major Closing Issue

Amendment to Withdraw Recommendation to Eliminate the Insurance Recovery Budget

Discussion of Major Closing Issue

Amendment to Withdraw Recommendation to Eliminate the Insurance Recovery Budget (E-225, B&I-59): The Executive Budget recommends the elimination of the Insurance Recovery budget including base revenue and expenditures totaling $842,480 in each year of the biennium. Staff notes that from 2011 to 2014, the transfer to the Education and Research budget averaged $681,623 annually. Assembly Bill (A.B.) 486, Section 2 eliminates the existing fee and the associated transfer to the Education and Research budget, and provides that should the Insurance Recovery budget fall below the statutory minimum $40,000, the Insurance Commissioner may assess a fee of not more than $10 on each person licensed pursuant to NRS Chapters 683A, 684A, 685A and 692A. Assembly Bill 486 does not impose a limit on the balance of the Insurance Recovery budget; Fiscal staff will monitor reserve levels going forward.

During the budget hearing, the Division of Insurance (DOI) indicated that it wishes to retain this budget because it provides a consumer protection measure for insured persons. Agency staff reported that to the best of their knowledge, there has never been a claim by a consumer paid from this budget. However, the DOI testified that it plans to conduct outreach activities to inform consumers about the consumer protection measure provided by the Insurance Recovery budget. In support of its revised proposal, the agency provided Budget Amendment A150523821, which withdraws the recommendation to eliminate the Insurance Recovery budget and recommends retaining an annual reserve of $40,000 to satisfy claims against persons licensed pursuant to NRS Chapters 683A, 684A, 685A and 692A.

Does the Subcommittee wish to approve the elimination of the associated revenue and expenditure in the Insurance Recovery budget and retain a reserve balance of $40,000 as recommended in The Executive Budget and amended with Budget Amendment A150523821? Staff requests authority to make adjustments dependent upon passage of A.B. 486 and to make technical adjustments as necessary.

Title: B&I - INSURANCE EDUCATION & RESEARCH **Budget Page:** B & I-61, **Volume II**

Account: 504 - 3824

Revenues	2013-14 Actual	2014-15 WP	% Chg	2015-16 GOV REC	% Chg	2016-17 GOV REC	% Chg
BALANCE FORWARD	(450,039)	997,165	(321.57)				
INTERAGENCY TRANSFER	878,790	606,705	(30.96)				
Total Revenues	428,751	1,603,870	274.08				
Total FTE		2.00					

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 Insurance Education and Research budget is responsible for providing resources to fund insurance-related education and research activities. Funding is established by NRS 679B.305, which requires that any balance over $40,000 remaining in the Insurance Recovery Fund (Budget 3821) at the end of the fiscal year be transferred to the Insurance Education and Research budget. Funds are used to train staff, insurers, consumers, licensees and legislators in the concepts of insurance and actuarial studies.

Major Closing Issues

Consolidate the Insurance Education and Research Budget into the Insurance Regulation Budget

Discussion of Major Closing Issues

Consolidate the Insurance Education and Research Budget into the Insurance Regulation Budget (E-902 and E-905, B&I-65-66): The Governor recommends the consolidation of the Insurance Education and Research budget into the Insurance Regulation budget, including two positions, resulting in a transfer of $1.8 million in FY 2016 and $2.1 million in FY 2017. This transfer is part of the Governor's recommendation to consolidate multiple budgets within the division. Assembly Bill (A.B.) 486 would effectuate the consolidation.

As noted in the closing document for the Insurance Recovery budget, NRS 679B.305 requires any balance over $40,000 at the end of any fiscal year in the Insurance Recovery budget must be set aside and used for insurance education and research. Accordingly, this budget currently receives annual transfers from the Insurance Recovery budget, which represent the only revenue source for this budget. Staff notes that from 2011 to 2014 the transfer to the Education and Research budget averaged $681,623 per year. Assembly Bill 486 would remove the annual fee associated with the Insurance Recovery budget, thereby eliminating the revenue source for this budget.

Staff notes that the agency ended FY 2014 with $997,165 in reserves and only expended $428,751. According to staff's calculations, the FY 2015 reserve level equates to 2.3 years of operating expenditures, whereas typically 30 to 60 days of operating expenditures are recommended for a budget. In addition, staff notes, the Education and Research budget is projected to have reserves of $823,692 at the end of FY 2015. The agency indicated that it recognizes its reserves are high, and is part of the impetus for the recommendation in The Executive Budget and A.B. 486 to eliminate the associated fee. Staff notes the statutes associated with this fee currently provide the Division of Insurance (DOI) the flexibility to lower the fee to avoid the buildup of reserves.

Under the DOI budget consolidation plan, education and research activities in the 2015-17 biennium would be funded through the modified Corporate Assessment (E-227, B&I-38), which is discussed in the Insurance Regulation closing document.

At the time of the budget hearing, staff was unsure whether legal issues would result from combining Education and Research reserves, which are restricted in statute for education and research activities, with Insurance Regulation reserves, which have no similar restriction. However, Legal staff has indicated that combining the reserves would not present a legal issue.

Does the Subcommittee wish to approve the consolidation of the Education and Research budget into the Insurance Regulation budget as recommended in The Executive Budget? Staff requests authority to make adjustments dependent upon passage of A.B. 486.

Other Closing Items

1. Cost Allocation Adjustments (M-800, E-800, E-804, B&I-63-64): The Governor recommends an increase in reserves of $296 over the 2015-17 biennium for cost allocation adjustments for services provided by the Division of Insurance and the Department of Administration, Division of Human Resource Management. **This recommendation appears reasonable.**

2. Financial Examiners Training (E-225, B&I-63): The Governor recommends reserve reductions totaling $10,565 over the 2015-17 biennium to provide six new e-learning training modules. The proposed training would assist two additional staff members in gaining accreditation, such as actuarial or financial examiner accreditation, which would assist the DOI in maintaining its National Association of Insurance Commissioners accreditation. The DOI indicates the agency has experienced staff turnover, and there is a limited pool of applicants with the certification that DOI requires. **This recommendation appears reasonable.**

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

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Title: B&I - NAT. ASSOC. OF INSURANCE COMMISSIONERS **Budget Page:** B & I-67, **Volume II**
Account: 504 - 3828

Revenues	2013-14 Actual	2014-15 WP	% Chg	2015-16 GOV REC	% Chg	2016-17 GOV REC	% Chg
BALANCE FORWARD	(4,722)	34,142	(823.04)				
OTHER FUND	33,051	33,166	0.35				
Total Revenues	28,329	67,308	137.59				
Total FTE							

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 National Association of Insurance Commissioners (NAIC) account was created in 1971 to provide funding to assist the Division of Insurance (DOI) with the costs necessary to communicate on insurance issues with insurance officials from other states, provinces, and countries. As a member of the NAIC, state representatives are assigned to various committees and task forces for the purposes of resolving insurance problems affecting many states and developing uniform laws and model regulations. The fund helps pay for the reasonable and necessary travel and related expenses incurred by state staff to attend association meetings, as well as staff training associated with national accreditation standards. Funding for this budget account is provided through an annual assessment, not to exceed $30, on all authorized insurers licensed in Nevada as prescribed in *Nevada Revised Statutes* 680B.070.

Major Closing Issues

Elimination of the National Association of Insurance Commissioners Budget

Discussion of Major Closing Issues

Elimination of the National Association of Insurance Commissioners Budget (E-225, B&I-68): The Governor recommends the elimination of the National Association of Insurance Commissioners budget and the discontinuation of the associated fee. The agency indicates the elimination of this self-supporting budget and the associated fee would assist the DOI to effectively and efficiently manage the division’s budgets. This recommendation would require a statutory change to repeal *Nevada Revised Statutes* 680B.070, which is included in Assembly Bill (A.B.) 486. The Assembly Committee on Ways and Means heard A.B. 486 on April 2, 2015.

Staff notes that the agency ended FY 2014 with $34,142 in reserves, which equates to approximately 440 days of operating expenditures; whereas typically 30 to 60 days of operating expenditures are recommended for a budget. In addition, staff notes the NAIC budget is projected to have reserves of $34,643 at the end of FY 2015. The agency indicated that it recognizes its reserves are high, and is part of the impetus for the recommendation in The Executive Budget and A.B. 486 to eliminate the associated fee. Staff notes that NRS 680B.070 currently allows the DOI the flexibility to lower or waive the fee to avoid excess reserves, and in the past the DOI has granted fee holidays due to large reserve balances.

The agency indicates that this budget was developed when General Fund appropriations were used to support the DOI. The agency reports that since the funding structure changed from a General Fund supported agency to an industry supported agency in 2009, this budget is no longer needed as the expenses could be absorbed in the Insurance Regulation budget. Furthermore, the DOI indicates the proposed fiscal restructuring would provide the DOI the ability to reduce the administrative time spent on accounting tasks associated with issuing and processing the NAIC fee.

Subsequent to the budget hearing, the DOI indicated that if this budget is approved for elimination, an adjustment would be needed to add the annual NAIC membership expenditures of $15,385, as well as the year-end FY 2015 projected reserve balance of $34,643 to the Insurance Regulation budget. Staff will make these adjustments if the recommendation to eliminate this budget is approved.

Does the Subcommittee wish to approve the Governor's recommendation to eliminate the National Association of Insurance Commissioners budget? If so, staff request authority to include $15,385 for annual NAIC membership expenditures and transfer the projected reserve balance of $34,643 to the Insurance Regulation budget. Staff also requests authority to make adjustments dependent upon passage and approval of A.B. 486 and to make technical adjustments as necessary.

