

BUDGET KICKOFF 2012

Meeting materials available for download at:

<http://budget.nv.gov/Upcoming/>

Email available for Internet viewers*:

bko@admin.nv.gov

***Please note:**

The provided email is for the live meeting only. All other budget questions should be directed to your budget analyst.

Nevada's best days
are yet to come.



Janet Rogers, Budget Economist

- Master's Degree in Computer Science
- PhD in Economics
- 30 years with the federal government doing statistical data analysis and developing software and modeling algorithms
- 5 years with the Colorado Governor's Office of State Planning and Budgeting doing forecasts, reports, and developed an econometric model
- Likes turtles



ECONOMIC OUTLOOK

Partly Cloudy

Clearing by Mid-Decade

Good News: The Great Recession is Over

- ▣ Officially ended nationally in June '09
 - Nevada in recession much longer
- ▣ Exceptionally long
- ▣ Exceptionally bad

Not So Good News: Recovery is Tepid

- ▣ Employment below pre-recession peak
- ▣ National housing sector still struggling
- ▣ Consumer confidence low (but improving)
- ▣ World economy iffy

Nevada hardest hit by the Great Recession

- ▣ Largest employment drop
- ▣ Highest unemployment rate
- ▣ Highest foreclosure rate
- ▣ Last to enter recovery

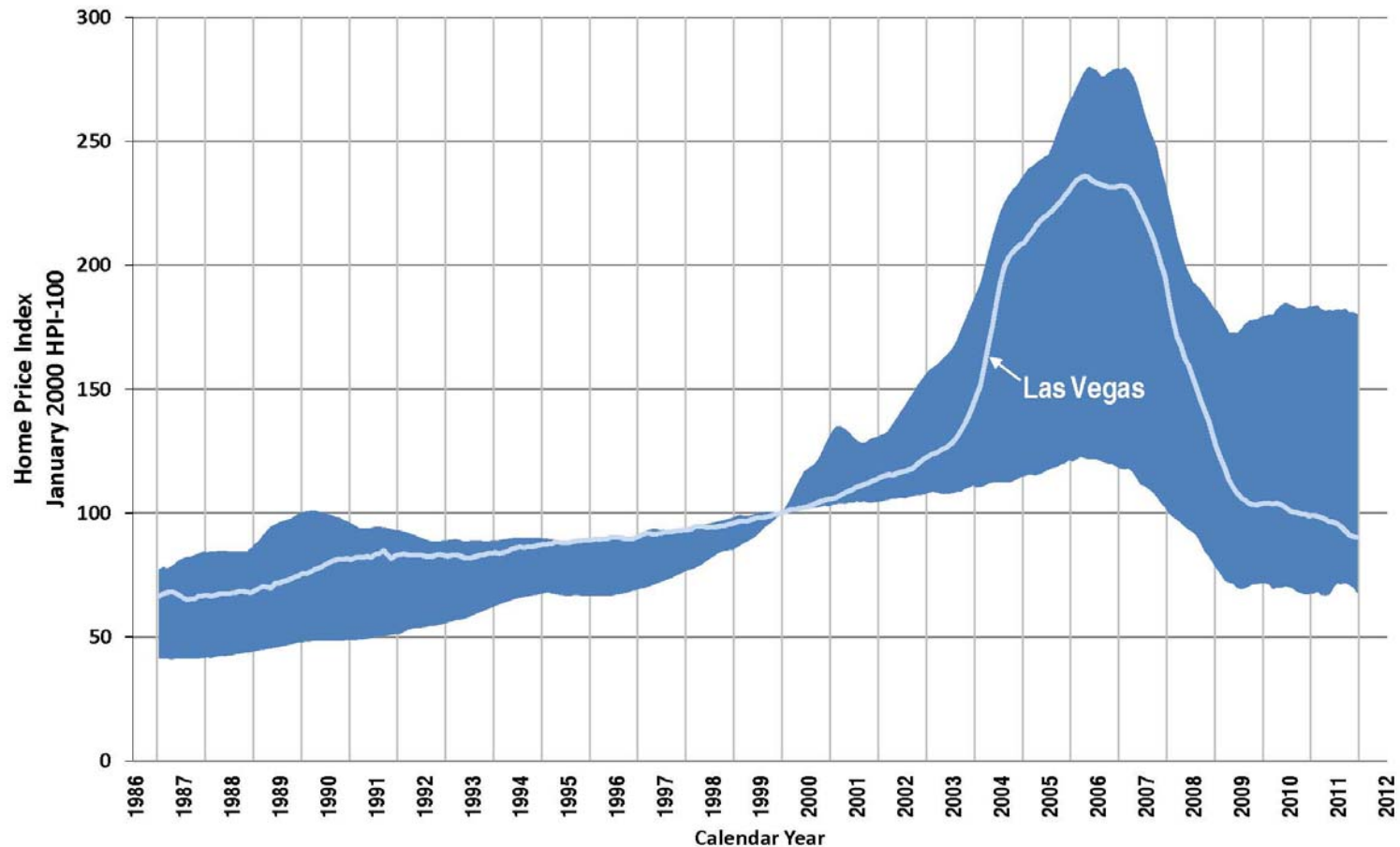
Nevada Economy Strengthening

- ▣ Employment grew throughout 2011
- ▣ Unemployment rate falling, albeit slowly
- ▣ Signs of stabilizing housing sector
- ▣ Retail activity is strong

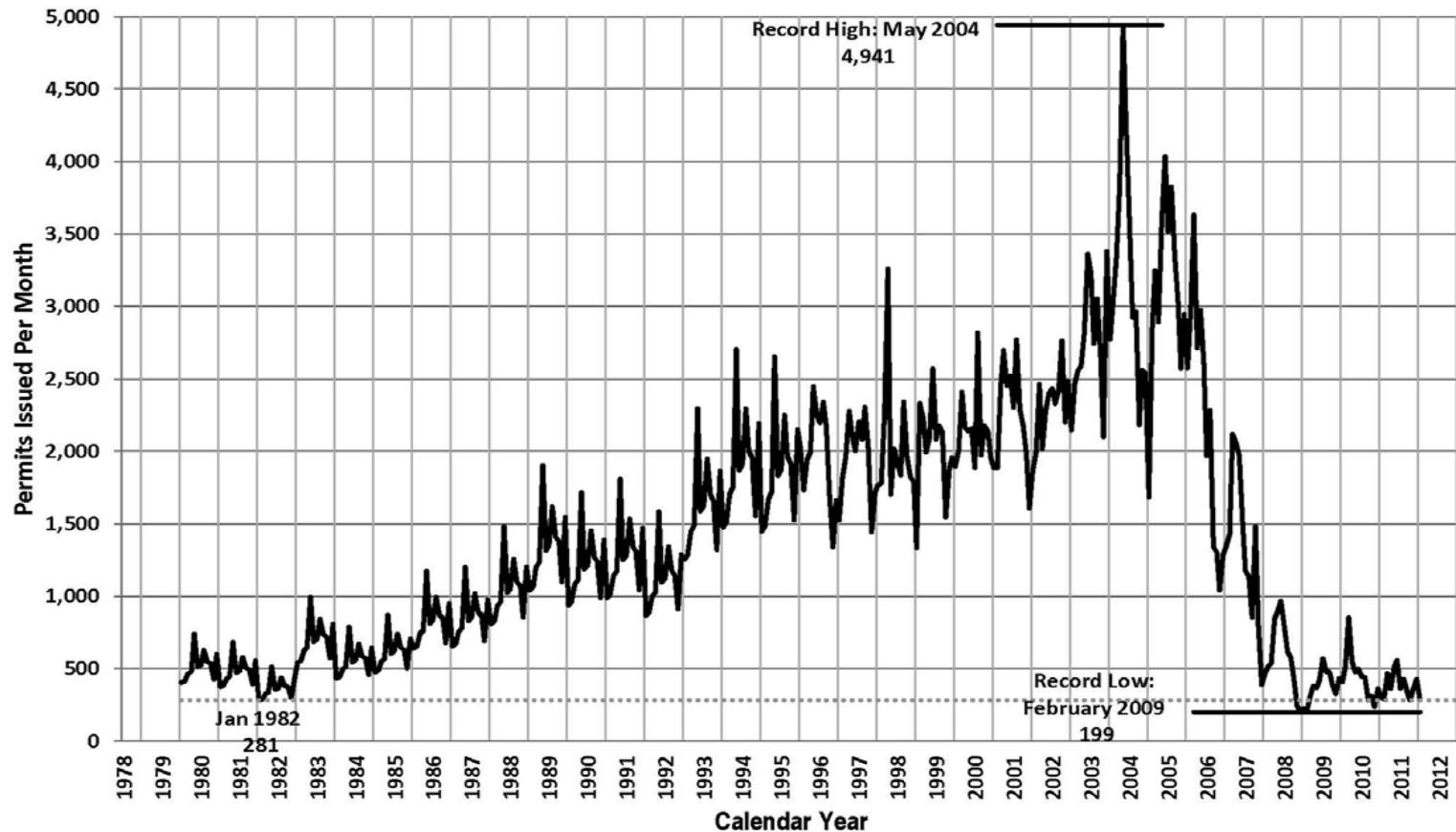
Why was Nevada hit so hard?

- ▣ NV housing bubble among the largest nationwide
- ▣ NV economy largely dependent on consumption-based industries

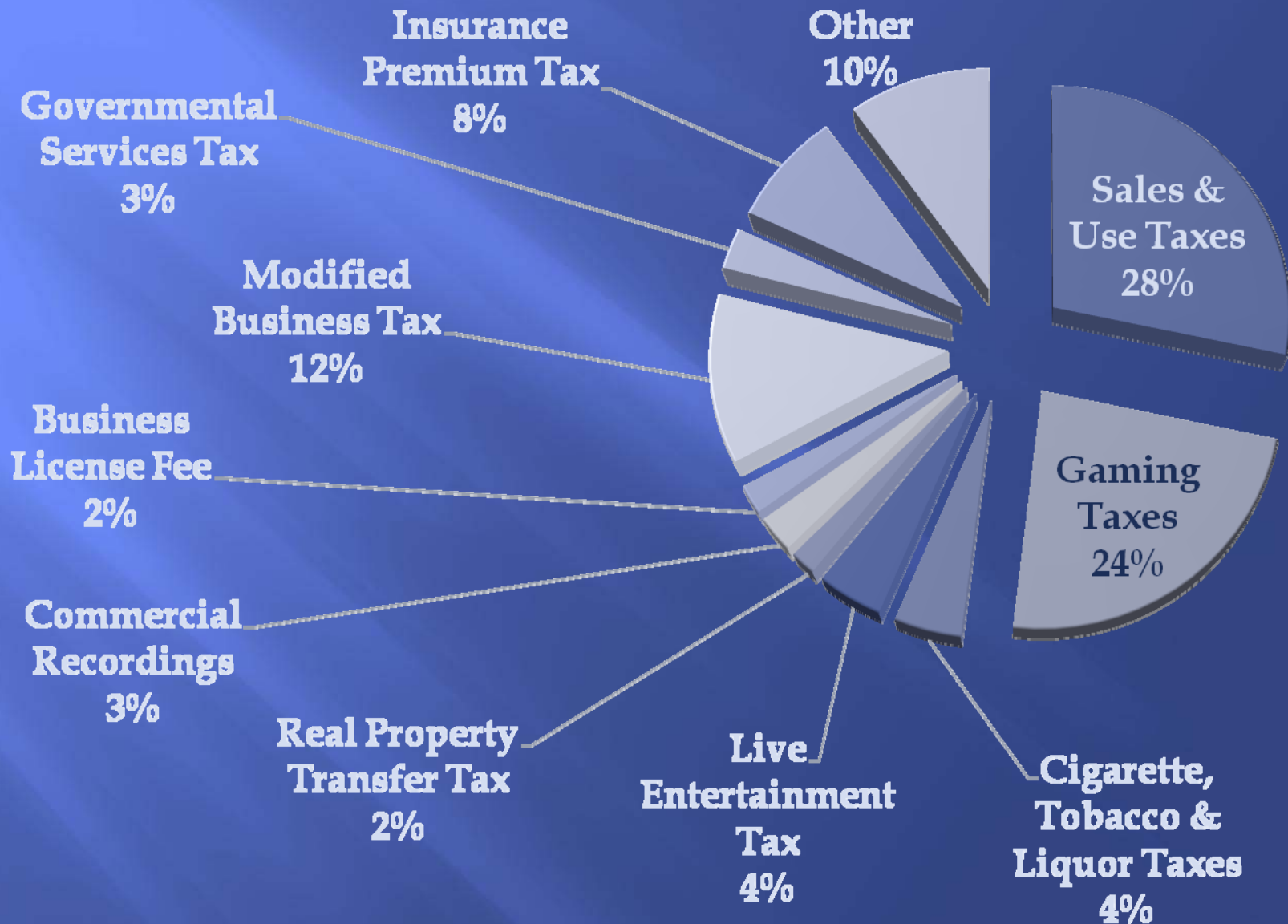
Las Vegas Case-Shiller Home Price Index



Nevada Single Family Home Permits



General Fund Revenues



Where are we now?

↑ Employment

↔ Total Wages

↑ Gaming Activity

↑ Retail Activity



2007-2010 Employment

Broad based job losses

- ▣ 90,000+ in construction
- ▣ 30,000+ in leisure & hospitality
- ▣ 20,000+ in professional &
business services

2011 Employment

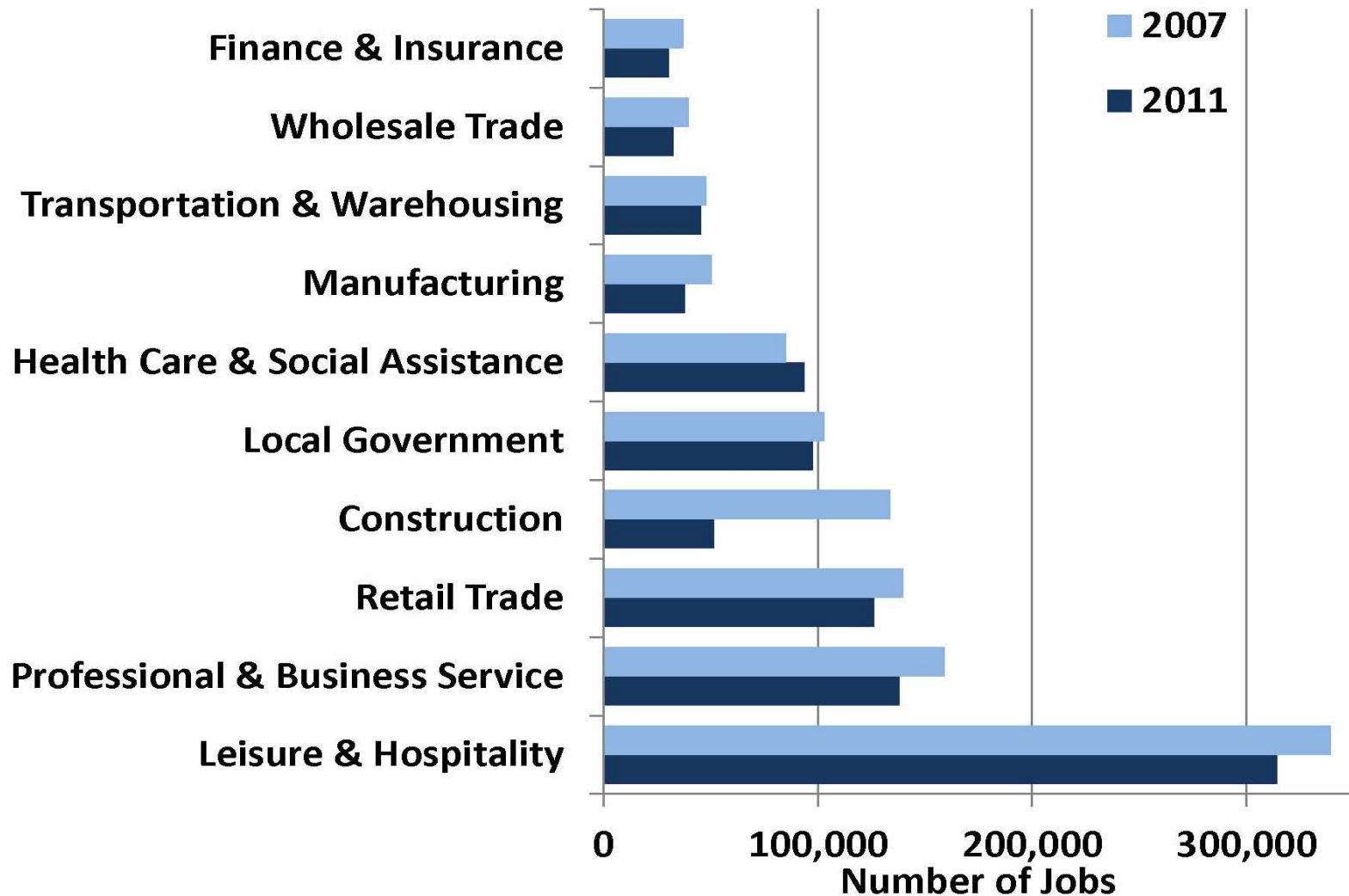
Recent gains in non-government sectors

- ▣ 8,800 in leisure & hospitality
- ▣ 3,500 in professional & business services
- ▣ 2,500 in education & health services

