March 2005

OVERVIEW
of
RECOMMENDATIONS FOR A SOUND FISCAL POLICY

Since the late 1970s, history has shown that government at all levels has experienced ten to thirteen year cycles in which there is both an economic downturn when revenue is less than projected and a period of prosperity when surplus revenue occurs. And while, at least in Nevada, we have seen most governmental units moving into a period of prosperity, there is a need to step back and prepare for the next cycle even though it may be six to eight years away.

In stepping back and reviewing prior budget cycles, it becomes evident that when revenues are not materializing to meet budgeted expectations, the demand for government services, particularly in the area of human services, is greater than normal. Conversely, in times when a greater than anticipated revenue materializes, there is pressure on government to increase programs. Meanwhile, the taxpayer *at the very time their income is reduced or stagnant* is often asked to contribute more to maintain government budgets; yet, when their income is improving they do not see any attempt to reduce their tax liability.

The following recommendations provide a series of changes to maximize the use of existing dollars and minimize the need for new tax and/or fee revenues. Various recommendations have already been adopted and are in use by some governmental units in Nevada. These are not revolutionary recommendations. They are, in fact, *evolutionary,* and many are based on best practices in both government and the private sector.

As you review these recommendations, we would also include a thought about unanticipated revenue increases and grants. Our recommendations encourage strong fiscal responsibility. In many of our suggestions we have recommended that higher-than-projected revenues be set aside for use in specific categories and not used in starting new programs that place enormous demands on future budgets. Also, we caution government entities of the need to thoroughly analyze the long-term impact of grants. While a grant may seem too good to pass up, it may also carry a significant impact on future budget cycles. Grants should be carefully reviewed before they are accepted and continuously reviewed if, in fact, they are received.

It is anticipated that many of our recommendations will provide a starting point for evaluating the expenditure side of government while increasing service delivery and cost efficiencies.

In an effort to address revenue issues between Nevada units of government and the taxpayer, these recommendations are presented for consideration by elected officials and policymakers.

RECOMMENDATIONS for SOUND FISCAL POLICY
STATE REFORMS

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BUDGET REFORMS – STATE

1. Prioritize the expenditure of funds.

Reason: Frequently, when the need arises for fiscal "belt-tightening", it is often a vocal minority that argues for nonessential program enhancements. Priorities, such as public safety, health, transportation, schools and other programs and services that are essential to the well being of the general public or carry penalties for noncompliance, such as mandated programs and services should be established.

Action Required: This recommendation can be implemented through direction from the Governor's office and through rules adopted by the Legislature.

2. Program or Performance-based budgets should be utilized when possible.

Reason:

Program-based: Where multiple agencies and departments provide similar programs, those agency/department budgets should be coordinated through a lead agency. This would allow the establishment of non-conflicting priorities to provide program continuity and minimize administrative costs.

Performance-based: Many agencies and departments are responsible for delivering a specific service(s). These departmental budgets should be based on what is necessary to efficiently perform/deliver the service(s) in the most cost effective means as determined by measurable achievement.

Note: Senate Bill 8 of the 2003 20th Special Session required the Department of Administration and the Fiscal Analysis Division to jointly identify all agencies that provide programs for the treatment of alcohol and drug abuse and develop a proposal for coordinating such programs and report their recommendations to the Governor and the Legislative Counsel Bureau not later than December 1, 2004.

Action Required: This recommendation can be implemented through budget instructions issued by the Governor's office. This recommendation can also be implemented through direction from the Legislature.

3. Outcome based performance indicators should be developed for each program within all departments.

Reason: To determine the effectiveness of each program by measuring the results against the objectives.

Action Required: This recommendation can be implemented through direction from the Governor's office. The legislative budget committees can also impose it.

4. Revenue and budgeted expenses should occur in the same year.

Reason: To provide a more accurate view and better evaluation of budget expenditures.

Action Required: This recommendation can be implemented through direction from the Governor's office. The legislative budget committees can also impose it.

5. Earmarked taxes and fees, in whole or in part, for programs within a general fund agency/department should be reviewed as part of the budget process.

Reason: Elected officials should determine the necessary level of funding for programs based on the needs of the program over the budget period. Earmarking a specific revenue source tends to eliminate accountability and does not take into account the priority of the program or function on an ongoing basis. A regularly scheduled review would allow a determination as to whether earmarked funds should continue at: a) the same level; b) be reduced; or, c) be eliminated.

