

MINUTES OF THE FEBRUARY 4, 2010
MEETING OF THE
INTERIM FINANCE COMMITTEE
LEGISLATIVE COUNSEL BUREAU
Las Vegas, Nevada

Cochair Bernice Mathews called a regular meeting of the Interim Finance Committee (IFC) to order on February 4, 2010, at 9:40 a.m. in Room 4100 of the Legislative Building in Carson City. The meeting was videoconferenced to Room 4401 of the Grant Sawyer State Office Building, Las Vegas, Nevada. [Exhibit A](#) is the agenda; [Exhibit B](#) is the guest list. All exhibits are available and on file at the Fiscal Analysis Division of the Legislative Counsel Bureau.

COMMITTEE MEMBERS PRESENT:

Senator Bernice Mathews, Cochair
Senator Steven Horsford, Cochair
Assemblyman Morse Arberry Jr., Vice Chair
Assemblywoman Barbara E. Buckley
Assemblywoman Ellen Koivisto
Assemblyman Marcus Conklin
Assemblyman Moises (Mo) Denis
Assemblywoman Heidi Gansert
Assemblyman Pete Goicoechea
Assemblyman Tom Grady
Assemblyman Joseph (Joe) P. Hardy
Assemblyman Joseph Hogan
Assemblywoman Sheila Leslie
Assemblywoman Kathy McClain
Assemblyman John Ocegüera
Assemblywoman Debbie Smith
Senator Bob Coffin
Senator William J. Raggio
Senator Randolph Townsend
Senator Joyce Woodhouse

COMMITTEE MEMBERS EXCUSED:

Senator Dean Rhoads

LEGISLATIVE COUNSEL BUREAU STAFF PRESENT:

Lorne Malkiewich, Director, Legislative Counsel Bureau
Mark Krmpotic, Fiscal Analyst, Senate
Tracy Raxter, Fiscal Analyst, Assembly
Sherie Silva, Interim Finance Committee Secretary
Tracie Battisti, Fiscal Division Secretary

A. ROLL CALL.

Cochair Mathews called the meeting to order at 9:40 a.m. and asked for a roll call. Lorne Malkiewich called roll and announced that a quorum of each House was present. Senator Rhoads was excused.

Cochair Mathews requested that Assemblywoman Buckley, Speaker of the Assembly, address the Committee.

Assemblywoman Buckley said with the Special Session scheduled to begin on February 23, and since there were so many rumors circulating, she thought it would be appropriate to address where the state was currently and where it was going. Solving the budget shortfall of \$881 million was a very daunting task, particularly since \$1 billion had already been cut from the budget. She said everyone needed to work together to do the best job possible for the state without destroying the educational system and vital healthcare and public safety services that the citizens of the state needed. Assemblywoman Buckley recognized that there was panic and concern with what was going to happen, which was why hearings would be held so that everyone would be informed and have the same data in working toward the conclusion of a balanced budget.

Assemblywoman Buckley said agency-recommended 10-percent cuts had been released the night before; she wasn't sure that the Governor's office had decided on all of them, and the Legislature had just received the list. Some of the cuts would be discussed the following week when agency directors would be appearing before the Interim Finance Committee. At this meeting, presentations were scheduled from K-12 and higher education concerning what a 10-percent cut would mean for education. However, Assemblywoman Buckley added, it must be kept in mind that the shortfall currently appeared to be in the 21-percent to 22-percent range starting March 1, 2010.

Continuing, Assemblywoman Buckley said it was important to understand what impact the cuts would have on K-12, higher education and other important budgets. There would have to be some level of cuts – the shortfall was too great not to have some cuts. However, the following concerns would need to be addressed:

- How do we prioritize?
- How do we ensure our educational system isn't permanently hurt?
- How do we ensure that the state does not fail the mentally ill?
- How do we ensure that violent prisoners are not released?

Assemblywoman Buckley said all of the considerations would have to be balanced, and that was what the Legislature was going to do, as it had done during the regular session, by working together on the Interim Finance Committee as Republicans and Democrats. She acknowledged the strain that the proposed cuts were causing on

K-12 education, higher education and state employees, as layoff notices went out and rumors swirled. She thanked all of the dedicated educators and state employees, adding that they should know the budget would not be balanced on their backs. Every possibility would be weighed.

Putting the \$900 million shortfall into perspective, Assemblywoman Buckley continued, if every General Funded state employee was cut from state government, the state would still have a \$300 million shortfall. The numbers were staggering; a one-percent cut to state employees represented a \$6.4 million reduction. Looking at the numbers and the challenges, she said it was obvious why such dire options would have to be considered.

Addressing the audience and those who would be testifying, Assemblywoman Buckley said as they came forward throughout the hearings, they should know the Committee members were aware of how bad things were. The members wanted to work together to hopefully climb out of the recession and ultimately consider economic diversification, stronger rainy day funds and other measures to prevent the state from being in this situation again.

Senator Raggio said he had spoken to Speaker Buckley prior to the meeting and had agreed that some initial remarks were appropriate as the Committee began the hearings process. He said he would certainly endorse her comments. He wanted to re-emphasize that this was not a partisan issue. The members were working together and had held a number of meetings with the Governor and his staff. Senator Raggio said it was not a question of sides – the Executive side or the Legislative side, or a Republican side or Democratic side.

Senator Raggio recalled that in 2008 when this problem began, no one expected or anticipated the shortfall that existed today. The budget in the 2009 Legislative Session was based on the projections of revenue put forth by the legally constituted body, the Economic Forum. The situation had worsened, not only in Nevada, but across the country and the world as well. Senator Raggio said the new estimated shortfall of nearly \$900 million for state purposes only, not to mention the local governments, was not certainly anything that could have reasonably been foreseen. He stated it would be prudent for the Governor and the Legislature to come together, as the Nevada Constitution required, to balance the budget for both fiscal years 2010 and 2011.

Senator Raggio did not think anyone wanted to even consider the more serious problems the state would face in the next biennium. The shortage was likely to be three or four times greater than the current deficit. He said it behooved everyone to understand that the process was not a punitive one; the Committee would be doing what was absolutely necessary, bearing in mind the parameters of what actions must be taken to preserve, insofar as possible, the essential needs of the state and its constituents and population. At the same time, it would be necessary to make whatever cuts and adjustments were required in these very difficult times and ensure they were fairly implemented and did not just affect one sector of the state's budget process.

Continuing, Senator Raggio said while the importance of various sectors of the budget was recognized, education certainly ranked among the highest, whether it was K-12 or higher education. He again noted that Nevada was not alone. He had talked to various legislators across the country, and they were going through the same painful process in dealing with cuts, not only to sensitive areas of health and human services where lives, injuries and disabilities were not being fully attended to, but also in all levels of education.

Senator Raggio remarked it would help the Committee to receive input from the various budget areas, as was being done today in education. The Committee was not interested in receiving histrionics; today's meeting was for the purpose of receiving input. Knowing that deep percentage cuts would be necessary, the Committee was seeking input as to how K-12 and higher education would be impacted by the cuts, how they would deal with the impacts and what suggestions they might have. For example, would some flexibility be preferred rather than dictates or mandates? Senator Raggio said those were the types of constructive comments that he, as one member of the Committee, would like to see rather than, "You can't do this to us."

Senator Horsford said he would echo the remarks of Senator Raggio and Assemblywoman Buckley; it was absolutely necessary to work together in partnership. Part of the reason it was decided to have a series of public meetings was to have open and transparent discussion with the agencies, stakeholders and public about how the cuts would affect their programs and services. Senator Horsford said ideas, recommendations and alternatives should be brought forward; the agencies and stakeholders knew best how the reductions would be played out in the individual programs.

Senator Horsford remarked the Committee was looking forward to working with individuals and receiving their many ideas. He noted there was no plan in place. As Speaker Buckley had said, the Committee had received a list of initial ideas from the Governor's office, but those were just ideas. Until there was an understanding of the full picture and how the \$900 million in reductions would impact all of state government, particularly education and essential services such as health and human services and public safety, which accounted for 90 percent of state government's function, a final decision would not be made, nor would there be a final plan. Senator Horsford said whatever the final plan was, it would be based on the series of hearings over the following two weeks, or longer if necessary.

Senator Horsford stated that it was the job of the Legislature as elected officials to make those decisions. He had personally grappled with some of the items on the Governor's list, and he emphasized that he and his colleagues did not like any of what they had to do. They didn't like it during the regular session when nearly \$1 billion in spending was eliminated; however, the public elected the Legislature to create a balanced budget, and it was the members' job to listen to the public and understand what options were available in making decisions.

In closing, Senator Horsford said everyone needed to understand and learn as Nevadans that the role of state government was not the same as everything else. A balanced budget was mandatory; the Constitution required that some things be provided; there were some morally right things to do; and there were some things that simply would not be provided because of the current prolonged national recession. He said the situation was not something anyone could have predicted, but it was now necessary to make the best decisions possible. Senator Horsford thanked everyone for working with the Legislature toward making that a reality over the next few weeks.

Assemblywoman Gansert said she appreciated the previous speakers' comments. Everyone was in agreement that the state faced an immense challenge with a \$900 million hole. As was pointed out, both parties and both houses were working together with the Executive Branch to find the best solutions. She said everyone appreciated the work of state workers and teachers and acknowledged there was a lot of stress in looking at the problems being faced. Assemblywoman Gansert said she also appreciated the transparency of the meetings; it was very important to look at the proposed solutions and effects of the cuts in an open manner through these hearings and the town hall meetings scheduled for February 13. She reiterated the challenges were immense and all input would be appreciated in order to come together and find the best solutions at this time.

Senator Coffin said he was worried about accepting the numbers projected by the unofficial estimate from the Economic Forum. It was important to remember that those numbers should not be considered to be the most accurate, but rather a guesstimate. For that reason, he thought flexibility needed to be retained throughout the budget-cutting process. He had told the Governor that he hoped it could be done one year at a time as opposed to finalizing cuts through the end of fiscal year 2011 now in February 2010.

Secondly, Senator Coffin continued, sometimes in the community there was a general feeling that somehow governmental salaries, whether they be teachers or employees of any kind, took money out of the economy, when actually that was far from the truth. In fact, money paid to employees to provide services to the state of Nevada continued to ricochet and move through the economy with a multiplier effect. Governmental salaries were not recessionary; if anything, they were actually productive in helping the economy. He suggested that philosophy not be confused with economics.

Senator Coffin said he would retain his individual flexibility to speak on any item and proposed solutions, because it was incumbent on the members to represent all of their constituents individually and not as Republicans or Democrats. He appreciated the fact that the Governor was working with the Legislature in proposing ideas to come up with solutions. He hoped the cooperation continued, because it was important in order for the Legislature to do its job.

Cochair Mathews said for the sake of brevity, she would echo the previous comments. She asked representatives from the Department of Education to begin their presentation. She noted that Dr. Rheault, the Superintendent of Public Instruction, was not present.

***B. REVIEW OF PROPOSALS FOR REDUCING SPENDING RELATED TO K-12 EDUCATION.**

Gloria Dopf, Deputy Superintendent of Public Instruction, Department of Education, explained that Dr. Rheault was out of state and had asked her to represent the department with her colleague Jim Wells, Deputy of Finance.

Ms. Dopf thanked the Committee for the opportunity to be part of the solution. The Department of Education leadership had met with the Governor's staff, interacted with legislative staff, worked with school district administrations and discussed with other stakeholders some of the problems and, hopefully, some of the solutions. She said the department was committed to being part of the solution and would work collaboratively with all of the bodies involved to bring the state through these very hard times. Ms. Dopf said she had been with the department for over 30 years and had seen other hard times, and she was convinced that although times were very severe, the department could make things work.

Ms. Dopf stated the department was committed to the utmost important goal of the state, which was to maintain the improvements that had been seen in student achievement and yet fulfill some very serious budget cuts. She said the department was also committed to working with the school districts on maximizing job retention, but these were times when some cuts would have to be made; the department wanted to be involved in helping to solve some of the areas of cuts.

Ms. Dopf said the department had met with the Governor's office the week before and provided him with the requested cuts of 6, 8 and 10 percent, both for K-12 education and the department budgets. Legislative staff had been provided with material on some of the projections of the impact on school districts, which were very preliminary projections at the 10-percent level ([Exhibit C](#)).

Continuing, Ms. Dopf stated that discussions had been held concerning meeting targets for the budget cuts, while allowing the districts to have maximum flexibility, because each district's needs were very different, as the Committee would hear later. She said the Committee would hear Mr. Wells and some of the districts talk about proposed solutions to some problems that would contemplate statutory relief. In order to meet the targets, perhaps there were ways that the Legislature could provide respite in existing statutory areas that would maximize flexibility for the districts, while keeping in mind job retention and student achievement.

Jim Wells, Deputy Superintendent for Administrative and Fiscal Services, Department of Education, explained that for fiscal years 2010 and 2011, the department had elected to

use the School Support Team Leader contracts and reduce that money. In fiscal year 2010, there was a savings because there were not as many Title I schools in need of improvement in year 3 and beyond as originally thought, saving approximately \$950,000, which would cover all of the fiscal year 2010 cuts and some for fiscal year 2011 for the department.

Mr. Wells said the use of the funds would have some impact in fiscal year 2011 on the ability to implement the differentiated consequences that were passed in Senate Bill 389 of the 2009 Legislative Session, whereby a school in year 3 could pick from a menu of options and utilize some of the funding to implement that option. He said use of the funds for savings would limit the pool of money that would be available.

Mr. Wells further explained use of the Support Team Leader funding was chosen because the department had so few options. In fiscal year 2010, the department had appropriations of about \$12.7 million, and if the entire department was eliminated, a savings of only \$12.7 million in General Fund would be realized. Mr. Wells said the department had 65 people covering 49 FTE, and about \$4.1 million, or 32 percent, of the \$12.7 million paid for personnel in the department. The bulk of the General Fund appropriation paid for testing contracts, the School Support Team Leaders, and some aid to schools that represented federal match in a couple of different federal programs. Those functions totaled about \$6.4 million, or over 50 percent of the General Fund appropriation to the department.

Continuing, Mr. Wells said the department had about \$1.5 million in indirect costs, which was 46 percent of the total indirect costs received, and the other 54 percent came from indirect costs on federal and fee-based programs, such as the teacher licensing budget. The non-salary administrative funds for the department amounted to \$696,000, or about 5 percent of the General Fund appropriation of \$12.7 million.

In summary, Mr. Wells pointed out there were very limited options; the department was fortunate to have the savings in the School Support Teams in fiscal year 2010, which was the best of several bad options.

Moving to the K-12 pass-through funds, Mr. Wells explained the total cuts at 10 percent represented about \$173.9 million. About \$7 million was in the teacher incentive 1/5 retirement credit budget account in fiscal year 2010, which Mr. Wells believed would not be spent and would eventually revert to the General Fund at the end of the biennium. The balance of \$166.9 million would have to come from the districts in some way, shape or form. One important side note was that the department's projections for the local school support tax (LSST) were worse than the projections approved by the Economic Forum. Mr. Wells said the department's latest projections were about \$44 million less than projected by the Economic Forum. He did not think there was optimism on the LSST.

Mr. Wells said the department did not have solid numbers on the property tax and was still waiting for information from the Department of Taxation on the impact of any

shortfalls on the property tax side, one-third of which was guaranteed by the basic support guarantee.

Senator Raggio requested clarification of the state guarantee of the LSST. He asked if the department disagreed with the estimate of the amount the state would have to guarantee.

Mr. Wells reiterated the department's latest projections were that the LSST would be \$44 million less than the projections of the Economic Forum.

Senator Raggio affirmed that the state would have to guarantee \$44 million more. He wanted it understood that the difference in the projection was not a plus – it was a minus. Mr. Wells said Senator Raggio was correct.

Senator Raggio asked how the department's basis differed from the Economic Forum. He asked if the Fiscal Division staff agreed with the department's projections.

Tracy Raxter, Assembly Fiscal Analyst, said that Fiscal staff had not seen the Department of Education's information.

Senator Raggio asked if it was uncertain at this point whether an additional \$44 million would need to be added to the budget reduction target.

Mr. Wells explained the way the department developed its projections internally was much more simplistic than the method used by the forecasters for the Economic Forum.

Senator Raggio said it was important for the department to work with Fiscal staff as closely as possible to settle on a firm number. By law, both the Executive and Legislative Branches were supposed to use the numbers put forth by the Economic Forum.

Mr. Wells said he agreed, and the department would use the Economic Forum's numbers until they were revised.

Senator Coffin said he would like to see the department's subcategories in order to know which sectors the department anticipated to fall below the Economic Forum's projections.

Mr. Wells replied the department did not use subcategories; trend analyses were done on the total amounts collected over the past year.

Senator Coffin said he was under the impression that the *Nevada Revised Statutes* only mentioned the reports from the Economic Forum in November and May as having statutory strength. The Forum members had recently come in at the request of the Governor as good citizens to give their best estimate at this point for the state to use as a tool. He did not believe the recent projections had to be utilized. He asked the LCB Legal Counsel for guidance.

Senator Raggio said Senator Coffin may be accurate, but if the Economic Forum had made the projections, it would be risky to not use those numbers; that was the intent so there would not be massaging of revenues for budget preparation. Senator Raggio thought that by implication, the Legislature should be required to use the Forum's numbers.

Senator Coffin again requested advice from the LCB Legal Division as to whether the Legislature was required by law to follow the latest Economic Forum's estimates.

Cochair Mathews said that the Legal Division would review the statutes and make a determination.

Mr. Wells referred to [Exhibit C](#), FY 2010 Reductions in DSA Basic Support Spending and FY 2011 Reductions in DSA Basic Support Spending, and explained that the charts were preliminary projections of impacts on the 17 individual districts and 28 charter schools, by district and charter school, based on a 10-percent reduction. He noted that the total for fiscal year 2010, based on the implementation date of March 1, was about \$41.2 million. The first column indicated the actual DSA basic support amount for the district or charter school, and the second column was the prorated share of the \$41.2 million by district or school.

Moving to the FY 2011 table in [Exhibit C](#), Mr. Wells said the table reflected the same information in the same format as the first, except the figures were for fiscal year 2011 and reflected 10 percent for the full year. The amount of the prorated share totaled \$125,666,981. He said the department assumed the \$125.666 million would be at least a placeholder under the DSA basic support guarantee. The reason for doing that was to allow flexibility; it did not mean that a district or charter school would not be allowed to revert other funds it received from the General Fund in the place of the DSA basic support amount. The methodology was the same as used last time, and it allowed the districts the greatest flexibility.

In putting the information together, Mr. Wells said the goal of the department was to minimize the impacts on student learning and to retain jobs, leaving the districts with as much flexibility as possible.

Assemblyman Conklin noted that both charts reflected 10 percent and a dollar amount. He asked whether the amount included the \$44 million reduction in LSST discussed earlier or if the amount was simply the requested 10 percent. Mr. Wells replied the amount was just the 10-percent reduction the department was asked to provide.

Mr. Wells stated that in order to provide flexibility to the districts, programs such as Early Childhood Education, Adult High School, Career and Technical Education and Education Technology were not eliminated or reduced. It was decided to leave that decision to the recipients of those funds, and if they wanted to use them as part of their reduction, they could.

Continuing, Mr. Wells said that in light of the reductions, the department wanted to discuss a few potential options that might be available. The first would be the possibility of decreasing the number of school days required in NRS 388.090, which stated there would be 180 school days in a year. Mr. Wells said the department had done some rough calculations, and reducing the school year by one instructional day would result in a savings to the DSA of \$13 million per day. One day of closing the schools would save \$13 million in salary and benefits, and there would be ancillary savings in utilities and transportation. Mr. Wells said there was precedence for this proposal; at least four other states, North Carolina, Hawaii, Georgia and Oregon, had implemented a reduction in school days. It was possible there could be a combination in the teacher contracts of instruction days and non-instruction days; most of the contracts had both a number of instruction days and a number of non-instruction days. It was important to remember the change would require renegotiation of contracts or would have to be included in the contract negotiations this spring or summer. Mr. Wells added the change would also require a statutory revision.