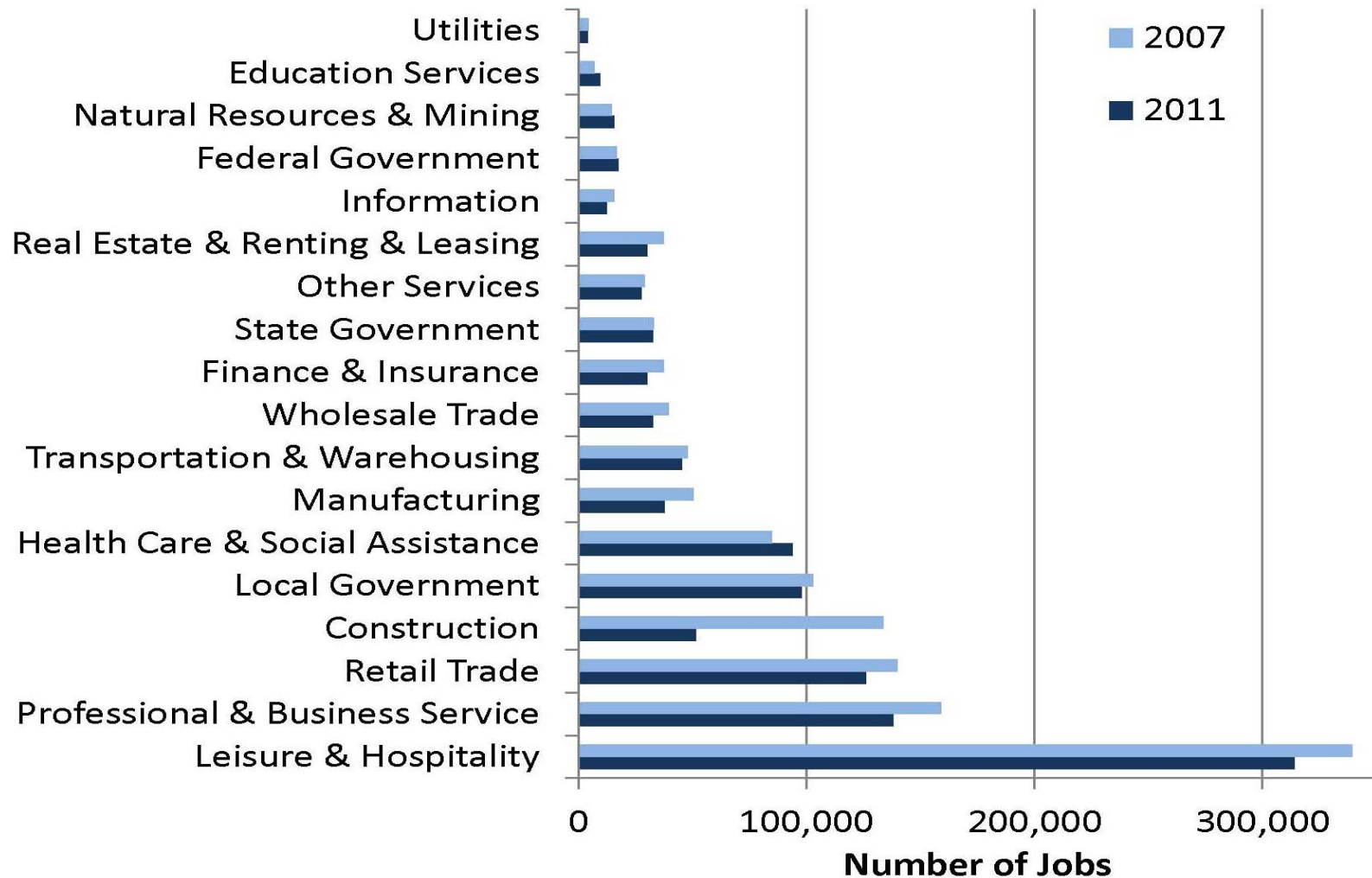
Continuing large declines some sectors

- ▣ 6,600 lost in construction
- ▣ 4,300 lost in government

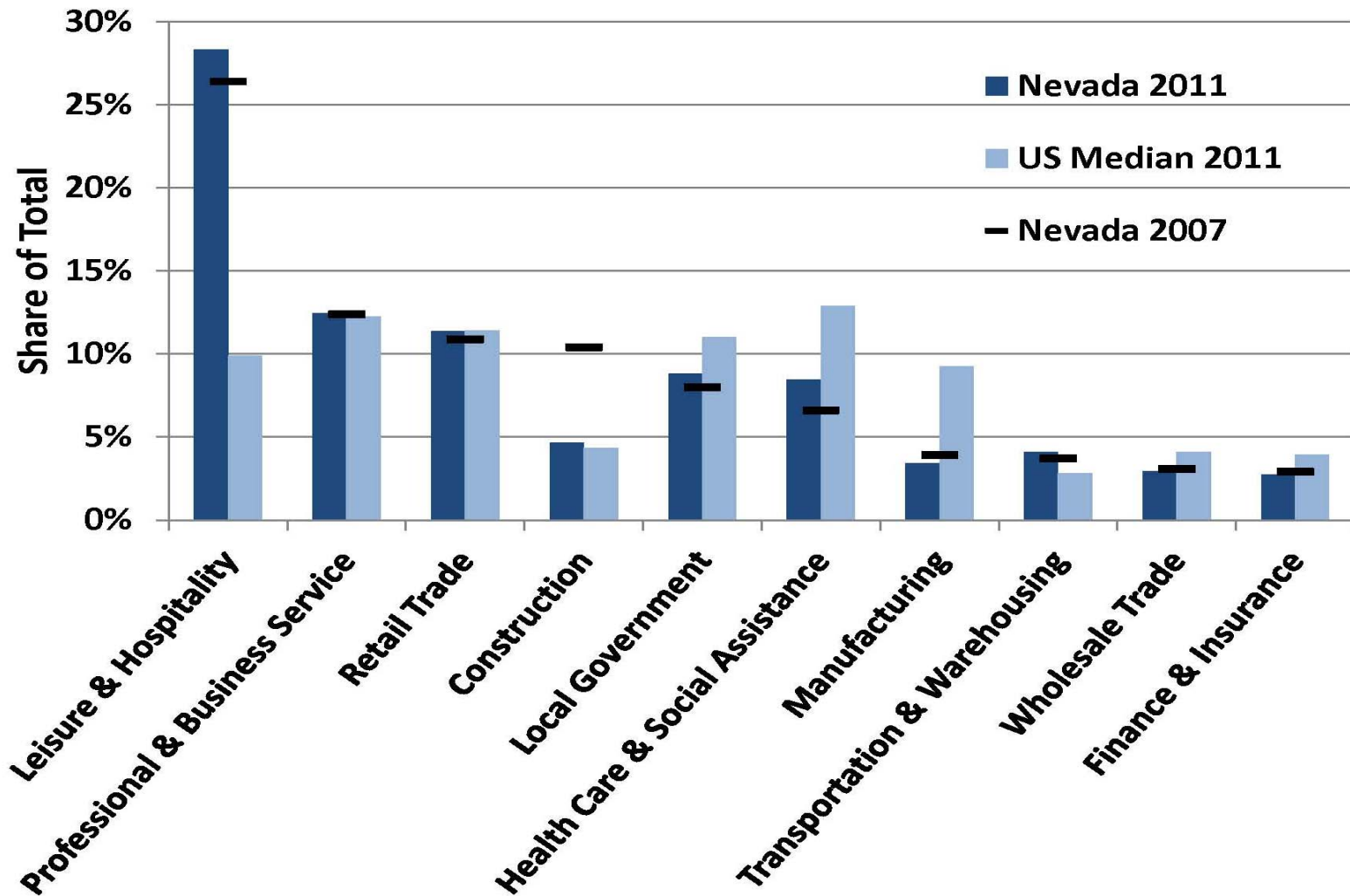
Employment by Sector



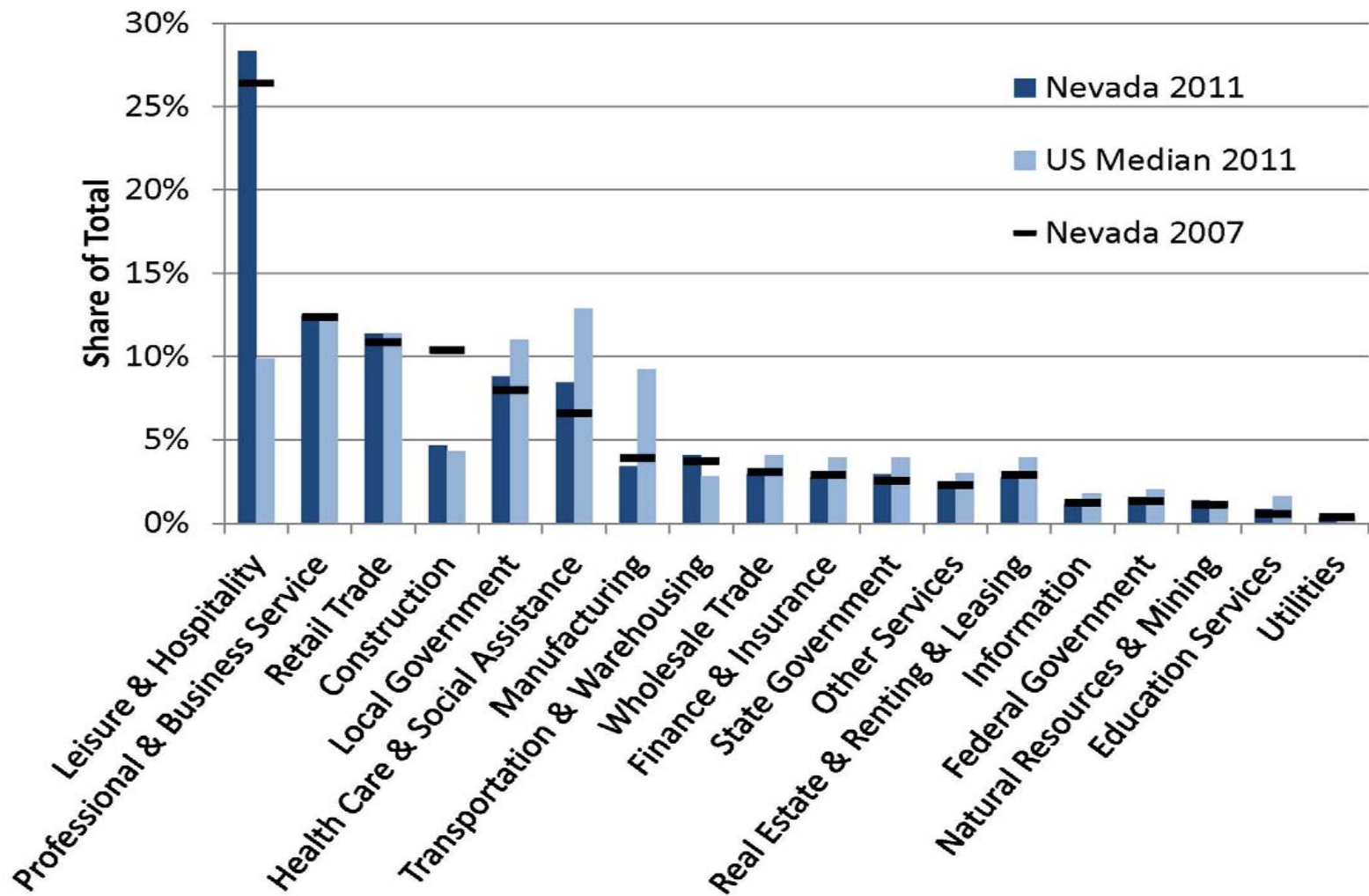
Employment by Sector



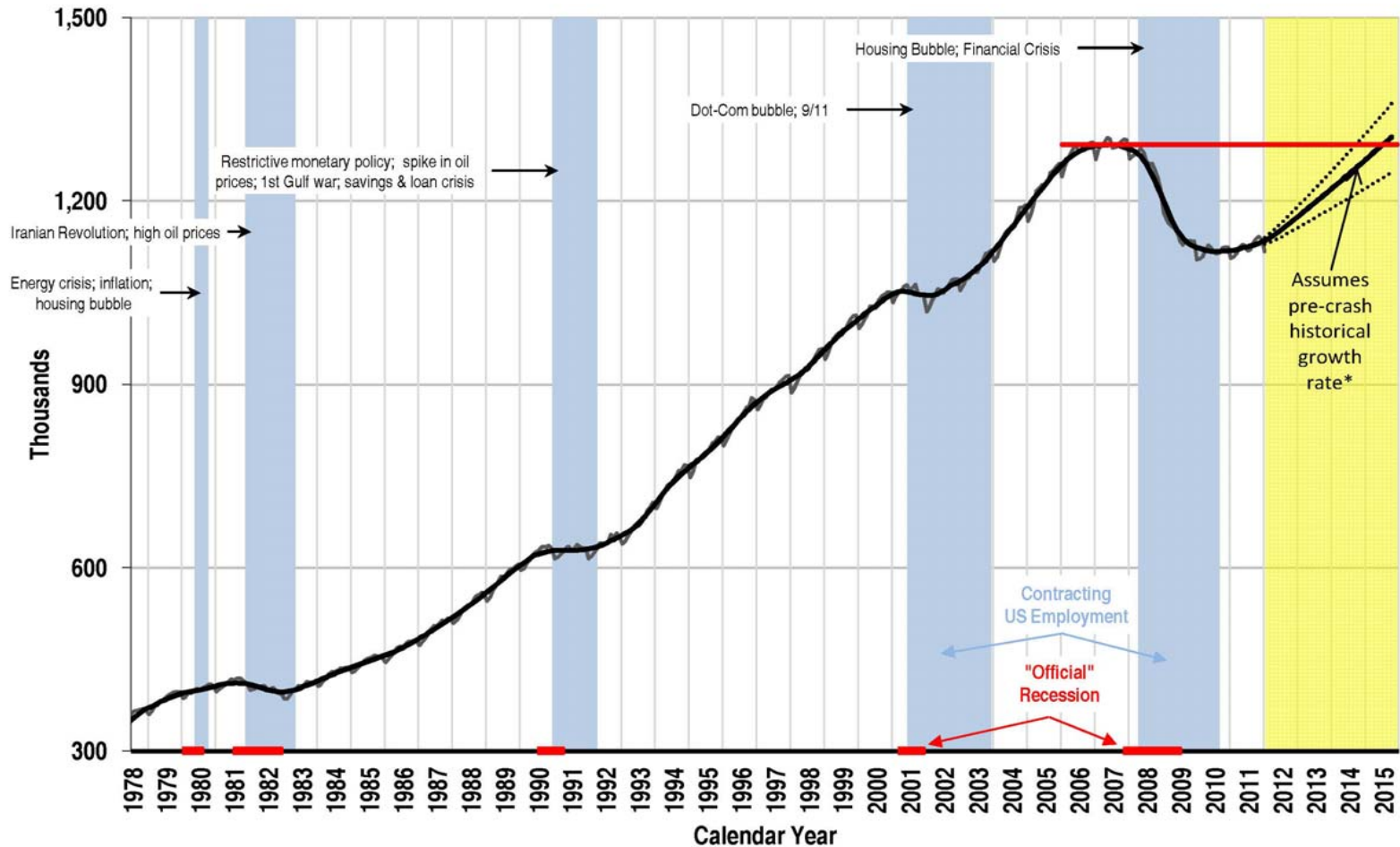
Employment by Sector



Employment by Sector



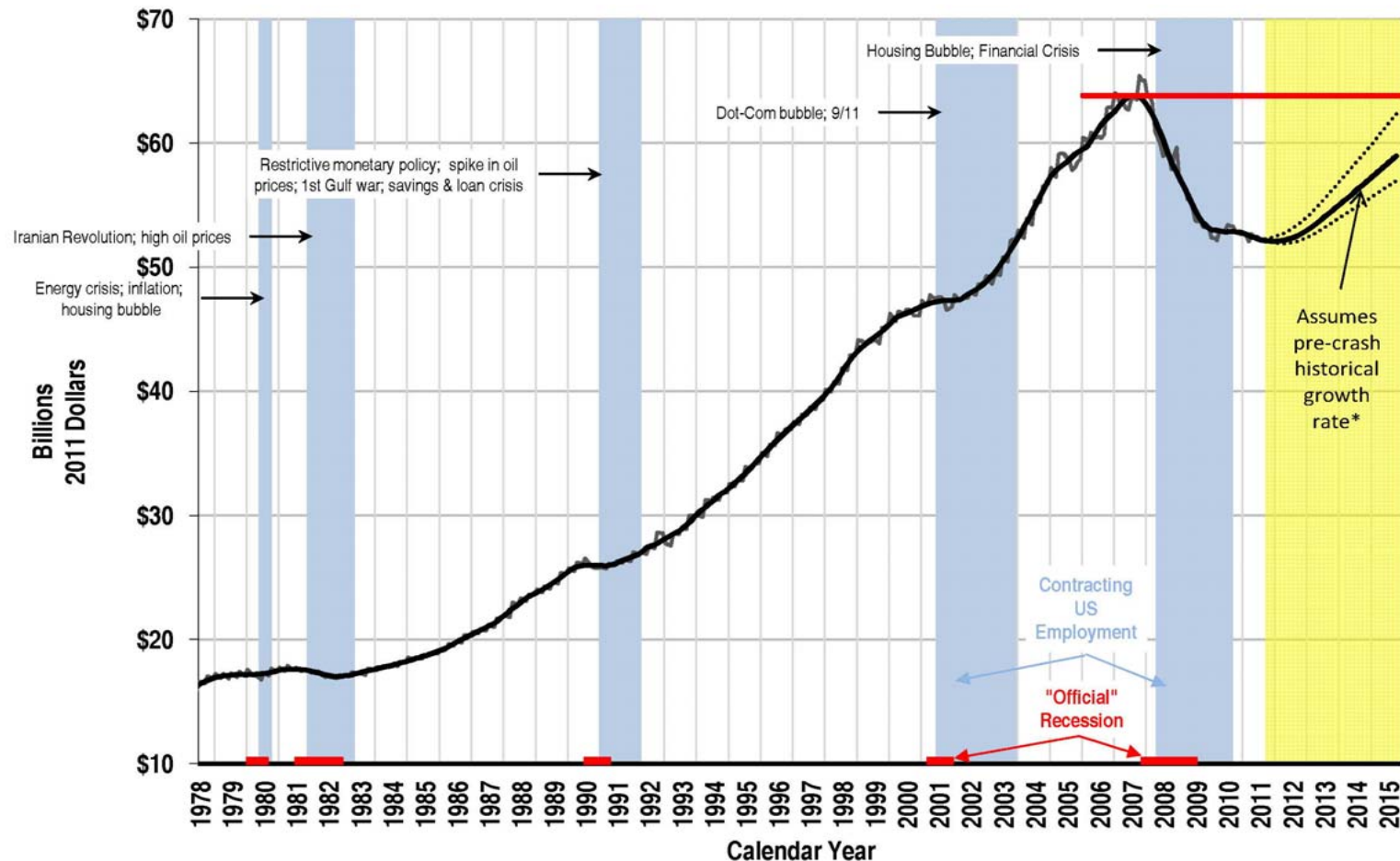
Outlook NV Employment



*Historically observed growth rate is not an economic forecast of future growth. Values are shown for illustration only.

Outlook

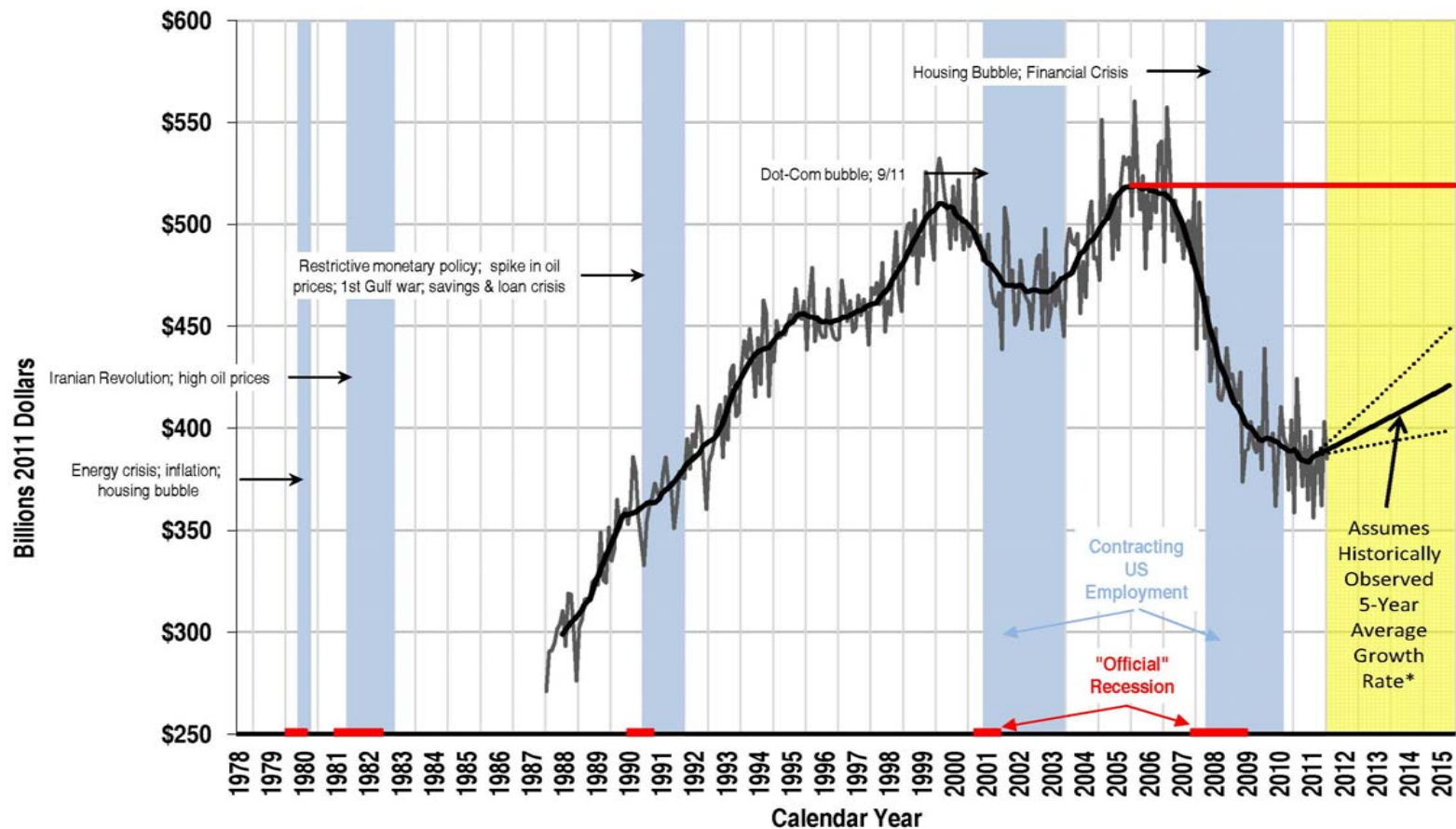
