STATE OF NEVADA

BUDGET INSTRUCTIONS

2017-2019 BIENNIUM
July 1, 2017 through June 30, 2019

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Office of the Governor

March 9, 2016

Dear State Agency Leaders:

With the 79th Regular Session of the Nevada Legislature less than a year away, it is time to begin preparing the Executive Budget and the policy agenda for what will be my last session as your Governor. I want to begin this process by expressing my thanks for all the work you and your colleagues have done over these last five years. Together, we have charted a new course for our state, not just by emerging from the worst economic recession in recent history, but also by taking the necessary steps to create a New Nevada that will benefit the generations to come.

You will find in the Budget Instructions that follow several new procedures that are intended to streamline and improve the legislative preparation process. My office and the Budget Division will be working closely with agency leadership to align budget and bill draft requests with the current state of Nevada's economy and a new Strategic Planning Framework I have been developing with members of the Cabinet.

The new Framework will guide our continued pursuit of the New Nevada, covering the period from 2016 to 2020. I plan to release the goals, objectives and proposed initiatives for the coming biennium during the week of April 10th. I urge you to spend the time between now and then focused on your agency budgets so you can align your mission with the new goals and objectives of this administration when they are made public.

While we have much work remaining before us, we must also acknowledge that resources are scarce and not all priorities can be funded – and as good stewards of the public's money, we should continue to closely monitor State spending.

I look forward to writing the next chapter of the Nevada story with you. Thank you again for all you do to serve the Nevada family.

Sincere regards,

BRIAN SANDOVAL
Governor

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EXECUTIVE SUMMARY

BACKGROUND

Since Fiscal Year 2008, the State of Nevada has faced some of the most difficult fiscal challenges in its history. Many difficult choices were made during that time in order maintain critical services to Nevadans when they needed those services the most. The Governor and Legislature worked with state agencies to identify and implement efficiencies in the delivery of services in order to lay a foundation for improving the effectiveness of state government.

During the 2015-2017 biennial budget cycle, the Governor focused on a long-term vision to create the "New Nevada." Significant reforms to improve outcomes in K-12 education, a priority to expand economic development and create jobs in order to put Nevadans back to work and new state revenue sources were essential to improving the economic outlook of the state.

As planning for the 2017-2019 biennium begins, the Governor intends to build off of the 2015 Legislative Session successes and create a roadmap for the state to follow in order to achieve its long-term vision and provide the outcomes our citizens want us to achieve over the next five to ten years. The Budget Instructions and the corresponding Budget Building Manual provide guidance on developing agency budgets recognizing the reality of our fiscal outlook but not wishing to overly constrain the introduction of new policies, ideas or initiatives.

As agencies prepare their budget request, the Governor has asked all agencies to consider the following challenges to make state government more effective and efficient:

- What activities does your agency perform that you would stop doing if you could? What results could be obtained by reprioritizing those resources?
- What new initiatives would you propose? What results would they achieve? How would success be measured?
- What low-cost or no-cost policy or operational ideas would you propose?

STRATEGIC PLANNING

The best budgets link investments to goals and priorities. Under the direction of the Governor's Office, considerable time and effort has been spent developing a long-term strategic plan which will influence the investment of limited state resources to improve the state's results in each of the defined Core Functions of Government.

To that end, Goals and Objectives will be identified to continue progress toward the state's long-term success, and within this framework the Governor will establish several Initiatives for the upcoming biennium. The Governor plans to release his Strategic Planning Framework during the week of April 10th. Initiatives included in the framework will be used to create the 2017-2019 Governor Recommends budget, as they will be key to any enhancement the Governor wishes to propose.

BASE AND MAINTENANCE

The base budget building structure remains the same. The base budget is adjusted for one-time expenditures and the annualization of any mid-year costs to an on-going level estimate to continue the program into the 2017-2019 biennium. Maintenance decision units will be allowed for caseload growth and for prior-approved agency specific inflation. Enhancement units for replacement equipment only will be considered as part of the maintenance budget request. See the section on Agency Request Limits later in this document for what is included in and excluded from the agency's budget limit.