Note: Earmarked revenue streams should be evaluated at a minimum of once every four years.

Action Required: This recommendation can be implemented through direction from the Governor's office. The legislative budget committees can also impose it.

6. Restrict and prioritize the expenditure of any revenue increases projected at the May meeting of the Nevada Economic Forum.

Reason: Revenue projections by the Nevada Economic Forum can result in revenue beyond the amounts used in the Executive Budget. These higher-than-anticipated projections occur for many reasons and cannot be guaranteed in future budget periods. Additional revenue should be: a) restricted to non-ongoing expenses; and, b) prioritized to be used for employee training, establishing or adding to a rainy day fund or establishing or adding to a capital replacement/improvement fund; or c) one-shots not impacting future budget needs.

Note: Replacement of capital equipment or construction of capital projects should require that existing revenue cover any maintenance contracts or operating costs.

Action Required: These conditions on the use of surplus revenue are within the purview of the legislative budget committees. This policy can also be made part of the standing rules of the Legislature as well as the budget committee rules.

7. During budget preparation, each department should be required to identify the amount of overtime paid each month of the prior budget period.

Reason: This would allow an evaluation of overtime to determine if: a) additional personnel are needed; b) excessive absenteeism needs review; c) the use of overtime was more cost effective than hiring additional personnel; or, d) there is an excessive use of discretionary overtime.

Action Required: This recommendation can be implemented through the budget instructions issued by the Governor's office.

8. During budget preparation, each department should be required to include a summary of all grants received by the department.

Reason: To provide: a) a review of matching fund grants; b) better coordination of similar programs in different departments funded by grants; c) an evaluation to determine if the funding match/commitment has remained the same; and, d) a way to determine if the program funded by the grant should be continued.

Action Required: This recommendation can be implemented by the Governor's office. It can also be imposed through legislative and committee rules.

9. A supplemental public report should accompany the Executive Budget: a) showing the amount of overtime paid each month of the prior budget period; b) identifying the number of vacancies (in FTEs by department) that are reflected in the proposed budget; c) listing any recommendations that were made as the result of the last two audits and the status of those recommendations; and, d) summaries of all grants received by state agencies and departments.

Reason: This information is not normally available to the general public. Having this information available will allow more scrutiny of such issues as: a) overtime; b) vacancies; c) audit compliance; and, d) grants.

Action Required: This recommendation can be implemented through the Governor's office and direction from the Legislature.

10. The primary agency at the State level should provide a report outlining the distribution, acceptance, use and expenditure of federal funds received by the State and local governments.

Reason: Since funds are made available at both levels in some programs, the establishment of a point of coordination would ensure that programs and related administrative expenses do not result in duplication but rather enhance the program(s) provided.

Action Required: This recommendation can be implemented by the Governor's office and the Legislature.

11. Require a "yellow page" test by agencies and departments to determine if new and/or expanded programs/services are currently being provided by business or non-profit organizations.

Reason: Government should not displace business but should take advantage of the expertise of business or non-profit organizations that provide community services. (Examples may include culvert cleaning, janitorial services or latchkey services.)

Action Required: This recommendation can be implemented by the Governor's office and the Legislature.

EXPENDITURE REFORMS

12. Both the employer and the employee should share all retirement contributions.

Reason: The Nevada Public Employee Retirement System (PERS) functions in place of Social Security for government employees. As with Social Security and other private sector retirement systems, the cost should be shared by the employer and the employee. Under the current system, however, the retirement program allows employees to choose to have the employer pay the full amount.

Action Required: This recommendation requires a change in State statute in order to be implemented.

13. Upon the enactment of recommendation 12, an employee leaving government employment should receive any earned interest on the contributions made by the employee during his or her period of employment.

Reason: Currently, an employee who has chosen to pay into PERS and leaves receives only the dollar amount of his or her contribution. As those contributions have been invested, the employee portion should be returned with the interest earned.

Action Required: This recommendation requires a change in State Statute in order to be implemented.

14. Any changes to PERS, such as increased benefits or vesting, should be prohibited until the system is fully funded.

Reason: PERS is the largest unfunded liability in the State. Every effort should be made to see that the system is fully funded as soon as possible. When benefits are increased and investment income does not materialize as projected, the door is opened to either delay the time frame to fully fund the plan or require an increase in the rate of contribution. The former is not fair to employees and the latter is not fair to taxpayers.

Action Required: This recommendation requires a change in State statute in order to be implemented.