NV Inflation-Adjusted Total Wage



*Historically observed growth rate is not an economic forecast of future growth. Values are shown for illustration only.

Outlook

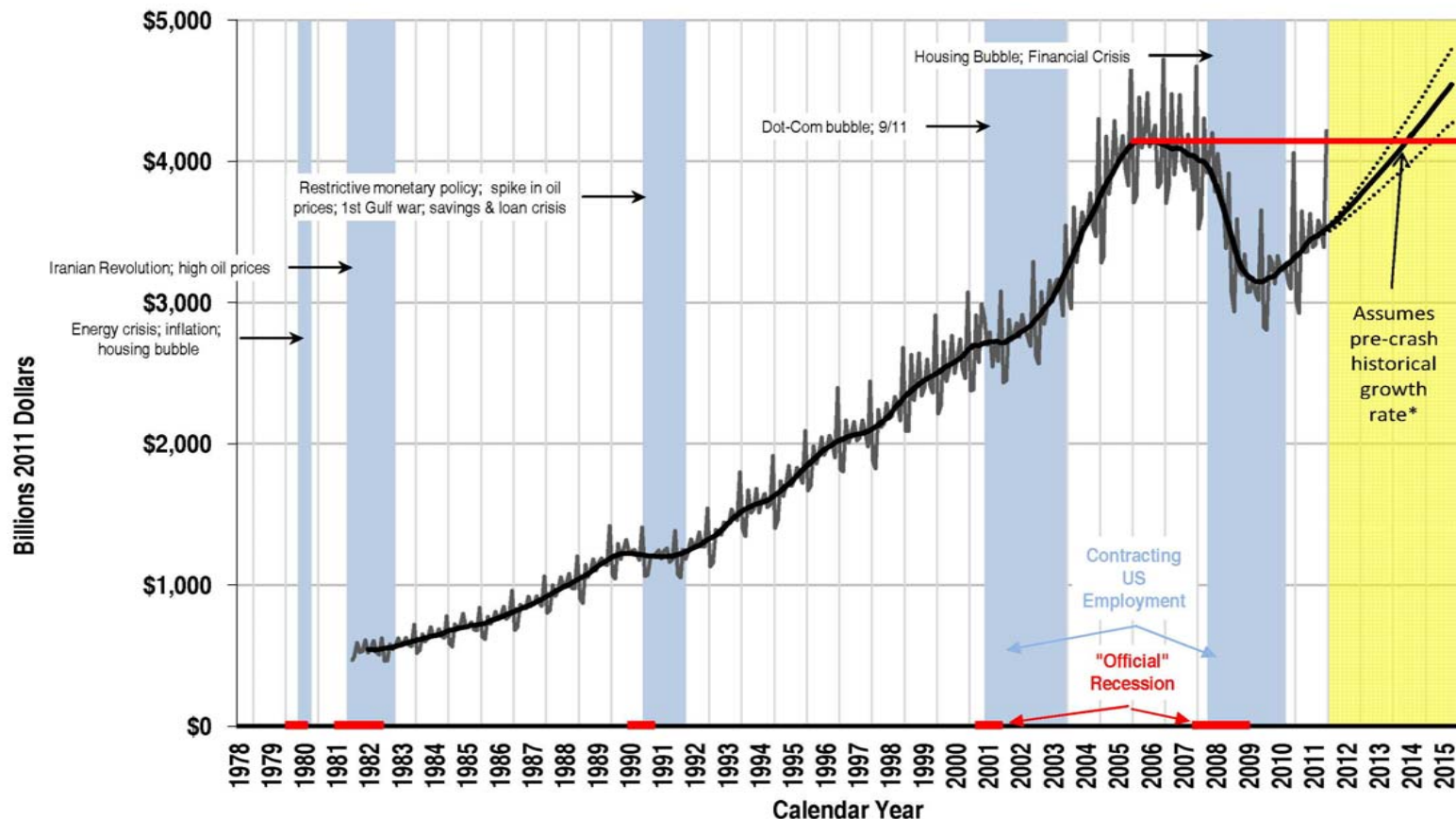
NV Inflation-Adjusted Average Daily Gaming Drop



*Historically observed growth rate is not an economic forecast of future growth. Values are shown for illustration only.

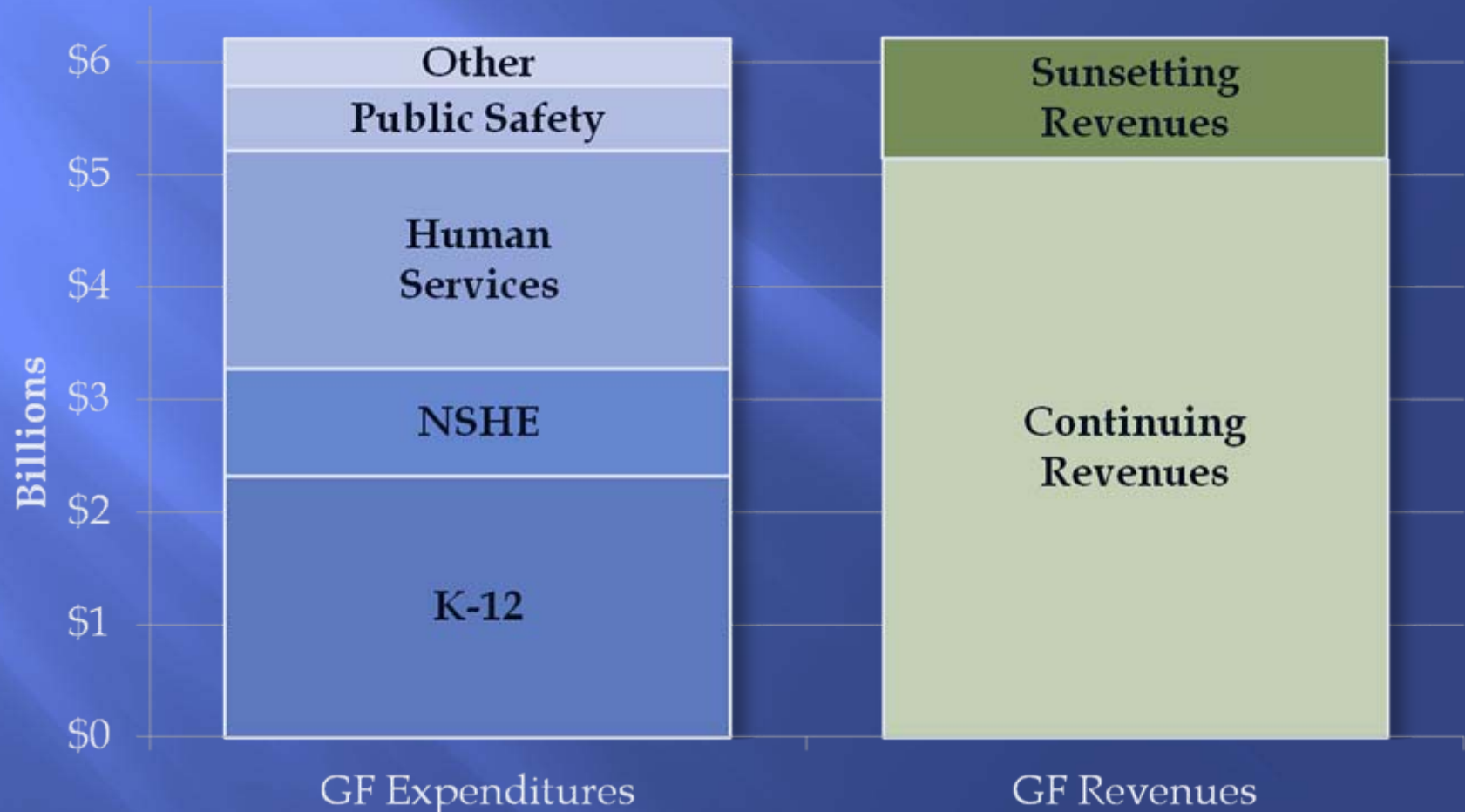
Outlook

NV Inflation-Adjusted Average Daily Retail Activity



*Historically observed growth rate is not an economic forecast of future growth. Values are shown for illustration only.