ENHANCEMENTS

Agencies will need to focus early on potential policy decisions to be addressed in their budget request. Any enhancement units submitted by agencies for consideration in the upcoming budget cycle will need to align with one or more of the Initiatives identified by the Governor and agencies must clearly outline how the enhancement will advance the state's performance relative to the priority and related goal(s). The enhancement narrative must include how the additional investment will incrementally improve annual targets for each applicable existing agency Performance Measure or identify what benchmark will be used for any newly proposed measure should the enhancement be enacted. If circumstances change or information arises late in the process affecting an Agency Request Budget, changes will be considered for inclusion in the final Governor Recommends Budget.

Any agency proposing an enhancement unit affecting another agency's budget should coordinate early in the process. For instance:

- An agency planning to consolidate its vehicles into the state's fleet should coordinate with the Department of Administration Fleet Services Division so Fleet Services can also take those vehicles into account while preparing their budget request.
- An agency proposing a new office location or the expansion of existing staff should coordinate with the State Public Works Division Leasing Services staff.
- Agencies utilizing centralized information technology services should coordinate with Enterprise Information Technology Services to ensure their utilization is considered in the overall impact to proposed rates.

Agencies will continue to develop and report Performance Measures and other internal agency measures when appropriate. See additional information in the Priorities and Performance Based Budget Section.

CHANGES TO THE BUDGET PROCESS

The following are key changes to the instructions to agencies for preparing and submitting their 2017-2019 requests. These changes are outlined in further detail later in this document.

- Budgeting for New and Vacant Positions
- Federal Grant Maintenance Of Effort/Match documentation
- Budgeting for Grant carryforward amounts
- Database of State Fees
- Updates on previously approved Technology Information Requests
- Changes to Priorities and Performance Based Budgets and mapping
- Enhancement Requests and Reduction Options
- Budget Submission Certification Letter and Organization Charts

2017-2019 BUDGET DEVELOPMENT CYCLE

THE BIENNIAL BUDGET PROCESS

The budget process has three major cycles.

Agency Request Budget – The Agency Request Budget is the first document in the process. It lays out the policies and finances the agency requests the Governor recommend to the Legislature and includes descriptive narrative information and line-item detail by budget account. Agencies generally start the budget process early in even-numbered years and prepare it under guidelines set by the Governor's Finance Office Budget Division. It is due to the Budget Division by 5:00 P.M. on September 1, 2016. (See the Due Dates and Submission section on page 5).

Governor Recommends Budget – The Governor's Office and the Budget Division review Agency Request Budgets to compile the Governor Recommends Budget which reflects the Governor's goals and priorities as well as statutory policies. The Governor Recommends Budget is submitted in four sections and is the starting point for budget discussions during the Legislative Session. Pursuant to Nevada Revised Statutes (NRS) 353.205, the four sections are:

1. A budgetary message including a general summary of the long-term performance goals and how the proposed budget progresses the state to achieve those goals. This section includes a general summary showing the balanced revenues and expenditures in aggregate for the last completed fiscal year, the fiscal year in progress and the next two fiscal years.
2. A line-item detail to support the summary provided in section 1, including the cost of continuing each program at the same level of service as the current year and itemized recommendations to enhance or reduce the level of service. This section includes mission statements and measurement indicators for each agency which articulate intermediate objectives towards achieving the state's long-term goals.
3. Information on economic development incentives.
4. Any recommended legislation necessary to implement the Governor Recommends Budget.

Legislatively Approved Budget – The Governor Recommends Budget is presented to the Legislature early in odd-numbered years just prior to the convening of the Session. The Assembly Ways and Means Committee and the Senate Finance Committee, usually in a joint sub-committee, hold public hearings after the Session convenes to review the proposed revenues and expenditures for each agency. The sub-committees report their recommendations to the two full committees who then vote individually on the recommendations for each of the agencies. Once all of the agency budgets have been approved by the Ways and Means and Finance Committees, they are compiled into five budget implementation bills: The Appropriations Act (generally for General Fund and Highway Fund budget accounts); the Authorizations Act (generally for non-General Fund budget accounts); the K-12 Education Funding Act (which must be passed first per the Nevada Constitution); the State Employee Compensation Act (which sets forth salaries for certain employees and statewide compensation policies for the upcoming biennium); and the Capital Improvement Plan (CIP) Act (which outlines construction related projects for the upcoming biennium.

