

SPECIAL PURPOSE AGENCIES

Special purpose agencies are those that have a specialized function or have a different statutory relationship to the Executive Branch of government than most state agencies. This group includes the Public Employees Retirement System, which serves both state and local governments, the Public Employees' Benefits Program, the Office of the Military, and the Office of Veterans' Services.

The Governor has recommended General Fund appropriations for special purpose agencies of \$6.3 million in FY 2005-06, a 5.2 percent increase over FY 2004-05. Amounts recommended from all funding sources total \$146.1 million, a 25.8 percent increase over FY 2004-05, after excluding inter-agency transfers. An additional 6.9 percent increase in funding is recommended in FY 2006-07. The recommended increase to support the Public Employees' Health Program and the Office of the Military are primarily responsible for the increase in funding during the 2005-07 biennium.

PUBLIC EMPLOYEES RETIREMENT SYSTEM

The Public Employees' Retirement System (PERS) provides retirement, disability and death benefits to long-term employees. PERS includes employees of Nevada counties, cities, school districts, state government, and miscellaneous public employers. The retirement system's budget is not subject to the Budget Act or to review by the Budget Division, but is included in The Executive Budget for review by the Legislature. The requested level of funding is provided through an administrative assessment charged to each member and benefit recipient. PERS is requesting a total of \$8.2 million in FY 2005-06 and \$8.3 million in FY 2006-07 to support its operations.

Effective July 1, 2004, the period used to amortize the unfunded actuarial accrued liability was changed from a closed amortization period of 40 years beginning July 1, 1984 (with 20 years remaining as of July 1, 2004) to a year-by-year closed amortization approach where each amortization period will be set at 30 years. According to the agency, the net effect of this new approach is equivalent to a 30-year open amortization period and should minimize contribution rate volatility from year to year. This new policy represents a significant departure from the previous policy, which had been followed for the past 20 years, with the intent to have Nevada's retirement system fully funded by the year 2024.

The Public Employees' Retirement System actuary has determined that retirement contribution rates for regular members in the Employer Pay Plan should be decreased .50 percent; regular members in the Employee/Employer Pay Plan will not be affected. For all police/fire members (Employee Pay and Employee/Employer Pay), the actuary recommends a 3.50 percent increase in the contribution rates. Since the employer and employee are each responsible for one-half of any increase or decrease in the retirement contribution rate, The Executive Budget recommends funding to decrease retirement contributions by .25 percent of payroll for regular members in the Employer

Pay Plan; these members will receive an increase of .25 percent in compensation effective July 1, 2005. For police/fire members, The Executive Budget recommends funding to increase retirement contributions by 1.75 percent of payroll. Police/fire members will be responsible for paying the remaining 1.75 percent of payroll, which will result in a decrease of 1.75 percent in compensation for police/fire members effective July 1, 2005.

PUBLIC EMPLOYEES' BENEFITS PROGRAM

The Public Employees' Benefits Program (PEBP) provides various insurance coverages for state employees, retirees, and their dependents, if the participant chooses to cover their dependents. In addition, any non-state public agency can join the program to provide coverage for their employees, retirees and dependents. The insurance coverages include health, prescription, dental, vision, mental health, substance abuse, life, accidental death and dismemberment, travel accident and long-term disability. Other voluntary optional insurance coverages are available for those participants who elect to purchase additional coverage.

The program operates under the direction and oversight of the Public Employees' Benefits Board, a 9-member board appointed by the Governor. The Board appoints an Executive Officer to oversee the day-to-day operations of the program. The Executive Officer, along with 6 other unclassified positions and 25 classified employees, are the current staff of the PEBP.

The largest portion of the program is health insurance, which includes dental, vision, mental health, substance abuse and prescription coverage; the majority of this health coverage is self-insured. The program does allow participants (except three rural counties - Churchill County, Lander County and Pershing County) to elect to be covered by a Health Maintenance Organization (HMO) rather than the self-funded plan. Accidental death and dismemberment, travel accident, long-term disability, and life insurance benefits are fully insured by outside carriers.