Note: In 2003 the Governor recommended and the Legislature approved an increase in the rate of contribution from 18.65 percent to 20.35 percent. While statute provides that this is a shared contribution, all school district contracts have been negotiated to require this benefit to be paid by the districts. State employees have the option of choosing to share the cost or having full payment made by the State. This additional increase required $46 million in PERS contributions from both state local governments and employees. In the case of the State, which includes K-12 expenditures, this was a budgeted increase and had to be covered by tax revenue.

15. Change PERS from a defined benefit plan to a defined contribution plan for new employees.

Reason: Any changes made to the current plan increases the length of time before the plan will be fully funded or requires an increase in the rate of contribution so it will be fully funded according to the current plan. In addition, consideration should also be given to allow an employee to choose a 401(k) plan also administered by PERS.

Action Required: This recommendation requires a change in State statute in order to be implemented.

16. Eliminate accumulated vacation time and sick leave "buy backs" and provide specific conditions when sick leave or vacation time can be extended beyond the year in which it should be taken.

Reason: "Buy Backs" are a phenomenon of government. They cannot be budgeted yet have a budgetary impact when taken. Further, they are not "bought back" at the salary the person was earning at the time the vacation or sick leave was accrued.

Action Required: This recommendation requires a change in State statute in order to be implemented.

17. Change the procedure that employee compensation is increased by: a) eliminating longevity pay; and, b) changing "merit pay" to a "merit bonus" awarded solely on the basis of achievement.

Reason: When combined with step-pay increases, longevity pay, merit pay and increases associated with "COLAs" create "salary-creep." Additionally, longevity pay has nothing to do with performance or the level of skill required to perform a specific job. Also, a monetary reward based on merit should have a relationship to the attainment of specific goals. A bonus acknowledges achievement for a specific time period. It does not assume the achievement will be ongoing with no further attainment of increased performance or productivity.

Action Required: The Governor's office or the Legislature can change merit pay to bonus pay. A statutory change is necessary to eliminate longevity pay.

18. Change the procedure by which classified employee compensation is approved.

Reason: Classified employee compensation levels exceeding a three-year average of the Consumer Price Index (CPI) should be justified in the Executive Budget or in the Appropriation Report, if changed by the Legislature.

Action Required: This recommendation can be implemented by the Governor's office and the Legislature.

19. All vacant positions should be limited to 12 months.

Reason: If an agency/department has been able to function for 12 months without an employee, it can be presumed that the position was not needed. There should be a review of the reason(s) the position remained vacant.

Action Required: This recommendation can be implemented by the Governor's office or the Legislature.

20. At the end of every quarter, sweep salary savings into either a rainy day or a capital project fund.

Reason: Salary savings resulting from employee absenteeism or termination during a quarter represents a monetary commitment to an expense that did not occur. In these instances, there is no justifiable reason for that money to remain in the department's budget.

Action Required: This recommendation can be implemented by the Governor's office or the Legislature.

21. Cross-train employees.

Reason: To enhance employee skill levels and to provide a pool of employees that can cover other positions during leaves of absence, vacations and sicknesses.

Action Required: This recommendation can be implemented by the Governor's office. Additional funding requests should be approved by the Legislature.

22. Establish priority scheduling for technology enhancements and training for agencies and departments that generate significant revenue.

Reason: To allow revenue collections to be maximized and expenditures to be minimized. In conjunction with this recommendation, electronic reporting and filing should be utilized. Electronic fund transfers would allow additional interest income to be generated.

Action Required: This recommendation should be developed by the Governor's office with the related funding needs included in the Executive Budget. The Legislature should support the funding requirements.

23. Create a "means test" for entitlement programs, or in the alternative, establish a fee schedule for "non-disadvantaged" persons to participate in the program.

Reason: Entitlement programs are created to provide services that assist persons who cannot otherwise afford these services. In instances where a program is expanded to the public, there should be a schedule of fees based on income and/or ability to pay.

Action Required: This recommendation can be implemented by the Legislature.

24. Establish a schedule to review and evaluate equipment and vehicle usage by department. Reassign, remove or sell equipment and vehicles that are no longer needed or are no longer cost effective. Special emphasis should be placed on: a) telecommunications equipment and service; and, b) heavy equipment, particularly equipment used for road construction and/or maintenance.