Agencies are responsible for implementing, or executing, the budget over the ensuing biennium. The Ways and Means and Finance Committees meet jointly as the Interim Finance Committee approximately every other month between Legislative Sessions where agencies can request certain amendments or changes to their Legislatively Approved Budget. In certain extraordinary circumstances, a Special Legislative Session may be called to deal with budget issues.

Resources

Several budgeting resources are available to agencies. These Budget Instructions outline state policies to build a clear and complete budget. There are also templates, checklists and guidance available to assist agencies on the Budget Division website (www.budget.nv.gov). NEBS has been updated to include current prices for many goods, services, assessments, service charges and other costs used in creating agency budgets.

The Budget Building Manual (also available on the Budget Division website) contains detailed step-by-step instructions for creating a budget as well as expanded information on most of the topics included in these budget instructions. The Budget Building Manual includes additional details on:

- Narrative requirements;
- Creating and using decision units as well as lists of categories and general ledger account numbers;
- Incorporating inflation, demographic and caseload adjustments;
- Creating one-shot, supplemental, capital improvement, facilities maintenance and equipment requests;
- Reconciling, retaining, adding, reclassifying, reorganizing and removing positions;
- Estimating revenues and calculating reserves;
- Central assessments and rates;
- Strategic plans, business plans and organizational charts; and
- Performance Measures and fund mapping requirements.

Budget development can be a long and often changing process. Agencies can expect to receive additional instructions on certain elements of budget development, including information on content or format for presentations to the Legislature. Budget Division Analysts are also available to answer questions and assist agencies with building their budget request submittals as necessary.

DUE DATES AND SUBMISSION

In accordance with the State Budget Act, all agencies must complete the data entry of their 2017-2019 Agency Request Budget into the Nevada Executive Budgeting System (NEBS) by 4:00PM on Thursday, September 1, 2016. This is a statutory deadline (NRS 353.110) which cannot be changed or extended. In addition to the completion of data entry, a copy of the Budget Submission Certification letter must be signed by the department director or the board or commission chair and submitted to the Budget Division by 5:00PM on Thursday September 1, 2016. The Certification may be delivered in person, via facsimile or via scan and e-mail to the main Budget Division e-mail address.

The following are key dates and deadlines for submitting the 2017-2019 biennial Agency Request Budget:

TASK	DEADLINE
NEBS open for agency data entry	03/10/2016
Agency submittal of Capital Improvement Project (CIP) and Deferred Maintenance requests over $100,000 to the State Public Works Division	04/04/2016
Technology Investment Requests (TIRs) due to Enterprise Information Technology Services (EITS)	04/14/2016
Non-Budgetary Bill Draft Requests (BDR) Concept Statement due	04/15/2016
Non-Budgetary BDR Concept Statement approved or denied	05/06/2016
Budget Enhancement Concept Requests due from agencies	05/16/2016
Final Non-Budgetary BDRs due	06/01/2016
Budget Enhancement Concept Requests approved or denied	06/17/2016
EITS returns TIRs to agencies and forwards to IT Strategic Planning Committee	06/27/2016
Download of payroll information for authorized Full-Time Equivalent (FTE) positions into NEBS as of June 30, 2016	Approximately 07/15/2016
Class Series Compensation Plan Requests	07/01/2016
Agencies must have preliminary EITS utilization (EITS schedules) completed in NEBS	07/15/2016
Agencies must have preliminary monthly Fleet Services vehicles (Motor Pool schedule) completed in NEBS	07/15/2016
IT Strategic Planning Committee recommendations due to the Budget Division	07/25/2016
EITS provides schedule of approved utilizations by budget account	08/08/2016
CIP presentations to the State Public Works Board	08/25/2016
Submittal of Agency Request Budget and any budgetary BDRs	09/01/2016
Agency Budget Hearings (Finance and Governor's Office)	Complete by 10/07/2016
Adjusted Base completed (FTE reconciled; M-150 adjustments made; Vacancy Savings complete; fund map adjustments)	11/10/2016

Economic Forum Report to the Governor	12/01/2016
Updated Supplemental appropriation Requests due	12/28/2016
Governor Recommends Budget submitted to Legislature	On or about 01/15/2017
Start of 2017 Legislative Session	02/06/2017
Budgetary BDRs due to Legislative Counsel Bureau	02/24/2017
Final Economic Forum Report to Legislature	05/01/2017
Last day of the 2017 Legislative Session	06/05/2017

Other Considerations

Agencies should discuss any proposed changes to their budget account structure which would result in improvements in financial control, management, reporting or transparency with their assigned Budget Division Analyst prior to submission. This includes any changes to department, division, agency, budget account, appropriation unit or category names as well as unclassified position titles.