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Title: B&I - INSURANCE COST STABILIZATION **Budget Page:** B & I-70, **Volume II**

Account: 504 - 3833

Revenues	2013-14 Actual	2014-15 WP	% Chg	2015-16 GOV REC	% Chg	2016-17 GOV REC	% Chg
BALANCE FORWARD	36,326	21,383	(41.14)				
OTHER FUND	50,491	85,853	70.04				
Total Revenues	86,817	107,236	23.52				
Total FTE		1.00					

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 purpose of the Insurance Cost Stabilization budget is to develop methods for stabilizing prices for property and casualty insurance, to encourage competition, and to ensure that adequate insurance is provided at reasonable rates. According to NRS 679B.450, it is necessary to establish a comprehensive system to collect, analyze, and distribute information concerning the cost of insurance in order to effectively stabilize insurance. Publications are made available to the public and the Legislature, such as the *Consumers' Guide to Auto Insurance*, the *Consumers' Guide to Home Insurance*, and the bi-annual *Market Report*. Funding for this budget is provided through an annual assessment of not more than $500 on the licensed property and casualty insurers operating in the state.

Major Closing Issues

Consolidate the Insurance Cost Stabilization Budget into the Insurance Regulation Budget

Discussion of Major Closing Issues

Consolidate the Insurance Cost Stabilization Budget into the Insurance Regulation Budget (E-903 and E-906, B&I 73-74): The Governor recommends the consolidation of the Insurance Cost Stabilization budget into the Insurance Regulation budget, including one full-time position, resulting in a transfer of revenue and expenditures totaling $161,252 in FY 2016 and $183,447 in FY 2017. This budget contains two revenue sources – Property and Casualty Assessments and Fines – and in the Insurance Regulation budget, these revenues would be eliminated. Under the Division of Insurance (DOI) budget consolidation plan, as recommended in The Executive Budget and effectuated with Assembly Bill (A.B.) 486, future cost stabilization activities would be funded through the modified Corporate Assessment (E-227, B&I-38), which is discussed in the Insurance Regulation closing document. If this budget is not consolidated, the agency projects it would collect fees totaling $111,683 in FY 2016 and $118,901 in FY 2017.

The FY 2015 Property and Casualty Assessment is $150 and is collected on or before September 1 of each year per Nevada Administration Code 679B.160. The majority of the DOI fees are collected in the spring, whereas, this fee is collected in the fall. The agency indicates that fewer fees could be invoiced to carriers if this fee were removed. According to the agency, during quarterly meetings with the industry, insurance carriers have expressed an interest in receiving one larger fee, rather than multiple fees throughout the year. Another problem reported by the DOI is that multiple fees result in multiple invoices in the DOI's accounting system, and sometimes fees are received without denoting the purpose of the payment, making reconciliation difficult. The DOI reports that its system of managing payments is still mostly a manual process, and determining which payments correspond with multiple open invoices increases the administrative time needed to process payments.

Staff notes the Property and Casualty Assessment and Fines associated with the budget, funds the development of methods for stabilizing prices for property and casualty insurance carriers. If the funding of this function is absorbed into the modified Corporate Assessment, as recommend by the Governor, other traditional insurance carriers, such as life/health and title insurers would be paying for a function dedicated solely to property and casualty insurers. The DOI counters that special functions of other types of insurance carriers are funded with the agency's current fee structure rather than creating a separate fee for each specific function.

Subsequent to the budget hearing, the agency indicated its cost allocation ratios are out-of-date, and reports the administrative time needed to conduct ongoing time studies would be inefficient. Instead, the DOI would like to consolidate this budget to avoid the majority of the cost allocation function. The division has provided staff its cost allocation calculations, which show this budget pays 10 percent of the salary costs of three positions in the Insurance Regulation budget for associated administrative functions.

At the time of the budget hearing, staff was unsure whether there would be legal issues by combining Insurance Cost Stabilization reserves, which were collected for a specific purpose, into the Insurance Regulation reserves without a mechanism for accountability. However, the Legislative Counsel Bureau's Legal Division indicated that combining the reserves would not present a legal issue in this case.

Does the Subcommittee wish to approve the Governor's recommendation to consolidate the Insurance Cost Stabilization budget into the Insurance Regulation budget? Staff requests authority to make adjustments relative to the passage of A.B. 486 and to make technical adjustments as necessary.

Other Closing Item

Cost Allocation Adjustments (M-800, E-800 and E-804, B&I 72-73): The Governor recommends a net reduction of $266 over the 2015-17 biennium for cost allocation adjustments for services provided by Department of Business and Industry, Insurance Division and the Department of Administration, Division of Human Resource Management. **This recommendation appears reasonable.**

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

Title: B&I - INDUSTRIAL RELATIONS **Budget Page:** B & I-93, **Volume II**
Account: 210 - 4680

Revenues	2013-14 Actual	2014-15 WP	% Chg	2015-16 GOV REC	% Chg	2016-17 GOV REC	% Chg
OTHER FUND	6,568,419	6,377,953	(2.90)	9,453,949	48.23	8,295,733	(12.25)
REVERSIONS	(547,980)						
Total Revenues	6,020,439	6,377,953	5.94	9,453,949	48.23	8,295,733	(12.25)
Total FTE		66.00		68.00		68.00	

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

This budget includes the Division of Industrial Relations (DIR), Administrator's Office, the Workers' Compensation Section (WCS), and the Legal Section. The WCS regulates Nevada's workers' compensation programs to ensure that injured workers receive timely and accurate delivery of wage loss compensation, physical impairment compensation, medical compensation, and rehabilitation benefits through a comprehensive program of training, auditing, investigation, and enforcement. The WCS is responsible for the regulation of workers' compensation insurers' self-insured employers, associations of public and private self-insured employers, private workers' compensation carriers, third party administrators, managed care organizations, and health care providers in regard to workers' compensation laws and regulations. There are currently over 80,000 businesses regulated by the WCS. This budget is primarily funded through the assessments levied against workers' compensation insurers.

Major Closing Issues

1. Technology Investment Request - Software Replacement
2. New IT Professional Position

Discussion of Major Closing Issues

1. Technology Investment Request - Software Replacement (E-550, B&I-96): The Governor recommends allocations from the Fund for Workers' Compensation and Safety totaling $2.6 million over the 2015-17 biennium to replace aging databases used for claim indexing, licensing, and enforcement

activities. The agency indicates the $2.6 million would fund the entire design, development and implementation costs for the new system, anticipated to be fully implemented by the end of the 2015-17 biennium. Ongoing annual costs are estimated to be $49,000 each year.

According to the agency, the DIR currently is supported by two major computer systems and various Access databases and spreadsheets. The Claims Indexing system was built in-house in 2004 and the Versa Regulation system is a commercial-off-the-shelf regulatory licensing and enforcement system purchased in June 2008. According to the DIR, the current systems are not fully automated, are cumbersome and inefficient to use. The DIR desires new software to streamline operations and provide more effective interfaces to external entities such as medical providers, businesses and the National Council on Compensation Insurance. In addition, the agency provided testimony at the February 26, 2015, budget hearing that the proposed software system would address both the claims indexing and regulation system requirements.

Apart from the potential risks associated with using aging software, the DIR identified key issues with the current systems. First, the accounts receivable portion of the current systems requires all transactions to be tracked twice. Second, there are issues comparing the unemployment data to the workers' compensation data to prevent customers from filing in both systems.

The DIR indicates it has surveyed 32 other states and reports that, of the 13 states that responded, each state has custom built solutions for similar needs. The DIR notes it could not locate a Commercial Off-the-Shelf (COTS) system that would support the needs of the Workers' Compensation Section agency business processes. Additionally, the DIR had two site visits by potential vendors to estimate the feasibility of developing and implementing the required software. One of the vendors could not provide a solution and the other vendor provided an estimate of $2.5 million for a system to meet the agency's needs. The DIR further indicates that the Division of Enterprise Information Technology Services (EITS) was contacted to discuss a custom software solution; however, EITS advises it no longer offers system building services without a minimum of a two-year commitment.

The DIR reports that the $2.6 million cost of the recommended software replacement would increase the allocation from the Fund for Workers' Compensation and Safety by approximately 6.5 percent in FY 2016 and 1.9 percent in FY 2017. At the February 26, 2015, budget hearing, the DIR testified that the industries that would be impacted by the proposed assessment increase resulting from the recommended software system replacement are supportive of the proposed assessment increase. The DIR also estimates the rates would decrease following the purchase and implementation of the new software solution.

If the TIR is approved, the DIR estimates the majority of the project implementation would be completed in FY 2016, with full implementation in FY 2017. Ongoing annual costs of the new system are projected to be $30,000 for continued vendor support and $19,000 for hardware and other support costs. The DIR estimates the useful life of the new software to be ten years.

Does the Subcommittee wish to approve allocations from the Fund for Workers' Compensation and Safety totaling $2.6 million over the 2015-17 biennium to replace aging databases used for claim indexing, licensing, and enforcement activities, as recommended by the Governor?

2. New IT Professional Position (E-227, B&I-95): The Governor recommends allocations from the Fund for Workers' Compensation and Safety totaling $137,665 over the 2015-17 biennium for a new Information Technology Professional position to act as the chief programmer for the division and to manage, maintain and control information services equipment, networks and data systems.

In an effort to centralize the IT functions in the administrative office, two Information Technology Professional positions and one Information Technology Technician position were transferred to Business and Industry's Director's Office in the 2011-13 biennium.

The agency's testimony at the February 26, 2015, budget hearing indicated that the DIR continues to use two positions from the centralized IT services provided by the Business and Industry Director's Office. The DIR testified that it is a large division and needs a dedicated IT position within the division. The DIR further noted that based on workload demand, the position should be located in the DIR budget to provide service dedicated specifically to Workers' Compensation.

Does the Subcommittee wish to approve allocations from the Fund for Workers' Compensation and Safety of $137,665 over the 2015-17 biennium to fund a new dedicated IT Professional position and associated operating costs in this budget, as recommended by the Governor?