Senator Horsford asked if the 180 days were actual instructional days, i.e., the days students were in school, and there were additional contracted days for professional development and related activities.

Mr. Wells replied the districts would have to address that question. He believed each contract had a set number of days in the classroom with students, and there were additional days without students.

Senator Horsford asked if the \$13 million per day would be same whether it was an instructional day or a non-instructional day.

Mr. Wells responded that Senator Horsford was correct; teachers, administrators and administrative staff would be paid a salary for a non-instructional day.

Senator Horsford affirmed that each school district determined the number of non-instructional days, and that the number varied by district; some might have up to 10 days and others may have less. Mr. Wells replied that was correct; the number of days differed by district.

Senator Horsford assumed that information would probably be presented by the school districts. He said it would be helpful if the department could provide Fiscal staff with a spreadsheet showing the number of days by district.

Senator Coffin remarked the Hawaii reduction seemed to be satisfactory in most ways, but not in the areas of the youngest students and special education students. He requested that the department provide data that would break down the \$13 million per day by grade level and/or classification. He wondered whether a shortened school year would jeopardize accreditation or pose a risk to students applying for college.

Assemblywoman Gansert noted that the charter schools had to pay for construction of their buildings, and she wondered whether that fact was taken into account or if their budgets were just reduced by a straight percentage. Mr. Wells replied the formula calculation for the reduction was straight across for all schools.

Assemblywoman Gansert asked if there were any portions of contracts that were consistent from district to district. She recalled some issues during the 2009 Session, and she did not know if contracts generally had a renegotiation clause. Mr. Wells believed the contracts differed by district, but he could not accurately answer the question.

Assemblywoman Gansert surmised the state did not have any minimum requirements or standards for contracts. Mr. Wells replied he was not aware of any.

Assemblywoman Buckley said it was fairly obvious how the budget shortfall would be approached. The shortfall was 22 percent, and ways to reduce that amount needed to be found, some of which had been discussed the past week. She was trying to put together a chart showing where the state was, where it would be and why innovative thinking would be required. In making her chart, she noted that the state was about 49th in the nation in per-pupil funding for K-12. A 22-percent cut to K-12 would be about \$386 million, which would be a reduction of \$903 in per-pupil funding. Assemblywoman Buckley said she had tried to determine where the reduced amount would rank the state, but she had to go off the U.S. chart – the closest she could find was the Virgin Islands. She wondered what a 10-percent reduction, which would amount to \$173 million, would mean in terms of per-pupil funding and asked Mr. Wells to work with the Fiscal Division staff on per-pupil calculations. She said all the facts and figures should be agreed upon so everyone could understand the consequences of the decisions to be made.

In addition, Assemblywoman Buckley continued, she had read a lot online about Hawaii's experiment with a four-day instructional week, and it appeared to be disastrous. Parents who worked were upset about their children losing instructional days; everyone wanted to end the experiment because it was so unpopular, but they couldn't find the money to put back into the budget.

Mr. Wells continued on with the second item to be considered by the Legislature, which was an acknowledgement of a fiscal exigency and granting of a waiver of the minimum expenditure requirement for purchase of textbooks, instructional supplies, instructional hardware and instructional software, as found in NRS 387.206. Mr. Wells said that A.B. 13, which was approved by the 2009 Legislature, allowed the department, the Board of Examiners and the IFC to grant a waiver to individual districts on a district-by-district basis, but it required an entire application process and time from the districts, the department and the Board of Examiners. The process was lengthy because of the time requirements to get on the Board of Examiners' agenda and then to the IFC.

Mr. Wells said due to the magnitude of the cuts, acknowledging there was a fiscal hardship and providing a waiver of the minimum expenditure requirement for this biennium would allow flexibility at the district and charter school level to utilize those funds for other items and not have to revert unspent funds at the end of the fiscal year.

Senator Horsford asked how much in potential savings would result from the waiver.

Mr. Wells said he did not know that it would actually save money unless funding for textbooks was reduced by the Legislature, as was done in the 24th Special Session when half of the allotment for textbooks was taken out of the Distributive School Account. He said his estimate of half of the 2010 figure was approximately \$50 million.

Senator Horsford affirmed there was a budget item for textbooks, supplies and computers, and by giving full flexibility, the districts could decide whether to use those funds for other cuts.

Mr. Wells replied Senator Horsford was correct. Currently the statutes required that the funds had to be spent on one of the four items or they had to be reverted. He clarified the amount was included as a line item in the Distributive School Account; it was not a separate pot of money. Amounts to be spent on the four items were allocated to each district and charter school, and if the money was not spent, the difference had to be reverted to the DSA. He reiterated that granting flexibility would allow the districts and charter schools to spend the money on things other than the four items without having to revert unspent funds.

Assemblywoman Smith said the issue was that a bill could be proposed in the Special Session that would grant flexibility to the districts to spend without separate waivers. It appeared to her that all 17 districts would apply for a waiver. She had requested that LCB staff draft language for consideration that would provide the waiver to all districts so that each district would not have to go through the process and burden the department, LCB staff and Board of Examiners with 17 waiver requests.

Mr. Wells said that four districts were currently moving through the process and waiting to be placed on the next Board of Examiners' agenda.

Assemblywoman Smith remarked that would continue on until all 17 districts, as well as the charter schools, went through the process. She recommended that the waiver be granted to keep the money in the system but allow flexibility and reduce the burden in the system.

Assemblyman Goicoechea asked if the department had discussed the requirement of 180 days of instruction in present statute, and if a mandatory number of instructional days would be recommended by the department for the 2010-11 school year. He wondered if consideration had been given to reducing instruction to 175 days.

Mr. Wells said the department had internally discussed a reduction of 4 days, or approximately \$50 million, as being desirable.

Senator Raggio asked why the department did not recommend deleting four non-instructional days rather than instructional days. The same amount of money would be saved, and the school year would not be disrupted.

Mr. Wells responded that the department would prefer that non-instructional cuts be made before instructional, but because the contracts varied by school district, the schedules would have to fit into all of the district contracts.

Senator Raggio agreed that from the standpoint of public perception, the non-instructional days would be the least priority and should be cut first.

Mr. Wells said the department had also looked at cutting two non-instructional days and the balance from instructional days.

Senator Horsford agreed with Senator Raggio. Until or unless someone could show him where every district throughout the 17 districts did not have an adequate number of non-instructional days to cut, that would be the first place to start. He noted that Mr. Wells had indicated each district was different, but if there was at least a minimum of four non-instructional days in all 17 counties, he asked if the department would recommend the reduction be taken from non-instructional days before eliminating any instructional days.

Mr. Wells said the department would prepare a table reflecting instructional days and non-instructional days in each district and come up with a recommendation.

Assemblywoman McClain asked how large the variance was among the districts. Ms. Dopf replied that in terms of the 180-day total, no more than 5 days would be for non-instructional purposes; there were other days above and beyond those. She did not expect a great deal of variance, but some districts might not set aside non-instructional days within the 180; Mr. Wells would get the specific information. She wanted to underscore that at the current time, the non-instructional days were constructed within the existing bargaining agreement, so any modifications would also have some impact on the districts' ability to either modify existing agreements or they would be part of the new agreement process.

Senator Horsford noted the department had provided the figure of \$13 million per day. He asked if it would be appropriate to ask for the impact to the employee, teacher, educational personnel or administrator.

Mr. Wells responded the information would have to be obtained from the school districts. He explained the DSA did not comprise the entire budget of a school district; other savings would be generated at the school district level which would not be known

by the department, such as personnel funded by grants and local revenues, and those savings were not included in the \$13 million-a-day savings calculation.

Continuing, Mr. Wells said he wanted to discuss the 1/5 retirement credit and the teacher incentive program because there were some important reminders for the current biennium. Due to the time it took to get the 1/5 retirement credits purchased through the retirement system, a change was made in the 2009 Legislative Session in the way the retirement credit was funded. The amount budgeted in fiscal year 2010 paid for retirement credits and incentives that were earned in fiscal year 2009. The money that was set aside in fiscal year 2011 would pay for incentives being earned in the current school year. Therefore, Mr. Wells stated, even if the incentive program were changed or eliminated, there would be no savings in the current biennium. Savings would not be realized until the beginning of fiscal year 2012.

Mr. Wells said if the Legislature took a position to eliminate the incentive program, it would have to take place in the Special Session so that the credit would not be earned in fiscal year 2011 that then would have to be paid out in 2012. He wanted the Committee to be aware of the timing of the program.

Lastly, Mr. Wells said a 10-percent reduction to the three Regional Professional Development Programs (RPDPs) would be about \$780,000, and each of the three RPDP directors had submitted information to Fiscal staff regarding the impact of the reductions to the individual units.

Cochair Mathews requested that the department provide the figures requested during testimony to Fiscal staff as soon as possible.

Mr. Wells indicated there were two other reminders he wanted to discuss, the first being the state's fiscal Stabilization Funds grant, which included a complicated maintenance of effort (MOE) requirement in the American Recovery and Reinvestment Act (ARRA) funding. The MOE required that the state spend more in fiscal years 2009, 2010 and 2011 than was spent in fiscal year 2006, and if it did not, it had to keep the percentages of revenues going to education the same or higher. In other words, Mr. Wells explained, the state could not disproportionately cut education in relation to the other budgets. He wanted everyone to understand that the MOE provision applied to a \$396 million federal grant. Mr. Wells recalled the 2009 Legislature approved about \$25 million over that minimum MOE threshold, which did not provide a lot of "wiggle room."

With regard to the Race to the Top grant, Mr. Wells said there were requirements relating to spending as much in fiscal year 2009 as was spent in fiscal year 2008. He could not find it, but thought there could be an allowance similar to the Stabilization Funds which would allow the state to maintain percentages going forward.

Mr. Wells said the state guaranteed one-third of the property taxes to the DSA, but the local two-thirds share was not guaranteed, so as the property taxes fluctuated, one-third

impacted the state either positively or negatively, but the other two-thirds either produced extra revenue or additional budget cuts at the individual district level.

Mr. Wells offered to answer questions from the Committee, and he noted that several school district representatives were present to discuss the impacts to their individual districts.

Assemblyman Hardy said he had calculated that a four instructional day cut amounted to \$50 million; cuts in 1/5 retirement credits would not be realized until the next biennium; cuts in the three RPDPs would amount to \$2.2 million; and another \$37 million could be picked up from maintenance of effort. He speculated that a maximum available would be about \$200 million in cuts as proposed in Mr. Wells' presentation.

Mr. Wells indicated that Assemblyman Hardy needed to keep in mind that the 10 percent, or \$780,000, cut to the RPDPs was for all three districts; that would be a 30-percent cut if multiplied by 3.

Assemblyman Hardy surmised his calculation was down to \$150 million unless he did a proportional change. He wanted Mr. Wells to indicate a level of cuts.

Mr. Wells explained \$25 million could be cut without requiring proportional cuts to any other budgets in the state and would not interfere with the maintenance of effort in the ARRA funding. Everything cut after \$25 million would have to be proportional throughout the state. As an example, if \$150 million were cut from K-12 using just the four instructional and four non-instructional days and textbooks, at least \$25 million could be cut without any proportional cuts to the rest of state government. The other \$125 million would have to be proportional, meaning another \$125 million cut from all the rest of the government, or the state would be in violation of the MOE requirement. He added that the \$25 million was shared between K-12 and higher education – higher education did not get another \$25 million.

Senator Horsford clarified that Mr. Wells was not recommending an eight-day reduction; the proposed reduction was four days. Mr. Wells replied that was correct.

Senator Horsford asked Mr. Wells how the recommendations, i.e., elimination of the Support Team Leader contracts, reduction of the number of required school days, waiver for the textbooks, the 1/5 retirement credit, and the RPDP reduction, would affect any federal compliance rules in place, either the Individuals with Disabilities Education Act (IDEA), the State Improvement Plan or the High-Quality Teacher Equity Plan that the state had submitted as part of funding requirements.

Ms. Dopf responded those requirements would not be impacted directly. There would not be a specific expectation in any of those grants that would prevent implementation of the recommendations put forth. However, the outcomes would still have to maintain equity, and they could not be disproportionate between high-poverty and low-poverty

schools, but the reductions themselves would not violate any of the requirements of the federal grants. She said the one area discussed was the proportionality and the Stabilization Funds grant, which would have to be maintained.

Senator Horsford affirmed that the state had not committed to any provisions in the State Improvement Plan which the possible reductions would cause the state to fail to meet, which then could have other consequences.

Ms. Dopf responded there would be no failures in the State Improvement Plan to which commitments had been made. If student days were reduced and professional development was eliminated, there would be the potential impact that the state would not hit its achievement marks. She was not sure how any cuts could bullet-proof student achievement and teacher performance; those were always vulnerable when considering cuts. There were specific performance targets, and 65 percent of them were met at the standard last year. She could not guarantee the state would meet 65 percent or even improve, but the state would commit to try to minimize the impact of the cuts on student achievement and job losses. She could not say student achievement would not be ultimately be impacted. Reduction of school days, particularly if they were instructional days, would be a potential impact. Reduction of professional development could impact teacher performance. Ms. Dopf said the department was not advocating a mandate of a four-day reduction, but the department wanted to relate what the reduction would equate to in cost savings. The department also wanted to identify areas for which statutory revision would be necessary. The textbook waiver, the school day reduction, existing contracts, and the 1/5 retirement credit were all areas currently prescribed in statute.

Ms. Dopf said the first recommendation was for the department to work with the districts and identify the target reductions, give them maximum flexibility, provide elimination of some of the statutory limitations and let them decide what they would want to do differently. They currently did not have that flexibility.

Assemblywoman Gansert asked if administrators had contracts for a designated number of years, as teachers did.

Ms. Dopf replied administrators had contracts, but she was not sure of their duration or specificity; obviously, the parameters would be different than the specifics of the teacher contracts.

Assemblywoman Gansert noted there was a table published with salaries paid based on longevity and education. She asked whether there was something similar for administrators that was consistent from district to district or if those salary parameters were individually created.

Ms. Dopf replied the districts would need to answer the question; she believed all of the contracts were individually created within the districts and their different bargaining units.

Senator Raggio remarked the state was in a period of a lengthy sustained recession. The Legislature had been told by K-12, higher education and other public sectors that there were limitations as to what could be reduced, particularly on personnel costs, because of the existence of contracts. He invited input from the school districts and the instructional sector concerning the current negotiation process. He believed some caution had to be exercised insofar as issues such as:

- Whether non-instructional days could be used in negotiations.
- That there be some provisions that indicated that funding to the school districts would not be at risk.
- That the level of funding, including personnel costs, would be subject to available funding.
- That there would be some potential for reductions in the contracts if there was a fiscal emergency; the impact was just as great in a fiscal emergency as in times of war.

Those issues, at least through this foreseeable future, should be included in some kind of negotiated agreement. Senator Raggio wanted to hear from the districts and those representing their professions, as well as local governments. He was concerned that the districts and local governments had indicated they would get sued if they made changes to contracts.

Cochair Mathews said representatives from the districts, as well as from the teachers' associations, were present and had requested to speak.

As a follow-up to Senator Horsford's questions on the MOE requirements, Mr. Wells said there was a specific MOE requirement for IDEA for the special education units that were included in the DSA budget that could not be cut because it would jeopardize special education funding. It was not part of the \$125 million coming from the DSA budget.

Senator Horsford affirmed that Mr. Wells was saying there was a maintenance of effort requirement at the state level for IDEA, which was met through the special education units included in the DSA budget. The line items within the DSA budget were not included in any of the cut recommendations. He asked if that was the only unit requiring MOE; Mr. Wells replied the only MOE requirement at the state level was special education.

Cochair Mathews thanked Ms. Dopf and Mr. Wells for their testimony. She invited the school districts to testify.

Dr. Walt Rulffes, Superintendent of Clark County School District and President of the State Superintendents Association, noted that many of the 17 state superintendents were present. He introduced Keith Morrison, Superintendent of Washoe County School District, and Caroline McIntosh, Superintendent of Lyon County School District.

Dr. Rulffes said he and the others appreciated the Committee's comments. The superintendents recognized how serious the situation was and there was a need for everyone to work together. The districts understood the state's profound fiscal situation, and part of their focus would be on how to address it and share the sacrifice on a broad-based basis as opposed to having isolated cuts. He added the notion of a fiscal emergency was clearly something that needed to be taken into consideration.

Dr. Rulffes noted the first 80 to 90 percent of school district budgets went toward personnel costs and that caseloads could not be reduced – the same number of students had to be served regardless of how much money was available. He had heard three areas surface from the morning's testimony, which he believed would give the districts some ability to work with the state to address the cuts.

1. Waiver of textbooks and maintenance of effort. Dr. Rulffes said this item was not a savings, but it would enable the districts to use dollars to replace dollars that had been cut in other areas.
2. Shortened instructional year. Dr. Rulffes stated Nevada currently required a 180-day instructional year; up to 5 of the 180 days were allowed to be used for professional development. Clark County School District opted to use 4 of the 180 days for professional development, so teachers faced students 176 days in the school year. In addition, the district had negotiated with the teachers to work another 4 days, so the work year was actually 184 days. Some earlier confusion may have resulted in the fact that Clark County had 4 days which did not interfere with the state's 180-day requirement, and therefore if the school year was shortened, the district would have the ability to increase professional development to 5 days.

Senator Raggio asked the purpose of the four additional days.

Dr. Rulffes replied they were for teachers to prepare for the school year and organize their classrooms, and typically one day was used at the end of the school year. They were four additional paid work days, not required student days.

Senator Raggio noted the cost for one school day was known statewide, but he asked what one day cost in the Clark County School District. Dr. Rulffes responded if everything was shut down for one day in Clark County and corresponding wages were reduced, the cost would be \$8.8 million per day.

Senator Horsford asked if the 184-day work year was the same for administrators, teachers and educational personnel. Dr. Rulffes replied it was not. The district had many 12-month personnel, both in the support and administrative areas. Those who worked 12 months should have some kind of a ratio of more than the 4 days – reductions should be proportionate across the district.

Senator Horsford agreed that was an important point. From a state policy perspective, there were three employment groups – state workers; K-12, which was decided at the local level based on contracts; and higher education, which had some employees under contract and others in the classified system. He said the Legislature was also considering the fairness issue across all three groups, and he would be looking forward to receiving further information.

Continuing, Dr. Rulffes said the districts were requesting a temporary waiver of the number of days required in a school year; he emphasized the waiver would be temporary. They did not want to get into Hawaii's situation where the school year was shortened and then no funds were available to recover.

Assemblyman Denis asked if accreditation would be impacted if the school year was shortened.

Dr. Rulffes replied if the reduction was a minor amount, accreditation would probably not be impacted, but if the reduction was major, it probably would be impacted. Four days beyond 180 would not impact accreditation at all. If days were cut from the actual school year involving internal dynamics, such as disruption of testing schedules, some difficulties would result.

Senator Coffin remarked it was important to know the fine points of the issues. Perhaps students heading to higher education needed a longer school year than those who were not going on. He did not intend to separate the kinds of students in their senior year, but he thought that was the most sensitive year with regard to accreditation. He wondered if the school year should be shortened for all grades.

Cochair Mathews commented that all students needed an equal education, including vocational students.

3. Moving to his third point, Dr. Rulffes said that hand in glove with the shortened school year had to be the ability to reduce wages correspondingly. Four days would result in a 2-percent net salary reduction. The superintendents, as a group, believed that a legislatively-approved temporary waiver was needed to allow the districts to set aside some negotiated agreements on the basis of a fiscal emergency. He said Clark County contract negotiations happened to be open, and the reductions would be put on the table. However, Dr. Rulffes could not predict the outcome other than he was beginning to prepare to go into arbitration. Based under the clear definition of a fiscal emergency which existed, giving the superintendents the ability to make necessary work and salary reductions would correspond with a shortened school year.