2011-2013 Biennium Expenditures & Revenues



NEVADA FORECAST

Partly Cloudy

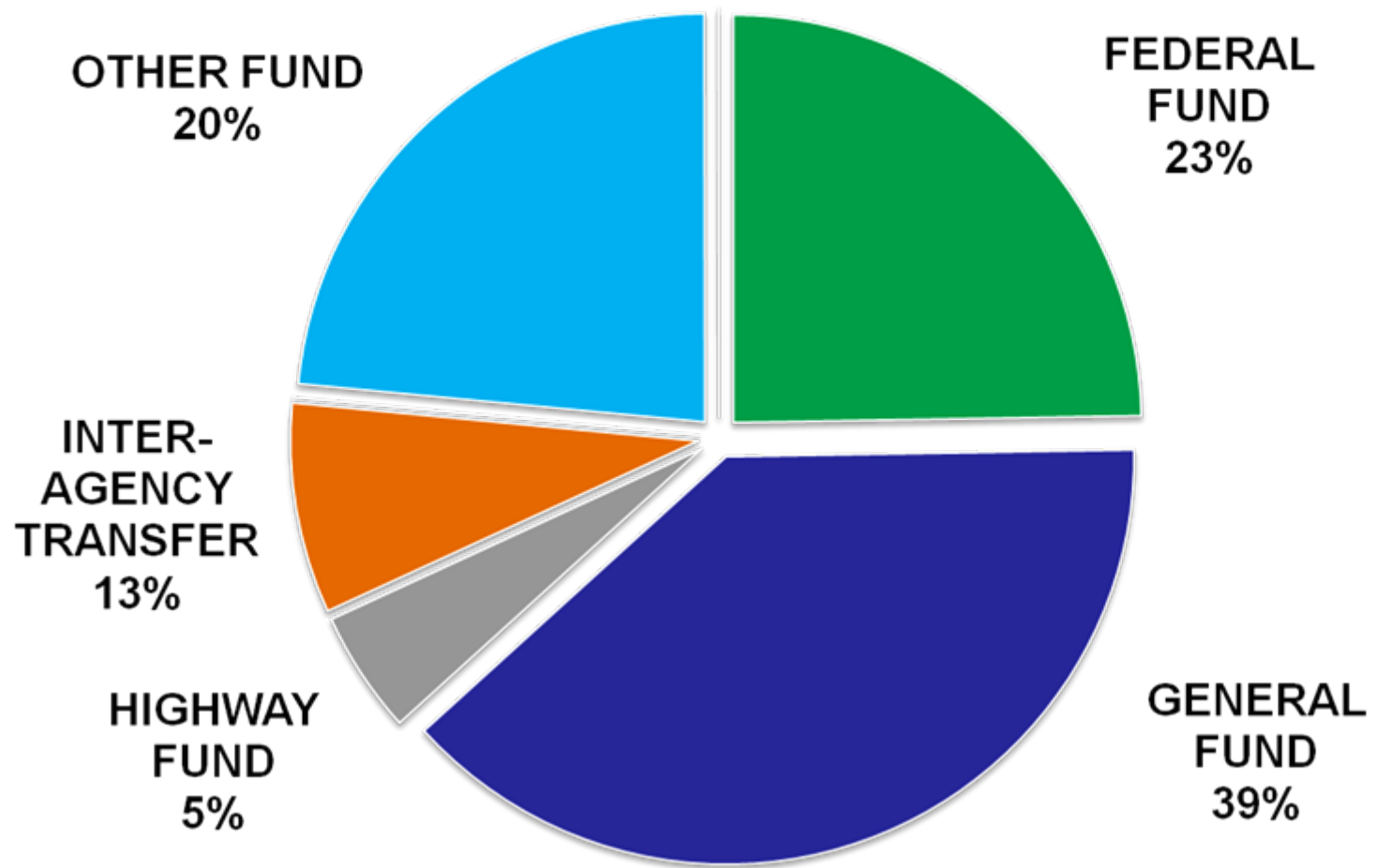
Clearing by Mid-Decade

Budget Overview



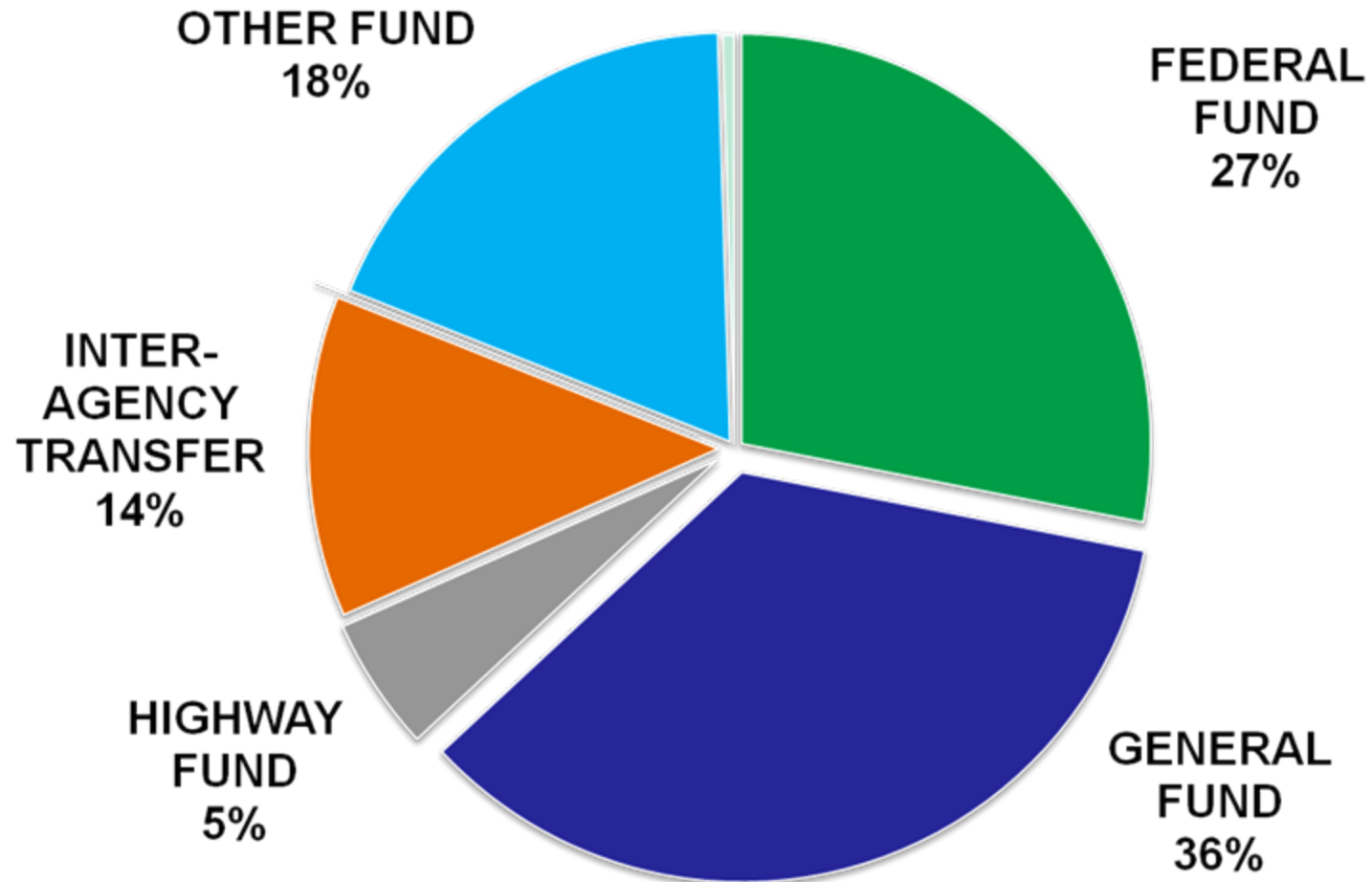
FY06-07 TOTAL BIENNIUM REVENUES

\$15.0 Billion Legislature Approved



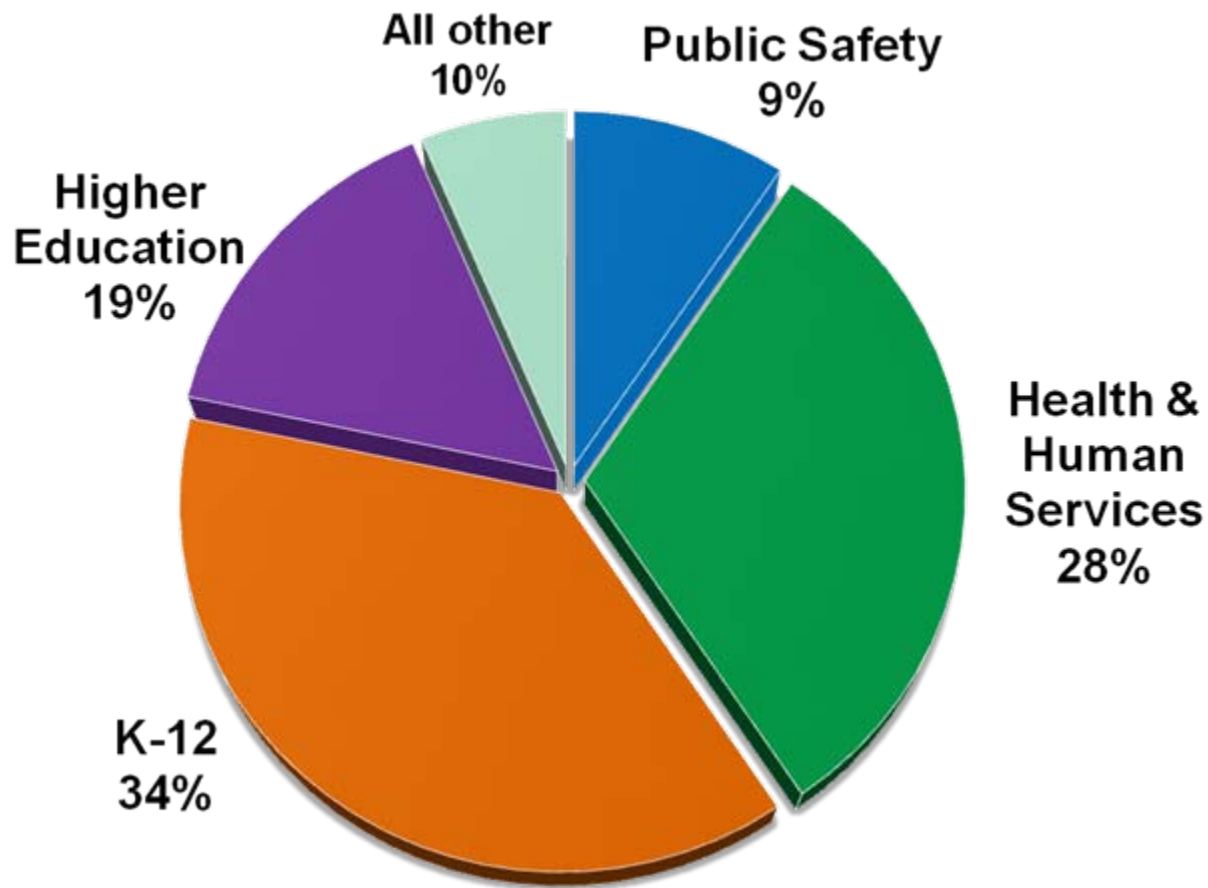
FY12-13 TOTAL BIENNIUM REVENUES

\$17.4 Billion Legislature Approved



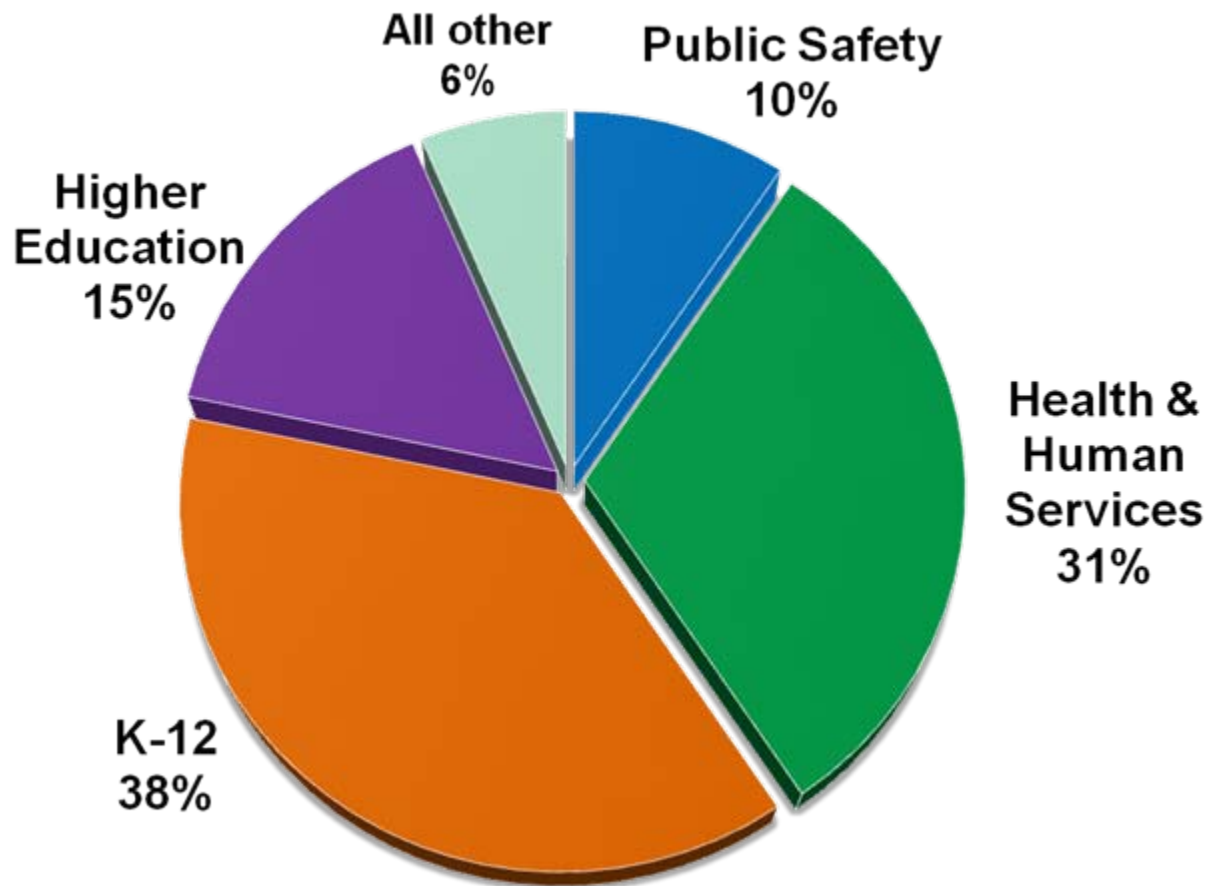
General Fund Appropriations by Function

FY06-07 Biennium Total \$5.8 Billion



General Fund Appropriations by Function

FY12-13 Biennium Total \$6.2 Billion



Difficult Economic Times Resulted in Major Budget Adjustments



Budget Reductions and Adjustments

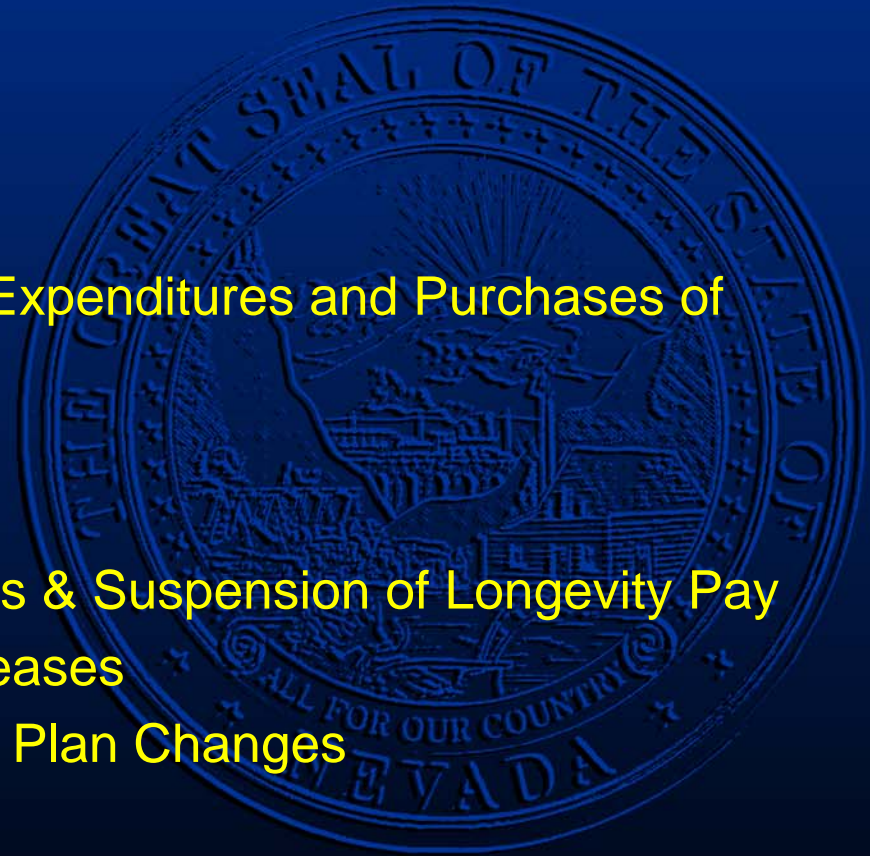
- Began in FY08
- Several Special Sessions
- Continued during 2009 Legislative Session
- Additional reductions during recent 2011 Legislative Session



FY08 - Current

Examples of Expense Reductions

- General Budget Reductions
- Significant Reductions in Capital Expenditures and Purchases of Equipment
- Position Eliminations
- Furloughs & Salary Reductions
- Suspension of Merit Pay Increases & Suspension of Longevity Pay
- Renegotiation of Contracts and Leases
- State Employee Health Insurance Plan Changes
- Department Consolidations
- Reduced Capital Improvement & Deferred Maintenance Projects