Other Closing Items

1. Department of Business and Industry Las Vegas Office Relocation (E-230, B&I-96): In conjunction with the Governor's Major Budget Initiative (MBI) for the Department of Business and Industry (B & I), The Executive Budget recommends an allocation from the Fund for Workers' Compensation and Safety of $135,266 in FY 2017 for relocation costs of the DIR's Las Vegas Office. Of the amount recommended, $20,363 would fund the net additional cost of office rent and $114,903 would fund relocation costs, including new furnishings, telephone and data wiring, moving, printing and miscellaneous.

   Fiscal staff notes that on April 23, 2015, the Subcommittee closed the B & I Administration budget (4681) and approved the Governor's proposal to centralize B & I's Las Vegas Offices. **Based on the prior closing actions of the Subcommittee, this recommendation appears reasonable.**

2. Replacement Equipment (E-710, B&I-97): The Governor recommends allocations from the Fund for Workers' Compensation and Safety totaling $842 in FY 2016 to replace one fax machine and $3,345 in FY 2017 to replace five printers. **This recommendation appears reasonable.**

3. Replacement Equipment (E-711, B&I-97): The Governor recommends an allocation from the Fund for Workers' Compensation and Safety of $3,672 in FY 2017 for the replacement of one Uninterruptible Power Supply unit, used for surge and battery backup for office desktop computers. **This recommendation appears reasonable.**

4. Replacement of Fleet Services Vehicles (E-718, B&I-98): The Executive Budget recommends allocations from the Fund for Workers' Compensation and Safety totaling $28,318 over the 2015-17 biennium to replace one Fleet Services vehicle for the Las Vegas Office and two Fleet Services vehicles for the Reno Office. The DIR advises all three vehicles recommended for replacement are over ten years old or have over 100,000 miles. **This recommendation appears reasonable.**

5. Replace Microwave Equipment (E-719, B&I-98): The Governor recommends allocations from the Fund for Workers' Compensation and Safety totaling $127,200 in FY 2017 to replace microwave equipment for the Las Vegas, Carson City and Reno locations. The DIR indicates the microwave equipment has reached its end of life and is recommended for replacement. **This recommendation appears reasonable.**

6. New Printers (E-721, B&I-98): The Executive Budget recommends an allocation from the Fund for Workers' Compensation and Safety totaling $1,338 in FY 2017 for one printer in the Reno office and one printer in the Carson City office. **This recommendation appears reasonable.**

7. Cost Allocation Adjustments (M-800, E-800 and E-804, B&I-95 & 99): The Governor recommends a net reduction of allocations from the Fund for Workers' Compensation and Safety totaling $173,611 over the 2015-17 biennium for adjustments to the Department of Business and Industry Director's Office cost allocation and to the Division of Human Resource Management cost allocation for centralized personnel services. **These recommendations appear reasonable.**

8. Position Transfer (E-900, B&I-100): The Executive Budget recommends the transfer of one Administrative Assistant position and associated operating costs from the Occupational Safety and Health (OSHA) budget to the Division of Industrial Relations budget to provide assistance with debt collection. This position was previously transferred to the OSHA budget from the DIR budget in the 2013-15 biennium; however, the agency indicates the position is needed to perform debt collection reporting for WCS. The proposed transfer would be cost neutral to the division. At the April 3, 2015, closing of the DIR OSHA budget, the Subcommittee recommended approval of the transfer of the Administrative Assistant position and associated operating costs from the OSHA budget to this budget, as recommended by the Governor. **Based on the prior closing actions of the Subcommittee, this recommendation appears reasonable.**

Fiscal staff recommends closing all Other Closing Items as recommended by the Governor with authority for staff to make technical adjustments, as necessary, and consistent with the Subcommittee's closing actions in the DIR OSHA and Business and Industry Administration budgets.

Title: B&I - ATHLETIC COMMISSION | **Budget Page:** B & I-190, **Volume II**

Account: 101 - 3952

Revenues	2013-14 Actual	2014-15 WP	% Chg	2015-16 GOV REC	% Chg	2016-17 GOV REC	% Chg
BALANCE FORWARD	(10,104)	160,055	(1684.08)	148,219	(7.39)	316,778	113.72
GENERAL FUND	552,946	543,369	(1.73)				
INTERIM FINANCE	11,123						
OTHER FUND	134,443	122,666	(8.76)	1,636,265	1233.92	1,636,265	
REVERSIONS	(57,632)						
Total Revenues	630,776	826,090	30.96	1,784,484	116.02	1,953,043	9.45
Total FTE		5.00		5.00		5.00	

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
E228	85	9000	Transfer from reserve for reversion to regular reserve category	638,674	758,744
E228	93	9000	Transfer from reserve for reversion to regular reserve category	(638,674)	(758,744)
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 Athletic Commission (Commission), established in 1941, supervises and regulates all contests and exhibitions of unarmed combat, including boxing, professional wrestling, mixed martial arts, kickboxing and elimination boxing. Additionally, the Commission licenses and regulates persons who conduct, hold, or give contests or exhibitions for unarmed combat where an admission fee is received. The Medical Advisory Board is responsible for preparing standards for the physical and mental examination of contestants and upon request of the Commission, advises the Commission regarding the physical or mental fitness of a contestant. Currently, revenue collected is deposited to the State General Fund, with the exception of the sporting events ticket surcharge revenue, which is used to award grants to organizations that promote amateur boxing contests or exhibitions in Nevada.

Major Closing Issues

1. Proposal to Increase Fees and Become Self-Funded
2. Increased Inspector Contract Rates

Discussion of Major Closing Issues

1. Proposal to Increase Fees and Become Self-Funded (E-228, B & I-193): The Executive Budget recommends that the Athletic Commission become a self-funded agency beginning in the 2015-17 biennium. To accomplish this goal, The Executive Budget proposes to increase license fees from 6 to 8 percent. Pursuant to *Nevada Revised Statutes* 467.107, every promoter shall pay a license fee of 6 percent of the total gross receipts from admission fees to the live contest or exhibition of unarmed combat. Assembly Bill 476, heard in the Assembly Committee on Ways and Means on April 14, 2015, would increase the license fee from 6 to 8 percent of the total gross receipts, and directs 2 percent of the 8 percent collected to be deposited in the Athletic Commission's budget for administration of the Athletic Commission. In conjunction with this proposal, the Governor recommends elimination of General Fund appropriations of $688,147 in FY 2016 and $733,077 in FY 2017. A 90-day operating reserve of $185,000 by the end of FY 2017 is also recommended. During a meeting with Business & Industry, the Budget Office and Legislative Council Bureau, consensus was reached that contingent upon passage and approval of Assembly Bill (A.B.) 476, to transfer the unobligated funding from the Reserve for Reversion to the General Fund category to an operating Reserve category. As such, Fiscal staff has made a technical adjustment to transfer $638,674 in FY 2016 and $758,744 in FY 2017 from the Reserve for Reversion category to the Reserve category.

   Using the current fee structure of 6 percent, the Athletic Commission collects approximately $5.0 million each fiscal year. The Commission anticipates the 2 percent increase would generate revenues of approximately $1.5 million each year, which would be deposited into the Athletic Commission budget to fund operations, and establish the aforementioned reserve. The approximately $5.0 million generated by the remaining 6 percent license fee would continue to be deposited into the General Fund each year. The license fee was last increased from 4 to 6 percent in Assembly Bill 6, passed during the 26th Special Session of the Legislature (2010). The Commission indicates it has discussed the proposed fee increase with the promoters and industry and some promoters fully support the request, while others have not taken a position.

   As justification for becoming a fee-funded agency, the Commission indicated that the fee-based funding would allow for expanding a comprehensive drug testing program, adding personnel, increasing training for ring officials, and enhancing technology such as scorekeeping. However, Fiscal staff would note there are no enhancements for these additional activities in the Governor's recommended budget tied to the enhanced funding. Fiscal staff requested a budget; however, the agency declined to submit a budget for such activities.

   The Commission indicates that transitioning from a General Fund-based to a fee-based structure would enable the Commission to promote and facilitate an increase in events, bringing additional athletic and tourism dollars to the state. When asked how the Athletic Commission would promote and facilitate an increase in events if the Commission were to become a fee-funded agency, the Commission responded that its position as a regulator must be maintained to protect the health and safety of the fighters and the integrity of the sport. The Commission further responded that the Commission must be able to operate and function in a competitive and growing market; opining that if the Commission provided the most comprehensive drug testing program, well trained officials and a responsive staff who make expectations clear and transparent, Nevada would continue to attract the biggest and best fights. Staff notes that the Commission did not provide details on how they would promote and facilitate an increase in events.

   The Commission further indicates that by becoming self-funded, the Commission could better regulate the industry by allowing the Commission to go to the Interim Finance Committee (IFC) to access the reserves for proactive operations. The Commission cited the drug testing issue as an example of a competitive advantage forcing athletic commissions throughout the United States to make changes.

The Commission indicated that additional personnel would help the Commission staff events. Fiscal staff would note that the Commission would continue to have access to the IFC Contingency Account based on the presence of General Fund appropriations in the budget, if this decision unit is not approved. Fiscal staff would note that this decision unit is contingent upon the passage and approval of A.B. 476.

Does the Subcommittee wish to approve the Athletic Commission becoming a self-funded agency beginning the 2015-17 biennium, as recommended by the Governor, with license fee funds of $638,674 in FY 2016 and $758,744 in FY 2017 reverted to the General Fund and a 90-day operating reserve of $185,000 by the end of FY 2017, with the technical adjustment made by Fiscal staff as noted previously?

2. Increased Inspector Contract Rates (E-125, B & I-192): The Governor recommends General Fund appropriations of $44,250 in each year of the 2015-17 biennium to increase the contract rates for the Chief Inspector and Inspectors from $75 per event and $25 per weigh-in to $150 per event and $50 per weigh-in, representing 100 percent increases, respectively for each proposed rate change. The Commission indicates the Chief Inspector and Inspector pay rates have not increased since 1996, and payment for a weigh-in has not been increased since 1984. The Subcommittee should note that if A.B. 476 and Decision Unit E-228 are approved, fee revenues would replace General Fund appropriations as the revenue source for this proposal.