The Executive Budget for the 2005-07 biennium recommends expenditures (not including Reserves) in the amounts of \$244 million for FY 2005-06 and \$278 million for FY 2006-07, for a total of \$522 million, an increase of 20.6 percent over the legislatively approved amounts for the 2003-05 biennium. Included in the expenditure amounts are \$59.3 million in FY 2005-06 and \$86.5 million in FY 2006-07 for medical trend and inflation as follows:

- Medical (including Rx and Vision) – 14 percent for active and non-Medicare retirees and 18 percent for Medicare-eligible retirees;
- Dental – 7 percent for active and non-Medicare retirees and 10 percent for Medicare-eligible retirees; and
- Fully-insured products are inflated per the contractual agreement through the expiration of the contract. Beyond the end of the contract, HMOs are inflated

10 percent per year and Life, Long-term Disability, Accidental Death and Dismemberment and Travel Accident insurance are inflated at 5 percent.

The Executive Budget recommends \$6.5 million in FY 2005-06 and \$7.2 million in FY 2006-07 for restoration of some of the benefits that were reduced or eliminated at the beginning of FY 2003-04. Benefit restorations under consideration include lowering the annual deductible from \$500 to \$250 and improving dental, vision and prescription drug benefits.

Funding for this account is provided by the state contribution for active and retired employee participants, premiums paid by plan participants, miscellaneous revenue (application fees from entities wishing to participate, pharmacy rebates, charges for copies) and Treasurer's interest. While there is no direct General Fund support in this account, a significant portion of the state's contribution for state employees and retirees is funded through accounts supported with General Funds.

The program's financial position has improved significantly since the end of the 2003 Legislative Session. Reserves have been rebuilt such that the Incurred but not Reported (IBNR) claim liability (\$19.2 million) is now fully funded and the program has an additional \$31.5 million in excess of the IBNR. The Executive Budget recommends \$24 million of this excess be placed in a rate stabilization reserve designed to cover contingent plan expenses, as well as unexpected increases in medical inflation and large claims in future years.

RETIRED EMPLOYEE GROUP INSURANCE PROGRAM

The Retired Employee Group Insurance Program was designed to defray a portion of health insurance premiums for employees who retire from state service and continue to participate in the state's group insurance plan. Funding for the program is through payroll assessments to state agencies to cover the costs of the state subsidy. This budget account provides a centralized collection mechanism for the receipt of contributions made by each state agency, the Judicial Branch, the Legislative Counsel Bureau, the Public Employees Retirement System, and the University and Community College System of Nevada, for the benefit of all retired state employees.

The assessment rate is calculated by determining what will be needed in the next biennium to fund the state subsidy; the amount needed is divided by the gross payroll estimated for the year, the result of which is the payroll assessment rate for that year. As approved by the 2003 Legislature, the assessment rate was 1.88 percent of gross payroll for FY 2004-05. The Executive Budget recommends agency payroll assessments of 1.92 percent in FY 2005-06 and 2.01 percent in FY 2006-07.

Nevada Revised Statute 287.046 provides that retirees who retired prior to January 1, 1994, are entitled to 100 percent of the state base subsidy amount to be applied against the total premium for insurance coverage. Retirees who retired on or after January 1, 1994, are entitled to 25 percent of the base subsidy amount for five

years of service and 7.5 percent for each additional year of service, up to 20 years of service, which entitles them to 137.5 percent of the base state subsidy amount. The Executive Budget recommends a monthly base subsidy amount, to be paid by the state, in the amount of \$341.30 for FY 2005-06 (7.9 percent increase) and \$359.23 for FY 2006-07 (5.3 percent increase). It is intended that this funding provide for 78 percent of the cost of insurance for the retiree and 57 percent of the cost for dependents. The difference between the total premium for coverage and the state subsidy amount is the portion of the total insurance premium that is paid by the retiree. The following table identifies state contribution rates and the percentage change since FY 1997-98:

July 1997	July 1998	July 1999	July 2000	July 2001	July 2002	Oct. 2002*	July 2003	July 2004
\$139.35	\$149.02	\$183.59	\$208.92	\$202.34	\$217.84	\$263.89	\$280.78	\$316.26
	6.9%	23.2%	13.8%	(3.1%)	7.7%	21.1%	6.4%	12.6%

*Mid-year increase approved in Senate Bill 3 of the 18th Special Session.