Reason: To maximize the use of resources, especially equipment used in telecommunications and construction.

a. Enhanced telecommunications services may be acquired without the prior service or lines being eliminated. For instance, DSL service may be established, yet unused phone lines are still being billed and paid.

b. When equipment is purchased that will not be used to maximum efficiency, it takes away money that could go into construction or maintenance. An evaluation should be done to determine whether leasing, renting or purchasing is the most cost effective manner to secure needed equipment. Today, it is often more efficient to rent or lease equipment. New leases usually allow for replacement or upgrading every two to four years.

Action Required: This recommendation can be developed and implemented by the Governor's office with support from the Legislature.

25. Executive Branch agencies and the University and Community College System of Nevada (UCCSN) should report all debt issued and debt outstanding to the State Treasurer's office on an annual basis. The report should include the purpose of the debt, amount of debt authorized, the length of the debt and how much has been issued and the type of debt issued (i.e., General Obligation bonds, revenue bonds, etc.).

Reason: There is not a centralized compilation of debt issued by the State; therefore, there is no way to evaluate the actual and potential liability to taxpayers.

Note: Local governments are required to submit this type of report to the County Debt Management Commissions. The data is compiled by the Department of Taxation and included in the "Green Book."

Action Required: This recommendation can be implemented by the Legislature.

26. In conjunction with recommendation 25, an annual "Report of State Indebtedness" should be issued by the State Treasurer's office. It should include a detailed report of the information identified in recommendation 25 along with general obligation and revenue debt.

Reason: The Department of Taxation is required to prepare an annual report of debt for all local governments on the basis of the procedure being sound fiscal policy. The same policy should be required of the State.

Action Required: This recommendation can be implemented by the Legislature.

27. The State expenditure cap (NRS 353.213) should be updated and kept in place until such time as the voters can adopt a State Constitutional Amendment.

Reason: The current expenditure cap is ineffective. It is based on the level of expenditures in place since 1975 and contains no provision to remove from the calculation that which has been removed from the State's general fund. Since 1975, PERS and the State debt have been taken out of the general fund. However, they are still part of the base calculation allowing even a higher level of spending than the $1.1 billion proposed by the Governor during the 2003 Legislative Session.

Action: This recommendation can be implemented by the Legislature.

SPECIFIC STATE AGENCY/DEPARTMENT FISCAL REFORMS

28. Move the State Department of Education into the State Department of Human Services and establish a K-12 sub-account within the State's Rainy Day Fund. One-half of any K-12 funds reverted to the State General Fund would go to the K-12 sub-account of the State Rainy Day Fund.

Reason: As recently as 1992, the KPMG-Peat Marwick study to review the organizational structure of Nevada supported this recommendation.

> *"Department of Education, Health and Human Services: This Department is built upon the strengths of the current department of Human Resources. Education is consolidated within Human Resources since more than half of the activities performed by Education are similar to activities performed with Human Resources. Specifically, the allocation of federal and other state funds to local service providers is performed by both departments. Consolidation would also result in administrative cost-savings."* (Emphasis added.)

Action Required: This recommendation can be implemented by the Legislature.

Note: The Superintendent of Public Instruction position should be a Cabinet level position.

29. Change the manner in which the Superintendent of Public Instruction is selected.

Reason: With an independently elected State School Board as the appointing authority for the superintendent, the actions of this agency become insulated from the Governor's office. The Governor is ultimately accountable for the actions of the department but in reality has little or no input. In fact, the governance of the department appears to be more like that of the UCCSN than an Executive Branch agency.

Action Required: This recommendation can be implemented by the Legislature.

30. Broaden the function of the State School Board.

Reason: The School Board should coordinate the statewide collection of data and be responsible for the academic performance of schools within the 17 school districts. The Board should "take over" severely under achieving schools. (Similar to the authority given to the Nevada Tax Commission in those cases where a "severe financial emergency" exists within local government.)

Action Required: This recommendation can be implemented by the Legislature.

31. Allow each school district to determine the use of class-size reduction funds to accommodate the needs of the students in the district.

Reason: One size does not fit all. For instance, in Clark County it might be more effective to utilize the funds to provide smaller class sizes to students who need to become proficient in English. In Carson City it might be more effective to have a staffing ration of 20:1 in grades one through six.

Action Required: The Governor has recommended this and is should be implemented by the Legislature.

32. Require local school districts to pay for any remediation classes required of a student as a condition of enrollment into a UCCSN program.

Reason: A Nevada student who has graduated from high school is presumed to have gained sufficient knowledge to enter a Nevada college. Taxpayers should not have to pay for the same educational opportunity twice.