Senator Horsford affirmed that 4 contract days, regardless of whether they were instruction or non-instruction, would equate to a 2-percent reduction for all three employee groups. Dr. Rulffes clarified the equivalent for a 12-month contracted employee would be 5 or 6 days.

Senator Horsford asked if the Committee could get more specific information. He wanted to be able to see how the recommendations were applied to assure fairness and equity.

Dr. Rulffes agreed the Committee needed to know how the dynamics of the proposal would work with different variations, adding that it may work differently among the different districts. He would welcome the opportunity to provide further information.

Assemblywoman Gansert said she thought the \$50 million reduction referred to teachers only; she asked if the Committee could receive the number that corresponded to a 2-percent cut for everyone in the school district.

Dr. Rulffes said the \$8.8 million per day in Clark County applied to a reduction of one day for everyone in the district, so the different variations would have to be factored in.

Moving to discussion of the Clark County School District specifically, Dr. Rulffes said he would be repeating two central themes in the media. The first was the district wanted to protect services to the students, and the second was to keep people employed. To that end, he said the district would have to deal with the negotiated agreements. A process for collective bargaining was required and if there was no agreement, there would be arbitration.

Dr. Rulffes pointed out that one size did not fit all in terms of the state, and he wanted to discuss some of the issues for Clark County specifically. He said the volume or velocity of the issues may seem greater and more dramatic in Clark County, but they were no different than in the smaller counties. In fact, in some cases, he added, cuts were even more exacerbated in the smaller counties; at least there was some economy of scale in the larger districts.

Dr. Rulffes said that increasing class size would be discussed over and over, and the message would be the same – teachers would be eliminated; increasing class size would mean costing jobs. He noted that the only real latitude for the district legally to unilaterally make major cuts in the budget was to reduce employees. That was the only avenue to pursue, unless there was some agreement or legislative cover in other areas. Dr. Rulffes itemized the potential savings in Clark County under the various proposals:

- Add one student to every class in every grade, 1 through 12, would reduce 400 teachers – \$26.5 million savings.
- Add one student in grades 1 through 3 would reduce 223 teachers – \$15 million savings.
- Reduce one day for all staff district-wide – \$8.8 million savings.
- Delay longevity for one year – \$26.3 million savings.
- Eliminate earned educational increases – \$10.4 million savings.

Dr. Rulffes wanted the record to reflect that he would be reluctant to eliminate the earned educational increases, because those teachers had gone to college for two or three years under an agreement which he thought should be kept.

Continuing, Dr. Rulffes said there was a lot of rhetoric about cutting sports, co-curricular activities or administrators. The district's athletic programs were almost self-sustaining, and if they were all cut, \$5 million would be saved. Cutting co-curricular activities, e.g., orchestra, band, chess clubs, would save \$6.2 million. In that context, Dr. Rulffes remarked that if big dollars were going to be cut, the shared sacrifice approach would be necessary, and he believed the only way to accomplish that was through a temporary shortened work year.

Dr. Rulffes referred to a handout entitled Clark County School District Budget Reduction Summary ([Exhibit D](#)), which reflected \$.25 billion in cuts that had already occurred in the Clark County School District. He called Committee members' attention to the categories in which the cuts occurred, noting that further cuts in those areas could not be made. Dr. Rulffes said some of the numbers were staggering.

Assemblyman Hardy affirmed the numbers being cited were cuts based on the fiscal year, so the figures for fiscal year 2011 would have to be doubled for the next biennium.

Dr. Rulffes replied any cuts for fiscal year 2011 would have to be maintained and carried forward to the next biennium as well.

Continuing, Dr. Rulffes said to provide a perspective of the volume of cuts that would be on top of the \$250 million that had already occurred, if a hypothetical \$150 million cut was to be made by raising class sizes, it would be necessary to add 6 students to every class in the school district. The savings would total \$159 million and eliminate 2,322 teachers. The other option would be to reduce the number of days in the school and work year, which would require elimination of 17 days in the school year. Dr. Rulffes said it was apparent there would not be a single fix – a combination of actions would be required.

Going further, Dr. Rulffes cited results of other possible cuts, noting that options were limited:

- 10-percent reduction in administrative staff – reduce 100 administrators and save \$12 million.
- Athletics - \$5 million savings.
- Co-curricular activities - \$6.2 million savings.
- 10-percent reduction in textbook and instructional supplies - \$7 million savings.
- Increase walking distance to school from two miles to three miles for high school students - \$3 million savings.

In summary, Dr. Rulffes said, as alluded to earlier, because there were differences from district to district, the superintendents thought the districts would be best served in

terms of local authority by knowing the dollar amount of the cuts and then being allowed to determine how to make those cuts, as opposed to the Legislature trying to program or mandate areas to cut.

Dr. Rulffes thanked the Committee and offered to answer questions.

Assemblyman Arberry remarked that the state was at the bottom of the nation in school support, and he asked Dr. Rulffes how many years the state would be set back with the proposed cuts and if it could ever catch up if the drastic cuts being considered were made.

Dr. Rulffes emphasized that any adjustments made should be a waiver as opposed to a permanent change, because if the state had any chance of getting back, it would have to set that as a goal. He did not know where the state would be chronologically, but it would be a major setback from what was already a poor position. The state was not doing as well as it should, and it would not recover quickly. Dr. Rulffes added that a long-range plan would be needed to get back to a quality education system.

Assemblyman Hardy affirmed that the district was asking for some flexibility, i.e., empowerment, more local autonomy, more local responsibility for graduation rates. He asked whether the district was working on a plan for local accountability that could be shared with other school districts or if other school districts were working on their own plans.

Dr. Rulffes replied his district's entire mission was to increase the number and quality of graduates, which in turn would obviously reduce the dropout rates. He would continue to expand empowerment schools, even in the face of the cuts, and even though it would not be with the corresponding funding, as many as 10 more schools would be added. Dr. Rulffes thought the leadership at the local level was best equipped to deal with the population it served.

Continuing, Dr. Rulffes said he was not saying he would increase graduation rates and reduce dropouts if the state gave the district what he wanted to make cuts. However, he could minimize the impact of the cuts if he were given the authority to make them as opposed to the state cutting class sizes and full-day kindergarten, both of which Clark County found very beneficial to the educational process. He noted the best scores were in grades one through four, and he believed it was because of reduced class size.

Assemblywoman Smith said the Legislature had demonstrated in the past that it supported the idea of letting the districts make those decisions, and she supported it based on the fact that the districts had elected boards that were accountable to the people who elected them. She wanted to hear how the districts were working with the boards and the process, because that took time as well. She added the public needed to have time to comment, and the boards needed to be involved as an elected body, which was why she was willing to give the authority to the districts.

Dr. Rulffes said the district followed a process not too different than that of the Legislature. He believed public input was necessary because, if nothing else, providing people with information had a settling effect. It oftentimes yielded some good results, and it gave the elected officials the feeling that they were hearing from their constituents. Dr. Rulffes said the district would probably rely less on town-hall meetings and more on electronic surveys, because town-hall meetings tended to get stacked with special interest groups, and there were more efficient, less costly and more effective ways to conduct research. He noted the district still had a lot of information from the 2009 round of cuts, which was not nearly so profound. He said the districts believed they should have more dollars, and they would not stop advocating for a longer school year, lower class size and improved teacher salaries, but during this severe fiscal crisis, quantum steps would be needed to protect students and jobs.

Assemblywoman Smith remarked a lot was heard about the ratio of administrators to staff in the districts. She thought it was important for Committee members and the public to hear and understand the ratios and know that cuts had occurred in the administrative areas as well over the last couple of years, causing the districts to reorganize. She believed the information was critical and asked that it be provided to the Committee as soon as possible.

Assemblywoman Buckley said she wanted to state the obvious, which was a better way to fund education in the state was needed. Nevada was 49th in the nation, and now the only way to prevent chaos was a combination of draconian steps. She noted that some said money was not the only answer, but it was definitely part of the answer. Innovation and accountability needed to take place, but the funding levels were ridiculous; it was time to take a look at funding across the board. What did counties get? What did cities get? What did states get? Assemblywoman Buckley did not understand why the most important area to be funded, K-12 education, which had the most support of the public, was funded in the manner that it was. She reiterated the method of funding had to change, whether it was through the process being set up for the interim or other measures, in order to do right by the children in the state.

Dr. Rulffes commented that when some said money didn't help, his reply was the cuts would sure not help either.

Assemblywoman McClain remarked that one of the common public conceptions was not necessarily that the districts were top heavy with administrators, but that there was a layer of consultants that did not fall into administration or classroom teaching. She asked Dr. Rulffes to provide information to the Committee concerning the number of consultants utilized by the district.

Dr. Rulffes replied there was a high level of sensitivity to consultant contracts on the part of the school board, which was part of the cleansing effect the district had gone through with the cuts. He explained that consultants were generally required because the federal government had rules in No Child Left Behind requiring consultants, who were categorized as true professional services. He thought the district was treated

unjustly when the media reported the level of consultants, because the amount included payments for utilities, insurance and other items that were essential overhead charges and coded as outside professional service expenses. Dr. Rulffes said the true consultant expense was about \$14 million, and nearly all of it was grant funding. He appreciated the question, adding that the district had always been sensitive to consultant contract expenses and was even more so now.

Assemblywoman McClain remarked it was a difficult area from a legislator's perspective because when questions were asked about contracts, the right answers were not always available.

Senator Horsford acknowledged the Committee was asking a number of delving questions, which was because the members had received more constituent correspondence regarding the issue of education than any other area. While he agreed districts should be given ultimate flexibility to work within the traditional parameters, he also felt the need to understand the approach the districts would be taking, adding that the Legislature had a constitutional obligation to fund education, and it had been challenged as to whether it had been adequate. In this particular crisis, Senator Horsford continued, when he returned home after the Special Session, he wanted to be able to explain to his constituents the approach that would be taken by the districts and other groups. He said the line of questioning to the districts was not because the Committee did not trust them or believe they were ultimately accountable for the monies they received per pupil; he reiterated it was just important for members to understand the approach. Senator Horsford wanted to recap his understanding of Dr. Rulffes' testimony:

There should be shared sacrifice. Based on the discussion of the various issues, i.e., the reduced work contract year, the earned educational credit, and the step increases, it was the district's intent to take those issues, along with any other recommendations for reductions in wages, to the bargaining table with the employee groups contracted with by the district.

Dr. Rulffes wanted to rephrase the statement: He was going to take those issues that were related to the collective bargaining unit agreements; he was not going to bargain items that were not mandatory bargaining items.

Senator Horsford asked if the step increases and earned educational credit were collective bargaining items. Dr. Rulffes replied yes, they were items of compensation, wages and work conditions.

Senator Horsford affirmed that step increases, earned educational credit and reduced contract days would be discussed at the bargaining table.

Dr. Rulffes indicated he was soft on the educational increments; he believed latitude would be needed with the issue of longevity, which he did not think was as critical as

honoring those who went to college and obtained educational credits. He would take a harder line on the longevity issue than he would on the educational credits.

Senator Horsford asked if the approach would be consistent with each of the employee groups – administrators, teachers and educational personnel.

Dr. Rulffes replied bargaining would take place with the administrators and teachers, but the district had the latitude to adjust days for the support group without bargaining. However, he would try to be consistent across the board for all employees; he believed that was the shared sacrifice concept – every employee should be asked to share a small amount as opposed to devastating the lives of people by laying them off. Plus, he added, the economy would be better off if fewer people were laid off and a little was sacrificed by everyone.

Senator Horsford asked what the timing would be for negotiations. Would they happen together? Would agreement be reached so they would happen all at once so that one group would not be in front of the other? He remarked it was difficult when there were so many different groups involved.

Dr. Rulffes replied there had to be at least four productive sessions of bargaining, and then the law provided that either side could declare an impasse and arbitration would ensue, which involved the process of selecting an arbitrator. Scheduling the arbitrator often took not weeks, but months, so the district was facing a time crunch.

Continuing, Dr. Rulffes said another factor the Legislature needed to remember was the evergreen clause talked about in the 2009 Session. The district did not have the ability to make an adjustment just because the contract was in negotiation and had not been settled; the prior contract would remain in effect. He recalled the district had been in that situation and the district honored the increments because there was no legal authority not to do otherwise. The district had actually proposed spreading the increments over two years rather than one year, but it was not successful, and the cuts were dealt with in a different way.

Dr. Rulffes said a similar process was followed with every bargaining unit; they were all independent and the district dealt with them separately. He remarked there was a “me too” mentality – what one received, the others wanted as well.

Senator Horsford said from Dr. Rulffes’ presentation, he understood that in the event the district was not successful in getting the employee groups to renegotiate the terms of their contracts to have shared sacrifice in some way, the alternatives were significant layoffs or reduced wages.

Dr. Rulffes replied that in his mind, Senator Horsford was correct.

Senator Horsford asked if Dr. Rulffes knew the number of projected layoffs that could occur if there was not some adjustment in wages.

Dr. Rulffes said he did not know the amount of the cuts yet, which was one of the difficulties. He had previously discussed the number of potential layoffs under the various scenarios, but he reminded the Committee that he would need community input and the school board would have to provide some direction. He said the general concept of layoffs was clear – it would either be pink slips or small sacrifices.

Senator Horsford asked how many employees could be laid off at the 10-percent level if there were no reductions.

Dr. Rulffes said he had first talked about hundreds, but now he believed it could be thousands, depending upon which scenario was agreed upon. He said he could not give, with any accuracy, the number of people who would be laid off if \$150 million was cut, but he estimated that it would be in the thousands statewide.

Assemblyman Hogan said that because of the extreme seriousness of the cuts and impacts being discussed, he believed some members felt some outside-the-box approaches should at least be considered. He asked if any of the counties had considered the temporary diversion of reserves that had been put aside for longer-term infrastructure. He wondered if there was a possibility that given a probable very slow increase or recovery in the number of students, some of the impact of the reductions could be reduced by temporarily shifting either the reserves already established or the inflow established to create such reserves. Assemblyman Hogan said the Committee would be willing to work on needed legislation if Dr. Rulffes thought the approach was viable.

Dr. Rulffes responded that when he heard the word reserve, he thought of two things. One was the general fund reserve, of which virtually all would be committed. Two percent was usually maintained, but only one percent would be maintained to deal with whatever calamity might come along. He said the general fund had been under spent this year, and some unexpended dollars would be contributed toward cuts. Dr. Rulffes said the other area of reserve, which he surmised was what Assemblyman Hogan was alluding to, was the capital improvement reserve. He would be very opposed to taking capital funds, because the district had made a solid promise to the voters that if the money was approved, it would be used for construction for their children. He would not be the one to say the promise would be broken and take the funds for future salaries to save jobs; he did not see how another bond issue would ever be passed in the future. Secondly, he said there were very complicated legal issues in taking capital funding and diverting it for operational use, such as jeopardizing tax exempt bonds that had been issued.

Dr. Rulffes added that the Legislature had a great deal of authority, and he would not discount its level of authority to divert the funds. However, there would have to be a great deal of configuring, and he thought the long-term consequences would be profound. He said he personally would not vote for another bond issue if capital money was used for other purposes.

Dr. Keith Morrison, Superintendent, Washoe County School District, concurred with Dr. Rulffes' concerns, noting that Washoe County was currently involved in a rollover bond campaign. He agreed it was a promise to the community that the dollars contributed would be spent to improve the aging schools and to infuse technology into the school district. Washoe County School District had lost a bond issue the previous year, and it would be hard pressed to regain the public's trust by doing something temporary that would have long-term effects. Dr. Morrison absolutely agreed with Dr. Rulffes' position.

As a follow-up, Assemblyman Hogan asked, with respect to Clark County and the reserves set aside for future infrastructure construction, what amounts were involved? He was aware that the district had postponed a new request for bonding based on the at least temporary cessation of growth, and the district had managed to build more than what had been planned for less than what was budgeted, which was certainly commendable.

Dr. Rulffes said he needed to make a technical distinction. There were no reserves, other than those required by the state to protect the bondholder in the state. In the event taxes did not come in, there was a mandated legal reserve set aside, which was used to get a decent bond rating because bondholders knew that if tax revenue was not there but there was a reserve, those bonds would be paid; there was assurance they would get their money back. The current state-required reserve was approximately \$400 million, with debt of \$9 million or \$10 million. There was also another \$500 million or \$600 million which were not reserves, but were committed projects, e.g., air conditioning units at Moapa, track and safety upgrades at the high school, and virtually all those dollars were committed. Dr. Rulffes said the reserve status was created based on the prudent thinking of the Legislature, which was very effective in terms of getting a favorable bond rating, and in turn much lower interest rates and a lower cost to the taxpayer. Therefore, the reserve as such was not there as a contingency in case it was needed; it was there to protect the debt service requirements of the state.

Assemblywoman Buckley recalled Dr. Rulffes had stated earlier that a \$150 million cut, if there was not a more shared sacrifice approach, could result in the layoff of 2,322 teachers. She noted that discussion had been held concerning the various potential layoffs, increased class sizes and reductions in salary, none of which were very good options, at the 10-percent level. Currently the shortage was estimated to be at 22 percent, and the Legislature was committed to trying to get the level down. Hypothetically, if the shortage was reduced to 17 percent and the Legislature was unsuccessful at reducing it further, she wondered whether, under those circumstances, there would be an appetite to revisit the capital fund to fill the gap. Assemblywoman Buckley understood that in Clark County, some of the money in the capital fund was not voter approved – it was either room tax or governmental services tax (GST). She acknowledged there were problems with taking the funds: tracing the money, breaking contractual obligations, and the state taking money generated in Clark County.

Assemblywoman Buckley questioned whether the state should take money from Clark County. If not, if the money was allowed to stay in Clark County but was allowed to be utilized by Clark County to offset its cut level, would that impair equal and uniform funding of all schools in The Nevada Plan and the method of financing? She remarked desperate times called for desperate measures, and she thought if the average person on the street were asked, he would say if it came to rehabilitating a school or laying off teachers, it made sense to access the money. She asked Dr. Rulffes if any of those issues had been weighed.

Dr. Rulffes replied if a person was asked on the street, he would say to get rid of administrators and the problem would be solved. He thought the reason for elected officials and professionals was to deal with the enormous details involved in problems such as this. If that factor was going to be weighed, why would you not weigh the factor of somehow increasing revenue? Again, he said, taking the capital money may preserve some teaching jobs, but it would clearly cost some construction jobs, so there would be a trade-off. Dr. Rulffes was still concerned with the promises made to the voters.

Assemblywoman Buckley asked about the status of the room tax and GST. Dr. Rulffes replied those taxes were available at legislative discretion; however, the county had bonded against them. Those revenues were pledged to pay the bonds, although there was a way to get around that issue. He said that to be transparent, the state could refinance the bonds and commit to pay over a longer period of time. Dr. Rulffes said he would not deny the state had the ability to get the revenue; the question was whether it had the will to do so. For clarification, he pointed out the capital fund included three revenues: the room tax, which was declining and less than what was projected; the real estate transfer tax, which was obviously much less; and the motor vehicle tax, which was now called the government services tax. Dr. Rulffes pointed out that all of the taxes were established by the Legislature, and it had full authority to take them, providing the county had some means to cover the bonds, which could be done through refinancing. He added that the proposed approach would not break the promise to the public in regard to property taxes.

Assemblywoman Buckley said she was not advocating action one way or the other; she was just trying to allow for a full exploration of the pros and cons for the Legislature's deliberative process. There were a number of concerns with taking the funds, which she had outlined, and she was not sure she was disagreeing with Dr. Rulffes. She was merely trying to get all of the options on the table because of the serious challenges being faced.

Returning to the subject of contracts, Assemblywoman Gansert said one of the reasons \$900 million was so ominous was the short timeframe – there were only about 16 months left in which to cut that amount. She asked Dr. Rulffes if the district could open up the contracts currently in force or if he was talking about making adjustments to the following year's contracts.