FY08 - Current

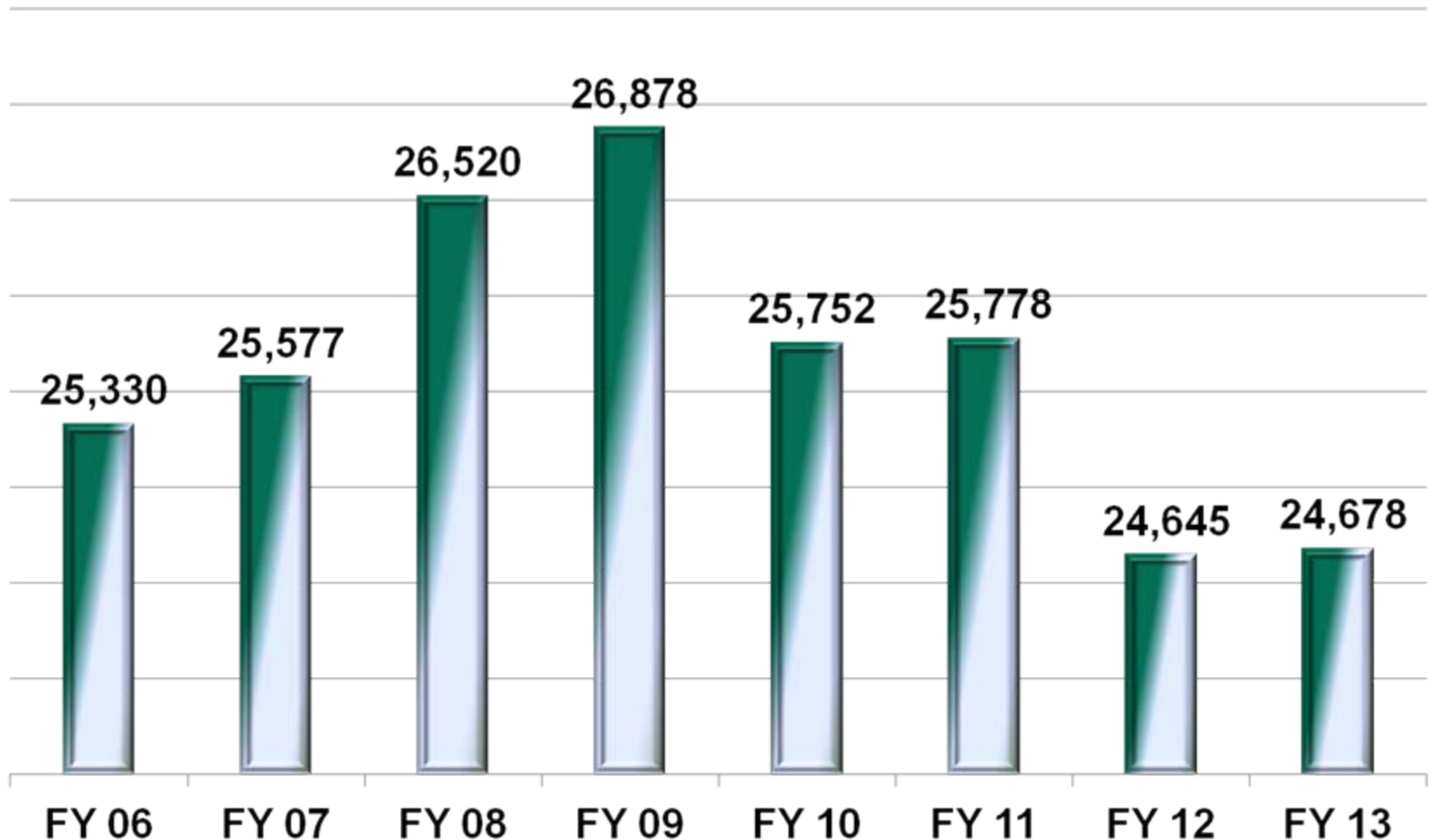
Examples of Revenue or Funding Increases

- Spend Down Rainy Day Fund
- Revenue Stabilization
- Fund Sweeps
- Fund Diversions
- Federal American Recovery and Reinvestment Act Funding
- Government Services Fiscal Stabilization Funds
- Enhanced Federal Medical Assistance Percentage (FMAP)
- Line of Credit



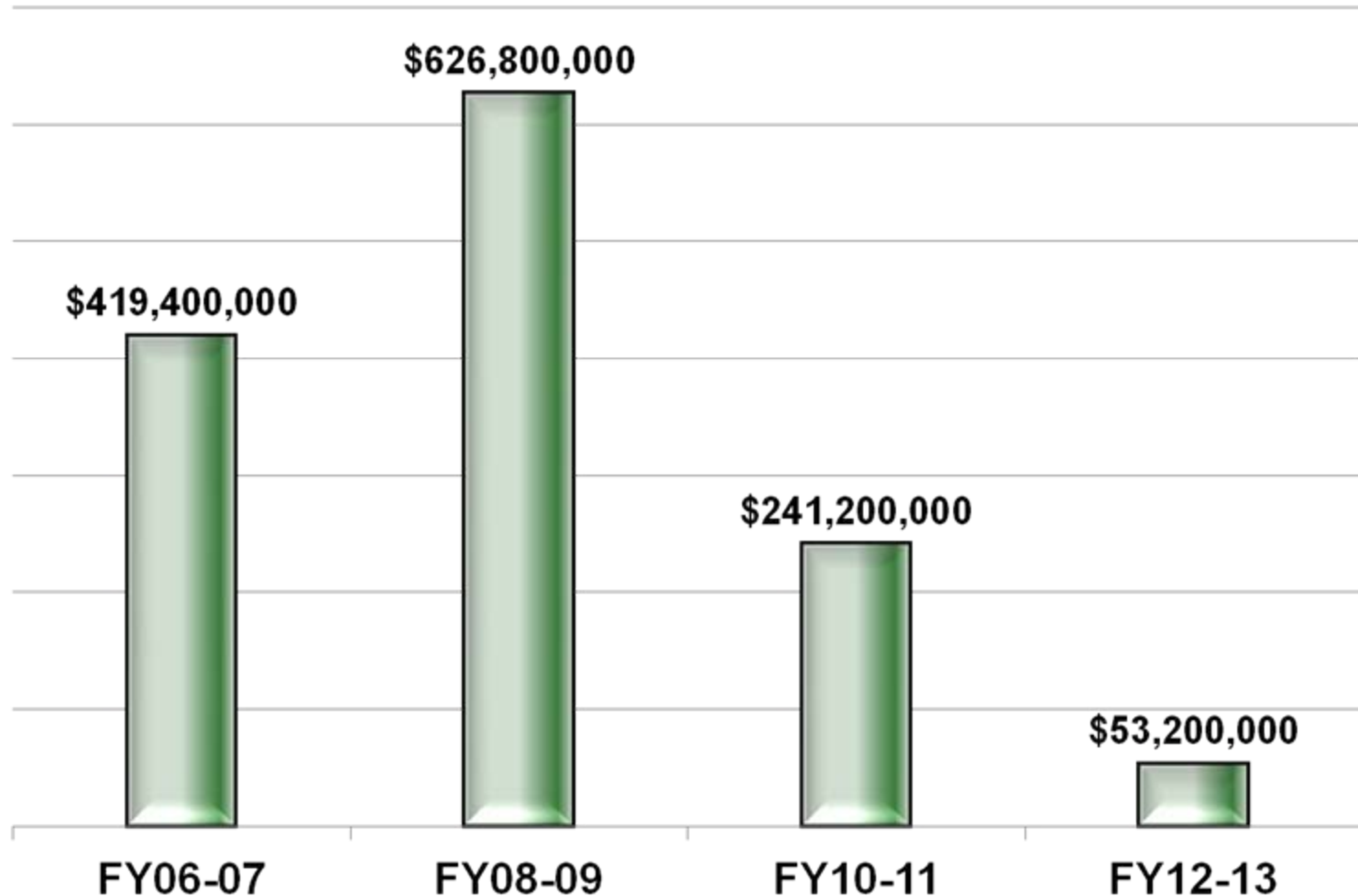
State Government Position Count

Legislature Approved - Full-Time Equivalency
Includes Higher Education - Excludes Seasonal and Intermittent