Action Required: This recommendation can be implemented by the Legislature.

33. Develop a ratio of public school administrators to teachers.

Reason: As revenue to school districts increases, administrative costs tend to also increase.

Action Required: This recommendation can be implemented by the Legislature.

34. Change the selection of the UCCSN Board of Regents from elected to appointed positions.

Reason: The UCCSN is a part of the State's general fund, but often operates more like an independent branch of State government.

Note: AJR 11 was passed during the 2003 legislative session. It calls for nine regents with one regent elected from each of Nevada's three congressional districts and the remaining members appointed by the Governor. *If this Resolution is not passed again in 2005 an alternative could be a Missouri-like plan used for judges whereby the regents would be initially appointed by the Governor and then stand for election on their record.*

Action Required: Should AJR 11 pass the current legislative session and then be approved by the voters, a new system for selecting UCCSN regents will be in place. The Legislature should support changing the manner in which regents are selected.

35. Provide a salary for the regents.

Reason: Currently, regents receive no salary, yet members make enormous commitments of time to fulfill their responsibilities.

Action Required: This recommendation should be implemented by the Board of Regents or through implementation by the Legislature.

36. Increase the time spent in the classroom by instructors who teach under-graduate courses.

Reason: As with any function of government, personnel costs are frequently the largest component of an agency's budget. Increasing teaching time would reduce the number of instructors needed, allowing existing funds to go further.

Action Required: This recommendation can be implemented by the Legislature.

37. When remediation is required of a student prior to taking a class within the UCCSN, the student should be informed of the reason. Additionally, a test of the student should be allowed to confirm the need.

Reason: The University has stated that as many as 35 percent of students entering college require remediation. Yet many students who earned grade point averages above 3.0 have complained they do not require remediation. A procedure such as proposed in the recommendation should assure a student that remediation will be required only when the need is demonstrated.

Action Required: This recommendation can be implemented by the Board of Regents or by the Legislature.

38. Develop performance measurements to evaluate Nevada's higher education system.

Reason: To provide accountability for performance and achievement before any further changes are made to the higher education system.

Action Required: This recommendation can be implemented by the Board of Regents or by the Legislature.

39. Require State agencies providing services to K-12 and higher education to coordinate long-range plans and education programs.

Reason: To facilitate the entire function of educational systems providing services from early childhood development to post-graduate studies.

Action Required: This recommendation can be implemented by the Legislature.

40. Identify higher education research programs that will assist in the development of economic viability and the diversification of Nevada.

Reason: To allow better coordination between what the State needs for future economic development and diversification and provide employment opportunities for Nevada students.

Action Required: This recommendation requires the support of the Governor's office, the Board of Regents as well as the necessary funding and implementation by the Legislature.

41. Merge the functions performed by the Department of Industrial Relations (DIR) into other departments/agencies.

Reason: DIR was created at the same time as the State Industrial Insurance System (SIIS). SIIS has been privatized and it is time to merge the DIR functions into agencies/departments where there would be as good as *or better* fit for DIR functions.

Action Required: This recommendation can be achieved through the support of the Governor's office and implementation by the Legislature.

42. Eliminate the use of the motor pool in urban areas and contract with rental car agencies.

Reason: The expense of maintaining the State Motor Pool is no longer necessary in urban areas where rental vehicles are available and contracts to meet the needs of employees requiring a vehicle can be met. The expense of providing vehicles, maintaining them, providing garage and storage facilities takes away general fund dollars that could be better used in providing other vital services.

Action Required: This recommendation can be achieved with the support of the Governor's office and implementation by the Legislature.

43. Require all bidders for purchasing or construction contracts to have the necessary State and local licenses and be registered with the Nevada Department of Taxation.

Reason: This will insure that all taxes and fees are remitted if the bidder is successful.

Action Required: This recommendation can be implemented through the Governor's office and the Legislature.

44. Review all legislatively established Boards and Commissions every six years to determine if their current mission and goals reflect their original purpose and if any changes have received legislative approval.

Reason: Boards and Commissions are generally established to carry out specific statutory requirements. Over time the need for the Board or Commission may be diminished or enhanced. The only way to establish if the Board is functioning as it was legislatively mandated to do is to create a systematic review. This review would determine if the Board or Commission should continue or if the Board or Commission is no longer needed.

Action Required: This recommendation can be implemented by the Legislature.