Dr. Rulffes responded that the contract for this year was closed; both sides would have to agree to open it unless the Legislature granted some fiscal authority to open it based upon an emergency. The cuts he had been discussing were for next year, beginning in the fall of 2010. He said discussions were also being held on whether the cuts should occur in both years or if they should be loaded into the second year. He believed there were pros and cons of both options, but the best option would be to give the districts the choice of which years to make the cuts.

Assemblywoman Gansert asked if all of the county contracts were fixed for the current year unless the parties mutually agreed to open the contracts.

Caroline McIntosh, Superintendent, Lyon County School District, replied that Assemblywoman Gansert was correct. Dr. Morrison added the situation was also true for Washoe County; both sides would have to agree to reopen the contracts.

Dr. Rulffes remarked that if the state immediately mandated a cut to the districts, impact bargaining could be requested which required bargaining with the union because the cuts would impact it in some major way. He said impact bargaining could not take place unless the cuts became an immediate reality.

Assemblywoman Gansert asked if impact bargaining was available to all of the school districts; Dr. Rulffes replied it was.

Senator Raggio said he wanted to make the same disclaimer statement as Speaker Buckley had made. The Committee was not advocating any particular action; members were asking tough questions so they could understand the ramifications of any actions taken. Referring to the negotiations, he pointed out that everyone was going to have to come to the table and be willing to share the sacrifice. He wanted to clarify Dr. Rulffes' remarks concerning impact bargaining. If there was an impasse on negotiations next year, then the old contract would be in place. If personnel costs could not be reduced as a result of the continuation of an existing contract, the alternative would be layoffs, which he thought would be the most undesirable. Senator Raggio recalled that flexibility was granted to 15 of the school districts on class size, but a request from Clark and Washoe Counties for the same capability was denied. Those counties would have to go to layoffs as a result of the worst-case scenario; he asked whether that kind of flexibility would assist Clark and Washoe Counties.

Dr. Rulffes replied the counties already had the ability to ask for a waiver. Senator Raggio said he knew the counties could ask for a waiver, but the other 15 school districts were specifically given flexibility, and it was denied in Clark and Washoe Counties.

Dr. Rulffes said even if the counties asked for a waiver and it was granted, layoffs would still be necessary. If class sizes were increased in grades 1 through 3, about 220 teachers would be laid off. He thought a combination of things would be needed –

the shortened school year and probably some class size increases and administrative cuts, as well as some program revisions.

Senator Raggio said he understood; he wondered if the requirement for class size applicable to Washoe and Clark County School Districts would prevent the districts from making a necessary effort to avoid layoffs. He did not want to press the issue; he was curious if some adjustment or change would have to be made.

Dr. Keith Morrison, Superintendent, Washoe County School District, said the districts had the ability to raise class sizes if it was necessary to make the required cuts. The difficulty, in lieu of getting an automatic waiver for Washoe and Clark Counties, was the waiver could only apply to grades 4 through 12. An increase of 6 students in upper elementary, middle and high schools might be implemented without some sort of relief at grades 1, 2 and 3.

Senator Horsford said he had asked his son's first-grade teacher whether she would prefer to take a percentage reduction or have twice as many students in her class. She replied she would rather have a shared sacrifice than have to work twice as hard every day. He thought he had heard earlier that the districts might consider adding a smaller adjustment of 1, 2 or 3 students at the first- to third-grade level if the flexibility were granted to do so.

Dr. Rulfes said his reply to the teacher would be that she probably would not have a choice of one or the other; she would have both, but less of each because the reductions could be spread across a broader base.

If complete flexibility were granted to the districts in grades 1 through 3, where the ratio was currently 17:1, Senator Horsford asked if the districts were proposing any class size, or if it would be necessary to add 2 or 3 students at the lower grades in order to adjust for the higher grades.

Dr. Morrison replied the answer to the question would differ when posed to a first-year teacher who might be losing his job versus to a more tenured teacher. Going back to the idea of flexibility, he said currently in Washoe County there was concern about the size of classes at the secondary level. The issue was not that the district wanted to add more students to the primary grades; as a foundational part of the district's reform package, a commitment was made to early childhood education. The national research indicated that for every \$1 spent on early childhood education, \$17 would be saved down the road in terms of savings in other health and human services needs. Dr. Morrison said the districts were not anxious to add students to grades 1, 2 and 3, but they were asking for the flexibility in anticipation of the cuts. He said part of the problem in answering the Committee's questions was that the size of the cuts and the amount of the districts' flexibility were unknown. He added that class size would be looked at very responsibly at each elementary, middle and high school to determine what capacity would be best for teaching and students.

Senator Horsford affirmed that as far as a general approach, the districts were not advocating to remove class-size reduction altogether.

Dr. Morrison said he had just had some very preliminary conversations with the Washoe County School District trustees, and he reiterated the district was very committed to early childhood education as part of its foundation for reforms. He stated the district would like to see some type of temporary sun-setting of class-size reduction to provide some flexibility, but not forever. Perhaps there would be brighter days in Nevada two years from now, and then class-size reduction would again be mandated. Dr. Morrison said the state should be very proud that it had set aside this amount of money for reduced class size in grades 1, 2 and 3. However, for the next three years, in order to be responsible and make the best instructional decisions possible, the district would request flexibility with a sunset clause to return it as a requirement. He was aware a lot of people had tried very hard to get class-size reduction, and everyone was reluctant to see it go away. However, temporarily, the district would ask for that flexibility.

Assemblywoman Buckley appreciated the discussion concerning the challenges being faced. She said everyone needed to recognize the sacrifices of teachers, both K-12 and higher education, and state employees. She said state employees were taking a cumulative reduction of 11 percent when health insurance and retirement costs were added in. The school districts had already undergone cuts, including funds for step increases and cost-of-living raises. Assemblywoman Buckley said it needed to be recognized that if the reductions were not part of a true collaboration, morale would go down. She remarked that the teachers needed to be at their best to teach children. Her son was in the 5th grade, and she had seen teachers at the school on a Saturday conducting a writing proficiency boot camp. She thought it was just too easy to say they needed to be doing more; it was important to recognize all that they were doing as well. She added that was what leadership was all about – making sure that everyone who was doing so much already was being recognized as solutions were being sought going forward.

Senator Horsford said that based on the information provided by the Committee's Fiscal staff, there was a \$25 million savings for every one-percent cut to K-12. He said a lot of focus had been on wages, but shared sacrifice would need to come from other areas of the budget. He asked if the hold-harmless provision had been analyzed or reviewed as to what that adjustment could mean toward helping to balance the shortfall.

Caroline McIntosh, Superintendent, Lyon County School District, was present to represent the 15 rural school districts. She said most of the districts had experienced significant declining enrollments. She had received trend data from her colleagues, and she noted that even Elko, which was always considered a success in the state because of the gold prices, had experienced a decline in enrollment. The districts were allowed a one-year hold harmless for declining enrollments of under 5 percent. However, the districts had negotiated agreements for more than one year and when they were doing staffing, they would not know about the declining enrollment until count day. Labor

costs were already locked in, as were other costs. Superintendent McIntosh said the hold-harmless provision was very important to the rural school districts.

Senator Horsford asked if the same was true for the Clark and Washoe County districts.

Dr. Morrison replied absolutely; staffing was based on projections. The district tried to be conservative, but once the class schedules were set, teachers were hired and budgets for schools were determined, if the enrollment was less than what was expected, a way had to be found to honor the contracts. Dr. Morrison said the district had entered into one-year-only contracts, but if two or three high-school teachers were lost, the entire master schedule of the school would be impacted, and hundreds of student schedules would have to be readjusted after the beginning of the school year.

Dr. Rulffes explained the thought behind hold harmless was that the state understood the districts had to commit their expenditures before enrollment would be known. Since the expenditures were known before the revenue was known, the hold harmless provided a year for adjustment by using the previous year's enrollment for one year. During that period, expenditures would have to be adjusted downward. Dr. Rulffes recalled the hold harmless used to be two years, and the Legislature changed it to one year. He thought most districts now took advantage of the hold harmless, although this was the first year that Clark County did. He remarked the hold harmless was really critical to the rural districts because a loss of 200 or 300 students had a huge impact on them, noting that it was difficult to reduce costs immediately when contracts had already been issued. Dr. Rulffes said it was important to preserve hold harmless, particularly for the rural districts, and to a lesser extent but still important, for the larger districts.

Assemblywoman Smith requested that the Committee hear remarks from the other districts concerning their plans for future reductions.

Superintendent McIntosh thanked the Committee for the opportunity to present a perspective for the 15 rural districts. Her testimony follows:

Recently, Lyon County experienced explosive growth, followed by a sudden decline in population, resulting in a drop of over 500 students in the district since 2008. Currently, Lyon County's unemployment rate is in excess of 16.5 percent. It's the highest unemployment in the state of Nevada, and with the pink slips that were handed out, I believe today, for state workers that will truly rise in Lyon County, because many of the state workers that work in Carson City live in Dayton and Silver Springs.

Trend data for Lyon County School District includes a spike in labor costs to 89 percent of the operating budget, a declining number of teaching staff by 40 and larger class sizes for grades 4 through 12. Proposed fiscal reductions will obviously impact the mission of improving student achievement in all districts at a time when the bar to meet adequate yearly progress is being raised. Previous fiscal reductions have already affected

all school districts, with more severe consequences in the 15 rural districts. Lyon County School District is the fourth largest district with 8,800 students. However, being number 4 in student enrollment only equates to 2.5 percent of the statewide DSA. The proposed 10-percent reduction would result in approximately a \$4.5 million in reduction in Lyon during the next 16 months. With 89 percent of expenses in labor costs, Lyon and other districts are not able to achieve the reductions through program cuts and efficiencies. I believe we all went through that route last year. In Lyon County, we had a budget advisory committee, and I made 31 presentations throughout the county asking and soliciting for ideas. Twenty-two hundred responses were gathered through an online survey, and we implemented a lot of these proposals and we were able to actually make a huge difference with our efficiencies. But again, we can't reach 10 percent with programs and just efficiencies. Obviously, labor will be affected.

Rural districts, due to expansive geography, and who could beat the geography in Nye County, and small student enrollment do not enjoy any economies of scale. Increasing class sizes in many small schools, especially in our K through 12 schools, really equates into combining grades – that's how we affect it. For example, in White Pine County School District, the central office employees have already taken 12 furlough days for FY 2010. The district has reduced some costs by adopting a four-day school week. White Pine principals accepted a reduction of 5 furlough days, and vice principals have taken 12 furlough days – that's for the current year.

Options are limited for an additional 10-percent reduction. The dilemma facing each school district and board of trustees is how to best reduce the district's budget with the least effect on student achievement. To meet this challenge, local school boards need flexibility, and that's what we have been discussing all morning. In areas such as class-size reduction, textbooks, retirement incentives, number of instruction days and, most of all, bargaining with labor groups. Nevada's school children will weather the storm better if the Legislature, school districts and labor groups work together for the benefit of our children. The current remedy in negotiated agreements is for a reduction in force, which would further exacerbate the unemployment rate and increase class sizes. And I am particularly sensitive to that because of having the highest unemployment rate in the state. A 10-percent reduction would equate to laying off approximately 60 teachers out of a current teaching number of 533. And as you are aware, reduction in force through the negotiated agreement affects our new and least expensive teachers, while the senior teachers who are at a higher wage remain. And that's how the negotiated agreements are set up.

In 2006, Lyon County School District paid \$5,000 in unemployment costs. It is projected that this year our unemployment costs will be over \$200,000. Local school boards need the ability to exercise local control. This process

will only occur if the Legislature grants flexibility in current requirements and labor associations are willing to commit to solutions, including temporary reductions in compensation and work days. Without flexibility from both the Legislature and Labor, local school boards will be forced to choose massive layoffs, as labor costs constitute between 85 and 90 percent of each school district's budget. On behalf of all students and school districts, help us meet the fiscal challenges by offering flexibility. You know, character can be defined by the actions taken during a crisis. For the sake of our children, let us all make the right choices, working for them and for their future. What we ask for is for local control, and we will achieve that if you can give us some flexibility.

A member of our school board, Mr. Huckaby is here with us. We have already had a special budget meeting last night in Silver Springs where our school board members reviewed the entire budget. We are prepared to go back online with more surveys, we will have all the public input, and we will work with all of our constituents. But we are waiting for the actual number at the conclusion of the Special Session, and that's when we will gear up and go forward, but we understand March 1 is looming. We will do everything we can to preserve the education of our students, but we just ask for your help with flexibility.

Superintendent McIntosh said she had some statistics for Lyon County in answer to earlier questions from the Committee.

- Meeting the obligation through furloughs would mean 15 furlough days, which was unacceptable.
- The district would be closed 15 days in Lyon County, and that could not be done.
- Salary reductions would amount to over 8 percent across the board.
- Reducing class size would result in layoff of 32 of teachers.

Superintendent McIntosh said the district had been looking at the different scenarios, and it was obvious that a combination would be the only way to achieve a 10-percent reduction. She thanked the Committee for the opportunity to testify.

Keith Morrison, Superintendent, Washoe County School District, remarked he was coming before the Committee as the newest leader in Nevada in terms of the 17 school districts. He noted that a comment had been made earlier in the day that this was an interesting time to come to Nevada, and his response was it certainly was interesting to say the least, but he had a saying for all of the leaders he had worked with that, "You don't really get a sense of quality of leadership when times are good; you learn a lot about quality of leadership when times get tough." And, he said, these were tough times. His verbatim testimony follows:

I came to Washoe County, one of the largest school districts in the country, because I believed it was a school district that was serious about change. I believed that there were the things in place foundationally to really challenge the status quo and produce a better instructional program for all the 64,000 students that we have the honor of serving. Even with the traditionally low funding that Nevada historically has been publicized to have, I was aware of that, I was aware of the concerns about the economy as I was making the decision to come, although I don't think anybody could have predicted it would be where it is today, I don't regret for a minute coming to Washoe County and have the honor to serve as superintendent, because we can improve, we will improve, we must improve. I feel strongly that we will get better because we have quality leadership, and I too have one of our trustees, newly-elected Board President Estela Gutierrez in the audience today, and we are honored to have her. I am also very fortunate to have great partnerships with our business community. We have some of our business leaders in the audience today who are tremendously supportive of the reforms that we want to attempt in Washoe County School District.

But one of the greatest reasons that I believe that we will have brighter days in Washoe County and in Nevada in itself, is because we have quality people – principals, teachers. We haven't talked a lot about support staff today, but as we talk about these budget considerations and what these cuts are going to mean, we have to talk about our dedicated support staff as well.

So, as I have listened to the questions, the issues are the same in many ways for the 17 superintendents, except sometimes a little bit different economy of scale. What I will say to you is that as we look at what we are going to do in Washoe County, it's hard, not knowing exactly what the cuts are going to be and how much flexibility we might have, but we will make our decisions with a filter of what's best for children and teaching and learning. We will, in answer to some of the questions that have been asked, be very aggressive in the reduction of our fund balance, but we will be responsible. I heard Senator Raggio very clearly talk about the next biennium, where we are looking at possibly a \$2 billion shortfall, and so to draw it down too far would be irresponsible for the promise that we need to make to our students in the future. But we will be aggressive in reducing our fund balance as we have this year. We took a \$30 million reduction in the operating budget, which is over 6 percent. We will look at ways to reduce administrative spending, we will look at ways to reduce central office because, even though they are low right now compared to other large school districts, we have an obligation to look there first, and we will in Washoe County School District. As my colleague from Clark County said, we traditionally right now have to protect the classroom, so we will look at all of those after-school programs, and that's hard, because there are after-school programs – the after-school music, the after-school athletics, the after-school extracurriculars – are sometimes what keep our students engaged and keep them involved in

school. And we have 1.2 million students across the country each year dropping out, and so some of these programs are what keep our students involved in school and will help us have better graduation rates.

The reality is that as we look at the type of reductions we are being asked to consider, as my colleagues have said, 90 percent of our costs are from people. And so as we look at where we are going to have to make cuts, we are going to either have to do with less people or compensate those people less. And I appreciate the comments that acknowledge the hard work of our administrators, our teachers and our support staff; they are really working hard on behalf of the children here in Nevada.

Some of the questions have been, "What does a 22 percent, 15 percent, 10 percent cut look like?" I'll share with you some of our preliminary examination of that in Washoe County and, again, I state these are not things that we are prepared to do or are saying that we would do, but just in terms of if we were to be asked to take a 22-percent cut, in Washoe County School District that would be around \$57 million and could potentially mean losing 650 of our teachers and over 500 of our support staff. As my colleague from Lyon County just mentioned, that's 1,150 real jobs, and those are people who are going to impact the unemployment insurance, Medicaid and other costs that will still have to be accounted for as we look at how to deal with this state economic budget.

I think the thing, as I try to conceptualize what that means, is we would have to increase class size to make that happen, and it gets back to the questions that were so articulately asked about what does that mean when you say lose teachers and that means increasing class size. A 22-percent level of cut would mean adding 6 students, grades 1 through 12, and so we would need some flexibility to do that. I try to think about the fact that as we are dedicated in our district to increase the graduation rates, think about an algebra class, where it is really designed for 28, maybe 30, desks, trying to get as many as 40 into a classroom. How does that look? How do you manage instruction? Then as that teacher is looking for a building service worker to help the logistics of the room, that person may not be there. At 15 percent, we are looking at \$39 million in Washoe County, possibly as many as 470 teachers and over 300 support staff, and at a 10-percent cut, we would look at \$26 million, perhaps as many as 400 teachers and up to 100 support staff.

Those are some of the preliminary examinations. Again, I want to emphasize we are not saying that if we were to take a 10-percent cut that we would go first toward laying off staff, but right now that is one of the options we would absolutely have to consider. That's why I think the urge and the call has been to please give us as much flexibility as we can possibly get.

Our greatest resource is our people, and so we are reluctant to do with less, as we are all trying to improve our districts.

I heard the question “Do you have a plan for increasing graduation?” In our district, we are being very aggressive with reform; we are looking at our strategic plan, adding accountability, performance management targets – really being focused, as at the end of the day, it is about graduating more students, highly-skilled career college ready, and that’s what we are committed to do. So we do ask for flexibility with the class-size reduction, again that’s not something we do easily. We do it with a heavy heart, because quite frankly, we would love to have all-day kindergarten across all of our schools and have pre-K for our students most impacted by poverty. I think there is a direct correlation many times between our pre-K, or lack thereof, and where we rank across the 50 states. We need the flexibility with the textbooks, because as much as we need to put a good textbook in the hands of every student, I would rather put a good used textbook in the hands of a student, but give them a quality teacher and not have 40 people in an algebra class. So we ask for that flexibility.

The last thing I would like to say is that, amongst the other comments I’ve heard recently as we were all preparing to come here and, again, I am honored to be in front of you to have this opportunity to talk about our district, is that there is so much conversation about the budget, and I keep on hearing dark days in Nevada and I understand that, because these are real issues that we are all grappling with. But again I come back with a comment about leadership. We will all be challenged and tested, because great leadership has never been needed more than it is needed now. And I think sometimes we forget that it is not just those in political office or those of us who are fortunate to be superintendents. I recently walked into a classroom of teachers and I asked how many leaders I had in the room and only a few raised their hands. And I didn’t stop until they all raised their hands, because all of our teachers are leaders. So we need great leadership, and in Washoe County we are committed to trying to provide that great leadership.

But what I want to say is that I came from a district that was a quality of schools that drew new businesses into the district and was the foundation for people buying homes. And I think as we look at dark days in Nevada, we have to talk about what a better tomorrow looks like, and there is no better way to create that better tomorrow, to take the dark days and have a bright light at the end of that tunnel, than to have a great educational system. We have to get better, we know that, we are going to get better, but if we can produce a better quality of education and schools in Nevada, that is going to be how we have a better tomorrow in our future. So I thank you for this opportunity.