   The Commission states the current contracted Inspectors are experienced and qualified, and possess bilingual skills needed for the positions. Additionally, the Commission advises it loses Inspectors to other event positions, such as Timekeepers, as those positions receive a higher pay from the promoters. When asked if the Commission could phase in the contract increases over two years, the Commission responded that the increase should be fully implemented in the first year and since contracts expire at different times, the Commission would prefer to increase the pay for all inspectors at the same time to avoid not paying each inspector equally for an equal amount of work, and potentially increasing the number of inspectors declining to work events.

   Does the Subcommittee wish to approve $44,250 in each year of the 2015-17 biennium to increase the contract rates for the Chief Inspector and Inspectors from $75 per event and $25 per weigh-in, respectively, to $150 per event and $50 per weigh-in?

Other Closing Items

Each of the Other Closing Items listed below recommend General Fund appropriations. The Subcommittee should note that if A.B. 476 and Decision Unit E-288 are approved, fee revenues would replace General Fund appropriations as the funding source for each of the recommendations.

1. Out-of-State Travel Increase (E-126, B & I-192 and 193): The Executive Budget recommends General Fund appropriations of $5,002 over the 2015-17 biennium to fund out-of-state travel for the Executive Director and the Board Chairman to attend the Association of Boxing Commissions Annual Conference. **This recommendation appears reasonable.**

2. Department of Business and Industry, Las Vegas Office Relocation (E-230, B & I-193): In conjunction with the Governor's Major Budget Initiative (MBI) for the Department of Business and Industry, The Executive Budget recommends a General Fund appropriation of $48,612 in FY 2017 for relocation costs of the Athletic Commissioner's Las Vegas office. Of the amount recommended, $35,555 would fund the net additional cost of office rent and $13,057 would fund relocation costs, including new furnishings ($7,500), telephone and data wiring ($3,500), moving ($539) and printing and miscellaneous ($1,518). **Fiscal staff notes that on April 23, 2015, the Subcommittee closed the B & I Administration budget (BA 4681) and approved the Governor's proposal to centralize**

B & I's Las Vegas Offices. Based on the prior closing actions of the Subcommittee, this recommendation appears reasonable.

3. Replacement Furniture (E-710, B & I-194): The Governor recommends a General Fund appropriation of $1,210 in FY 2016 to replace four secretarial desks with new desks to provide a larger work area for staff. **This recommendation appears reasonable.**

4. Replacement Printer (E-711, B & I-194 and 195): The Governor recommends a General Fund appropriation of $2,874 in FY 2016 for the replacement of one color laser printer. The Executive Budget indicates the current printer was purchased over ten years ago. **This recommendation appears reasonable.**

5. New Software (E-722, B & I-195): The Executive Budget recommends a General Fund appropriation of $525 in FY 2016 for three copies of Adobe Acrobat software to enable administrative staff to distribute work evenly throughout the office. **This recommendation appears reasonable.**

6. Cost Allocation Adjustments (M-800, E-800 & E-804, B & I-192, 195, & 196): The Governor recommends General Fund appropriations decrease by $10,777 over the 2015-17 biennium for adjustments to the Department of Business and Industry Director's Office cost allocation and as well as adjustments to the Division of Human Resource Management cost allocation for centralized personnel and payroll services. **This recommendation appears reasonable.**

Fiscal staff recommends closing all Other Closing Items as recommended by the Governor, and requests authority to make technical adjustments as necessary, and consistent with the Subcommittee closing action taken in the B & I Administration budget.

Information Only – No Action Required

Legislative Audit: The Legislative Auditor conducted an audit, issued on April 28, 2014, to evaluate the Nevada State Athletic Commission's financial and administrative practices in place to carry out applicable laws and regulations, information security controls and performance measures for Fiscal Years 2010-2014. The audit report (LA14-17) contained five recommendations to improve financial and administrative practices and to ensure money received from promoters is deposited in accordance with statutes, two recommendations to improve the protection of sensitive information, and four recommendations to improve oversight for the reliability of performance measures used in the state's budgeting process. The Commission accepted all 11 recommendations.

The Commission submitted a six-month report on the status of audit recommendations on January 23, 2015. According to the Commission's six-month status report, eight recommendations have been fully implemented and three recommendations have been partially implemented. The three partially-implemented audit recommendations include: (1) Update procedures to ensure records are available to support results reported for each performance measure; (2) Track data to support each performance measure for increased efficiency when reporting results; and (3) Develop controls to ensure reported results are accurate. The Commission responded that policies and procedures for ensuring records are available to support results reported for each performance measure are being developed. The Commission also indicated it is in the process of recruiting for an existing Management Analyst position whose main function will be the development of the Commission's policies and procedures. The Commission anticipates full implementation of these procedures by June 30, 2015.

The Commission updated Fiscal staff on April 20, 2015, indicating that the Management Analyst position has been filled and the employee is currently reviewing the remaining audit recommendations to begin formulating the policies and procedures needed to complete the full implementation of the audit recommendations.

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Title: B&I - LABOR COMMISSIONER **Budget Page:** B & I-240, **Volume II**
Account: 101 - 3900

Revenues	2013-14 Actual	2014-15 WP	% Chg	2015-16 GOV REC	% Chg	2016-17 GOV REC	% Chg
BALANCE FORWARD	(33,370)						
GENERAL FUND	1,417,221	1,408,842	(0.59)	1,675,958	18.96	1,759,338	4.98
INTERIM FINANCE	33,370						
OTHER FUND		1,916					
REVERSIONS	(104,906)						
Total Revenues	1,312,315	1,410,758	7.50	1,675,958	18.80	1,759,338	4.98
Total FTE		19.00		19.00		19.00	

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 the Labor Commissioner (Office) was formed in 1915 and is responsible for the enforcement of all labor laws of the state that are not specifically and exclusively vested in any other officer, board or commission. Major program areas include the following: investigating claims for wages, enforcement of public works laws, determination of prevailing wage rates, oversight of child labor laws, licensing of private employment agencies, licensing of producer-promoters, and administration of the registered apprenticeship programs in the state, including the State Apprenticeship Council. The Labor Commissioner has offices in Las Vegas and Carson City and is funded entirely through General Fund appropriations.

Major Closing Issues

1. Case Management Software System Replacement
2. Carson City Office Relocation

Discussion of Major Closing Issues

1. Case Management Software System Replacement (E-227, B&I-243): The Governor recommends General Fund appropriations of $60,420 over the 2015-17 biennium to replace an aging case management system with a commercial off-the-shelf solution. The Executive Budget indicates that the existing legacy system is no longer supported and should be replaced to ensure timely and adequate support for the public.

The Office reports the current system was created in-house by a former Business and Industry (B & I) employee in 2006 to provide basic case tracking features. The Office also indicates that the system cannot be updated, and staff within the office, as well as the Labor Commissioner, must utilize user names and passwords from previous staff members in order to access the program. Additionally, the agency advises that if the current system crashes, it is uncertain whether it could be repaired.

According to the Office, the off-the-shelf software program known, as i-Sight, has been identified to replace the existing system, due to the full range of uses offered by the program. The Office notes the i-Sight program offers three primary uses:

- Intake – Forms would be accessed via the web and submitted online, then assigned to case investigators, with automatic e-mail and letter replies. The system would also accept complaints or referrals from internal and external sources, such as interfacing with the Federal Department of Labor.

- Case Management – Attachments related to the complaints and investigations would be uploaded and categorized, multiple cases involving the same parties linked, case notes entered, task lists could be generated, and standardized forms accessed within the system.

- Reporting – Reports documenting case types and statistics would be generated instead of manual collection; aging reports would be generated; staff could generate reports based on the number of days aged and link the reports directly to the case; reports could be marked confidential; performance benchmarks could be tracked; and the reports could include statistical and trend analysis.

In consultation with the B & I Director's Office information technology staff, the Office researched case tracking and case management systems, and identified i-Sight as a software option that could track claims and cases. The proposed i-Sight vendor provided a demonstration of the software to the Labor Commissioner who determined that based on the features and options available, and the cost of the system, that i-Sight was the best solution for the Office.

If approved by the Legislature, the Office of the Labor Commissioner indicates they would begin the process of purchasing the system in accordance with State Purchasing Rules. Once purchased, the Office of the Labor Commissioner would begin the implementation process and migrate the current claim/case information into the new system. The Office expects that the new case management software system would be fully up and running by October 31, 2015. Testimony provided during the General Government Joint Subcommittee budget hearing on February 26, 2015, indicated that the annual software maintenance contract would be approximately $16,000 per year. **Based on the information and testimony provided, this recommendation appears reasonable.**

Does the Subcommittee wish to approve General Fund appropriations totaling $60,420 over the 2015-17 biennium to replace an aging case management system with a commercial off-the-shelf software system, as recommended by the Governor?

2. Carson City Office Relocation (E-225, B&I-242): The Executive Budget recommends General Fund appropriations of $49,263 over the 2015-17 biennium to fund the costs associated with relocating the Carson City Office to a larger facility due to noise, office space and parking limitations of the existing facility.

Currently, the Carson City Office is located on Fairview Drive, which is the main access point to the I-580 expansion. According to information received from the Office, increased traffic has caused additional noise in the office, making it difficult to conduct and record hearings. Also, parking has been drastically reduced due to the sale of the parking lot currently being used by staff. Information provided by the Office also notes that the building has had recurring issues with the heating and air conditioning. The Office is working with the Department of Administration to identify a new location.