In the State of the State address, the Governor indicated that he would forward a plan to the Legislature to eliminate any subsidy for retiree group insurance for all new hires of the state.

ACTIVE EMPLOYEE GROUP INSURANCE

The Executive Budget recommends a new account be created to provide a centralized collection mechanism for the receipt of the state contributions made on behalf of each active employee by each state agency, the Judicial Branch, the Legislative Counsel Bureau, the Public Employees Retirement System, and the University and Community College System of Nevada.

For state employees, The Executive Budget recommends a monthly contribution, to be paid by the state, in the amount of \$570.55 for FY 2005-06 (2.2 percent increase) and \$590.76 for FY 2006-07 (3.5 percent increase). It is intended that this funding provide for 96 percent of the cost of insurance for the employee and 66 percent of the cost for dependents. The following table identifies state contribution rates and the percentage change since FY 1997-98:

July 1997	July 1998	July 1999	July 2000	July 2001	July 2002	Oct. 2002*	July 2003	July 2004
\$247.34	\$264.51	\$327.20	\$368.75	\$357.50	\$384.50	\$465.78	\$495.68	\$558.07
	6.9%	23.7%	12.7%	(3.1%)	7.6%	21.1%	6.4%	12.6%

*Mid-year increase approved in Senate Bill 3 of the 18th Special Session.

OFFICE OF THE MILITARY

The Office of the Military is responsible for the supervision of the military affairs of the state, which includes both state and federal roles. The primary state mission is to respond to emergency situations such as civil or national disasters. The primary federal mission is to provide combat-ready reserve forces for the United States Armed Forces. The department consists of three major units: Army National Guard, Air National Guard, and the Office of the Adjutant General. There are 13 federally recognized mobilization Army Guard units and 17 Air Guard units stationed at 12 bases of operation (1 Air Guard and 11 Army) throughout the state.

Funding for the Office is provided primarily through federal funding and state General Fund appropriations. For the 2005-07 biennium, The Executive Budget recommends state General Fund at \$2.9 million in FY 2005-06, which reflects an increase of 35.4 percent over appropriations provided in FY 2004-05. An additional 5.4 percent increase is recommended in FY 2006-07. The Governor is recommending approximately \$2.0 million for maintenance needs of Army and Air Guard bases throughout the state. Of this amount, 37 percent, or \$761,905, is recommended to come from the state General Fund. The Governor is also recommending authority for the Office of the Military to receive federal funds in the amount of \$2.4 million in FY 2005-06 and \$2.7 million in FY 2006-07 to hire 57.0 FTE new state security employees that are 100 percent federally reimbursed. These new positions would provide 24-hour security coverage of the Stead Armory, Carson City Armory, and Clark County Armory. In addition to the 57.0 new state security employees, the Governor is recommending an additional 8.0 FTE new positions, 3 for the new State Emergency Operations Center (SEOC) and 5 for the new Clark County Armory.

OFFICE OF VETERANS' SERVICES

The Office of Veterans' Services is responsible for assisting veterans and their families in obtaining services, compensation and government benefits to which they are entitled. In addition, they are responsible for managing the funds of veterans with whom the courts have declared unable to handle their own financial matters. The Office of Veterans' Services is responsible for supervising the operation and maintenance of two state veterans' memorial cemeteries in Boulder City and Fernley and overseeing the operation of the State Veterans' Home in Boulder City. The Nevada Veterans' Services Commission, which consists of nine members, advises the Executive Director and the Deputy Executive Director of the Office of Veterans' Services.

Although the agency requested 14 new positions under "Items for Special Consideration," no new positions were recommended by the Governor. The Governor is recommending increased state General Funds of \$105,601 in FY 2005-06 and \$67,240 in FY 2006-07 for equipment needs at the two Veteran's cemeteries.