Senator Raggio remarked this was the first opportunity for the Committee to welcome Dr. Morrison, and he wanted to congratulate him publicly for hitting the ground running. He had made every effort to contact anyone who had any input, interest or involvement in education. He said Dr. Morrison's enthusiasm had shown itself and was very helpful; he encouraged him to keep up the good work.

Senator Raggio asked for clarification of the 22-percent scenario, which equated to \$57 million. He asked what the potential layoffs would be if 6 students were added to each grade, 1 through 12.

Dr. Morrison replied for every student added to grades 1 through 3, \$2.8 million would be saved. For every student added to grades 4 through 12, \$3.5 million would be saved. To add one student to grades 1 through 12 would cause a loss of 105 teachers.

Senator Raggio affirmed that adding 6 students would amount to a loss of over 600 teachers, and Dr. Morrison said that was correct.

Senator Raggio asked if the 15-percent scenario, or \$39 million, would equate to 470 teachers and 300 support staff. Dr. Morrison again said that was correct, adding that part of the costing right now was the district had its own structural budget deficit because it had roll-ups and declining enrollments, so it was already known that the district would have to make up \$15 million in Washoe County, even if the Legislature did not make cuts. He said the district had to look at the cuts that may come, plus the existing structural deficit to balance the books, so those numbers were also factored into the reduction figures.

Senator Raggio commented that no one had addressed the issue of Race to the Top funding. He was aware that it was not money that could be counted on, but there was the potential to receive grants. He thought one item for Special Session would be the possible change of necessary qualifications to apply the grants. He asked for information concerning the potential of receiving those funds and what the limitations would be on usage if grant monies were received.

Gloria Dopf, Deputy Superintendent of Public Instruction, explained the application date for the Race to the Top competition for phase 2, which was the phase Nevada would be applying for, would be June 1, 2010. Nevada was in a tier of states that had been identified as being able to receive between \$60 million and \$175 million over a three-year period. Ms. Dopf said the amounts were just parameters based on population and other factors; application could be made for more or less. The funds would be available in September 2010.

Senator Raggio asked what usage of the funds was permissible and if the amounts were outside the minimum percentage maintenance of effort.

Ms. Dopf replied that funding was anticipated for activities that would move the state forward in the four strategy areas, which were teacher leader quality; data collection

efforts that informed instruction, as well as met the minimum data requirements for the America Competes at the state level; struggling schools, which was a support to schools identified as being in the lowest percentage of need; and adoption of high-level common-core standards that were internationally benchmarked with an aligned assessment. Ms. Dopf said there was not a restriction as to the nature of the grants in terms of specific activities, except that 50 percent of the funds received would go to the school districts that signed up to participate under a memorandum of understanding based upon their Title I formula percentage.

Senator Raggio thanked Ms. Dopf for the information, noting that the funding would not help the state in its present Special Session budget crisis, but it was important to understand that there might be some light at the end of that tunnel.

Ms. Dopf added that, as Mr. Wells had testified earlier, there were some parameters in the Stabilization Funds for maintenance of effort, and the percentages would have to be maintained for the money already applied for under the Stabilization funding. There were some relationships between decisions the Legislature would be making relative to cuts and the state's ability to fulfill the Stabilization Funds application, as well as meet some of the requirements of the Race to the Top.

Addressing Dr. Morrison, Assemblywoman Leslie remarked she was concerned about school counselors and the emotional health of students. She was aware of the recent youth behavioral survey and the responses received that revealed a very grim teen suicide rate. When talking about cutting support staff, she asked if that included school counselors.

Dr. Morrison replied school counselors came under the category of teachers, and it was a timely question, as it was National Counselor Appreciation week. He was glad Assemblywoman Leslie had brought attention to counselors and the youth risk behavior survey. As a parent in Nevada now, Dr. Morrison did not believe there had been enough attention paid to the survey; the statistics were incredibly alarming, not only the teenage suicides, but the number of students engaging in drug use and sexual activity. He said the information spoke to why education had to be a foundation of society, and counselors were a pertinent part of that function.

Assemblywoman Leslie asked if counselors were included in the general parameters, or if there was a specific formula for them.

Dr. Morrison responded the district had looked at potential cuts and categories; there had not yet been substantive conversations about how many of each position would be involved since the size and flexibility of the cuts were still unknown. He said it went without saying, as always, that counselors had huge caseloads, because on top of also trying to address the issues of youth risk behavior surveys, they were also trying to keep kids from dropping out and instead graduating and accessing college and highly skilled careers.

Assemblywoman Leslie replied she just wanted to emphasize the huge need for counseling services.

Assemblyman Grady noted that Lyon County School District had been looking at the number of employees with 33 years of service who were eligible for retirement, and he asked how many employees were close to retirement and the impact their retirement would have on costs.

Superintendent McIntosh replied the district had an early buy-out program and had tried to give incentives the previous year. In addition, the board of trustees had approved additional retirement incentives for staff members, not just teachers, who were over 60 years of age and had so many years in the Public Employees Retirement System (PERS) and service with the district. The offer was 15 percent of the employee's yearly wage, plus one year of insurance. Some employees accepted the offer, and Superintendent McIntosh had discussed offering the program again with the board of trustees. She noted that the major concern seemed to be with insurance costs. The district's chief financial officer had the numbers as far as employees and potential savings; she thought there were about 20 employees who would qualify for the incentive, but there would likely be more if those age 60 were included. She pointed out that efforts were being made to identify savings at the district level, which was what could be done with local control and flexibility.

Cochair Mathews thanked the superintendents for their testimony; the Committee had received some valuable information. The Committee recessed for lunch.

Cochair Mathews called the meeting back to order at 1:55 p.m.

Lynne Warne, President, Nevada State Education Association, testified she was present to represent 28,000 Nevada educators who were members of the organization. Her verbatim testimony follows:

Though I very much appreciate the comments that were made at the beginning of this hearing today, as well as throughout the hearing when some of them were absolutely spot on, and we certainly understand the realities of the fiscal issues facing this state and the need to come together and work together, I want to be real clear from the onset.

There are those who have heard that cuts for education are a foregone conclusion. That is an unacceptable argument to the educators in Nevada. The K-12 education budget has absorbed millions of dollars in cuts already, and I come here today to tell you loudly and clearly, enough is enough. I come here today to remind you of your responsibility and obligation to the school children, the parents and educators to provide the funding necessary for proper education. Our kids, parents and teachers have been told for years that we have to learn to do more with less, tighten our belts, make sacrifices, and that maybe in the future things will get better. Well, things

have improved, and now you are asking an already strained system to absorb even more devastation. But this time, this time it will be different. This time the system has been strained for so long that the results of further cuts could be catastrophic and fatal for our schools.

For the past couple of years, it has been fashionable among politicians to demand that we do better, that we need increased parental involvement, we need increased teacher accountability. Those are nice slogans, but if you really care about our kids, their education, then how can you sit back and watch more kids jammed into fewer classes with fewer teachers, and programs like art, music and sports and eliminated from their curriculum, and still suggest to your constituents that you are doing the best you can.

And I must tell you that we are all tired of the handwringing and seemingly the first response that there's no appetite for taxes. Well, I'll tell you, there is even less of an appetite for schools being overcrowded, a state that ranks near the bottom in per-pupil expenditures, classroom conditions which impede a teacher's ability to teach and students' ability to learn. How can we perpetuate this when there are large corporations and industries that pay little or no taxes in our state?

Courage and leadership – two very important words. How many times have we seen those words on political flyers and advertisements? But those two words represent exactly what we expect of you and what our state needs during this crisis. So it has come to this: You have been entrusted by your constituents to ensure that our schools have the funding they need to educate their kids. The time for posturing, finger pointing and excuses is past; the choices seem clear, yet they seem very stark. We can lay off teachers, we can shorten the school year, we can raise revenue; that's where the courage and leadership come in. Courage and leadership is what our kids need. Thank you.

Carolyn Edwards, Clark County School District Trustee, Vice President of the Clark County School District Board and the Vice President of the Nevada Association of School Boards, testified from Las Vegas on behalf of the Nevada Association of School Boards (NASB).

Ms. Edwards said that all of the school boards in Nevada appreciated any protection that the Legislature could provide to K-12 funding. They also appreciated the difficulty of the task that was before the Legislature and the school districts and, as trustees, they were committed to working with the Legislature.

In response to Senator Raggio's request for constructive suggestions, Ms. Edwards said the association wanted the Committee to know that every school board in Nevada was prepared to implement the budget reductions to be imposed by necessity. However, she said school boards did want to have the flexibility to decide how to

implement budget reductions at the local level. The flexibility was necessary because each district's needs were different; from Esmeralda, the smallest school district, to Clark County, the largest, there was a myriad of differences among every school district in Nevada, and a myriad of solutions how to best implement the cuts, which each school board would know. Ms. Edwards said each district, if given that flexibility and local control, would be able to mitigate the impact of the cuts differently and potentially reduce the devastating effects.

Ms. Edwards said the Legislature would need to make the statutory changes suggested earlier in the meeting to allow for the flexibility, but she asked that each district be granted the ability to decide how to make the cuts. Some districts, for example, may not need to shorten the school year as much as another district might, and that decision should be made by the school board of that district. She thanked the Committee members for their time.

Cochair Mathews asked for questions from the Committee. Ms. Warne asked if she could respond to a question she anticipated would be asked by Senator Raggio concerning calling of an emergency and suspending collective bargaining. She said the NASB did not support that concept in the least. The superintendents from Clark, Washoe and Lyon Counties, as well as Carolyn Edwards in Las Vegas, had discussed the need to determine many of the cuts and changes at the local level. Ms. Warne said she believed that could only be done most constructively at the negotiations table with the employees that would be directly impacted by staffing and/or salary cuts. There had been discussion about salary cuts, reducing the school year cost savings by the number of days that would be reduced from an educator's compensation, and she said the NASB did not support that action and did not believe there would be legal grounds to do so. Ms. Warne believed the statute was relatively clear on the way a state of emergency would be called, e.g., riots, civil disorder, natural disaster.

Ms. Warne acknowledged the state was facing a crisis, and the NASB understood that as well, but maintaining the spirit of collaboration for everyone to come together and seek difficult solutions in these complex times could only be done through the negotiations process provided in a collective bargaining statute that had been on the books in the state for 30 years. She reiterated the NASB would not support the suspension of the statute at all.

Senator Raggio remarked he was trying to be a devil's advocate. He believed he did not need to reestablish his credentials insofar as support for K-12 education issues. However, the issue was, as he was hearing from state employees and the public, all other sectors were having to cut salaries, and the teachers were not. Teachers, in fact, to some extent had received some enhancements. He asked Ms. Warne how that issue should be addressed – state workers' salaries continued to be cut, but teachers' salaries were not affected. He noted he was the father of a teacher, and he was responding in his role as the devil's advocate; the issue was out there in the public. What was the answer?

Ms. Warne said the solution should still be managed through collective bargaining. She said not all teachers had not received a salary cut; she had been a fourth-grade teacher in Washoe County for 20 years, and she had seen a reduction in her salary. She acknowledged that was not the case statewide, but recalling Ms. Edwards' and the superintendents' earlier comments, the situation in each of the districts was very different and unique. All areas in school district budgets needed to be looked at. She did not think there should be restricted line items when discussing elimination of staff and programs and reducing compensation and yet money would be spent to resurface a track in Moapa. Ms. Warne believed the parents in Moapa would much rather see their children educated by a highly-qualified teacher in a classroom in which the students could receive a high-quality education than a resurfaced track. She again stated these were difficult times and there would be difficult choices, but she wanted to make sure that when considering what choices needed to be made facing the current crisis, all things would be considered, which could really only be done through a negotiations process.

Continuing, Ms. Warne recalled that Superintendent McIntosh had talked about White Pine and the concessions that were made with regard to furlough days, which were decisions met through a negotiations process. She did not understand why there was a fear that the collective bargaining process would be any kind of an impediment to resolution or solution finding and that it was a way of tying up necessary funding that could go to the education of students. She stated it was the educators' job, and they took it very seriously, to educate and provide the best education for the children of the state.

Senator Raggio replied that no one was trying to impair collective bargaining for K-12. The issue was, as heard from the two largest school districts earlier, unless the members of the association wished to come to the table and reopen contracts or agree to something in the way of salary reduction, the districts would be faced with the worst-case scenario. If there was no ability to agree to open up present contract negotiations, and for the next year if there was no agreement to reduce personnel costs, the districts' alternative would be layoffs. Senator Raggio believed the worst thing to happen would be to lay off teachers during these critical times. He was only reiterating remarks from the district officials; he heard them say if there was not the ability to make the salary reductions, depending upon the percentage of reductions called for, there would be some serious layoffs. He said he would hate to see 2,322 teachers in Clark County, let alone hundreds in Washoe County and the rest of the state, laid off. He explained that was why he was asking the questions – he did not disagree with anything Ms. Warne was saying. He noted she had said the districts should look to other areas, and he agreed they should. The \$50 million statewide mandated for textbooks had already been cut in half, and a big issue was the districts did not have the ability to provide supplies and new textbooks – textbooks were outdated. Senator Raggio recalled the textbook funding was given up voluntarily last session, and apparently it was high on the list of give-ups this time. He was looking for some direction; the last thing he wanted to see, and he thought most of the Committee members would agree, was the layoff of teachers. He sometimes heard remarks that the layoffs would only

affect the newly hired teachers because the others had seniority, and he thought that was cruel. The newly hired teachers, particularly the younger teachers, were real people who had families. He again indicated that he was looking for some people to come to the table willing to make some concessions. He reiterated there were layoffs in the private sector, in the state workforce there were layoffs and there were probably layoffs in higher education. Senator Raggio said there was not a built-in immunity for teachers; he wanted to give Ms. Warne the opportunity to address the alternatives as discussed by the school districts.

Ms. Warne said the NASB just wanted to be sure, and the only way to be sure would be through the negotiations process, that all resources available to a school district were put on the table and nothing was restricted or capped and there were no sacred cows. At this time of crisis, the districts should not be looking at resurfacing athletic tracks or parking lots when class-size and teaching position reductions were being discussed. Ms. Warne added that she could not agree more that layoffs should be the last option to consider.

Cochair Mathews asked for public testimony on K-12 education, beginning in Las Vegas.

Patrick Gibbons, Education Policy Analyst, Nevada Policy Research Institute, said he wanted to address some of the concerns about spending in Nevada. Testimony had been heard that Nevada spending ranked 49th or 50th in the country, but looking at the spending figures from the U.S. Department of Education or the U.S. Census Bureau, Nevada's spending ranked anywhere between 26th and 47th in the nation, depending on how it was counted and calculated. Nevertheless, he said, the amount spent did not matter because the focus needed to be on spending on programs that worked, not just spending money. Mr. Gibbons said he would agree with previous testimony that state mandates for line-item expenditures needed to be eliminated, as the Governor had proposed for class-size reduction and full-day kindergarten. He said even if funds were cut from class-size reduction, he did not think there was cause for concern. The districts had stated they would end up cutting many teachers' jobs, but the actual employment figures at the Washoe and Clark County School Districts indicated that they each employed one adult for every eight students. In Clark County, there was one classroom teacher for every three staff members. Mr. Gibbons indicated the districts could focus cuts on staff members other than teachers. He said half the school districts in Michigan had outsourced or privatized either transportation, food services or facilities, and the result had been a savings of approximately \$200,000 to \$2 million per district each year. Mr. Gibbons suggested that was one solution that could be implemented in Nevada to save money in the long run.

Continuing, Mr. Gibbons said there also needed to be focus on long-term student achievement. It was known that Nevada had the lowest graduation rate in the nation and students were educated very poorly in grades K-12. He said that, according to the National Assessment of Educational Progress, less than half of minority students, including blacks and Hispanics, could not read at grade level, which was not acceptable

in the 21st century. Mr. Gibbons said the situation still persisted, despite a 169-percent per-pupil inflation-adjusted increase in spending since 1959.

Mr. Gibbons recalled a member of the Committee had asked at what level spending would be if the cuts were made, and the reply was it would equate to the level in the 1990s, which wasn't a bad decade all things considered. If the state eliminated every single appropriation to K-12 education, funding would still not be at the 1959 level; property taxes would still have to be dropped by another 20 percent. He stated that in 1959, per-pupil spending was \$420, which when adjusted for inflation, was about \$2,990 per pupil in 2007 dollars, so education funding had grown a great deal, but the results students in the state deserved had not been seen. Mr. Gibbons remarked that members of the Legislature, especially minorities, needed to question funding and maintaining the status quo. What had it done for their communities and what would it do for their communities in the future? He said alternatives such as charter schools, virtual schools and expanding the state's empowerment program should be considered. In conclusion, Mr. Gibbons said that while looking at the budget cuts, the Legislature needed to also look to the future in trying to figure out how to use the scarce resources more effectively in order to provide the high-quality education students deserved.

Mark Coleman, Clark County Association of School Administrators and Professional and Technical Employees, testifying from Las Vegas, stated his association would prefer at this point not to be pursuing a waiver. He had heard the earlier testimony and was well aware of some of the concerns expressed by the superintendents, and a waiver on textbooks and minimal expenditures certainly was warranted. However, before making changes to the NRS, he would recommend the bargaining units around the state have the opportunity to resolve the issues. Mr. Coleman said he could not speak for the other bargaining groups, but the association was very sensitive to the needs of the Clark County School District and would like the opportunity to at least address those issues through the negotiating process before changing statutes. He was in agreement with Ms. Warne's comments that sometimes there was additional money within a district that might not be spent in the best direction, and that money could be redirected to help solve some of the economic problems faced by the district.

In conclusion, Mr. Coleman said NRS 288 provided a process which needed to be followed, and that process allowed two different parties to disagree and it allowed for arbitration. The key would be for the districts around the state to start entering into the negotiating agreements with their bargaining units so if there were issues not being resolved, they could be resolved before getting too far along into July and August when the cuts would have to start taking place. On behalf of the association, Mr. Coleman respectfully requested that the waiver not be granted and the bargaining units be allowed an opportunity to deal with the issues.

Cochair Mathews announced the conclusion of testimony on Agenda Item B relating to K-12 education. She thanked everyone for their comments and said that they would be taken into consideration as the Committee made its deliberations concerning the inevitable cuts that would have to be made.

*C. REVIEW OF PROPOSALS FOR REDUCING SPENDING RELATED TO THE
NEVADA SYSTEM OF HIGHER EDUCATION (NSHE).

Assemblywoman Buckley wanted to extend thanks to the students for attending in Carson City and Las Vegas. She said the Committee knew they were in attendance because they cared about the University System, and she assured them that the entire Legislature would do all it could to protect the System. She explained that 54 percent of the state's budget was allocated to education, 30 percent went to human services and 10 percent went to public safety. Having a \$900 million shortfall was very tough; cutting every General-Funded state employee would result in a \$600 million reduction, and the current shortfall was \$900 million. The University System had experienced cuts in the last budget; a 34-percent reduction had been proposed, but the Legislature had reduced it to 12 percent. Assemblywoman Buckley said the Legislature was going to do its best to make sure that students still had access to higher education. There would be some cuts, but attempts would be made to find different revenue to lower the cuts in order to provide a high-quality education. She noted that she graduated from UNLV, and most of the Committee members came from Nevada schools. She reiterated the Committee supported the students and again thanked them for taking the time to express their support for the University System.

Cochair Mathews welcomed Dan Klaich, Chancellor, Nevada System of Higher Education.

Chancellor Klaich introduced Mark Stevens, the former Assembly Fiscal Analyst who now worked for the University System, and Vic Redding, Senior Budget Officer for the System.