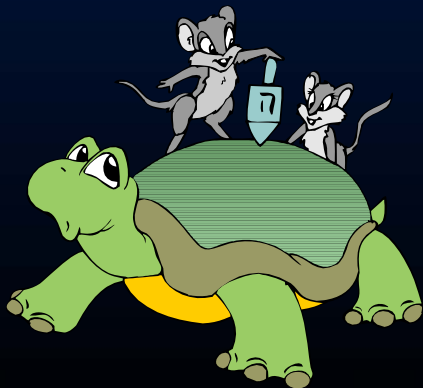


Capital Improvement Projects

Legislature Approved

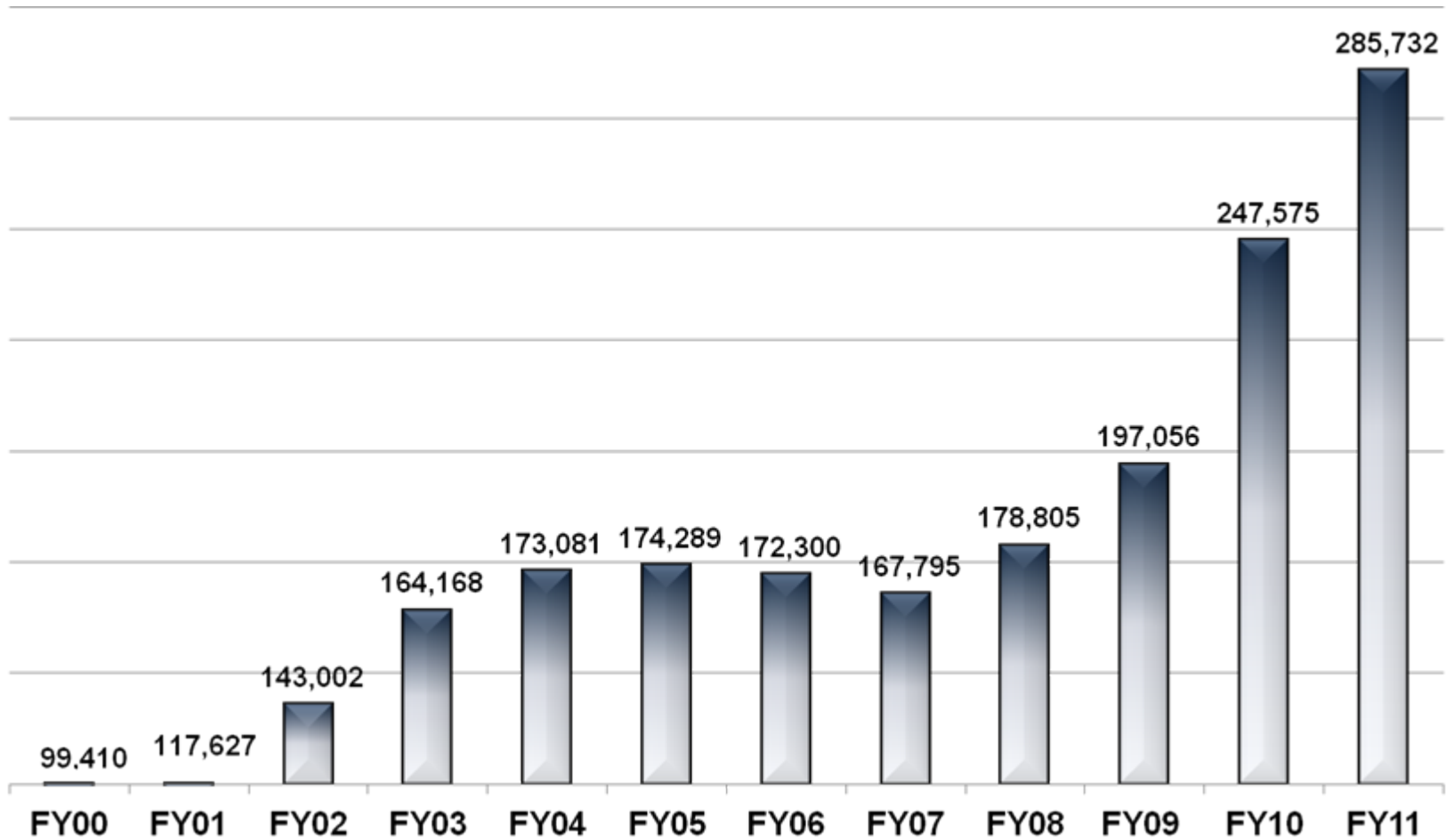


Demand for State Services Increases in Tough Financial Times



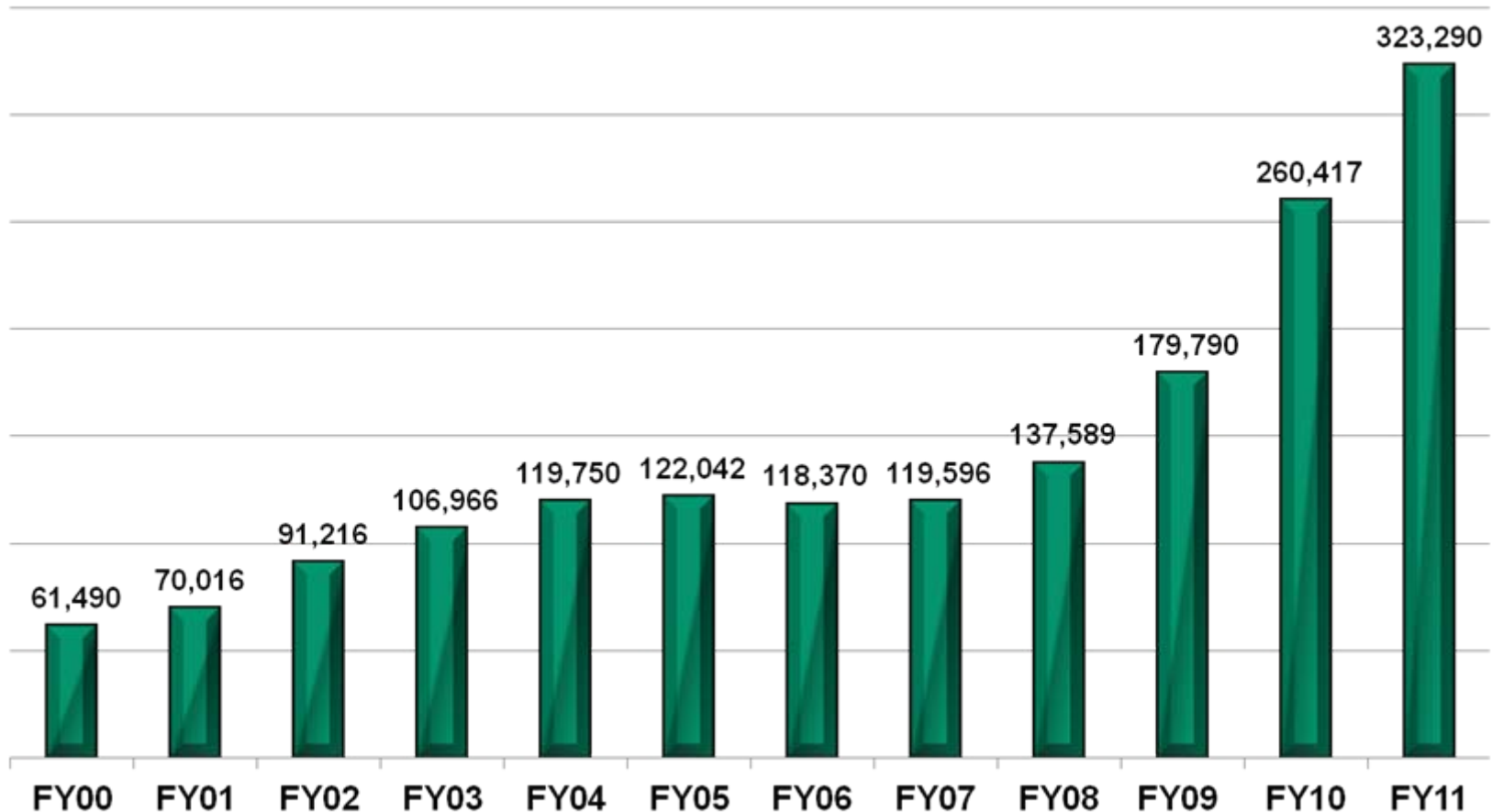
Medicaid

Annual Average Recipients

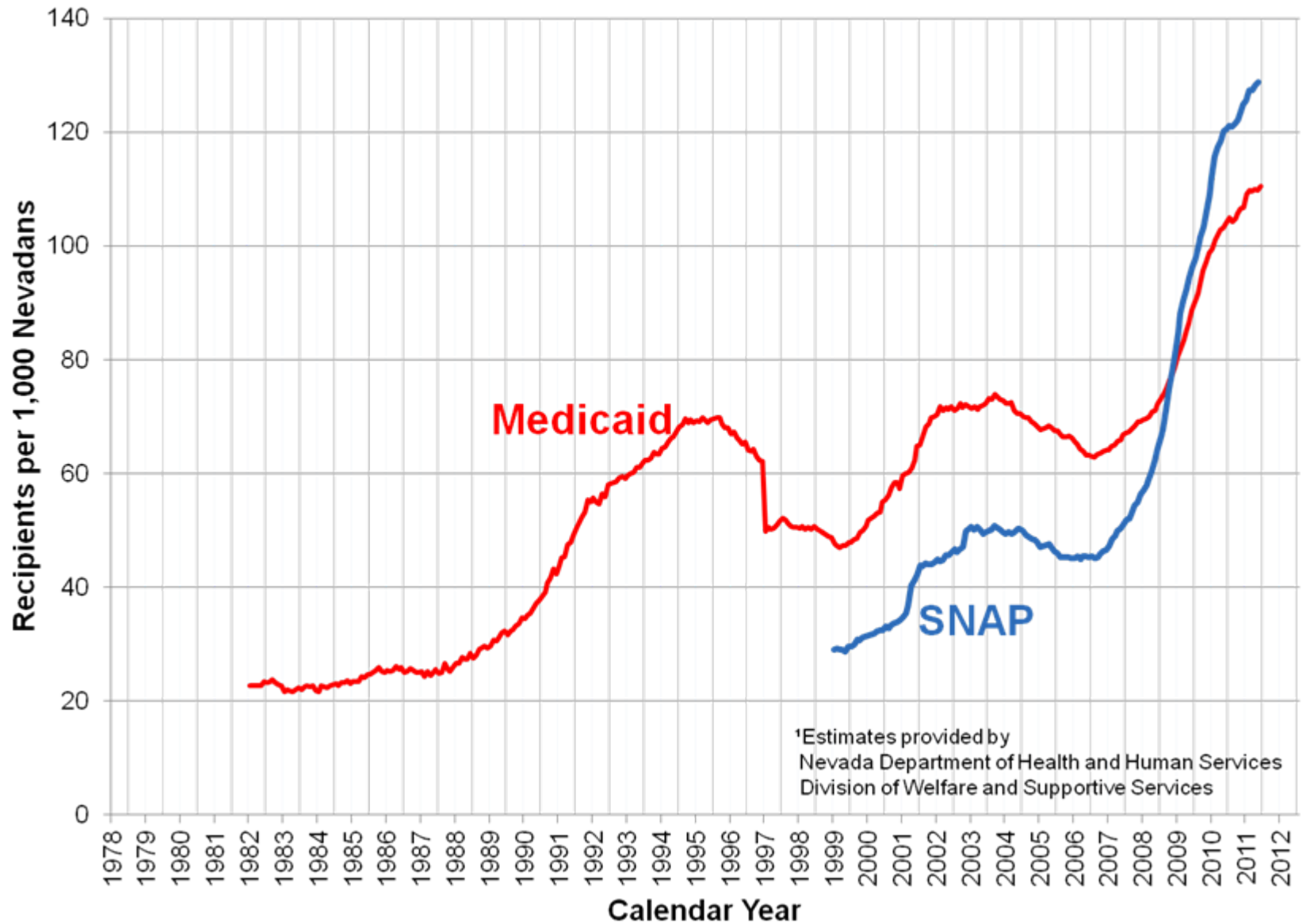


Supplemental Nutrition Assistance Program SNAP

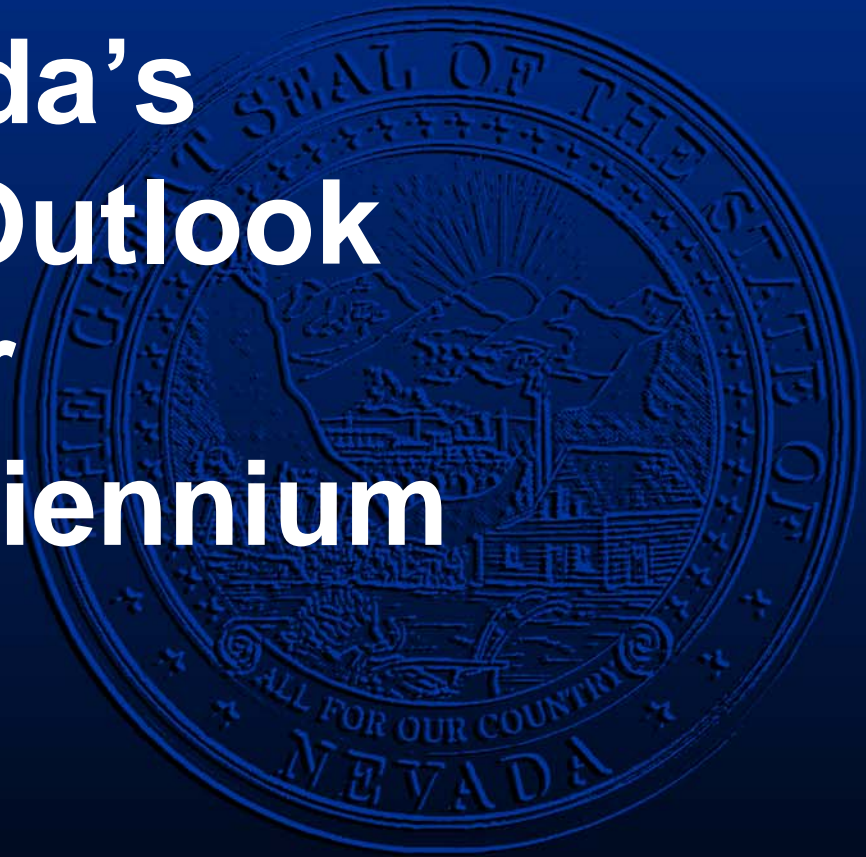
(Previously known as Food Stamps)
Annual Average Recipients



Estimated Medicaid & SNAP Recipients¹



Nevada's Budget Outlook for FY14-15 Biennium



Revenues are Increasing

- Sales tax increases for 17 straight months
- Gaming win has posted year-over-year gains in 8 of the past 12 months
- Revenues for 2011 finished higher than Economic Forum estimates
- Revenues for 2012 are also tracking higher



Significant Challenges Remain

- Sunsetting Revenues
- Sunsetting Expense Reductions
- Health Care Reform



Sunsetting Revenues

FY12-13 Biennium General Fund

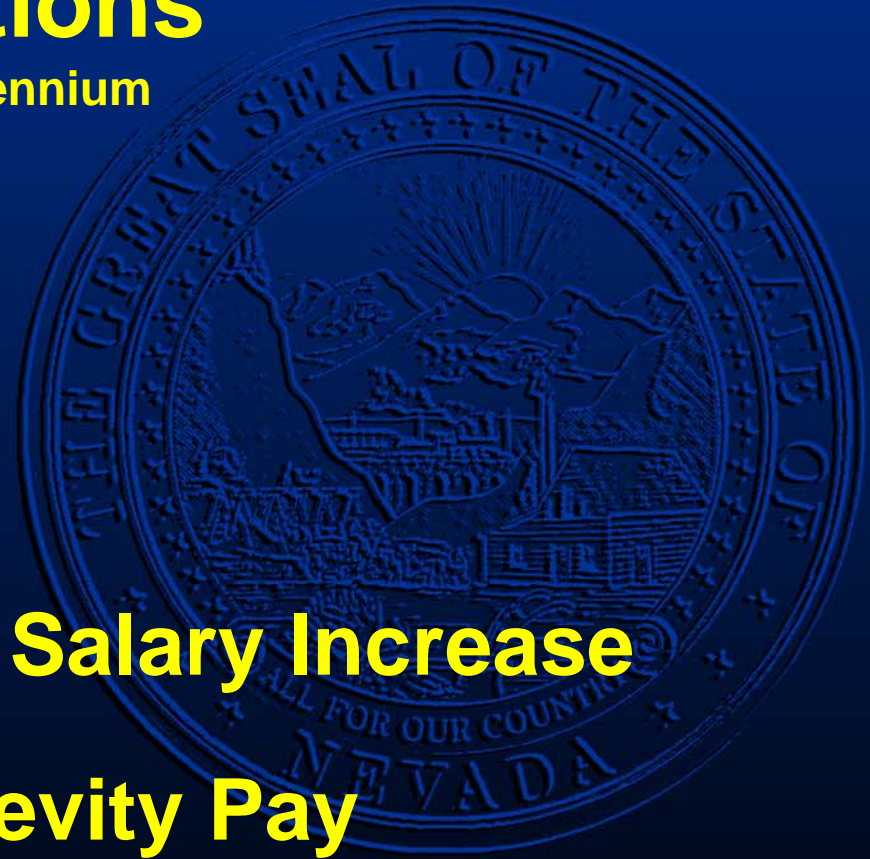
- **Taxes, Fees, Fund Sweeps, & Other Revenue**
- **Adjustments to the Distributive School Account (DSA)**



Sunsetting Expenditure Reductions

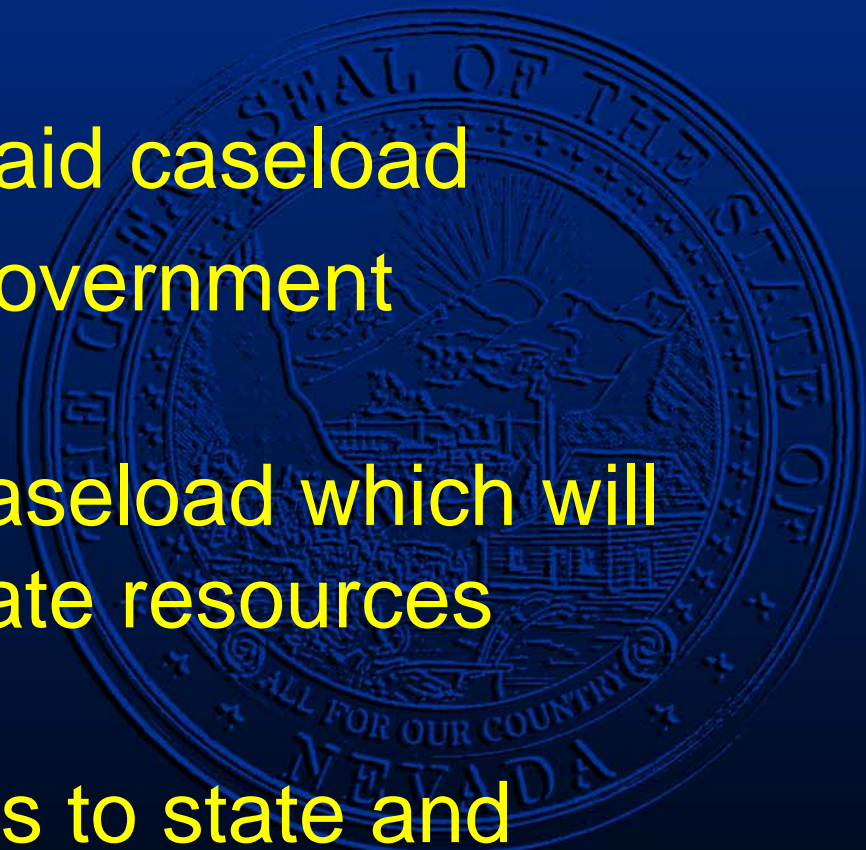
FY12-13 Biennium

- Furlough
- Pay Rate Reduction
- Suspension of Merit Salary Increase
- Suspension of Longevity Pay



Health Care Reform

- Newly eligible Medicaid caseload covered by federal government
- Increase Medicaid caseload which will require significant state resources
- Potential cost savings to state and local government

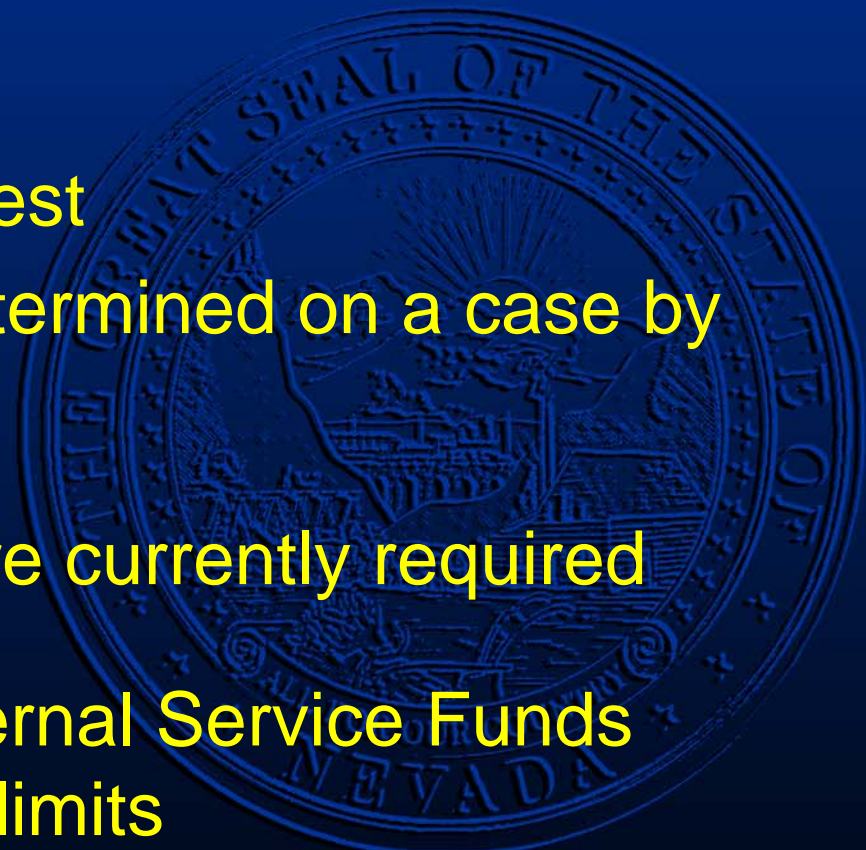


**FY14-15 Biennium
Budget Targets
for General Fund
will be Established**



FY14-15 BUDGET

- “Flat” general fund request
 - Exceptions will be determined on a case by case basis
- No budget reductions are currently required
- Highway Funds and Internal Service Funds will also have spending limits



What Does “Flat” Mean?

- Spending caps at the Departmental level
- Directors have flexibility within the cap
- Certain general fund expenditures will be allowable outside of the cap
- All other expenditure requests over the cap must be submitted in Items for Special Consideration.

Note: Items for Special Consideration are NOT part of the official agency request budget.

How the Cap Works

- FY13 appropriation is the beginning point
- The Budget Division multiplies this number by 2
- The Budget Division adds back costs associated with employee pay reductions that sunset (pay reduction, furloughs, merit and step increases, and longevity).

Note: Statewide rate adjustments such as employee medical and retirement contributions will be calculated by the Budget Division and are NOT part of the cap.

Allowable Non-Cap Expenditures

- **M-200 Caseload Changes**
(Legislature Approved)
- **M-500 Federal Mandates**
(e.g., Health Care Reform)
- **M-101 Agency Specific Inflation**
(e.g., Medical Inflation, Highway Related Materials)

Note: Most of these items are readily identifiable with a historical precedent. If not, please coordinate with your budget analyst whether your expenditure qualifies as a non-cap expenditure **BEFORE** putting in the time and effort.

Items for Special Consideration

- Agency Identified “Think Big - Go Bold” Ideas
- Replacement Equipment Requests
(that do not fall within your cap)
- Deferred Maintenance Requests
(that do not fall within your cap)

We understand there is a need for both replacement equipment and deferred maintenance projects.

These items and other requests will be prioritized on a statewide basis.

Examples of Legislature Approved Caseloads

- Entitlement programs such as Medicaid and SNAP (food stamps)
- K-12 student enrollment
- Inmate populations

Note: Coordinate with your budget analyst to determine if your caseload qualifies.