VETERANS' HOME

The Nevada State Veterans' Home is a 180-bed, 24-hour skilled nursing facility located in Boulder City. The Veterans' Home, which provides a range of residential and support services for the veterans and their spouses, admitted its first residents in August 2002.

The Veterans' Home operates with 181 existing positions, 14 of which were approved by the Interim Finance Committee on June 16, 2004, to provide sufficient coverage and supervision of the facility around the clock. No additional positions have been requested or recommended for the 2005-07 biennium. In addition to a 2 percent cost-of-living salary increase recommended each year for all classified and unclassified positions, the Governor recommends funding for a two-grade salary increase in salaries for nurses employed in state government (including the Veterans' Home).

The Executive Budget reflects changes established by federal law, Public Law 108-422, which discontinued the practice of using the VA Grant in Aide Per Diem as an offset in determining the Medicaid reimbursement rate for state nursing homes. The result is an increase in funding from Medicaid and a reduction in the General Fund appropriation of \$733,583 in both FY2005-06 and FY 2006-07.

The Governor recommends a one-time appropriation of \$126,000 to fund construction of a shelter to protect state-owned vehicles housed at the Nevada State Veterans' Home.

Nevada Legislative Counsel Bureau
Source of Funds Summary
2005 - Fiscal Report

	2003 - 2004 Actual	2004 - 2005 Work Program	2005 - 2006 Governor Recommended	% Change	2006 - 2007 Governor Recommended	% Change
SPECIAL PURPOSE AGENCIES						
OFFICE OF MILITARY						
MILITARY	6,630,190	8,781,838	11,065,801	26.01	12,111,469	9.45
GENERAL FUND	2,031,503	2,071,547	2,842,073	37.20	3,002,095	5.63
BALANCE FORWARD	-269,238					
FEDERAL FUND	4,837,674	5,435,142	7,994,148	47.08	8,673,847	8.50
INTER AGENCY TRANSFER	30,251	1,274,056	229,580	-81.98	435,527	89.71
OTHER FUND		1,093		-100.00		
ADJUTANT GENERAL CONSTRUCTION FI	197	36,265	35,568	-1.92	35,871	.85
BALANCE FORWARD	39	35,265	35,068	-.56	35,371	.86
OTHER FUND	158	1,000	500	-50.00	500	
NATIONAL GUARD BENEFITS	9,611	104,572	104,572		104,572	
GENERAL FUND	9,611	104,572	104,572		104,572	
TOTAL-OFFICE OF MILITARY	6,639,998	8,922,675	11,205,941	25.59	12,251,912	9.33
GENERAL FUND	2,041,114	2,176,119	2,946,645	35.41	3,106,667	5.43
BALANCE FORWARD	-269,199	35,265	35,068	-.56	35,371	.86
FEDERAL FUND	4,837,674	5,435,142	7,994,148	47.08	8,673,847	8.50
INTER AGENCY TRANSFER	30,251	1,274,056	229,580	-81.98	435,527	89.71
OTHER FUND	158	2,093	500		500	.00
VETERANS AFFAIRS						
COMMISSIONER FOR VETERANS AFFAIR	1,525,142	1,519,649	1,847,116	21.55	1,903,943	3.08
GENERAL FUND	880,023	897,406	968,094	7.88	957,006	-1.15
INTER AGENCY TRANSFER			96,687		122,318	26.51
OTHER FUND	645,119	622,243	782,335	25.73	824,619	5.40
VETERANS HOME ACCOUNT	8,332,465	12,530,370	13,583,040	8.40	14,022,106	3.23
GENERAL FUND	2,662,163	2,885,810	2,354,277	-18.42	2,471,083	4.96
FEDERAL FUND	4,423,112	8,235,233	8,163,560	-.87	8,318,955	1.90
INTER AGENCY TRANSFER	927,345	1,311,758	2,861,892	118.17	3,028,757	5.83
OTHER FUND	319,845	97,569	203,311	108.38	203,311	
TOTAL-VETERANS AFFAIRS	9,857,607	14,050,019	15,430,156	9.82	15,926,049	3.21
GENERAL FUND	3,542,186	3,783,216	3,322,371	-12.18	3,428,089	3.18
FEDERAL FUND	4,423,112	8,235,233	8,163,560	-.87	8,318,955	1.90
INTER AGENCY TRANSFER	927,345	1,311,758	2,958,579	125.54	3,151,075	6.51
OTHER FUND	964,964	719,812	985,646	36.93	1,027,930	4.29