Chancellor Klaich said he appreciated Assemblywoman Buckley's comments and support. He thanked the Committee for the opportunity to be heard; members had received a copy of his proposed remarks as well as the accompanying PowerPoint presentation (Exhibits E and F). He had given his presentation to the Board of Regents the previous Tuesday, and he was approached after the meeting by someone who remarked that he had played it well and had used the situation to absolutely maximize the damage to the System. Chancellor Klaich said he was offended by the comment; the reality of the situation was bad enough without it being exaggerated. He believed he and the Committee had agreed that they would tell each other the truth as best they knew it and provide clear and concise information. He was not trying to make anything look worse than it was; he read the numbers that came out of the Economic Forum just like Committee members did, and it looked to him like a 22 percent reduction. He understood that the number might be slightly high, but it was still above 20 percent, and until he heard a different number and a significant discussion of taxes, he would deal with the 22-percent number, as would the Committee.

Chancellor Klaich said he and the System presidents had started the odyssey to the Board of Regents' meeting and today's Committee meeting right after New Year's when they could get a careful look at the deteriorating numbers, and it became clear that

action was not only appropriate, but absolutely necessary. Planning began for budget reductions in the neighborhood of \$350 million, which was the 8-percent level, which seemed to be a reasonable assumption in the early days of January, although he might have been conservative at the time. Chancellor Klaich said System officials had been in constant contact with each other since that time trying to put the impacts together for today's presentation, but as Committee members were aware, the System's world turned on its head on January 22 when the Economic Forum met and said that not only was his number conservative, it was not even in the realm of reality today.

Therefore, Chancellor Klaich continued, instead of discussing 8 percent and \$350 million, today the discussion was about well in excess of \$800 million, which equated to very high percentages. He said it was critically important that Committee members understood, and judging from the earlier comments he was sure they did, the cuts would simply mean unwinding a decade of progress that the Legislature had fought for and the System had worked for, and in many instances, people had spent lifetimes working toward. Chancellor Klaich thought it was necessary to state some obvious propositions, one of which was how absurd it was to try to be unwinding the level of work in the system in the short weeks available to the Legislature. He remarked there had to be a law of unintended consequences that would come home to roost. He was not saying that in terms of assigning any blame – he was just saying that the System could not do the job before it any better than the Legislature could do the job ahead of it and understand exactly what the consequences would be. It was simply too much, too fast, and too destructive. However, he added, the System would do the best it could.

Chancellor Klaich said although he knew the Committee was aware, he wanted to again point out that the proposed cuts were on top of a series of debilitating cuts already made over the past couple of years, and the cumulative effect of those was unfortunately approaching the level referred to by Speaker Buckley, which the System had been working upward from since the beginning of the 2009 Session. He also noted the cuts would come on top of impacts that had already occurred at the campuses; tutorial centers, writing centers and career placement centers had been cut. There were over 700 positions in the system that were no longer there; slightly over 9 percent of the workforce was simply gone.

Chancellor Klaich remarked Committee members were close to their constituents, and they knew that the cuts had occurred at a time when the constituents were saying they needed education, and particularly higher education, more than ever. There were so many people on the unemployment rolls looking to upgrade their skills to get back into the job market in order to move from the unemployment rolls into gainful employment where they could have dignity and respect. He said the cuts were being made at a time when education was most needed.

Although the System was surprised by the number, Chancellor Klaich did not want Committee members to think System officials were not mindful of the financial situation of the state. The presidents, who were all in attendance to answer any questions, were managing their institutions with one eye on the education and one eye on the budget,

simply in the same fashion citizens were doing with their households and businesses. Travel had been cut, hiring had been frozen, and maintenance had been deferred; everything was being done that prudent people would do, but the savings incurred by those day-to-day actions were in the low to mid-single digits and could not possibly come close to the cuts that were needed. Chancellor Klaich wanted Committee members to understand that higher education in Nevada was changing in 2010 and it was changing for the worse. There was no other way to say it.

Continuing, Chancellor Klaich said that regardless of some opinions he had heard to the contrary, he did not see any easy way to make the cuts. He was representing higher education, and he knew members of the Committee had responsibilities beyond the System's cuts. Higher education represented a significant portion of the budget, yet only one portion of the budget, and the Committee had the same responsibilities as the System, except multiplied by five.

Chancellor Klaich knew Committee members had no easy decisions and he did not envy their job, but he applauded them for looking outside the box and considering everything possible to reduce the number, which, quite frankly, was one of the things the System was asking the Committee to do today. He requested that the Committee do everything possible to bring down or defer the System's reduction percentages before anything was passed across the board. The Governor had been requested to do the same, and suggestions had been passed along to him.

The Chancellor encouraged the Governor and the Legislature to act across the top to the extent possible. From the System's standpoint, the Chancellor said he would pledge to do the same thing. The System would look at ways education was currently offered, particularly in the major urban areas where there were multiple centers, and the goal had to be how to use 100 cents of every dollar received from the state to maximum efficiency with accountability and transparency back to the Legislature so that members could be confident that when the System was given a dollar, a dollar's value would be returned to the taxpayers. Chancellor Klaich further stated that after the Legislature did what it could at the top, cuts would be passed through to the individual campuses.

Chancellor Klaich wanted the Committee to realize the magnitude of the potential cuts, and he referred to page 7 of [Exhibit F](#), which displayed budget cut options for meeting reductions of \$110 million annually that included closing institutions and programs in the System. He wanted to be clear that he was not asking the Committee to make those kinds of cuts, and it was certainly not the intent of the Board of Regents to do so either. However, the options as outlined gave a perspective of what the cuts would mean when translated into higher education, i.e., closing down multiple campuses. State funding in higher education would be rolled back to about the 2002 funding level. Chancellor Klaich noted that since that time, Committee members had participated in the growth of the state, which included enrollment of an additional 20,000 students in the System of Higher Education, while the Legislature supported the budgets and helped them grow.

In another attempt to quantify the impacts, Chancellor Klaich said \$110 million could be found in payroll. Payroll could be reduced by about 20 percent, an additional five furlough days per month on top of the one in existence could be mandated, or positions could just be cut. He said an average salary of the positions throughout the system was calculated, which equated to the \$110 million from the top to the bottom and resulted in 1,290 employees. Chancellor Klaich remarked that 1,290 jobs lost was not 1,290 jobs lost; it was probably closer to 1,600 or 1,700 jobs lost because that money would be pulled out of the economy, and the multiplier effect was the people who lived and survived on the dollars that went into the economy from those lost jobs were also going to lose their jobs. If the entire multiplier effect was applied to the state as a whole, if \$900 million was pulled out of the state's economy, more than 4,000 jobs would be lost. Chancellor Klaich said he was trying to emphasize the impacts, because while in many ways he understood what was being done, he felt the cure was worse than the disease, and what would occur would not solve the problem, but make it worse.

Continuing, Chancellor Klaich said another option would be to turn to the students to fill the \$110 million hole, which would mean across-the-board fee increases of about 48 percent. An undergraduate Nevada resident student at UNLV or UNR taking a full load, and probably working at the same time, would pay an additional \$2,200 out of his or her pocket every year to continue on. That assumed that fees could be raised to that extent and that all students could still afford to go to college or would go to college. Chancellor Klaich said he did not believe those were correct assumptions.

Chancellor Klaich's other concern when he thought of balancing the budget with fees was the number of low-income and under-represented citizens and the already terribly low rate of need-based financial aid in the state. If fees were raised to levels even approximating the amounts shown on the slide (page 10, [Exhibit F](#)), there was the possibility of creating what he thought would be a permanent under-class in Nevada, and higher education would not be serving exactly the students it should be serving. He said education should be helping people move to the middle class; that was what education was about in the broadest terms of American education; that was what was done with the Morrill Act and the G.I. Bill – people were helped to educate themselves into the middle class, not cut themselves out of the middle class, which was what would happen in this case.

Chancellor Klaich said within the limited time since first hearing the numbers from the Economic Forum, he had worked with the presidents and asked them what their institutions and the System would look like with 22-percent budget cuts across the board. The next two slides (pages 11 and 12, [Exhibit F](#)) reflected their responses:

- Students would be denied access, turned away, slowed down, turned off. Nevada was already 50th in the nation, and the probability that a student now entering high school would graduate on time with a baccalaureate degree from a college or university would be more remote than ever.

- The size of the faculties would change and, of even more concern, the quality and integrity of the faculties would change. There was no way to serve students as budgets decreased unless more and more part-time and adjunct faculty were used. Chancellor Klaich said part-time and adjunct faculty were relied on to a great extent within the System, and they were an important and critical element to the System's ability to offer quality education. However, the base of the faculty had to be built upon full-time, and as the ratios were eroded, the very nature and core of the state's universities and college would be changed.
- Externally-funded research would have to suffer, because those grants and contracts came from the cream of the crop in the System. The System worked hard to recruit those people to convince them to come to Nevada and be part of the state. But, Chancellor Klaich pointed out, those people had options, and those with options who got the competitive grants would be leaving, along with large amounts of funding. He said he was certain grants and contracts would be lost, as well as the best faculty at the top of the System who obtained the grants.
- Entire colleges at UNR and UNLV would be closed, as well as program centers, units and significant outreach centers in rural Nevada.
- Operations and maintenance expenses would likely be deferred, which would create a larger due bill for future generations as the infrastructure decayed.

Chancellor Klaich told the Committee that he truly believed the cure would put the System in a place it did not want to be; it would place it on a trajectory that no one wanted; and it would lead to a Nevada that no one would want. He was not talking about just higher education; he was talking about the public schools and the partners heard from earlier, and he was talking about critical social services and public safety. He said those were the services government was all about that should be provided efficiently.

Chancellor Klaich remarked that a current topic around the System had been financial exigency, which was something he did not want to do. He thought it would put a black eye on Nevada and on education in Nevada. It would say the System could not meet its bills, and it would hurt recruiting and keeping children and grandchildren in the state, because it would say the state was not doing the best job it could. However, if the System experienced cuts of the magnitude being discussed, there would be no choice but to declare financial exigency.

Chancellor Klaich hoped that at the point the Committee made the tough decisions it would have to make and the System was given a solid number for planning, the System would be given significant flexibility and autonomy in how to implement the cuts. He had trust and great confidence in the presidents of the institutions; they were closest to the ground and would know how to make the cuts while doing the least damage. He recalled there had been much discussion during the 2009 Session concerning the possibility of carry-forwards within the biennium in the event the budgets were prudently

managed. He was aware of the need to balance budgets, but he encouraged the Committee to allow some flexibility in that regard; it would be deeply appreciated and of enormous help.

Continuing, Chancellor Klaich said the System did not think the process was going to be business as usual; it was going to involve painful changes to the institutions. He told the Board of Regents, and he was telling the Committee, this was the best, nicest and most positive meeting to be held on the subject. It would go downhill from this point forward, because everything that would be cut had a constituency, and everything that would be cut had a story, and all of the stories were good and positive. Referring to the adage that "God doesn't build junk," he emphasized that the Legislature had not built junk – it had built good things, and good things were going away. When they did, the members would be calling him, but he said they would have to remember today's discussion, because it was downhill for everyone going forward.

Chancellor Klaich thanked Committee members for their time, their attention and their past support. He did not envy their jobs, adding that he thought the state was on the verge of making a very, very bad decision, and the state was turning itself in a direction that would be very difficult to turn away from. It was going to be incredibly difficult.

Senator Coffin thanked Chancellor Klaich for his presentation, remarking that he had heard many presentations from him over the years, and today's remarks were as eloquent as he had ever heard. He noted that the school districts had testified earlier that they were going to declare financial exigency; they really did not have any choice. Senator Coffin recalled that financial exigency was avoided in the 2009 Session through a lot of hard work and very risky votes to increase taxes to try to get more money for the University System. Some legislators may be in trouble because of those votes, but they cast them with the purest of motives, which was to try to get more money, and in the end, the University System was uppermost in the budget decisions.

Senator Coffin said after the 2009 Session adjourned (he noted that Mr. Klaich was not yet Chancellor), the Board of Regents met and decided not to declare financial exigency because of the extra money found during the session. He thought there were good reasons for the decision, and hopefully one was to hold the System's position as far as faculty was concerned. Legislators had received hundreds of letters from staff on the campuses, particularly over the past month, about the disparity in the way the salary decisions of the Board of Regents were made and what happened on the campuses, i.e., the lowest paid people took the greatest hit and the people who were paid the most did not share in the pain. He acknowledged the statement was a general one, but it was generally true.

If the System declared financial exigency, Senator Coffin said he could see mischief involved; difficult and subjective decisions would enter into the process. He noted it was important to protect faculty from being fired for various reasons, and people should not be singled out for layoff. He wondered if there was a way to word the financial exigency so that some of the politics that faculty feared would be removed. He asked Chancellor

Klaich to provide more detail of how financial exigency could be declared giving more protection to the faculty and perhaps removing the possibility and temptation to start terminating people as opposed to just implementing pay cuts.

Chancellor Klaich said he agreed with most of what Senator Coffin had said, and he wanted to emphasize a few of the points. First, when he made today's presentation to the Board of Regents, he pledged to do whatever needed to be done in terms of code changes which would facilitate this declaration in the least drastic way possible and with the least harm possible, which he thought was the driving motivation of the Committee members as well. He recalled that when S.B. 43 was passed, which implemented furloughs essentially across the board, it included a special provision for the University System that allowed some flexibility in implementation of furloughs. Chancellor Klaich said the policy was approached at the Board of Regents' level to impose mandatory furloughs on every person possible without a declaration and without breaking a contract. He remarked that some of those decisions internally were tough. There were several employees who took voluntary furlough days, but those instances were more a lead-by-example action by senior administrators, including himself and the presidents. He said the policy could not be made as broad without a declaration.

If something was to be done on pay this time around, Chancellor Klaich's recommendation to the Board would be that everyone would be included, period. He was committed to doing whatever was required to accomplish that policy, noting that he could only make a recommendation and would not have a vote in the matter. However, he did not think that at this point in time, anyone should be exempt from a decision. There were many ways to deal with the issue in terms of current pay, retirement pay, whether it should be progressive, should there be a floor, and all of those were great questions. He understood that a lot of people in the System lived paycheck to paycheck, and it was important to try to protect those employees. However, he added, the Legislature would have to first make decisions, and then the System would have to implement them. Every decision, in addition to fairness, equity and justice kinds of issues, would have dollar signs attached. Chancellor Klaich said he was absolutely convinced that although there may be some legal and reputational risks to the System, this could not be a time when anyone was exempt if most were touched.

Senator Coffin said he appreciated Chancellor Klaich's sincere comments. In the past 28 years he had served in the Legislature, staff, faculty and administrators had all pulled together.

Chancellor Klaich clarified he was not saying that he would stand up for across-the-board pay decreases; that was not what he was advocating. He thought the first impact would be to lose the best at the top and cause a disproportionate impact on the quality of the institutions.

Assemblywoman Gansert thanked the University System officials for their attendance, adding that it was important to note that the Committee truly supported the higher education system. Many members were graduates, had family members who were

graduates and/or had plans to send their children to school within the System. It was also recognized that the System was the cornerstone of economic development in a thriving state. Assemblywoman Gansert wanted to ask how the Legislature could help the System survive the fiscal crisis. She had talked to System staff about the possibility of differential tuition and about keeping all of the tuition instead of returning it back to the state if fees were increased.

Chancellor Klaich responded that Assemblywoman Gansert's question fell into the category of how self-help could be maximized. He wanted to answer her by saying the Legislature could help most by minimizing the cuts to higher education, but he knew that was not the question.

Assemblywoman Gansert said she knew the Legislature would try its best to minimize the cuts; she believed that of all the divisions, the University System had the most opportunity to have more control over its destiny in the way it was structured.

Chancellor Klaich acknowledged that the Legislature would make every effort to reduce the cuts, and he suggested that the kinds of action taken when closing budgets in the 2009 Session would help in this crisis. He recalled that last session, the Legislature allowed the campuses to control 100 percent of the surcharge; the funds were built into the state-supported operating budget, but the actual expenditure of the funds was left to the discretion of the campuses. He had discussed the concept of carry-forward funds, which were particularly critical for the smaller community colleges which worked on a tight margin. Differential tuition would be a matter of Board of Regents' policy, but such things as incentivizing by allowing institutions to keep out-of-state tuition, particularly the two universities, would be helpful. Chancellor Klaich explained that currently all out-of-state tuition was returned to the General Fund, and through the complexity of the formula, was essentially not retained at the institution where that out-of-state tuition was generated. He said the issue became a bit of a balancing act, because the campuses were built with Nevada dollars and they were built for Nevada students, and he believed the primary obligation of the System was to the sons and daughters of Nevada citizens. However, he added, the institutions could help themselves by bringing in out-of-state students and retaining that tuition, which would incentivize the campuses. There could be some discussion about a proper level of funding, but that would be another way of helping the situation. Chancellor Klaich said he would have staff prepare a longer list of suggestions and submit it to the Fiscal Division.

Assemblywoman Gansert said she would appreciate that, because she thought the Committee was trying to find whatever alternatives were available to help higher education through the crisis; the University System was extremely important to everyone. She asked if the carry-forwards was typically money that was reverted and if Chancellor Klaich was requesting to move annual remaining balances to the following year.

Chancellor Klaich replied Assemblywoman Gansert was correct, adding that those dollars might possibly be used to create some type of rainy day fund for higher

education. He said IFC approval could be required to expend the funds; the System was not looking for ways to avoid accountability for how state dollars were spent. Instead, it would be a method of incentivizing good behavior by institutions at year end.

Senator Raggio referred to the suggestion of flexibility, or the discretion of each institution to determine how best to address the level of cuts that may be mandated, saying the first issue to strike his mind was that flexibility would not result in differential tuition for like campuses or like student fees. He hoped that would not become distorted across the system. If he understood Chancellor Klaich's remarks, flexibility would be something that the Board would insist be consistent across the System.

Chancellor Klaich thanked Senator Raggio for the question, adding that he was not clear enough in his response to Assemblywoman Gansert's question. The Board established a tuition and fee committee every biennium to set its fees, and then discussions were held with students at every campus. There was currently a mathematical formula that did not make sense and no one understood, and it was usually ignored when setting fees. This year the committee set aside the formula and held discussions concerning what made sense for tuition and fee policies, and the issue of differential tuition came up. The committee referred the issue with a positive recommendation to the Council of Presidents and on to the Board of Regents. As part of the recommendation, there were two critical items: 1) It was important that students stayed involved in differential fee setting; and 2) it would be limited to upper-division courses and the concept of likeness in courses among institutions would be built into the policy. If there was a differential tuition for upper-division nursing courses, it would apply to all campuses that had upper-division nursing courses, so that students would not be making economic decisions about their career paths by comparing fees among campuses.

Senator Raggio was also concerned with the formula funding; he supported the concept of the discretion that was probably warranted during this time, but he hoped it would not be implemented or utilized in a way to distort the formula. He recalled that had occurred several times in the past, and then the formula would be determined unworkable. Senator Raggio cautioned that if discretion was granted, it not be utilized to put into some argument or as some basis for suggesting that the formula was not working. He was aware that the issue of whether to take another look at formula funding was still out there.

Cochair Mathews said she would not comment on the formula, because she had worked at a college in the System that suffered because of the formula. Every community college in the system except Truckee Meadows had a rural factor, which was made up for in the formula; she believed formula funding should be looked at again.

Assemblywoman Buckley said one idea she had heard was to allow charging more tuition for courses that cost more, such as nursing and engineering. Chancellor Klaich

affirmed she was correct, adding the areas discussed were higher-cost and higher demand programs.

Assemblywoman Buckley asked if the Chancellor had any other specific suggestions, besides keeping reversions and creating a rainy day fund, of how the Committee could help the System.

Chancellor Klaich replied one item that might be addressed would be the 2005 letter of intent ([Exhibit G](#)), which had been reissued in subsequent legislative sessions, regarding the Legislature's concerns with allocation of student registration fees to the NSHE state-supported operating budgets.

Assemblywoman Buckley replied she had already noted that as an item of concern, adding she was certain the Legislature would be willing to work with the System on the issue.