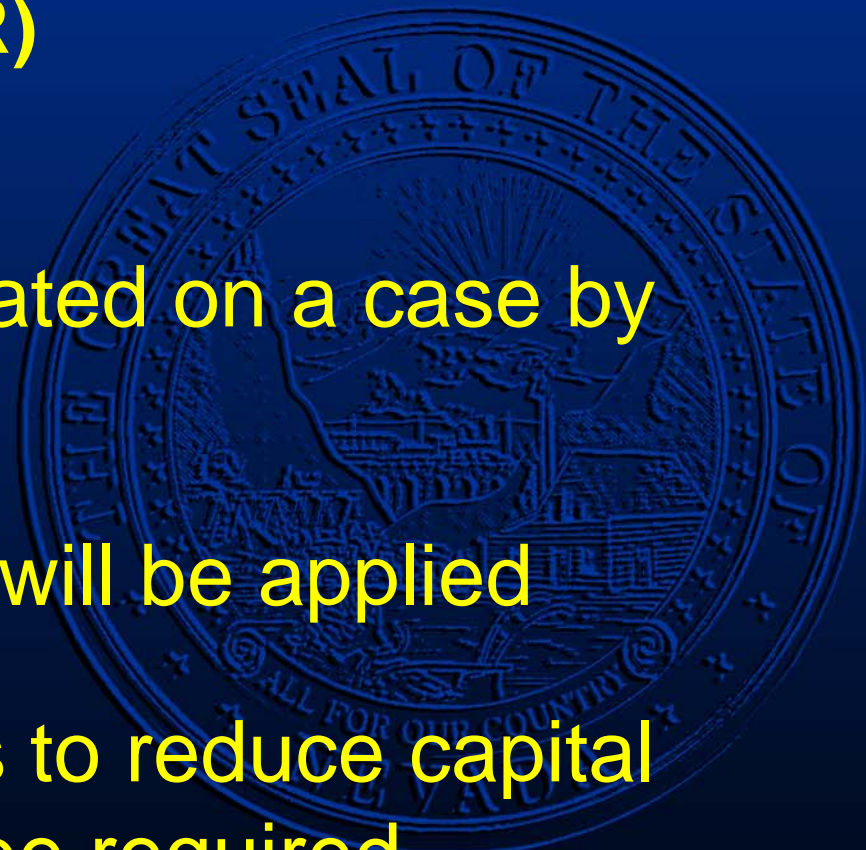
STATE PUBLIC WORKS BOARD

2013 CAPITAL IMPROVEMENT PLAN (CIP)

- On-Line 2013 Capital Improvement Plan application is available on www.spwb.state.nv.us
- The new application includes an emphasis on deferred maintenance needs at existing facilities.
- Functionality has been improved to allow saving of partially completed forms rather than requiring all work be performed in one session.
- All applications must be submitted by April 10, 2012.

Technology Investment Requests (TIR)

- Projects will be evaluated on a case by case basis
- Cost/benefit analysis will be applied
- Leveraging resources to reduce capital requirements will be required



State of Nevada 2013 Legislative Session Bill Draft Requests

Stephanie Day, Deputy Budget Director
Department of Administration, Budget Division

Bill Draft Request (BDR)

- ❖ A request submitted to the Legislative Counsel Bureau proposing additions, deletions, and/or changes to Nevada Revised Statutes

Bill Draft Request (BDR)

- ❖ Requests should be separated between
 - Housekeeping – Clarification or minor changes to existing statutes
 - Substantive – All other requests

Bill Draft Request (BDR)

- ❖ Each request must be limited to one subject, but may contain proposed revisions to more than one section of NRS that relates to the single subject of the proposed bill.

Bill Draft Request (BDR)

❖ Non-Budgetary Bill Draft Requests

- No Fiscal Impact
- Due to the Budget Division on or before June 01, 2012

Bill Draft Request (BDR)

❖ Budgetary Bill Draft Requests

- Fiscal Impact Exceeding \$2,000 (NRS 218d.430)
- Due to the Budget Division on or before August 31, 2012
- Must be included in the Agency Request Budget
- No Fiscal Notes are processed if the amount is included in the Executive Budget

Bill Draft Request Database

- ❖ New NEBS BDR Module
- ❖ Available May 01, 2012
- ❖ Similar functionality to the database used last time
- ❖ All BDRs must be submitted through the new BDR Module in NEBS.

Bill Draft Request Database

- ❖ Agencies can track status of BDRs
- ❖ Legislature's BDR and Bill Numbers will be added to the database with hyperlinks to the respective document on their website
- ❖ The NEBS BDR Module will eventually link to LCB's bill tracking system

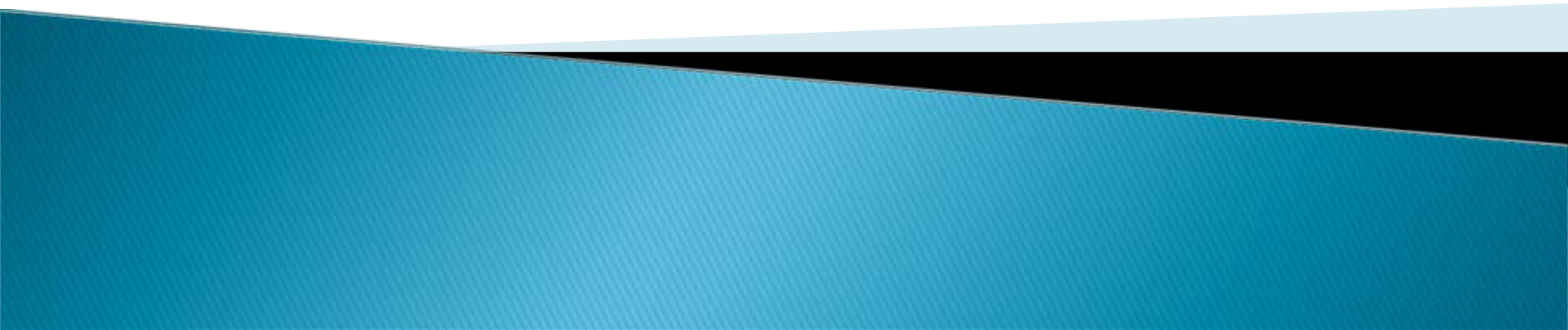


Questions?

Priorities and Performance Based Budgeting

for
The State of Nevada

Jeff Mohlenkamp, CPA
Director Department of Administration



Current Budgeting Structure

- ❑ Difficult to ID common goals and coordinate efforts
- ❑ Limited focus on results

Current Budgeting Structure

- ❑ Department – Division – Budget Account
- ❑ Budget Accounts broken into expenditure categories
- ❑ Budget Account Names and expenditure categories do not reveal much regarding what work is performed
- ❑ Performance Indicators are prepared at the Budget Account level
 - ❑ Inconsistently used by management
 - ❑ Even less frequently by key decision makers

Current Budgeting Structure (cont.)

- ❑ It is difficult to identify agencies with common goals and therefore hard to coordinate efforts
- ❑ Silos form easily as the structure does not allow clarity regarding what work is completed or the goals and objectives of the organization

Why Move to Priorities and Performance Based Budgeting

- ❑ Improve transparency to decision makers and public
- ❑ Link government activities to achievement of objectives
- ❑ Reduce silos and identify common objectives
- ❑ Provide platform for improvement in funding and budgeting decisions
- ❑ Measure the efforts of state government to determine whether they make a difference

Historical Perspective

- ❑ Originated in late 1940s at federal level for Defense
- ❑ Guided by the federal Government Performance and Results Act (GPRA) enacted in 1993
- ❑ By 1990s half of the states are using performance indicators
- ❑ As of 2009, only 13 of the states are not using Performance Based Budgeting in some manner
- ❑ In 2010 Nevada implemented Priorities of Government Process

Other States'

Performance Based Budgeting

- ❑ State of Utah began in 2009
 - ❑ Performance measures based on department-specific critical areas of desired outcomes
 - ❑ Balanced Scorecard focuses on strategic planning, performance management, state agency collaboration, and discovering enterprise innovation opportunities
- ❑ Commonwealth of Virginia began in 1995
 - ❑ Includes metrics on inputs, outputs and outcomes
 - ❑ Online scorecard has supported targeted budget reductions

Movement Towards Performance Based Budgeting is Underway

- ❑ Priorities of Government initiated during 2012/2013 budget preparation
- ❑ AB 248 Passed by 2011 Legislature continues movement
- ❑ Support from the Legislature, Governor and all who testified

Introducing: Priorities and Performance Based Budgeting (PPBB)

- ❑ Builds on foundation established under the Priorities of Government initiative
- ❑ PPBB has a number of system advances to make it easier for financial and budget staff – to be discussed more in the afternoon
- ❑ We significantly advance the ability to inter-connect activities performed by State government

Assembly Bill 248 Requirements

- ❑ Summary of the long-term performance goals for core governmental functions
- ❑ Explanations of how proposed budget will fund government so progress is made toward goals
- ❑ Sufficient to help analyze costs and benefits of programs and determine spending priorities

PPBB Uses Top Down and Bottom Up Approach

PPBB Top Down

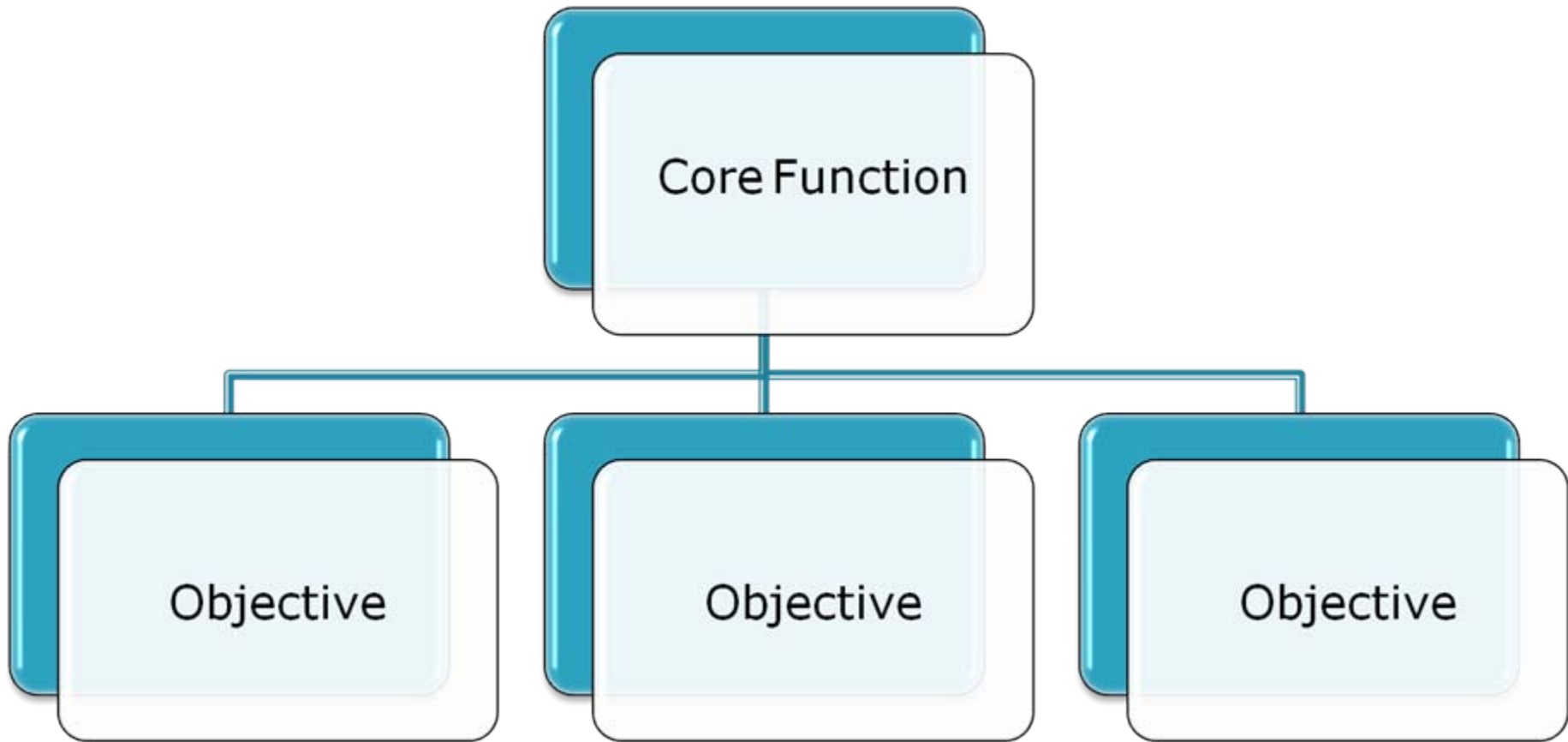
- ❑ The Governor directed the Budget Division to move forward with a budget design to increase accountability and transparency
- ❑ The Governor involved the entire cabinet in establishing Objectives tied to Core Functions of government
- ❑ Objectives advance one or more of the Administration's Strategic Priorities

Overview of PPBB Structure

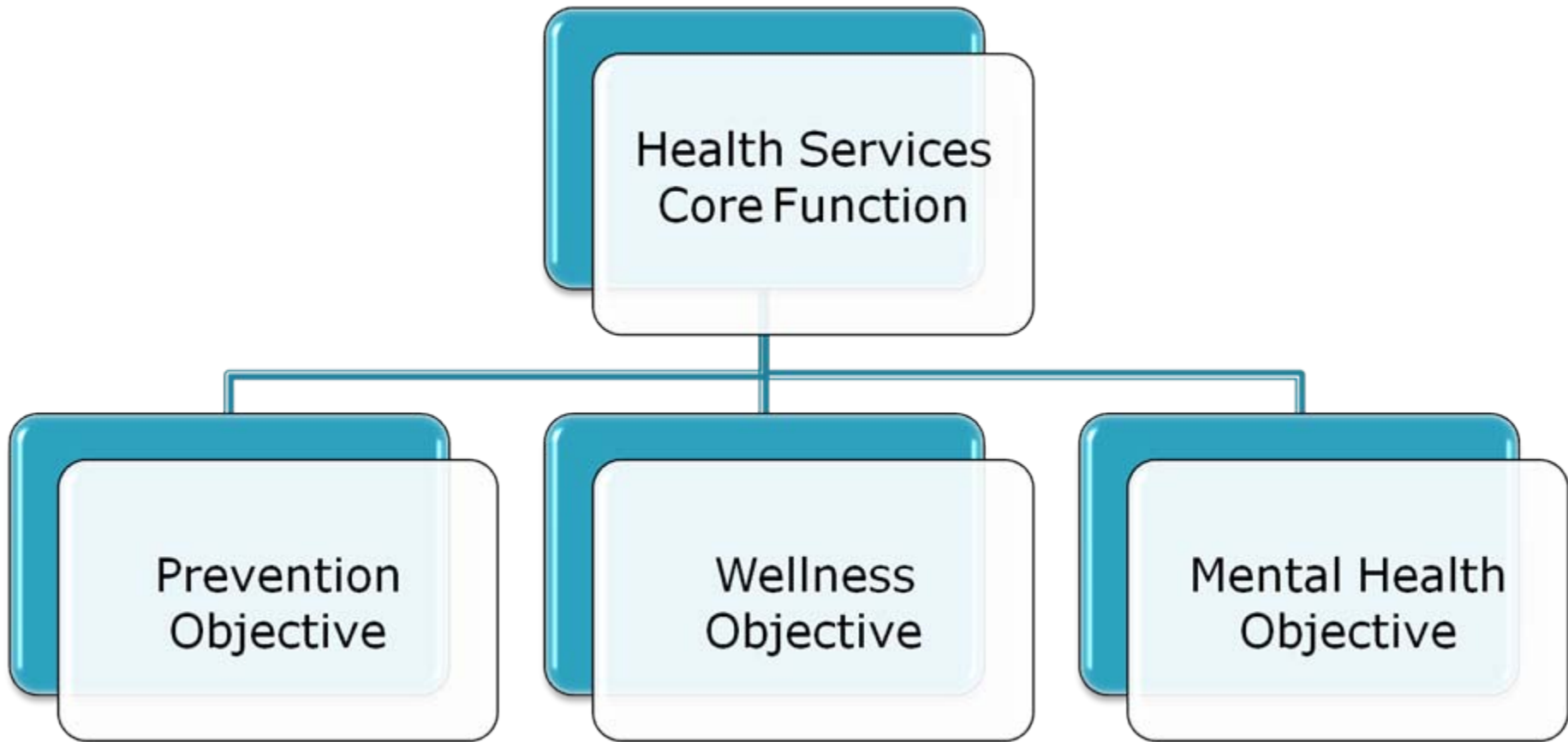
Core Functions of Government

Business Development & Services	Infrastructure and Communications
Education and Workforce Development	Public Safety
Health Services	Resource Management
Human Services	State Support Services

PPBB Objectives link to Core Functions



PPBB Objectives link to Core Functions



Objectives

- ❑ Objectives are high level initiatives the state is trying to achieve
- ❑ Some Objectives are not entirely within control of government
- ❑ Government can play a key role in advancing all Objectives