KEY ECONOMIC AND DEMOGRAPHIC TRENDS

NATIONAL OUTLOOK

- Job gains in the U.S. averaged 228,000 per month in 2015, a slower pace than the 251,000 jobs created per month in 2014. Last year, average hourly earnings in the private sector were up 2.3%, but are still well below pre-recession levels. The national jobless rate, at 4.9%, indicates a tightening labor market and signs of stronger wage gains in the future. Reduced slack in the economy will eventually start putting upward pressure on inflation and interest rates if the economy continues at the current trajectory over the next few years. Economic growth has hovered around a modest 2% rate, and the U.S. is expected to continue expanding at a moderate pace in the near term.
- The following wild cards could weigh on the economy and affect hiring: concerns about weak global demand, a strengthening U.S. dollar, financial market volatility, tapering consumer spending, declining manufacturing sector output and fluctuating commodity prices.
- According to the CBO (Congressional Budget Office) estimates, the Bipartisan Budget Act of 2015 and the Consolidated Appropriations Act of 2016 are projected to boost real GDP slightly in the next two years, however, the Affordable Care Act and real bracket creep are estimated to dampen the supply of labor and economic output through the end of this decade.

NEVADA OUTLOOK

- Nevada's economy continues to strengthen creating 37,500 jobs last year (a 3.1% growth rate) which outperformed 44 other states. The jobless rate decreased to 6.4%, the lowest rate since mid-2008. It is expected that heading into the 2017-2019 biennium, all jobs lost during the recession will be recovered with the unemployment rate closer to what it was a decade earlier. With the billions of dollars in planned development and an improving economy, job creation over the 2017-2019 biennium should closely mirror the current biennium.
- Despite good news on the job front, Nevada has experienced an uneven economic recovery as reflected in social welfare indicators. While many new jobs are considered high wage, others continue to leave individuals eligible for social service benefits such as TANF (Temporary Assistance for Needy Families), SNAP (Supplemental Nutrition Assistance Program) and Medicaid. Enrollment in these programs is projected to increase during the 2017-2019 biennium.
- Population growth is accelerating along with the improving economy. Nevada will be challenged to deal with the continued population growth that will increase demand for government services. U.S. Census Bureau population estimates show that Nevada's 1.85% rate of population increase between 2014 and 2015 was the 4th highest in the nation. Over the next biennium, the state Demographer projects Nevada's total population to increase by almost 66,000, 60% of which will come from net migration. Nevada's population is estimated to exceed 3 million by the end of the 2017-2019 biennium. Furthermore, during the 2017-2019 biennium, growth among budget-driving populations cohorts is estimated as follows: Head Start/Childcare (0-4 years: 2.6%), TANF/Foster Care (0-17 years: 1.3%), K-12 Education (5-17 years: 0.8%), Youth Correctional (12-17 years: 6.6%), Higher Education (18-24 years: 0.6%), Prison Inmate

(Male 18-44 years: 1.6%), the youngest seniors (65-74 years: 4.8%), and the oldest seniors (85 years and older: 4.8%).

- Last year, Nevada experienced a 4.6% increase in the total number of inmates largely due to Nevada's crime rates rising faster than the national average and the Parole Board not releasing people as fast as before. This increase is likely to continue in the next biennium due to the recent crime trends as well as the increasing population.

GENERAL FUND REVENUE OUTLOOK[1]

After accounting for the effect of the estimated tax credits[2] that may be taken against certain General Fund revenues, total revenue is projected to be $3,654.8 million in FY 2016 and $3,691.5 million in FY 2017, an 11.3% and 1% growth rate, respectively. Fiscal year-to-date, net revenue is down 0.3% or $6.1 million below forecast. Despite the lower-than-expected revenue growth in some of the General Fund revenues, total net collections will likely get close to the projection this fiscal year due in part to fewer transferable tax credits being redeemed in FY 2016 than were anticipated. However, these unused credits may be redeemed in FY 2017 in addition to the credits already allowed by law for that fiscal year, creating some downside risk to the FY 2017 revenue outlook.