Chancellor Klaich said at a point when there was more time for discussion, which certainly would occur within the next month, the System thought it would be appropriate to approach the Legislature with a more rational compact for sharing the cost of higher education that currently existed. He suggested the System have a good solid philosophical discussion with the Legislature concerning what was a fair share for students to pay and how the state's share could be best utilized. He added that would be more likely be a discussion for session and/or interim, but it would be important.

Continuing, Chancellor Klaich said the System had issues with the State Public Works Board. He liked Gus Nunez and Chris Schimitz, and he liked working with them, but he felt that sometimes there were unnecessary add-ons to the cost of construction within the System. He remarked that might have been a luxury in the growing economy of the last 15 years, but there were no longer any luxuries, and he suggested that was another issue that could be considered.

Assemblyman Hardy said in talking with educators, they had been interested in exploring some of the public/private partnership, privatization, research institution, endowment kinds of things. He asked if something needed to be done statute-wise to allow the System to embrace the public/private partnership concept, the privatization of some activities, and bringing in endowment funds, or give the System more autonomy to pursue private-sector funding.

The second phase of Assemblyman Hardy's question concerned tuition and how long it took a student to get from matriculation through graduation, recognizing that it would be desirable to shorten that time to four years instead of the more usual five or six years. He asked Chancellor Klaich to discuss the concept of a student paying a flat tuition fee for 12 credits, but being able to take 13, 14, 15 or 16 credits to encourage him to be a serious full-time student to get through the System faster and therefore spend less money and time.

Chancellor Klaich replied that the statutes and private financing for higher education were probably good. He suggested that lease opportunities in the state should be looked at to see if they could be monetized and buildings could be built to get space cheaper and create jobs in the process. With respect to endowments, Chancellor Klaich said the Legislature had statutorily done everything needed to authorize them and allow the System to proceed.

In response to Assemblyman Hardy's second question, Chancellor Klaich said tuition plateaus had been discussed, and an intensive study was conducted by the last tuition and fee committee. The study revealed that more states were abandoning plateaus than adopting them. He said the System had worked with the Fiscal Division to try to figure out how that concept would work with the state, and it was not necessarily cost neutral, it did not seem to appropriately drive behavior, and it would probably only work at the universities. Chancellor Klaich said the issue was not dead and it would be revisited, but initially it appeared to be unworkable.

Referring to the public/private partnerships, Assemblyman Hardy offered a possible scenario in which a Cleveland Clinic came to Nevada and wanted to be a participant in the medical school. He asked if a door needed to be opened to allow a private institution to partner with the System and share brick and mortar in exchange for resources and a portion of ongoing operating expenses.

Chancellor Klaich responded the System had latitude at this point within the programmatic offerings and status to do that. He thought the broader question, which was now being discussed as a result of the magnitude of the cuts and was built around today's tuition questions, would be whether there was a way to move an entire institution to a more privatized model. While he was prepared to keep an open mind and consider the pros and cons, he needed some convincing on the question. Chancellor Klaich believed in the public good of public education, he believed in the access mission of the System's institutions, and he thought the System should try to serve as many Nevadans as possible. He was concerned about moving to a privatized model that might not share his beliefs, but he did not have a closed mind on the concept.

Continuing, Chancellor Klaich said he had traveled to Maryland to meet with the Chancellor of the Maryland system and his staff. Maryland had been extremely effective in leading an initiative that was being seen more often in education and one that he thought was overdue and required by all. The initiative, which went by the buzzwords Effectiveness and Efficiency, had been discussed by the Board of Regents, but it had not yet been started. He said it was something the System was going to do, but it was not a budget-cutting tool. In its best incarnation, the Legislature would direct the System of Higher Education to be as efficient as possible and take the money it was saving by eliminating redundancies and inefficiencies and reinvest them in quality and the core of the mission in order to eliminate reliance upon the state. However, Chancellor Klaich remarked, in these times, they would be mandates. He said the System needed to look at things that had been done as a matter of course over time

and ask if they still made sense. Were there duplicate operations in business, purchasing, human resources, programming – in anything? He hoped the relationship of credibility the System was trying to build with the Legislature would allow the System to be thought of as an investment, and hopefully a good investment. Chancellor Klaich believed the concept would be critical over the next six months, and it would be a culture change in higher education where everything would be looked at as if every dollar was coming from the System's pocket.

Senator Horsford said obviously everyone agreed that the only way to grow the economy or recover quickly from the economic recession was based on the ability to have a strong education system, both K-12 and higher education. He noted that because of the level of cuts in the 2009 Session and the levels under consideration now, the Chancellor had suggested the discussion had to change from the standpoint of where education had been to where it needed to be going forward. Senator Horsford asked Chancellor Klaich to address four items of concern:

- The criticism of the lack of required teaching assignments and the balance that was required, particularly at the university level, with research. Senator Horsford believed that from the public's perspective, as well as from some Committee members, there tended to be questions about the requirements for faculty. He thought it was important for the public to understand what was required in both teaching and research.
- Senator Horsford had received a lot of input, emails and correspondence from university personnel about the furlough issue. For some reason, furloughs had not worked in higher education as well as in other agencies. He wanted to understand why that was and if there was anything the Legislature could do to help improve the process.
- Related to the teaching and research requirements, because the merit increases were not funded, what was the process for how performance requirements were being stressed? If performance was not being rewarded, was evaluation something falling by the wayside or being put on the back burner at a time it needed to be showcased the most?
- Under the recommendation that some of the technology centers be closed, what would happen to those facilities if they were closed and left vacant? What other buildings would become vacant due to closure of programs?

Senator Horsford noted that some of the questions were similar to those asked of K-12 education. Ultimately there would be cuts, but he wanted to understand the approach that would be taken. He understood there would be a balance of actions as the Chancellor had outlined, but ultimately he wanted to be able to answer questions from students, faculty, the public and the business community about what the cuts would mean to the state's ability to grow the economy.

Chancellor Klaich said he would talk about approach before addressing Senator Horsford's four points. He had the opportunity to meet with the Assembly Majority Leader, John Ocegüera, earlier in the month, and they had discussed approach. Assemblyman Ocegüera asked some questions that made an impression the Chancellor wanted to share with the Committee. He indicated that when talking about programs, issues, and decisions to be made, Assemblyman Ocegüera wanted to know four things:

1. Within a program coming from an institution, was there collaboration within the institution?
2. If there were programs in more than one institution in the System, was there collaboration across the system for maximum efficiency?
3. Was the System collaborating with business where programs related to business, as they all should?
4. How were these items coordinated with the goals of the state?

With respect to Senator Horsford's question of approach, Chancellor Klaich said to the extent that programs could not meet the tests, which he thought were reasonable, he expected them to be at risk. He remarked that was a very broad statement with respect to very complex organizations. Each of the campuses had their own committees dedicated to budgets and budget cuts, and they would have to weigh those concerns on their campuses. From an approach standpoint, Chancellor Klaich thought the presidents would try to protect the core of their mission, and the programs that could not meet the tests, could not meet the core of the institution's mission or were possibly low in enrollment would have to fall by the wayside.

Turning to Senator Horsford's first concern regarding workload, Chancellor Klaich said he would not make any apologies for the work ethic or workload of the faculties. He said faculty was an issue of national standards, and Nevada met and exceeded national standards in all workloads, which were audited annually. Workloads across the campuses varied from offering to offering, but workload standards were met on every campus throughout the System.

Chancellor Klaich stated that furloughs seemed to have been a disaster at the Nevada System of Higher Education, and he was not 100 percent sure why. From his perspective as well, furloughs had created an enormous management problem. He would schedule work and wanted people to be at work and working hard every day. The issue was worse at the university level because of contracts, tenure and different classes of employees. There was an issue of whether grants and contracts employees should be furloughed even though money would not be saved. If they were not furloughed, would it cause a morale problem? If they were furloughed, was it necessary to send money back to the federal government? Chancellor Klaich pointed out the System was a complex organization with many different kinds of employees and different policies, notice requirements and contract provisions. The net result was the System was not able to, and did not, in an absolute, fair, across-the-board manner,

impose furloughs on everyone, and furloughs were imposed on some employees who didn't think they made sense in the first place.

Senator Horsford affirmed that the Board of Regents had ultimately adopted the furlough policy. He asked if going forward, Chancellor Klaich was suggesting that furloughs not be followed and that there be a wage reduction.

Chancellor Klaich said he would not propose a wage reduction for consideration, but he stated that furloughs did not work, and he encouraged the Committee, on behalf of the System of Higher Education, to stay away from additional furlough days. He believed they created more problems than they solved; they were not a good tool for the System.

Senator Horsford said he would need to hear alternatives that the Board of Regents and System could pursue as recommendations were formulated for the Legislature's consideration. Chancellor Klaich replied everyone knew the alternative to furloughs was pay cuts.

Chancellor Klaich introduced Neal Smatresk, President of the University of Nevada, Las Vegas (UNLV), noting that they had discussed the integral nature of an energized and engaged undergraduate curriculum and research function feeding off each other. Since President Smatresk directed a research institution, Chancellor Klaich said he would be best qualified to discuss the issue of research.

President Smatresk said he was aware there were a number of concerns revolving around the phrase "research university." He submitted that the phrase may not adequately describe what the university did; there was no gap between teaching and research. For example, a biologist with three or four active grants may be bringing \$1 million to \$3 million a year into the university, and those funds could be used to:

- Purchase cutting-edge equipment that students would be able to use.
- Support graduate students seeking master's and Ph.D. degrees.
- Support undergraduates who had the privilege of working in the field and gaining experience in the latest state-of-the-art techniques.

President Smatresk explained the expenses were heavily borne by the funds generated by that faculty member, but the results were unquestionably that they produced a superior educational experience that allowed students to gain the highest level of achievement on a national scale. He said the research faculty member spent a lot of effort on one-on-one mentoring of students, which while expensive, was the most singularly effective mechanism for educating students – the personal attention that everybody hoped to receive in a college environment.

President Smatresk said the engaged faculty member who was involved in creative activity, performance or research was a far more passionate advocate for his discipline and had the ability to relate what was going on in that cutting-edge world to his classroom. The benefits of a very highly-engaged faculty on the teaching mission of the

university were enormous, aside from the cash benefits, the grant funds, the extra educational opportunities, the equipment, and the overhead that helped to run the university.

President Smatresk went on to say that in the university's audited workloads, the average faculty member was teaching three classes a semester, and the average workload since 2006 for tenure-track faculty across the board had increased 21 percent. Therefore, the university had a hardworking, dedicated faculty that had rolled up their shirtsleeves in the face of the current shortfall to help ensure continued service and success to the students who had come to the university. President Smatresk said he could not brag enough about the job the faculty was doing, and he thought that was a point of pride. He said faculty could be found at Stanford, USC, Berkeley and UC-Davis who were no better than the university's doing the same kind of things that Nevada's faculty did, and they were national claims to fame for those campuses.

President Smatresk remarked the state should celebrate what the University of Nevada, Reno and the University of Nevada, Las Vegas brought to Nevada in terms of reputation. He noted that the cuts being discussed made the faculty fear that the state was no longer committed to higher education, and he warned that good faculty could be poached. University faculty were being called every day and being given rather nice offers from other states that were more fortunate than Nevada right now, and the universities needed to do everything possible to keep high-quality faculty in the universities to avoid a brain drain that could set the state back. President Smatresk believed Nevada's faculty worked as hard as or harder than comparable faculty anywhere in the country.

Dr. Mark Johnson, Executive Vice President and Provost at the University of Nevada, Reno, noted that all faculty were evaluated each year against a role statement, which signified what portion of the faculty member's time was to be spent on research and what portion was to be spent teaching. Different people did have different responsibilities for teaching and research, but the standard was 40 percent teaching, 40 percent scholarship and 20 percent service. He said the 40-percent teaching load was currently six courses per year, plus research, and faculty members were evaluated on the quality of both. Those heavily involved in master's training had a five-course-per-year load, and those involved in doctoral programs with one-on-one student contact carried a load of four courses per year. Dr. Johnson added that the teaching loads at Nevada universities were actually higher than competitors; many of the fine science universities around the country had a two-course load per year for faculty who were doing research and graduate student training.

Dr. Johnson said in the last fiscal year, the University of Nevada, Reno brought in \$106 million in research and service grants, and most of the money was spent discovering things, doing service for Nevadans and hiring well-educated people and bringing them into the Reno area community to develop the economy in the state, which virtually made the research function an industry. The university also worked with other industries, such as Sierra Nevada Corporation, Geothermal Technologies, NV Energy

and many other companies discovering new technologies to make companies more efficient and competitive. Public and private collaborations were also entered into with the industries through contracts.

Regarding furloughs, Dr. Johnson said when the Board of Regents adopted the furlough policy, everyone was affected, but due to contracts, not everyone was affected in the first year. It was outside the Board policy that all classified workers in the State Personnel System took furloughs immediately. The other staff on contract, except for the tenured employees, had to take their 4.6-percent unpaid leaves in the second year and into the future. The tenured staff were required to show that they had a 4.6-percent increase in workload.

Dr. Johnson explained part of the budget reduction involved cutting temporary instruction last year, and in order to test whether the tenured staff were on track for a 4.6-percent increase in workload for the next year, a fall 2008 to fall 2009 count of student credit hours generated by tenured faculty was conducted. Between fall of 2008 and fall of 2009, credit hours were up 19 percent, and across all regular faculty, the count was up 13 percent, so the number of students taught by regular full-time faculty had increased substantially.

Senator Horsford's third question related to how performance was being evaluated. Dr. Johnson said the university had continued to require annual evaluations in which the chairs and deans evaluated each individual faculty on their performance. He said all deans, chairs and faculty had been told that their performance measures were being counted, and if it was three years before another merit increase was granted, then the merit scores of the previous three years would be averaged to determine the next merit score. Dr. Johnson said that procedure was implemented to ensure that merit scores would mean something every year, even during the time when raises were not granted.

Returning to the issue of research, Dr. Johnson wanted to point out that in order to maintain some of the high-quality researchers that brought in the money and did a great job teaching graduate students and undergraduate students, the university operated in the national market. The day before he had received a resignation letter from one of the top biochemists who brought in millions of dollars in grants, hired graduate students and did a good job teaching undergraduate students. He thought this individual had a nice retention package, but the last line of the resignation letter read, "I'm afraid that the University of Nevada will be unable to fulfill the promises you have made." Dr. Johnson said that level of uncertainty was already making it difficult to maintain some of the top faculty positions.

Dr. Johnson stated it would be very important not to cut salaries greatly across the board, or the state would leave itself in a non-competitive position to hire faculty in the national market. He said the University of Nevada, Reno was prepared to do more vertical cutting and become a smaller university with fewer programs, but it wanted to maintain the programs in a very strategic fashion in order that quality could be maintained and grown in the future. In order to come out of the recession with strong

universities, Dr. Johnson said there must be strong programs; there would not be as many programs, but those the university would have needed to be strong.

Referring back to an earlier question from Senator Horsford, Chancellor Klaich stated that in addition to pay cuts and furloughs, more autonomy was an option the institutions would like to see considered by the Legislature.

With respect to Senator Horsford's question regarding technology centers, Chancellor Klaich said he could not provide a complete answer. A survey of all properties was being conducted to determine associated costs, i.e., leased properties, zoned properties and what could be saved in operations and maintenance. All the information was being compiled in order to make intelligent decisions. He apologized for not having an answer at this time.

Mike Richards, President, College of Southern Nevada (CSN), testifying from Las Vegas, wanted to make two points. First, he wanted to put a positive word in for faculty at the community colleges. Typically they taught 10 courses a year, and many of them who were tenured spent time writing textbooks and doing other scholarly work that brought credit to their institutions, themselves and the state of Nevada. He added those accomplishments were sometimes overlooked. Second, in response to Senator Horsford's question regarding technology centers, President Richards said that 3 years ago, CSN operated 13 centers, which was done basically by embracing the college's access mission. The centers were seen as opportunities for people to have access to educational opportunity. He said the college was steadily retrenching the 13 centers; 2 were closed, and the complexion of 2 others had been changed to become largely self-supporting. President Richards said the budget cuts currently being considered would force CSN to steadily cut back on access.

Cochair Mathews asked if other institutional presidents would be testifying, particularly the Desert Research Institute; she hoped to hear from each of the different kinds of institutions. Chancellor Klaich replied the presidents were present and available to testify. He noted that Dr. Mike McFarlane was sitting in for Dr. Carl Diekhans, President of Great Basin College, who had triple bypass surgery a week before but was doing well. Also in attendance were Dr. Steve Wells, President of the Desert Research Institute, and Dr. Fred Maryanski, President of Nevada State College.

Dr. Steve Wells, President of the Desert Research Institute (DRI), wanted to add one comment relating to President Smatresk's remarks before addressing budget issues. He said research was obviously the core mission of the Desert Research Institute, but to counterbalance research, DRI staff taught significantly at UNR, UNLV and Nevada State College, and supported approximately 60 to 70 graduate students every year, paying \$1.5 to \$1.7 million from DRI research grants to support them. He added there was a nice symbiotic relationship on the DRI campus as well, even though teaching was not its primary mission.

Dr. Wells said the Desert Research Institute received a small but very significant amount of money from the state, which was used to help the institute utilize its monies brought in through research grants to do new initiatives and new programs, which was necessary in order to be on the cutting edge. The institute did not have many pots of money to take from for budget cuts, because DRI funds were limited, and the primary place to cut, which seemed a fair place to cut, was in administration. Dr. Wells noted there were no tenured faculty at DRI; the cuts would be made to the business operations necessary to conduct the institute's activities. Every faculty member brought indirect costs that were used to help fund the institute's activities, and if those faculty salaries were reduced, business revenue would be reduced. Dr. Wells said cuts would have to be made from state services, which had already occurred with the suspension of the cloud seeding program and would soon be done with the Truckee River environmental monitoring system. He said return of applied research funds, which was the only money available to use for match, would make it far more difficult to move into the area of renewable energy, which was requiring from 20- to 50-percent matches on all grants. Dr. Wells said more potential cuts would be made in the administrative area, but the soft-money faculty's research would be preserved in order to keep the institution viable.

Cochair Mathews thanked Dr. Wells for his overview, noting that the DRI had different functions than the universities and community colleges. She sometimes thought members of the Committee, particularly new members, did not understand the function of the Desert Research Institute and how it was funded. She was aware that the small amount of funding received from the state was a very critical part of the institute's budget.

Senator Coffin recalled that the Desert Research Institute was exempted in the budget for the reasons President Wells had discussed; it was recognized that the soft-money faculty should not be furloughed. He asked if the classified staff had been exempted as well.

Dr. Wells replied the DRI had no classified staff; all support staff were Technologists. He noted that the Technologists took furloughs in the second year, as did all of the state-funded employees.

Senator Coffin said the policy was a good one, and he would continue to support it. He thought the policy should possibly apply to other campuses as well. He asked Dr. Wells if DRI was losing people.

Dr. Wells replied that people had been lost because of their fear of the future. He added that other institutions were touring the campus and recruiting, which would continue as long as the budget situation existed.

Senator Coffin thought possibly the exemption policy should be broadened to include those faculty members who were responsible for acquiring funding for their salaries from other sources. He said the Legislature had not yet exercised all of its power over

the situation. He knew there was not an appetite for tax increases, but the public did not yet really understand what the state was facing and how the cuts would affect nearly every citizen.

Dr. Wells said he understood the magnitude of how the cuts were touching everyone's lives, and it was terrible. He wanted to point out that there were faculty at the universities funded by soft money who were very similar in terms of DRI's role as well. Even though the Legislature exempted DRI's soft-money faculty, they were impacted when other staff members were furloughed, because it was necessary to depend on them to get grants and contracts out and ensure compliance. Dr. Wells said there were people across the other institutions funded by soft money, and he felt obtaining that information would be worthwhile as well.