The Carson City Office houses a total of seven employees, including the Labor Commissioner. The Office notes staff has not increased in this location in over ten years. The current square footage of the Carson City Office is 1,568 square feet at $1.31 per square foot, totaling $24,649 each year. The proposed space is 1,800 square feet, calculated by using the Division of Buildings and Grounds space justification formula, at an estimated $2.00 per square foot, totaling $43,200 each year. The Office indicates that several informal prospective locations have been considered, and every effort would be made to find a lower rent option. **Based on the information and testimony provided, this recommendation appears reasonable.**

Does the Subcommittee wish to approve General Fund appropriations totaling $49,263 over the 2015-17 biennium to fund the costs associated with relocating the Carson City Office to a new facility, as recommended by the Governor?

<u>**Other Closing Items**</u>

1. <u>Transcription Services (E-226, B&I-242 and 243)</u>: The Governor recommends General Fund appropriations of $10,000 in each year of the 2015-17 biennium to fund additional transcription services in the event copies of administrative hearings are requested. Nevada Administrative Code (NAC) 607.510 requires the Commissioner to make a record of all formal hearings. According to the Office, although formal hearings have been recorded, and transcription services have been completed by office staff, the contract transcription service or court reporting service would be a more efficient and accurate means of producing the final record of the hearings. **This recommendation appears reasonable.**

2. <u>Wireless Access for Constituents (E-228, B&I-243)</u>: The Governor recommends a General Fund appropriation of $530 in FY 2016 to fund a wireless access point for Guest Net Services during the Labor Commissioner hearings to enable constituents to access the Internet for the monthly meetings. The Office indicates there are no ongoing costs associated with this new equipment. **This recommendation appears reasonable.**

3. <u>Department of Business and Industry Las Vegas Office Relocation (E-230, B&I-244)</u>: In conjunction with the Governor's Major Budget Initiative (MBI) for the Department of Business and Industry, <u>The Executive Budget</u> recommends a General Fund appropriation of $103,297 in FY 2017 for relocation costs of the Labor Commissioner's Las Vegas Office. Of the amount recommended, $71,959 would fund the net additional cost of office rent and $31,338 would fund relocation costs, including new furnishings ($18,000), telephone and data wiring ($8,400), moving ($1,293) and printing and miscellaneous ($3,645). **Fiscal staff notes that on April 23, 2015, the Subcommittee closed the B & I Administration budget (4681) and approved the Governor's proposal to centralize B & I's Las Vegas Offices. Based on the prior closing actions of the Subcommittee, this recommendation appears reasonable.**

4. Cost Allocation Adjustments (M-800, E-800 and E-804, B&I-242, 244 & 245): The Governor recommends net reductions of General Fund appropriations totaling $17,222 over the 2015-17 biennium for adjustments to the Department of Business and Industry Director's Office cost allocation and to the Division of Human Resources Management cost allocation for centralized personnel services. **This recommendation appears reasonable.**

   Fiscal staff recommends closing all Other Closing Items as recommended by the Governor, with authority for staff to make technical adjustments as necessary and consistent with the Subcommittee's closing action in the B & I Administration budget.

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Title: B&I - NV ATTORNEY FOR INJURED WORKERS **Budget Page:** B & I-251, **Volume II**
Account: 101 - 1013

Revenues	2013-14 Actual	2014-15 WP	% Chg	2015-16 GOV REC	% Chg	2016-17 GOV REC	% Chg
OTHER FUND	3,348,670	3,350,657	0.06	3,538,693	5.61	3,592,086	1.51
REVERSIONS	(131,378)						
Total Revenues	3,217,292	3,350,657	4.15	3,538,693	5.61	3,592,086	1.51
Total FTE		31.00		32.00		32.00	

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 Nevada Attorney for Injured Workers (NAIW) was created in 1977 to represent injured workers with their claims for workers' compensation benefits before a state appeals officer, the state district courts, or the State Supreme Court. The agency provides representation without charge to the injured worker. The NAIW has offices in Las Vegas and Carson City, and is funded through an allocation from the Fund for Workers' Compensation and Safety, which is administered by the Division of Industrial Relations. Unspent funds transferred from the Fund for Workers' Compensation and Safety revert to the fund at the end of each fiscal year.

Major Closing Issues

1. New Legal Research Assistant Position
2. Contracted Security Increase

Discussion of Major Closing Issues

1. New Legal Research Assistant Position (E-226, B&I–253 and 254): The Governor recommends an allocation from the Fund for Workers' Compensation and Safety of $44,122 in FY 2016 and $59,799 in FY 2017 to fund the personnel and associated operating costs of a new Legal Research Assistant position to provide additional support for the Carson City office. Currently, the NAIW has one Legal Research Assistant in the Carson City location working for five attorneys, and the Las Vegas location has three Legal Research Assistants working for nine attorneys. The NAIW indicates that the addition

of this position would provide for a more balanced work load for the Legal Research Assistant in the Carson City office. Testimony provided during the General Government Joint Subcommittee budget hearing on February 26, 2015, indicated that although there currently is no workload backlog in the Carson City office, a second Legal Research Assistant would provide for better utilization of the existing Legal Research Assistant and allow the five attorneys to be more responsive to clients and efficient in processing pending cases. Staff notes that no additional space, furniture or computer equipment is included in this decision unit; however, the NAIW indicates they would use existing space and equipment for the proposed position. **Based on the testimony and information provided by the agency, this decision unit appears reasonable.**

Does the Subcommittee wish to approve $44,122 in FY 2016 and $59,799 in FY 2017 to fund a new Legal Research Assistant position and associated operating costs, as recommended by the Governor?

2. <u>Contracted Security Increase (E-229, B&I–254)</u>: <u>The Executive Budget</u> recommends an allocation from the Fund for Workers' Compensation and Safety totaling $54,670 over the 2015-17 biennium to increase contracted security guard services from half-time to full-time in the Las Vegas office to ensure safety and welfare for the staff and public.

   In October 2014, a shooting incident occurred at the Las Vegas location where both the NAIW and the Department of Administration's Hearing Division are located. <u>The Executive Budget</u> also recommends funding in the budget of the Department of Administration's Hearing Division to increase security services. With the additional security provided by the Hearing Division, there would be a total of two full-time security guards for the second floor in which the NAIW is located.

   Additionally, the NAIW followed up with information indicating that the expense for security guards for the Las Vegas location are not shared with all occupants of the building because the state offices are only located on the second floor. The security guard services cover the second floor of the office as well as the parking lot used by the building occupants. **Based on the testimony and information provided by the agency, this decision unit appears reasonable.**

   Does the Subcommittee wish to approve $54,670 over the 2015-17 biennium to increase contracted security guard services in the Las Vegas office as recommended by the Governor?

<u>Other Closing Items</u>

1. <u>Backup Recovery System (E-225, B&I–253)</u>: The Governor recommends an allocation from the Fund for Workers' Compensation and Safety totaling $20,749 over the 2015-17 biennium for the purchase of a virtual server backup recovery system to replace the outdated backup tape recovery system currently in use. **This recommendation appears reasonable.**

2. <u>Training for Attorneys (E-235, B&I–254)</u>: <u>The Executive Budget</u> recommends an allocation from the Fund for Workers' Compensation and Safety totaling $7,180 in each year of the 2015-17 biennium for additional training for 14 attorneys. The additional funding, along with base funding of $1,916 in each year, would fund a total of two trainings each year at a cost of $325 each for the 14 attorneys. The NAIW advises this training would include live and broadcast trainings on various topics, such as Worker's Compensation interplay with Medicare, Medicaid, Social Security, Veteran's Administration and other benefit providers to ensure attorneys are able to provide clients with up-to-date representation. **This recommendation appears reasonable.**

3. New Equipment and Replacement Equipment (E-710, E-711, E-719, E-721 & E-723, B&I–255 - 257): The Governor recommends allocations from the Fund for Workers' Compensation and Safety totaling $69,609 over the 2015-17 biennium to replace 12 computer monitors, 5 secretarial desks in Carson City, microwave equipment for the SilverNet communications network, and 4 new Microsoft Windows Enterprise Service, and other software, and 2 new high speed scanners for the southern and northern offices. **These recommendations appear reasonable.**

4. Cost Allocation Adjustments (M-800, E-800 & E-804, B&I–253, 257 & 258): The Governor recommends allocation from the Fund for Workers' Compensation and Safety decrease $23,046 over the 2015-17 biennium for adjustments to the Department of Business and Industry Director's Office cost allocation for fiscal, payroll, and information technology services, as well as for adjustments to the Division of Human Resource Management cost allocation for centralized personnel and payroll services. **These recommendations appear reasonable.**

Fiscal staff recommends closing all Other Closing Items as recommended by the Governor with authority for staff to make technical adjustments as necessary.

Title: B&I - TRANSPORTATION AUTHORITY **Budget Page:** B & I-222, **Volume II**

Account: 101 - 3922

Revenues	2013-14 Actual	2014-15 WP	% Chg	2015-16 GOV REC	% Chg	2016-17 GOV REC	% Chg
BALANCE FORWARD	(55,875)	2,187	(103.91)	2,900	32.60	6,431	121.76
HIGHWAY FUND	2,400,107	2,379,382	(0.86)	2,805,362	17.90	2,967,460	5.78
INTERAGENCY TRANSFER	35,115						
INTERIM FINANCE	66,942						
OTHER FUND	342,223	312,792	(8.60)	357,717	14.36	379,795	6.17
Total Revenues	2,788,512	2,694,361	(3.38)	3,165,979	17.50	3,353,686	5.93
Total FTE		24.00		24.00		24.00	

Adjustments to Revenue

Dec Unit	Cat	GL	Description	2015-16	2016-17
E230	00	2507	Increase Highway Fund appropriations due to a correction made in the building lease rate in FY 2017		1,586
E500	00	2507	Increase Highway Fund appropriations to correct funding for email services transferred from the NTA Administrative Fine Budget	136	125
E500	00	2511	Adjust Balance Forward from Previous Years to match ending Reserve Balance in FY 2016		136
Sub-total				136	1,847
Line Item Changes to Revenues				136	1,847

Adjustments to Expenditures

Dec Unit	Cat	GL	Description	2015-16	2016-17
E230	04	7000	Increase operating authority to correct the building lease rate in FY 2017		1,586
E500	86	9000	Change funding from Reserves to Highway Fund appropriations for e-mail services transferred from the Administrative Fine budget	136	261
Sub-total				136	1,847
Line Item Changes to Expenditures				136	1,847
Total				0	0
Grand Total General Fund Impact of Closing Changes				0	0

Overview

Pursuant to NRS 706.1516, the Nevada Transportation Authority (NTA) has statewide regulatory responsibility for the intrastate transportation of passengers, household goods, tow cars, the bus industry, the limousine industry, and taxicabs (except taxicabs in Clark County) to promote safe, adequate, economical and efficient service of motor transportation. The budget is supported through Highway Fund appropriations and fees collected from licensees.