Examples of Objectives

- ❑ Health Services Core Function
 - ❑ Prevention Objective
 - ❑ Mental Health Objective

- ❑ Public Safety Core Function
 - ❑ Reduce Crime Objective
 - ❑ Reduce Repeat Criminal Activity Objective

Benchmarks

- ❑ Objectives are measured by Benchmarks
- ❑ Benchmarks are high level measures of how well the state is doing at achieving or making progress on the state's Objectives
- ❑ State government cannot by itself control all Benchmarks however it should play a key role in all
- ❑ Benchmark parameters tie to national data and historical data (When available)

Examples of Benchmarks

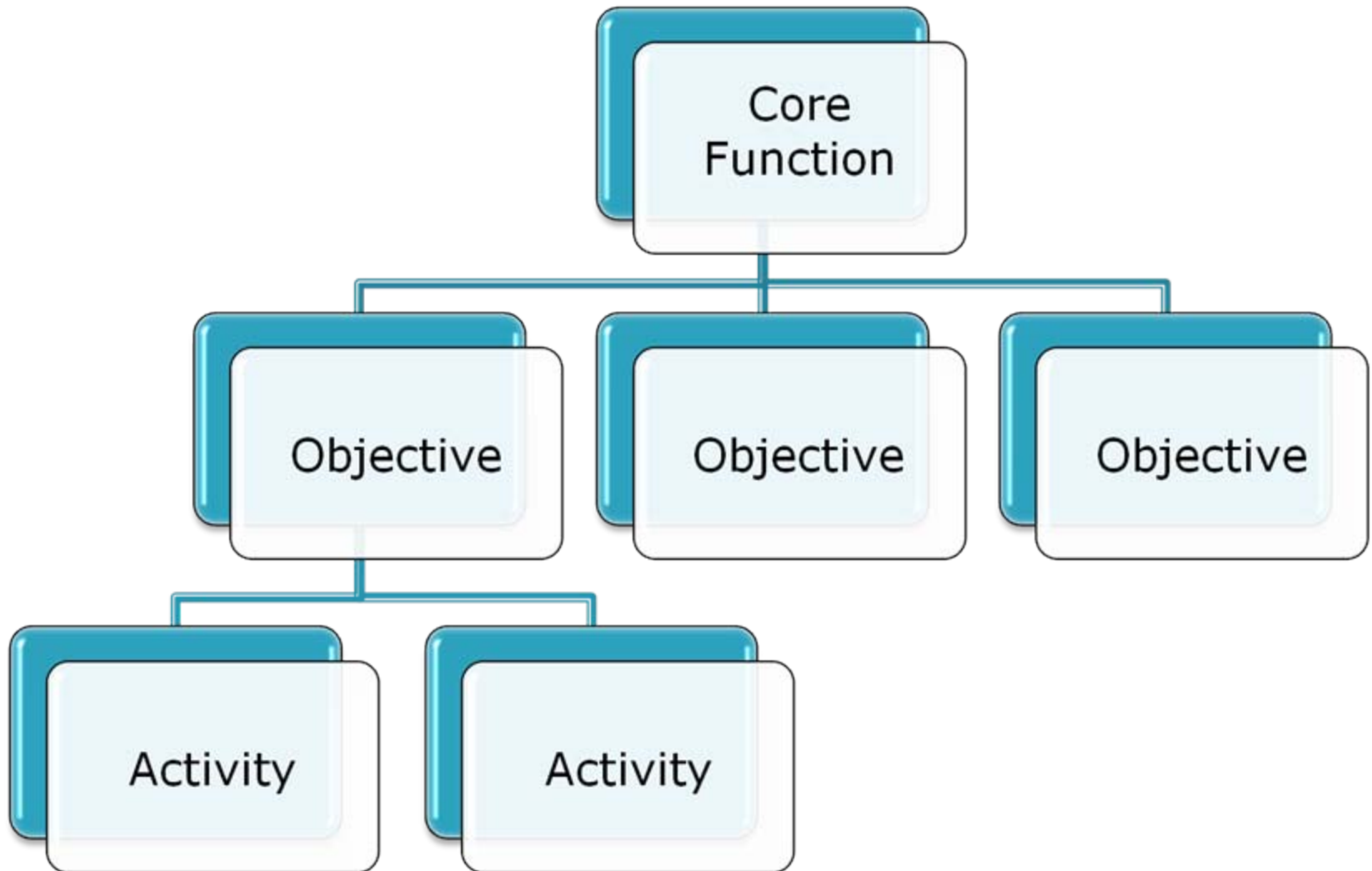
- ❑ Health Services Core Function
 - ❑ Mental Health Objective
 - ❑ Suicide Rate Benchmark
 - ❑ Inpatient Readmissions Benchmark
- ❑ Public Safety Core Function
 - ❑ Reduce Crime Objective
 - ❑ Violent Crime Benchmark
 - ❑ Offender Program Success Benchmark

Core Function Tiers Established

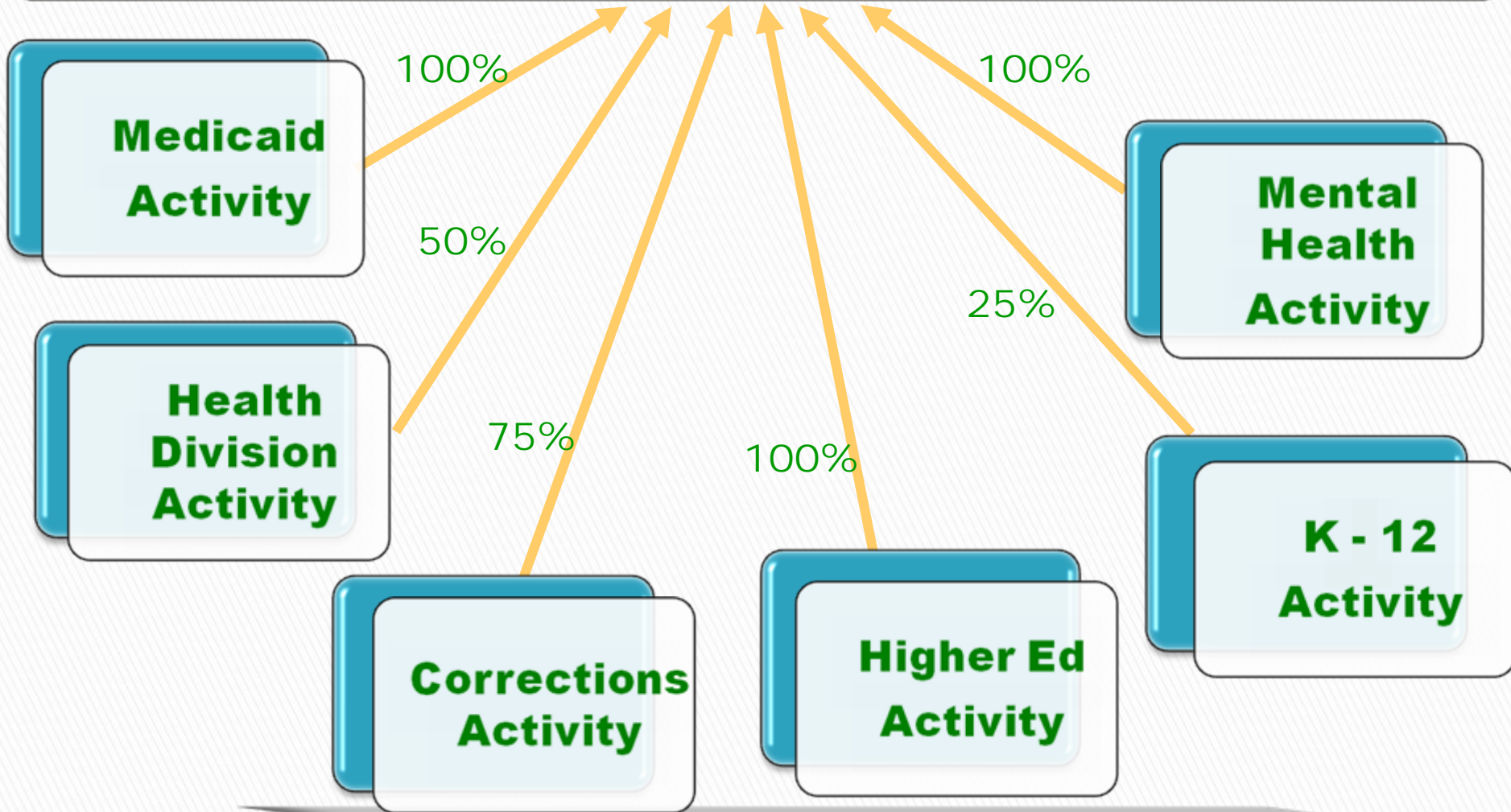
- 8 Core Functions
- 56 Objectives
- 148 Benchmarks

*A complete listing is available
on the Budget Division Website*

PPBB Activities link to Objectives



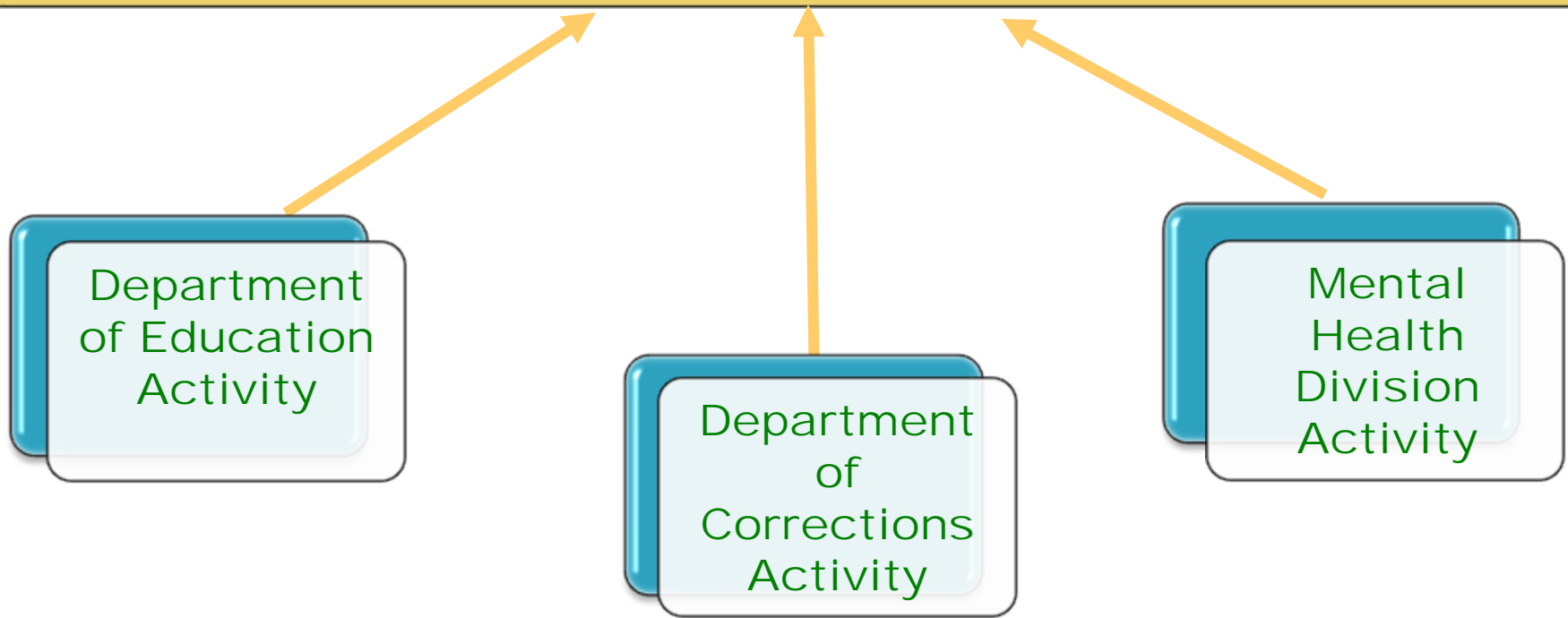
Objective

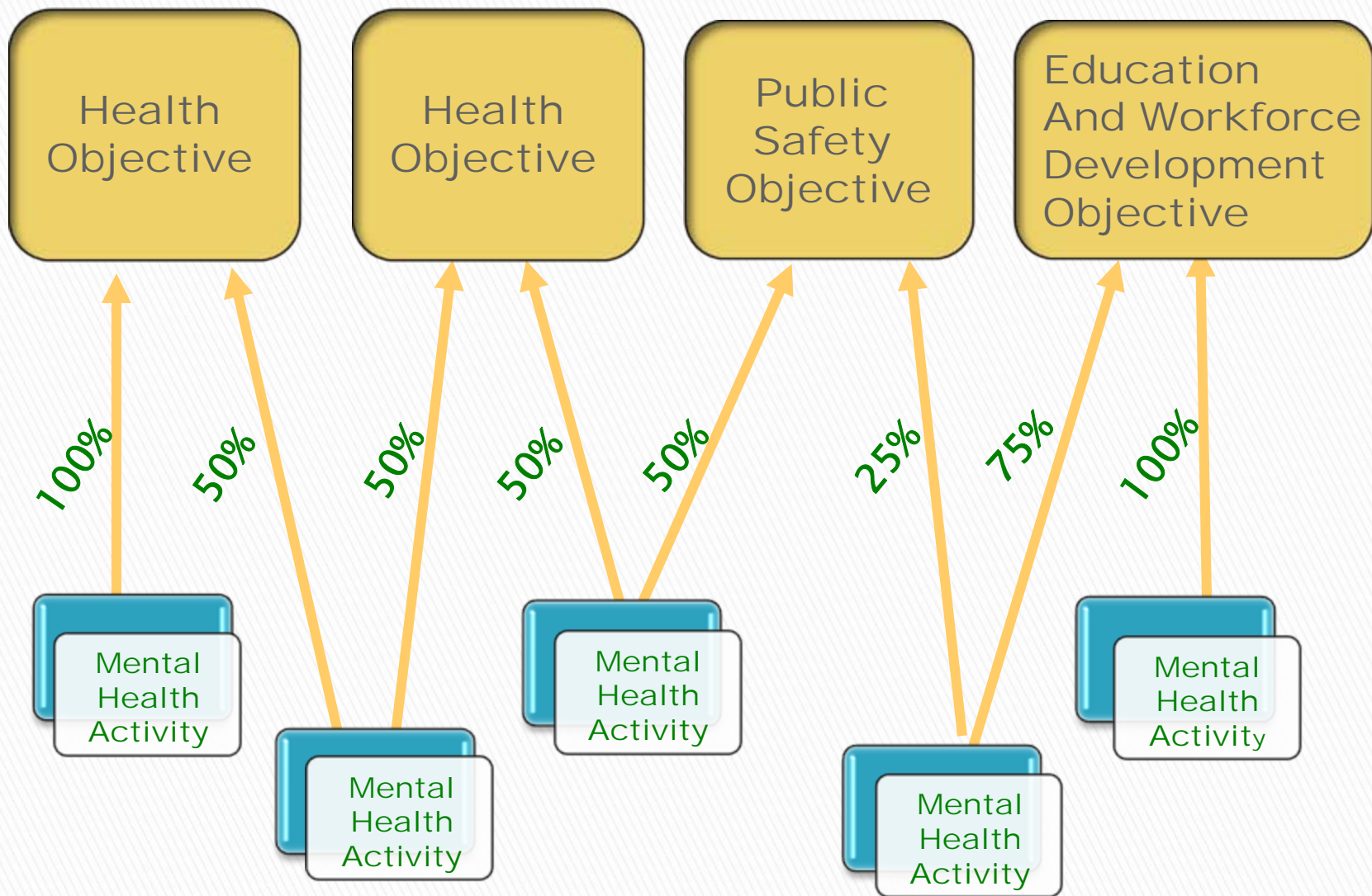


Activities Tie to
an Objective

Health Services Core Function

Mental Health Objective





Mental Health Developmental Services

Performance Measurement

- ❑ Activities are measured using Performance Measures
- ❑ Up to three measures per activity
- ❑ Outcome measure is best
- ❑ Efficiency measures used to determine cost effectiveness

Success Will Be Dependent Upon Continued Engagement by Senior Management

- ❑ The next phase of PPBB requires careful review and evaluation of activities
- ❑ This needs to be followed by an analysis of Performance Measures used
- ❑ Tying Activities to Objectives will require direct attention of Directors and Administrators

Training Will Be Provided by the Budget Division

- ❑ Budget Analysts will be contacting Directors to set up training for your department
- ❑ Assistance in development of Performance Measures is available upon request

Questions or Comments?

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