Dr. Fred Mariansky, President of Nevada State College (NSC), complimented Chancellor Klaich on his eloquent statements regarding the need for access in higher education. He said Nevada State College was an access institution providing access to the four-year baccalaureate degree and entrée to the middle-class. Students who were denied the ability to enroll at Nevada State College had no other option – they would not be going to California, Utah and Arizona; they would be lost to the state in terms of an educated workforce, which was a serious issue. Dr. Mariansky said NSC was committed to providing the best possible education under whatever circumstances existed with the coming budget cuts.

Dr. Mariansky said some questions from the Committee related to what the Legislature could do to help the institutions achieve their mission in a better way. As pointed out earlier, he agreed that it would be necessary for the institutions to become more entrepreneurial, and while it was too early to say what was exactly needed, it was important that the state not impede the institutions in that effort and make sure there were incentives to move forward – not only incentives for the institutions, but incentives for their partners in the state, e.g., public/private partnerships where the state might provide some incentives for private institutions to work with the NSHE institutions.

Continuing, Dr. Mariansky said the state had to realize that a big part of its future relied on alternative energy and providing, at all three levels of higher education, incentives for companies to work with them would facilitate that process on both sides. His last plea was that the Legislature review the State Purchasing processes because he did not believe that the state bought the best goods and services at the best possible price, and he thought improving the process could save the entire state money and help the bottom line.

Dr. Mariansky said the most important thing at NSC was its commitment to provide access to the baccalaureate degree. Half of NSC's students were first generation, half were from under-represented populations, and a great deal of them came from the lower two quartiles of the income stratus. He reiterated the college was committed to helping make the state a better place.

Assemblywoman Smith remarked the Committee was obviously looking for ideas and appreciated Dr. Mariansky's suggestions. She asked Fiscal staff to obtain specific information on the State Purchasing problems.

Dr. Carol Lucey, President, Western Nevada College, wanted to address Assemblywoman Gansert's question as to how the Legislature could help the higher education system. Dr. Lucey said there were many things that could be done to help, but she would start by asking that the institutions be treated as businesses. The System needed more autonomy to allow the institutions to implement good planning that would help students. She also said that carry-forwards were vital to the small institutions, which should be encouraged to build their own rainy day funds so that this situation could not happen again. A carry-forward stabilization fund would be extremely valuable to the smaller institutions, particularly when the stimulus funds were no longer available.

Dr. Lucey also wanted to respond to Senator Horsford's question about the furloughs. She thought WNC had done a good job with the furlough requirement. Administration had a frank conversation with faculty and staff; they understood that furloughs were mandated for the classified staff and that the administration's hands were tied with respect to the professional contracts. She said staff was asked to step up to the plate, and within their ability, to match the classified employees' sacrifice, and they did. All WNC tenured faculty were teaching an extra course, which translated into about 5 percent over the biennium, and all of the professionals took the 4.6-percent decrease. Dr. Lucey said many people volunteered to do more, and many were teaching more than one extra course, had expanded their section sizes and had taken on additional responsibilities, which was essential because the college had frozen its vacancies over the last three years. Staff was worried that this day was coming, and the college had taken the steps needed to prepare. However, the college absolutely could not handle a 22-percent decrease. Dr. Lucey said Carson City was a small community and because of the loyalty it had to the college and its students, WNC would make it. It would be easier to make it if everyone along the line, the Governor, the Legislature and the Regents, would give the institutions as much autonomy as possible to solve the problem themselves.

Dr. Mike McFarlane, Great Basin College, stated that discretion on how the institutions could spend funds was very important. As certain categories were eliminated, the institutions should have authority to shift available funds from other areas without breaking a law or a policy.

In relation to the workload, Dr. McFarlane agreed with Dr. Lucey that the faculty was stepping up to the plate. Two-thirds of the faculty at Great Basin College were actually working in an overload situation, which was the only way the 10-percent increase in enrollment could be handled with the reduced budget. They were working overload at a much reduced wage, there was no overtime compensation, and some were burning out because of the workload.

Dr. McFarlane said closing the college's remote sites would essentially take its mission away. Great Basin College's mission was unique; it covered 56 percent of the state, and if the remote sites were closed, the mission could not be fulfilled. He said the college was hoping for the best from the Legislature and would keep working as well as it could with what it received.

Senator Townsend thanked Cochair Mathews, Speaker Buckley and Majority Leader Horsford for arranging the in-depth testimony. He admired the patience, detail and thoroughness with which the System administrators had dealt with the issues. He believed this was the first time that higher education, as well as K-12 education, had the opportunity to talk on the policy level, even though it had been under the most difficult of circumstances.

Addressing Chancellor Klaich, Senator Townsend said the Committee had heard a consistent theme throughout the day from both components of education. He asked Chancellor Klaich to be very specific in his answer, which he did not have to give immediately.

Senator Townsend said the Committee was aware of the constitutional provisions of the Board of Regents, and when the term "autonomy" was used, the Legislature would need to know the specifics of what that autonomy would be. Specific statutes that would need to be repealed should be identified, which would help the Committee and the Legislature, as well as the Governor's Office. He said in consideration of whether it was time to give the System autonomy to manage its own fiscal affairs, including some of the reductions in revenue, a list of requirements and necessary actions that would attain the autonomy the System desired would be helpful.

Delores Sanford, Vice President of Finance and Administration at Truckee Meadows Community College (TMCC), representing President Maria Sheehan, said she did not want to leave the discussion without recognizing the importance of workforce development as part of the mission of the community colleges. It was particularly important now with the retraining that was being done for so many unemployed workers. With a private partnership, TMCC had an alternative energy lab for solar at one of its campuses, technicians were being trained, and some had already graduated. Ms. Sanford said training was also being provided under Senate Bill 152, known as the Green Jobs Initiative, and there had been a number of graduates from those programs as well. She believed that part of the college's mission was critical enough that it should be highlighted in these discussions.

Cochair Mathews said she appreciated Ms. Sanford's remarks. There were stimulus funds available for those programs, albeit they were limited, and the programs were being started at a crucial time.

Harvey Whittemore, a member of the Health Sciences System Board of Foundation, the Board of Directors of the University of Nevada Foundation, and the AAUN Board of Foundation, speaking on behalf of the University System, said he had been asked by

President Glick to appear to describe the ultimate impact of what the state of Nevada was facing with respect to the System of Higher Education. Earlier in the week he had given an impassioned plea to those in attendance about not unwinding the work of literally decades of service of Senator Raggio. Nevada education was something that nearly everyone present had spent his or her life's work in building up, whether it was a K-12 or higher education exposure, and the state was literally at a crossroads.

Mr. Whittemore said he thought the Governor took no joy in the fact that the state was in the situation it was in. No one took joy in the fact that the state was faced with cuts of the size and scope being talked about. The size and scope of the cuts with respect to the University System would put it on a path which would have a very significant impact over the next 10 to 20 years, just simply with respect to the economic capacity of the engine that would drive what Nevada was going to be.

Mr. Whittemore was before the Committee to say that it was essential to develop a plan that would keep the System as whole as possible by giving the flexibility that the Board of Regents needed so that the presidents could do whatever was necessary to keep the institution at a somewhat stable level. He said if the System and Legislature did what people said needed to be done, it would be a disaster to the System. Whether in Carson City, Elko or Las Vegas, students would be told that they would be paying so much more that some of them could not afford to go to school and, more importantly, some would be told they would be unable to get the types of jobs they thought they would have because the courses or programs would not be offered. In addition, the very people the System was trying to retain to teach the students would be leaving – not in cabs or four-passenger vehicles, but in buses – because literally, they were afraid of what the future held.

Mr. Whittemore remarked everyone was afraid. No one was responsible for the situation; these were financial circumstances that the country had never faced. As a business person in the state, he believed the state may not be in a recession; it may have been in a depression and may finally be at the bottom and moving forward. However, members of the Legislature needed to know what was at stake, and that was the future of the state of Nevada, because right now students were afraid, faculties were afraid and citizens were afraid, and they needed to hear some indication that the state was going to make a commitment to solve the situation the best way possible that would cause the least damage possible.

Mr. Whittemore said he was aware everyone shared the same goal; there were no specific alternatives or magic pill that could be taken. But he believed the Board of Regents needed the flexibility to address the System's problems at the most local level in a way that the cuts would not exacerbate problems between institutions and in as fair a way as possible so that the Chancellor could make recommendations of what needed to be done to the Board.

Continuing, Mr. Whittemore said he realized how difficult the situation was, but he wanted to be one voice that said the System was worth protecting. Even though he

wore multiple hats, he was testifying as someone who was concerned about the System and wanted to express that to the Committee.

Cochair Mathews thanked Mr. Whittemore, remarking that she too was a product of the System, and his father was one of her professors. She said the Committee appreciated his comments and shared them with him.

Assemblyman Hogan said he was impressed with Mr. Whittemore's comments and the importance of the observations he made, as well as those representing higher education. He wanted to cut through some of the detail and suggest that the educators who had spoken, both K-12 and higher education, frankly knew better than to believe that the full extent of the cuts being discussed would leave the University System and even the general education system able to cope and deliver the services the state needed. He thought there were a number of Committee members who felt that the root of the problem was a lot of people believed that the state did not have a revenue problem, it had a spending problem. Assemblyman Hogan suggested that belief was at the heart of the problem, and the more he heard of the drastic results if the cuts took place, the more concerned he became. He asked if Mr. Whittemore felt there was a way to challenge that principle and maybe get away from that limitation; once the limitation was removed and the revenue system could be recreated in a more equitable and adequate manner, some of the problems would diminish.

Mr. Whittemore responded that his experience suggested that when legislators were interested in creating policy and opportunities to engage in the debate, everyone was well served by those debates. A full and open discussion about a subject generally resulted in good answers. Regardless of whether they were had a conservative or more liberal agenda with respect to a revenue or spending issue, in his opinion only, it came down to the only difference between a good Democrat and good Republican was they would both spend the revenue that was appropriately raised, but they might make different choices as to how to spend it. Mr. Whittemore said if the country simply said problems that needed to be addressed should be properly identified, and agreement was reached on a revenue mechanism and an amount was agreed upon, there may only be a disagreement as to the choices of how to spend it.

Mr. Whittemore said the bottom line was the debate had been ongoing since he started appearing before the Legislature in 1979 as to what was thought to be an appropriate level of burden, and what the appropriate incident of that tax was, where it should belong, who could afford to pay it and who needed to help. At the end of the day , there would be the pot of money, and Senator Coffin would say more had to be done and those debates would begin.

In response to Assemblyman Hogan's question, Mr. Whittemore continued, the Legislature should continue to engage in the debate regardless of where it started, and the conversations would ultimately create solutions. They would not be good choices if K-12 and the System of Higher Education were going to feel the brunt of these things in a way which would not allow for recovery.

Mr. Whittemore concluded by saying, “We have a very sick patient, but we need to make sure we don’t kill the patient. Let’s engage in the debate – it has served us well in the past.”

Chancellor Klaich stated he would also encourage the Committee to engage in Mr. Whittemore’s debate in a data-driven way as opposed to an ideologically-driven way. If sales tax was raised by a quarter of a point, approximately \$88 to \$90 million could be raised. If a regular person in the state earned \$50,000 and spent about 10 percent of those earnings on taxable sales, or \$5,000, that quarter of a point would cost him \$12.50 over the year. He thought that was a rational way to approach the issue of the damage versus the cost.

Continuing, Chancellor Klaich said if the Modified Business Tax (MBT) was raised on the high rate by .10 percent, \$25 million would be generated, which would cost a company with a payroll of \$1 million approximately \$750. He maintained that businesses would not be driven out of the state and people would not be driven from making their payments to not making their payments because of those increases. However, the increased revenue would provide a lot more latitude for the Committee in making the decisions it was being forced to make. Chancellor Klaich thought that was at least a part of the debate that went beyond the dogmas and mantras. He encouraged the Committee to look at the data and see what was being given up with people were being asked to do.

*D. DISCUSSION OF THE STATE BUDGET SHORTFALL AND PROPOSED SOLUTIONS.

There was no discussion, testimony or action taken on Agenda Item D.

E. PUBLIC COMMENT.

Cochair Mathews remarked there were a number of students requesting to speak, and she moved the agenda to public comment.

Public testimony was given by the following NSHE students; verbatim transcripts are attached as Exhibit H.

From Carson City:

- Eli Reilly, President, Associated Students of the University of Nevada, Reno and Chair of the Nevada Student Alliance
- Jillian Murdock, President of the Graduate Student Association, University of Nevada, Reno
- Mat Smith, Ph.D. student at the College of Education, University of Nevada, Reno
- Eric Thornley, Undergraduate Student, University of Nevada, Reno
- Brian Mitchell, Senator of the College of Liberal Arts, University of Nevada, Reno

- Mitch Bonaset, Senator, College of Liberal Arts, University of Nevada, Reno
- Philip David Johnson II, Ph.D. Graduate Student, University of Nevada, Reno

From Las Vegas:

- Amsala Alemu-Johnson, Student Body President, Nevada State College
- Mario Blanco, Undergraduate Nursing Student, Nevada State College
- Nadia Ayala, President, Clinical Laboratory Sciences Student Organization, University of Nevada, Las Vegas
- Carla Washington, Student, University of Nevada Las Vegas
- Elan Andruss, Student, Nevada State College)
- Natalie Kczlowski, Student, Clinical Laboratory Science Program, University of Nevada, Las Vegas

Additional written testimony was submitted from the following individuals; copies are included in [Exhibit H](#).

- Annette Amdal, Administrative Assistant, Women's Research Institute of Nevada, University of Nevada, Las Vegas
- Ricardo J. Cornejo, Student, University of Nevada, Las Vegas
- Reuben Desilva, Student, University of Nevada, Las Vegas
- Laura Kaprelian, Classified Employee, University of Nevada, Las Vegas
- Matthew Kimball, Student, University of Nevada, Las Vegas
- Elliott Parker, Professor of Economics, University of Nevada, Reno

Senator Horsford remarked that part of the reality of the situation being faced was while there may be certain reductions now, refocusing would take place so that what programs remained would be strong. He understood the students' frustration and anxiety, but essential programs could be funded and they could become stronger, and hopefully the state would then grow in the way that it should grow. Senator Horsford said this issue was not about slashing and cutting; it was essential to have a strong university in order to have a strong state of Nevada.

Cochair Mathews thanked the students for their testimony, adding that Committee members would take all of their comments under consideration. She said the members did not want to see K-12 and higher education hurt; they did not want to see state employees laid off or their salaries cut; and they would be looking for all suggestions. A town hall meeting was scheduled for Saturday, February 13, in both Reno and Las Vegas, which would be an opportunity for citizens to bring suggestions of how revenue could be increased or areas and programs that could be cut. She encouraged everyone to attend and voice their opinions.

Based on the last student's comment, Senator Horsford asked Chancellor Klaich to explain for the record the University System's commitment to students who were in a current program that could ultimately be cut. Regardless of the program, what

commitment was there that existing students who started their programs would be able to complete them?

Chancellor Klaich said it was not only important for the record, but Senator Horsford had recognized one of the biggest problems, which was identifying savings did not mean identifying dollars; those dollars may take three, four or five years to come to fruition. He said it was important to the System that promises made to students who had been accepted and were in programs be fulfilled. However, Senator Horsford had just highlighted another problem. A program might be targeted, but that did not mean there were dollars because promises were made by the System. The problem was going to present a challenge.

Senator Horsford said the reality was that while a program may be put on a list, the faculty may choose other options and therefore availability of classes may become more of a challenge. Although there was a commitment, there could still be an impact to the students, which was of great concern.

Chancellor Klaich agreed there would be an impact, but he again emphasized the System's commitment to the least-drastic impacts in every situation. However, he added, there was no way for a soft landing.

Dr. Johnson remarked the University of Nevada, Reno administration had been in close contact with both the graduate student association and the undergraduate student association and had kept them in the loop of what was going on. He said every student in a program was promised that if their program was going to be closed, at the moment it was identified for discussion, the university would work with each individual student in that major to see how to get the most people graduated in that major or in something close to their desirable career. If faculty needed to be hired on letters of appointment at some point to get some final classes done to get the students graduated, that would be done. That was the promise made to students.

Senator Horsford noted the matter could also be an accreditation issue; some institutions and programs were up for accreditation at the same time the reductions were taking place. He expressed his appreciation to all of the students, faculty and staff who attended. It was the beginning of a process, and it was important that they were in attendance today. The public hearings were very informative to the members as legislators, but also helped to identify ways to address the problems.

Assemblywoman Smith thanked the students for attending and waiting patiently to testify. She remarked these were such unbelievable times for students and the Committee members. Speaker Buckley had said earlier that the state was faced with a budget crisis so monumental that every state employee could be laid off and still only two-thirds of the budget deficit would be solved. She noted that times were difficult for everyone across the country, not just Nevadans. The Committee members were working very hard to get a full understanding of the scope of the problems and what needed to be done to correct them. They were concerned for students if their programs

were closed, what people would do if they lost their personal care assistant in their homes, and what the hospitals were going to do. She noted that similar hearings would be held the following week, and the hospital association would be testifying about hospitals wanting to close services to people who were sick.

Assemblywoman Smith said the task would be very difficult, but that was what the legislators were elected to do, and collectively they were committed to doing the best job possible, making the most thoughtful decisions and listening to the testimony from the public. She recalled someone had earlier expressed concern with facing constituents and the business community, and she said she represented a district with very needy families and senior citizens on fixed incomes, and she faced them on a regular basis. They were worried about how to pay their power bill, buy groceries and pay their car insurance. She had heard that one-quarter of the state's population was driving without car insurance because they had to make a choice of what they could live without.

Assemblywoman Smith noted that many of those present had testified during the 2009 Session, and she thanked them for being so articulate and sincere. The Legislature had listened to the testimony and ultimately made some tough choices, including implementing taxes in a very difficult environment and overriding the Governor's veto. She said she would give up her election if she thought she could forge a solution that would make everything better. She reiterated she and her colleagues were committed to solving the long-term problems that existed in the state. This issue was an economy that was in absolute turmoil, and the problems would be much bigger in the 2011 Legislative Session.

In summary, Assemblywoman Smith said it was important for everyone to realize the Legislators had many constituencies with a variety of needs, and they were very committed to working together to mitigate the impacts to the education system, both K-12 and higher education. She again expressed appreciation to everyone present, as well as to the staff members who were working tirelessly toward creative ideas and solutions.

Cochair Mathews remarked the Committee members were also constituents – they had grandchildren and family members who were in college and who needed hospital services. Her first constituents were her family, and when voting, she had to consider that she was going to have to face her family members' questions first. She thanked everyone for attending and expressed her appreciation to the Committee members.

Senator Horsford announced that the Interim Finance Committee would meet on Tuesday and Wednesday, February 9 and 10, and public town hall meetings were scheduled on Saturday, February 13.

F. ADJOURNMENT.

Cochair Mathews adjourned the meeting at 5:20 p.m.

Senator Bernice Mathews, Cochair
Interim Finance Committee

Senator Steven Horsford, Cochair
Interim Finance Committee

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

**EXHIBITS
INTERIM FINANCE COMMITTEE**

Exhibit	Witness/Agency	Description
A	Fiscal Analysis Division Legislative Counsel Bureau	Agenda
B	Fiscal Analysis Division Legislative Counsel Bureau	Guest List
C	Jim Wells and Gloria Dopf State Department of Education	FY 2010-11 Reductions to Distributive School Account Basic Support Spending
D	Dr. Walt Rulffes, Superintendent Clark County School District	Clark County School District – Budget Reduction Summary – FY 2010
E	Dan Klaich, Chancellor Nevada System of Higher Education	Outline for Testimony Before the Interim Finance Committee on February 4, 2010
F	Dan Klaich, Chancellor Nevada System of Higher Education	Nevada System of Higher Education – Budget Impacts – PowerPoint Presentation
G	Dan Klaich, Chancellor Nevada System of Higher Education	2005 Legislative Letter of Intent – Allocation of Student Fees
H	Nevada System of Higher Education	Public Testimony