Major Closing Issue

Implementation of the Computerized Real-time Data System

Discussion of Major Closing Issue

Implementation of the Computerized Real-time Data System: The 2013 Legislature approved Senate Bill (S.B.) 430 requiring charter limousines and taxicabs (motor carriers) to charge, collect and remit a technology fee for the implementation and use of a computerized real-time data system (system) to assist with the administration and enforcement of motor carriers in the state. Pursuant to S.B. 430 (2013), each motor carrier shall charge and collect a technology fee that is set by NTA for each compensable trip and shall be remitted to the NTA no later than the 10th day of each month.

Per NRS 706.1516, the computerized real-time data system must satisfy criteria including, but not limited to, the following:

a) Collect real-time data from the onboard computer of the motor carrier by wireless access;
b) Be capable of using a global positioning system that would show the location and the time at which the motor carrier is at a location;
c) Allow the motor carrier operator to register his/her identity and permit/certificate number in the system at the beginning and end of each shift;
d) Digitally associate the motor carrier operator with the operator's permit/certificate for the purpose of verifying the validity of the permit/certificate;
e) Present real-time searchable data histories;
f) Be an interactive, digital, onboard system that allows passengers to select the shortest route by time or distance; multi-segment trips; least expensive route; and make a digital record of passengers selections through a mobile device;
g) Allow passengers to register comments and complaints with the NTA, the motor carrier operator and the certificate holder via a mobile device; and
h) Provide cooperative dispatch and electronic hailing services to the public.

Pursuant to S.B. 430 (2013), Section 18, the agency submitted a report to the Legislature on January 19, 2015, regarding the status of the implementation of the computerized real-time data system. According to the report, the NTA issued a request for information (RFI) in October 2013 on behalf of the NTA and the Taxicab Authority to seek responses from qualified companies that are capable of providing a computerized real-time data system for taxicab and charter limousine industries. Responses from four companies were received.

The agency indicates S.B. 430 (2013) requires the NTA to establish regulations for the use of the computerized real-time data system if the application from two or more holders of a certificate of public convenience and necessity were received. According to the agency, the first applications to utilize a computerized real-time data system for the purposes of offering cooperative dispatch and electronic hailing services to the public were received on February 6, 2015. In follow up, the agency indicates the State Purchasing Division is currently evaluating the RFI applications and is preparing to release the Request for Proposal (RFP). Once the responses to the RFP are received, NTA, B&I and State Purchasing will evaluate the responses and may request additional information or facilitate vendor interviews to finalize the contract. The final contract is contingent upon the State Board of Examiner's approval. NTA plans to establish a technology fee, which will be based on the total contract amount, once the final contract is approved. The agency indicates once the technology fee is established, Interim Finance Committee approval may be required for revenue and expenditure authority.

The agency indicates the computerized real-time data system would utilize a cloud-based system that would be provided and maintained by the vendor. According to the agency, all four RFI respondents utilize the most current data encryption to help ensure that the data being transmitted to and viewed on the cloud-based system is protected. Further, access to the cloud-based system would require a unique user name and login; would only be viewed by authorized users of the NTA; and would limit NTA staff access to certain types of information collected by the real-time data system based on job position and responsibilities with the agency. NTA anticipates requiring EITS services for internet and e-mail access.

The NTA has taken regulatory actions related to electronic hailing services (allowing customers to book a trip electronically). Specifically, the agency adopted a regulation to revise Nevada Administrative Code 706.311, which would permit providers of electronic hailing systems to charge and collect directly from a passenger a system access and payment fee at a rate determined by the NTA. The regulation was approved by the Legislative Commission on January 16, 2015. According to the agency, motor carriers providing the electronic hailing systems are regulated and licensed by the NTA. The agency anticipates the electronic hailing system service to expand and would provide increased ridership and new revenues for the charter limousine industry.

Fiscal staff recommends approval of a letter of intent directing the agency to update the Interim Finance Committee on or before February 1, 2016, regarding the status of the implementation and operation of the computerized real-time data system.

Other Closing Items

1. In-State Travel (E-225, B&I-224-225): The Governor recommends Highway Fund appropriations of $12,482 over the 2015-17 biennium for staff to attend mandatory commission hearings, stakeholder meetings, regulation workshops and staff meetings. The agency indicates this would restore the travel budget to pre-recession levels. **This recommendation appears reasonable.**

2. B&I Centralization of the Las Vegas Offices (E-230, B&I-225): The Governor recommends Highway Fund appropriations of $34,484 in FY 2017 to centralize B&I Las Vegas Offices and establish a Business Center. The recommendation is one of the Governor's Major Budget Initiatives and was approved during the closing of the B&I Administration budget by the General Government Joint Subcommittee on April 23, 2015. **This recommendation is consistent with prior Subcommittee closing actions.**

3. Operating Expense Transfer (E-500, E-900, B&I-225,227): The Governor recommends Highway Fund appropriations of $1,500 over the 2015-17 biennium to transfer e-mail expenses from the NTA Administrative Fine budget to the NTA budget. The agency indicates the recommendation would properly account for expenses that are non-enforcement related. Fiscal staff notes, Decision Unit E-500 is entered incorrectly. A technical adjustment is included in this budget closing document to increase Highway Fund appropriations in Decision Unit E-500 to $1,761 over the 2015-17 biennium to align total expenditures in Decision Unit E-900. **With the adjustment noted, this recommendation appears reasonable.**

4. Vehicle Replacements (E-710, B&I-226): The Governor recommends increasing Highway Fund appropriations by $97,200 over the 2015-17 biennium to replace nine agency-owned vehicles currently maintained in the NTA Administrative Fine budget, with new specialty vehicles from the Fleet Services Division. The vehicles proposed for replacement are listed on the following table.

Location	Model Year	Description	Odometer
LV	2001	CHEVY BLAZER	133,156
LV	2004	FORD EXPLORER	114,823
LV	2002	FORD EXPLORER	62,180
LV	2004	FORD TAURUS	81,616
LV	2005	FORD ESCAPE	95,201
RN	2005	FORD EXPLORER	141,167
LV	2006	TOYOTA CAMRY	34,385
RN	2007	FORD EXPLORER	102,300
LV	2008	FORD EXPLORER	66,727

According to the agency, the vehicles are utilized by Compliance Enforcement Investigators to perform patrol and surveillance duties and by Compliance Audit Investigators to perform onsite vehicle inspection and vehicle safety checks at transportation company business locations. The agency also indicates they have not replaced any vehicles since FY 2007 due to the economic downturn, which resulted in increased vehicle maintenance. The recommendation, according to the agency, would provide safety for Compliance Investigators in the field. Fiscal staff notes, the Fleet Services recommended vehicle replacement schedule for specialty vehicles is eight years or 125,000 miles. All vehicles proposed for replacement would meet the established replacement criteria in FY 2016. In follow up, the agency also notes that all vehicles proposed for replacement are experiencing maintenance issues. **This recommendation appears reasonable.**

5. Cost Allocations (M-800, E-800, E-804, B&I-224, 226, 227): The Governor recommends decreasing Highway Fund appropriations by $20,317 over the 2015-17 biennium for services provided by the B&I Director's Office and the Department of Administration, Division of Human Resource Management and NHP Dispatch. **This recommendation appears reasonable**.

Staff recommends this budget be closed as recommended by the Governor, with the technical adjustments noted, and seeks authority to make other technical adjustments as necessary.

Informational only/No action required

1. Senate Bill 183, as amended, would revise the criteria to apply for a certificate of public convenience and necessity for certain motor carriers and revise the number of days a person can reapply for a certificate of public convenience and necessity to operate a motor carrier, and revises the purposes and policies on how the NTA carries out its duties. Senate Bill 183 as amended passed and approved by the Senate on April 15, 2015, and was referred to the Assembly Committee on Transportation on April 16, 2015.

2. Supplemental Appropriation (INTRODUCTION-20): The Executive Budget includes a Highway Fund appropriation of $80,000 in FY 2015 to cover Transportation Authority personnel costs through June 30, 2015. At the March 25, 2015, bill hearing of Senate Bill 468, the agency testified that the full $80,000 supplemental appropriation may not be needed due to vacancy savings incurred in FY 2015. In follow up, the agency confirmed the supplemental appropriation of $80,000 is no longer needed and the recommendation can be eliminated. Senate Bill 468 was heard by the Senate Committee on Finance on April 17, 2015, and no action was taken.