Sales Tax

Sales and use tax, the state's largest General Fund resource, largely depends on discretionary spending by the state's residents and visitors. The state is expected to collect $1,057 million in FY 2016 and $1,115 million in FY 2017, a 6.3% and 5.5% growth rate respectively. Over the first half of FY 2016, sales tax revenue has been softer than expected and collections are 1.9%, or $10.3 million, below year-to-date forecast. There are six months left in this fiscal year to make up the difference, however, it is unlikely the state will make up much ground on this revenue. Assuming that the Nevada economy continues to strengthen, the FY 2017 forecast is probably attainable.

Gaming Taxes

Gaming percentage fee is the state's second largest General Fund revenue source. The gross (before tax credits) collection amount is forecast to be $698.7 million in FY 2016 and $716.2 million in FY 2017, a 0.8% and 2.5% growth rate respectively. Through the February collection period, gross gaming collections are up 3.4%, or $15.2 million, above the official forecast. Gaming revenue is relatively volatile from month-to-month, but presuming the current economic trends hold, the outlook for this revenue source remains stable for the current biennium.

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[1] The Economic Forum was created by the Legislature during the 1993 Legislative Session and is responsible by statute for providing forecasts of the state's General Fund revenue for each biennial budget period. The Economic Forum will produce its forecast for the 2017-2019 biennium in early December. The following revenue expectations for the current biennium are prepared by the Governor's Finance Office economist based on the year-to-date performance compared to the most recent legislatively adjusted Economic Forum forecast, and represent the most probable outcome given current available information.

[2] The Nevada Legislature has authorized several tax credits programs that directly reduce the tax liability of a tax payer and therefore, reduce certain General Fund revenue collections. The total amount of tax credits that may be approved by law is $78.9 million in FY 2016 and $135.6 million in FY 2017. Fiscal year-to-date, a total of $16.6 million in tax credits have been taken.

Modified Business Tax

Gross Modified Business Taxes are estimated to total $566.5 million in FY 2016 and $593.3 million in FY 2017, a 37.5% and 4.7% growth rate respectively. Nevada made changes to this tax by increasing the rate for non-financial institutions and entities subject to the net proceeds of minerals tax. Gross collections over the first two quarters of FY 2016 are 2.6%, or $7.4 million, below the official forecast. The outlook for this revenue source remains stable for the current biennium.

Live Entertainment Tax

Legislation passed in the 2015 session changed the structure and rate for the live entertainment tax effective last fall. The provisions establish a single 9% tax rate and eliminate the tax on food, beverages and merchandise. The impact of the changes was expected to be mostly revenue neutral in comparison to the May 2015 Economic Forum forecast, generating $144.3 million in FY 2016 and $150.2 million in FY 2017, a -1.1% and 4.1% growth rate respectively. Collections for the first six months of FY 2016 are about 4.5%, or $3.6 million, below the budgeted year-to-date amounts. Total collections are likely to bring in slightly less revenue than estimated in the current biennium.

Cigarette and Liquor Taxes

Legislation passed in the 2015 session increased the cigarette tax by one-dollar-per-pack effective July 1, 2015. With the increase, the cigarette tax is expected to bring in about $175.4 million in FY 2016 and $172.7 million in FY 2017, an 89% and -1.5% growth rate respectively. Over the first half of FY 2016, collections are down 27.1%, or $23.9 million, compared to the forecast and, by the end of FY 2016, are expected to fall a little further below the initial estimates. Collections are probably going be lower than projected in the next fiscal year as well. Even though the official forecast factored in lower consumption in response to the higher price, the number of stamps purchased has been far less than anticipated. Some potential reasons for failing to meet projections could be consumers stocked up prior to the tax increase, are purchasing from across the border or places not subject to the tax, have quit using tobacco or switched to e-cigarettes which are not subject to the tax.

Liquor taxes are expected to generate $44.4 million in FY 2016 and $45.3 million in FY 2017, a 4.0% and 2.1% growth rate respectively. Collections over the first six months of FY 2016 are 0.7%, or $0.2 million, below the official forecast. The outlook for this revenue source remains stable for the current biennium.