Nevada Legislative Counsel Bureau
Source of Funds Summary
2005 - Fiscal Report

	2003 - 2004 Actual	2004 - 2005 Work Program	2005 - 2006 Governor Recommended	% Change	2006 - 2007 Governor Recommended	% Change
SPECIAL PURPOSE AGENCIES						
PUBLIC EMPLOYEES RETIREMENT SYSTEM						
PUBLIC EMPLOYEES RETIREMENT SYST	8,048,650	8,183,594	8,242,297	.72	8,298,499	.68
GENERAL FUND	98,711					
BALANCE FORWARD	200,000	200,000	200,000		200,000	
INTER AGENCY TRANSFER	87,468	121,265	106,832	-11.90	140,869	31.86
OTHER FUND	7,662,471	7,862,329	7,935,465	.93	7,957,630	.28
TOTAL-PUBLIC EMPLOYEES RETIREMEN	8,048,650	8,183,594	8,242,297	.72	8,298,499	.68
GENERAL FUND	98,711					
BALANCE FORWARD	200,000	200,000	200,000		200,000	
INTER AGENCY TRANSFER	87,468	121,265	106,832	-11.90	140,869	31.86
OTHER FUND	7,662,471	7,862,329	7,935,465	.93	7,957,630	.28
PUBLIC EMPLOYEES HEALTH PROGRAM						
PUBLIC EMPLOYEES BENEFITS PROGRA	156,605,602	281,620,895	301,108,519	6.92	320,885,455	6.57
BALANCE FORWARD	-42,320,954	46,772,624	52,264,434	11.74	57,259,096	9.56
INTER AGENCY TRANSFER	160,146,616	193,925,051	186,582,863	-3.79	197,494,800	5.85
OTHER FUND	38,779,940	40,923,220	62,261,222	52.14	66,131,559	6.22
RETIRED EMPLOYEE GROUP INSURANC	20,306,891	22,814,274	24,955,177	9.38	26,795,880	7.38
INTER AGENCY TRANSFER	20,306,891	22,814,274	24,955,177	9.38	26,795,880	7.38
ACTIVE EMPLOYEES GROUP INSURANCI			161,627,686		170,698,920	5.61
INTER AGENCY TRANSFER			161,627,686		170,698,920	5.61
TOTAL-PUBLIC EMPLOYEES HEALTH PRI	176,912,493	304,435,169	487,691,382	60.20	518,380,255	6.29
BALANCE FORWARD	-42,320,954	46,772,624	52,264,434	11.74	57,259,096	9.56
INTER AGENCY TRANSFER	180,453,507	216,739,325	373,165,726	72.17	394,989,600	5.85
OTHER FUND	38,779,940	40,923,220	62,261,222	52.14	66,131,559	6.22
SPECIAL PURPOSE AGENCIES						
GENERAL FUND	5,682,011	5,959,335	6,269,016	5.20	6,534,756	4.24
BALANCE FORWARD	-42,390,153	47,007,889	52,499,502	11.68	57,494,467	9.51
FEDERAL FUND	9,260,786	13,670,375	16,157,708	18.20	16,992,802	5.17
INTER AGENCY TRANSFER	181,498,571	219,446,404	376,460,717	71.55	398,717,071	5.91
OTHER FUND	47,407,533	49,507,454	71,182,833	43.78	75,117,619	5.53
TOTAL-SPECIAL PURPOSE AGENCIES	201,458,748	335,591,457	522,569,776	55.72	554,856,715	6.18
Less: INTER AGENCY TRANSFER	181,498,571	219,446,404	376,460,717	71.55	398,717,071	5.91
NET-SPECIAL PURPOSE AGENCIES	19,960,177	116,145,053	146,109,059	25.80	156,139,644	6.87