Title: B&I - TRANSPORTATION AUTHORITY ADMIN FINES **Budget Page:** B & I-230, **Volume II**

Account: 101 - 3923

Revenues	2013-14 Actual	2014-15 WP	% Chg	2015-16 GOV REC	% Chg	2016-17 GOV REC	% Chg
BALANCE FORWARD	(146,582)	383,088	(361.35)	446,583	16.57	613,975	37.48
OTHER FUND	319,911	203,484	(36.39)	308,587	51.65	308,587	
Total Revenues	173,329	586,572	238.42	755,170	28.74	922,562	22.17
Total FTE							

Adjustments to Revenue

Dec Unit	Cat	GL	Description	2015-16	2016-17
B000	00	2511	Adjust Balance Forward from Previous Years to match ending Reserves in FY 2016		32,833
M100	00	2511	Adjust Balance Forward from Previous Years to match ending Reserves in FY 2016		34
Sub-total				0	32,867
Line Item Changes to Revenues				0	32,867

Adjustments to Expenditures

Dec Unit	Cat	GL	Description	2015-16	2016-17
B000	04	7000	Eliminate gasoline costs associated with the nine vehicles proposed for replacement	(17,105)	(17,105)
B000	04	7000	Eliminate outside maintenance of vehicle associated with the nine vehicles proposed for replacement	(13,519)	(13,519)
B000	04	7000	Eliminate vehicle insurance associated with the nine vehicles proposed for replacement	(2,209)	(2,209)
B000	86	9000	Increase Reserves due to the elimination of vehicle maintenance costs	32,833	65,666
M100	04	7000	Eliminate vehicle insurance associated with the nine vehicles proposed for replacement	(34)	1
M100	86	9000	Adjust Reserves due to the elimination of vehicle maintenance costs	34	33
E230	04	7000	Correct building lease rate		2,626
E230	86	9000	Decrease Reserves to correct building lease rate		(2,626)
Sub-total				0	32,867
Line Item Changes to Expenditures				0	32,867
Total				0	0
Grand Total General Fund Impact of Closing Changes				0	0

Overview

The Nevada Transportation Authority (NTA) maintains an administrative fines account to deposit fines imposed for violations of *Nevada Revised Statutes* (NRS), Chapter 706. This special fund was established by the 1989 Legislature in NRS 706.771, which requires that the collected fines be credited to a separate account and utilized by the NTA only to enforce the provisions of the chapter.

Major Closing Issues

There are no major closing issues.

Other Closing Items

1. Training Supplies (E-225, B&I-231): The Governor recommends decreasing Reserves by $3,622 over the 2015-17 biennium for firearm range qualification instructional supplies and staff recertification costs. The agency indicates the Nevada Peace Officer Standards and Training (POST) requires a firearm range qualification of 70 or better each quarter and this recommendation would allow staff to gain proficiency and maintain firearm range qualifications. **This recommendation appears reasonable.**

2. B&I Centralization of the Las Vegas Offices (E-230, B&I-231-232): The Governor recommends decreasing Reserves by $26,233 in FY 2017 to centralize B&I Las Vegas Offices and establish a Business Center. The recommendation is one of the Governor's Major Budget Initiatives and was approved during the closing of the B&I Administration budget by the General Government Joint Subcommittee on April 23, 2015. **This recommendation is consistent with prior Subcommittee closing actions.**

3. Operating Expense Transfer (E-900, B&I-232): The Governor recommends increasing Reserves by $1,761 over the 2015-17 biennium to transfer e-mail expenses from the NTA Administrative Fine budget to the NTA budget. The agency indicates the recommendation would properly account for expenses that are non-enforcement related. **This recommendation appears reasonable.**

4. Technical Adjustments (E-230, Summary, B&I-231, 232,233):
   - Building Lease Rate: Fiscal staff identified that the building lease rate is incorrect. A technical adjustment to correct the lease rate is included in this closing document resulting in a decrease in Reserves of $2,626 in FY 2017. The agency concurred with this adjustment. **With the adjustment noted, this recommendation appears reasonable.**

   - Vehicle Insurance, Gasoline and Maintenance: The Governor recommends $30,042 in outside maintenance of vehicles; $38,012 in gasoline; and $4,947 in vehicle liability insurance over the 2015-17 biennium associated with ten agency owned vehicles. Fiscal staff notes, the Governor recommends replacing nine agency-owned vehicles with new vehicles from the Fleet Services Division, which is included in the Nevada Transportation Authority budget (E-710, B&I-226). Fiscal staff identified that maintenance costs, gasoline, and vehicle insurance associated with the nine vehicles proposed for replacement were not eliminated from this budget. Fiscal staff made technical adjustments to eliminate vehicle maintenance costs associated with the nine vehicles proposed for replacement resulting in a net increase in Reserves of $65,700 over the 2015-17 biennium, as shown in this closing document. The agency concurred with this adjustment. **With the adjustment noted, this recommendation appears reasonable. Fiscal staff recommends this technical adjustment be consistent with closing actions in the Nevada Transportation Authority budget.**

Staff recommends this budget be closed as recommended by the Governor with the technical adjustments noted, and with authority for staff to make other technical adjustments as necessary.

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Title: B&I - MORTGAGE LENDING **Budget Page:** B & I-313, **Volume II**
Account: 101 - 3910

Revenues	2013-14 Actual	2014-15 WP	% Chg	2015-16 GOV REC	% Chg	2016-17 GOV REC	% Chg
BALANCE FORWARD	(1,081,846)	2,790,592	(357.95)	3,021,696	8.28	2,549,632	(15.62)
INTERAGENCY TRANSFER	60,440						
OTHER FUND	2,891,023	2,591,577	(10.36)	2,003,547	(22.69)	1,803,950	(9.96)
Total Revenues	1,869,617	5,382,169	187.88	5,025,243	(6.63)	4,353,582	(13.37)
Total FTE		19.00		21.00		21.00	

Adjustments to Revenue

Dec Unit	Cat	GL	Description	2015-16	2016-17
E227	00	2511	Adjust Balance Forward from Previous Year to match ending Reserves in FY 2016		867
Sub-total				0	867
Line Item Changes to Revenues				0	867

Adjustments to Expenditures

Dec Unit	Cat	GL	Description	2015-16	2016-17
E226	04	7000	Reduce Membership Dues		(1,890)
E226	04	8000	Eliminate duplicate furniture, computers and software		(10,528)
E226	26	7000	Eliminate duplicate furniture, computers and software		(1,032)
E226	26	8000	Eliminate duplicate furniture, computers and software		(3,183)
E226	30	6000	Reduce Training Travel Expenditures		(4,360)
E226	86	9000	Increase Reserves due to elimination of duplicate travel and operating expenditures		20,993
E227	04	7000	Eliminate incorrectly entered operating expenditures	(733)	(722)
E227	26	7000	Eliminate incorrectly entered operating expenditures	(134)	(133)
E227	86	9000	Adjust Reserves due to adjustments made to operating expenditures in Decision Unit E-227	867	1,722
Sub-total				0	867
Line Item Changes to Expenditures				0	867
Total				0	0
Grand Total General Fund Impact of Closing Changes				0	0

Overview

The Mortgage Lending Division (MLD) licenses and regulates mortgage brokers and agents (NRS 645A), bankers (NRS 645E), escrow agencies (NRS 645A), and covered service providers (NRS 645F). Through examinations of licensees and investigations of consumer complaints and actions taken to curtail unlicensed activity, the division safeguards public interests and promotes professionalism, education, and ethics in the mortgage lending and escrow industries. This budget is funded through various fees relating to the mortgage lending industry. The 2013 Legislature approved the Governor's recommendation to use one-time mortgage settlement funds for mortgage fraud enforcement; however, those funds are not recommended to continue in this budget over the 2015-17 biennium.

Major Closing Issues

1. Fee Increases
2. Mortgage Fraud Enforcement Unit Continuation

Discussion of Major Closing Issues

1. Fee Increases: A summary of the increased fees and the establishment of new fees for the MLD is discussed below as pertains to the budget and Assembly Bill 480, the Governor's budget-implementing bill for the MLD.

   - Mortgage Broker and Mortgage Banker Branch Office: The agency proposes to increase Mortgage Broker and Mortgage Banker branch office application fees from $40 to $400; branch office initial license fee from $60 to $100; and mortgage agent change in association fee from $10 to $50. The proposal is not included in *The Executive Budget,* but is included in A.B. 480. The bill, as introduced, would increase Escrow agency; Escrow agent; Mortgage Banker; Mortgage Broker branch office application; branch office initial license; and mortgage agent change in association fees. Based on the fiscal note, the agency projects an increase in revenues of $256,850 over the 2015-17 biennium. The agency testified it plans to submit an amendment to the bill to eliminate Escrow agency and Escrow agent fee increases, which would reduce projected revenues to $230,000 over the 2015-17 biennium. The bill was heard by the Assembly Committee on Ways and Means on April 2, 2015, and was re-referred to the Assembly Committee on Commerce and Labor on April 15, 2015.

     The agency indicates the projected increase in revenues would be placed in Reserves and could be used to fund the ongoing staffing needs and support costs required to carry out the responsibilities of the MLD to ensure compliance with applicable laws and to protect consumers from fraudulent activities. The agency further indicates the proposed fee increase for Mortgage Banker and Mortgage Broker branch office application and initial license fees is to be competitive with neighboring states. In follow up, the agency indicates the average branch office license fee (application and initial license fee) charged by other states is $398 and the average mortgage agent change in association fee is $24. **Fiscal staff requests authority to make adjustments to the Mortgage Lending budget that may be necessitated by legislative action on A.B. 480.**

   - New Mortgage Servicer Licensing Program (E-226, B&I-316-317): The Governor recommends establishing new application, licensing, renewal and examination fee revenues totaling $650,700 over the 2015-17 biennium for a new program to license and supervise out-of-state non-depository mortgage servicers (mortgage servicers) providing loans secured by Nevada real property. The recommendation includes two new Mortgage Lending Examiner positions and associated operating, travel and training expenditures, including Reserves of $281,520 at the end of FY 2017. The proposal to regulate out-of-state mortgage servicers is included in A.B. 480, however, the new application, licensing, renewal and examination fee revenues are included in this budget, but are not included in the bill.

     Per NRS 645F.265, a person or institution engaged in the business of servicing mortgage loans in the state for loans secured by a lien on real property located in the state shall register with the agency and are not subject to licensure or supervision. The agency indicates the recommendation would require mortgage servicers to obtain a license issued by the MLD, to allow the agency to monitor and oversee the conduct of mortgage servicers to ensure compliance with existing laws and ensure accountability for services provided. Further, the agency indicates the recommendation would decrease fraudulent acts by mortgage servicers and protect homeowners from loan servicing issues such as "robo-signing"; "forced-place" insurance; misappropriation of payments; failure to pay escrow properly and timely; and failure to respond to consumer inquiries.

     Fiscal staff identified duplicate office furniture, desktop computers and software and overstated training travel and membership expenditures in FY 2017. A technical adjustment is included in this closing document to correct the errors, resulting in an increase in Reserves of $20,993 in FY 2017.

According to the agency, the foreclosure crisis has revealed a significant amount of consumer harm and issues related to the servicing of residential mortgage loans. Further, Nevada has been ranked #2 for being at risk for mortgage fraud for four consecutive years. The agency provided the total number of inquiries and complaints related to unlicensed out-of-state mortgage servicers, which is listed in the table below.

Out of State Mortgage Servicer Complaints and Inquiries		
Fiscal Year	Total no. of Complaints	Total no. of Inquiries
2012	39	82
2013	21	73
2014	36	163
2015 (YTD)	17	95

The agency indicates the MLD often receives consumer inquiries regarding mortgage servicers; however, consumers are discouraged from filing a formal complaint once the consumer realizes that the MLD does not have jurisdiction over out-of-state mortgage servicers.

In projecting the new fees, the agency indicates that although there are currently 202 out-of-state mortgage servicers, the proposal conservatively projected 170 mortgage servicers using the following rates: $1,000 per initial license fee; $1,500 for application fee; and $500 for annual renewal fee. According to the agency, these rates align with current fees charged to mortgage brokers and mortgage bankers. The agency also projects examination fees of 2,345 hours at a rate of $60 per hour in FY 2017.

The agency indicates in-state mortgage servicers are currently licensed as escrow agencies pursuant to NRS 645A and pay $500 for initial application fee; $200 initial license fee; and $200 for annual license renewal fee. In follow up, the agency indicates a mortgage servicer provides collection and disbursement of principal, interest, taxes and insurance, which is an essential component of a mortgage transaction following the origination of a loan, which is aligned with the responsibilities and obligations of a mortgage broker or banker.

As indicated, the Governor recommends adding two new Mortgage Lending Examiner positions for the Mortgage Servicer program. The agency indicates the two positions would solely focus on the supervisory examinations of mortgage servicers, which include a review of a licensee's financial records and business practices, and supervision of the agency's mortgage lending examiners. The Executive Budget includes yearly training expenditures for the two Mortgage Lending Examiners to attend the American Association of Residential Mortgage Regulators (AARMR). According to the agency, attendance at the AARMR would provide staff the opportunity to learn upcoming trends and issues in the residential mortgage market; learn potential solutions to changes and issues involving the residential mortgage market; and keep up with federal and state policy changes.

At the March 5, 2015, budget hearing, the Subcommittee expressed concern regarding out-of-state mortgage servicers selling their portfolios to in-state mortgage servicers to avoid paying licensing fees. In follow up, the agency indicates there are only two in-state mortgage servicers in the state and they do not anticipate out-of-state mortgage servicers to sell their portfolios as a result of the recommendation. At the budget hearing, the agency testified that the Mortgage Advisory Council supports the licensing of out-of-state mortgage servicers. At the bill hearing, the agency testified that complaints against out-of-state escrow agencies and mortgage servicers cannot be pursued by the

MLD, because these servicers are not licensed in Nevada. Likewise, the state in which these servicers reside cannot pursue the complaints, because the property is in Nevada.

Fiscal staff was advised that the agency will be submitting a proposed amendment to A.B. 480, which would allow the agency to establish fees for out-of-state mortgage servicers through regulations rather than statute. Fiscal staff met with the Executive Budget Office and the agency and determined that if the proposed amendment to the bill is approved, this decision unit can be eliminated and the agency would seek approval from the Interim Finance Committee during the 2015-16 Interim to add new positions once regulations are approved and revenues are collected.

Based on the information provided by the agency and the Executive Budget Office, Fiscal staff recommends Decision Unit E-226 be eliminated.

2. Mortgage Fraud Enforcement Unit (E-229, E490, B&I-318-319): The Governor recommends eliminating $570,125 in mortgage settlement funds transferred from the Nevada Office of the Attorney General and replacing them with a corresponding reduction to Reserves over the 2015-17 biennium to retain four positions in the Mortgage Fraud Enforcement Unit (MFEU), which were established by the 2013 Legislature using one-time mortgage settlement funds.

   The 2013 Legislature temporarily approved four positions (one Education and Information Officer, one Legal Research Assistant, one Administrative Assistant and one Compliance/Audit Investigator), funded with one-time mortgage settlement funds for the establishment of a MFEU within the Mortgage Lending Division to focus on identifying instances of mortgage fraud, deceit, misrepresentation and unlicensed activities, and to aggressively pursue disciplinary enforcement.

   The agency indicates since November 2013, the Compliance/Audit Investigator has pursued three targeted examinations and 35 investigations resulting in the issuance of six letters of caution, initiation of 11 disciplinary actions, and more than $17,000 in refunds to consumers. According to the agency, continuing the position over the 2015-17 biennium would allow the Compliance/Audit Investigator to pursue several ongoing investigations and pending disciplinary actions. Based on the performance measures submitted by the agency, the percent of investigations resolved in 90 days was eliminated due to the agency achieving a 100 percent resolution of cases within 90 days. However, the agency established a new performance measure, which shows the percentage of investigations resulting in a fair consumer resolution and projects an 80 percent success rate in providing resolution to consumers that have been harmed by licensees.

   The agency indicates the Education and Information Officer administers the agency's efforts to develop public and industry outreach programs related to mortgage fraud and create awareness of the MFEU. The agency indicates through the Education and Information Officer, the agency developed and launched an education and information seminar series for mortgage broker, mortgage banker and mortgage agent licensees. The seminar, according to the agency, is intended to inform licensees and potential licensees of the obligations and responsibilities of carrying a license and encourage the implementation of improved business practices to protect the public. The agency indicated it held its first seminar in Las Vegas on September 12, 2014, and that more than 200 individuals attended. The agency intends to hold a similar seminar in the north in the third quarter of FY 2015.

   According to the agency, the Legal Research Assistant is responsible for drafting disciplinary documents and conducting research into issues related to the mortgage industry. Further, the agency indicates since February 2014, the position has assisted in drafting 61 final disciplinary initiation documents and conducted research and provided guidance into matters involving public record requests, licensing exemptions, and special report requirements. The agency indicates the Administrative Assistant provides administrative support to the MFEU including developing and compiling statistical reports.

As indicated, the 2013 Legislature approved these positions using one-time mortgage settlement funds, and issued a letter of intent directing the agency to develop a plan to sustain the positions and activities once mortgage settlement funds expired. Fiscal staff notes, the positions are recommended to be supported over the 2015-17 biennium using reserves.

Does the Subcommittee wish to approve the Governor's recommendation to decrease Reserves by $570,125 over the 2015-17 biennium to retain four positions and associated operating costs for the Mortgage Fraud Enforcement Unit?

Other Closing Items

1. EITS MSA Contractor Services (E-225, B&I-316): The Governor recommends decreasing Reserves by $54,600 over the 2015-17 biennium for contract database administrator services through EITS. The recommendation includes 260 EITS MSA contractor hours with an estimated per-hour rate of $105 annually. The agency indicates the 10-year old Mortgage Licensing System currently utilized by the agency is susceptible to system failure and the agency does not have staff who have the skills to fix the system. The recommendation, according to the agency, would address unforeseen issues with the existing system. **This recommendation appears reasonable.**

2. Consolidation of Categories (E-227, B&I-317): The Governor recommends decreasing Reserves by $1,722 over the 2015-17 biennium to transfer expenditures currently budgeted in special use categories to traditional categories. The agency indicates the recommendation would track expenditures appropriately. Fiscal staff notes, adjustments to EITS voicemail, state phone, and e-mail were entered incorrectly. Adjustments were made to correct this error to ensure this decision unit nets to zero dollar cost resulting in an increase in Reserves by $1,722 over the 2015-17 biennium as reflected in this closing document. **With the adjustment noted, this recommendation appears reasonable.**

3. Travel and Training (E-228, B&I-317-318): The Governor recommends decreasing Reserves by $22,964 over the 2015-17 biennium for management staff to attend the annual American Association of Residential Mortgage Regulators Conference; conduct consumer outreach; meet with industry representatives; and attend staff meetings. The agency indicates the recommendation would allow staff to gain skills and knowledge of new laws and trends related to mortgage lending practices to ensure the residential mortgage industry is compliant and consumers are protected. **This recommendation appears reasonable.**

4. B&I Centralization of the Las Vegas Offices (E-230, B&I-319): The Governor recommends decreasing Reserves by $53,773 in FY 2017 to centralize B&I Las Vegas offices and establish a Business Center. The recommendation is one of the Governor's Major Budget Initiatives and was approved during the closing of the B&I Administration budget by the General Government Joint Subcommittee on April 23, 2015. **This recommendation is consistent with prior Subcommittee closing actions.**

5. Cost Allocations (M-800, M-803, E-800, E-804, B&I-315-316, 320-321): The Governor recommends decreasing Reserves by $55,716 for services provided by the B&I Director's Office and Department of Administration Division of Human Resource Management. **This recommendation appears reasonable.**

Staff recommends the Other Closing Items be closed as recommended by the Governor, with authority for staff to make technical adjustments as necessary.

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