Business License Fees and Commercial Recording Fees

Six years ago, Business License Fees for initial application and annual renewal were temporarily increased to $200 from $100. Last summer, these fees increased to $500 for corporations, but stayed at $200 permanently for all other businesses. Business License Fees are expected to generate $103.0 million in FY 2016 and $105.0 million in FY 2017, a 36.7% and 1.9% growth rate respectively. Collections through January are 3.1%, or $1.7 million, above the forecast. The outlook for this revenue source remains stable for the current biennium.

The Commercial Recording fee increased by $25 beginning in FY 2016. Commercial Recording Fees are expected to generate $71.4 million in FY 2016 and $72.4 million in FY 2017, a 3.8%

and 1.4% growth rate respectively. Collections through January are 8.2%, or $3.1 million, above the forecast. The outlook for this revenue source remains stable for the current biennium.

Insurance Premium Taxes
Gross Insurance Premium Taxes are forecast to bring in $324.1 million in FY 2016 and $355.0 million in FY 2017, a 10.7% and 9.6% growth rate respectively. Gross revenue over the first two quarters of FY 2016 is down 2.3%, or $3.7 million, from the official forecast. The outlook for this revenue source remains stable for the current biennium.

Other General Fund Taxes, Fees and Revenues
The 2015 Legislature passed a new Commerce Tax, which is expected to generate a total of $239.7 million during the current biennium. This is a tax with an industry-specific rate on Nevada businesses whose Nevada gross revenue in a fiscal year exceeds $4 million. The tax for FY 2016 is not due until August, 2016. The primary down-side risk facing this revenue source is a potential question on the November 2016 ballot seeking to repeal the tax. If the Commerce Tax were repealed, it would not be collected in FY 2017.

The 2015 Legislature also passed a new 3% Passenger Carrier Excise Tax on fares of transportation network companies, common motor carriers and taxicabs that is expected to generate $13.7 million in FY 2016 and $22.9 million in FY 2017. The month of December marked the first deposit to the General Fund because the first $5 million collected in each biennium is required to be deposited to the Highway Fund. Revenue through the first six months of FY 2016 is 42.4%, or $0.8 million, below the projected fiscal year-to-date amount. Collection for this tax is likely to fall slightly below the budgeted estimate in the current biennium.

Other General Fund taxes, fees and revenues are expected to generate $415.4 million in FY 2016 and $359.2 million in FY 2017, a -10.9% and -13.5% growth rate respectively. FY 2017 revenue is lower because only half of the government services tax from the 10% depreciation schedule will be deposit in the General Fund. After FY 2017, all of the proceeds from the tax will be retained by the Highway Fund. Also, prepayment of net proceeds of minerals ends in FY 2017 and no revenue is expected from that source for the second year of the biennium. Fiscal year-to-date, collections for this wide variety of sources are 1.8%, or $3.7 million, above the official forecast. The outlook for these revenues remains stable for the current biennium.

HOW TO BUILD THE BUDGET

Before preparing the Agency Request Budget, please read all of these instructions. This section is intended to provide general information for preparing the biennial budget. For detailed instructions, please refer to the Budget Building Manual. Incorrect submissions result in delays and additional work for the agency and Budget Division staff.

For those who are unfamiliar with the process, Budget Division Analysts are available to provide one-on-one assistance to agency staff in preparing their Agency Request Budget.

General items to note:

- Agency Request Budgets **must** be built in alignment with the Mission Driven Goals and Initiatives set by the Governor.
- Agencies **must** update the FY 2016 Actual column to reflect the final agency expenditures as of August 31st, including items which have not posted as of the date the agency completes the data entry into NEBS. Agencies must also update the FY 2017 Work Program column to reflect adjustments adopted by any Interim Finance Committee actions to the legislatively approved budget adopted
- Agencies **must** reconcile all positions and related information in NEBS to the legislatively approved positions as adjusted by any Interim Finance Committee actions to add, change or remove positions. Position costs include all applicable full-time equivalent (FTE) driven costs, including: retirement, health insurance, personnel assessments, payroll assessments, employee bond and tort assessments, retired employee group insurance assessments, infrastructure and security assessments, and applicable payroll taxes.
- Agencies **must** ensure revenues equal total expenditures in all four years presented in the biennial budget and appropriately account for any allowable reserves within the limitation of those reserve levels.
- Submission of the 2017-2019 budget request must be consistent with any legislation enacted during the 2015 Legislative Session. Agencies should thoroughly review all legislation for potential changes to their budget or structure as well as adhere to any agency-specific oral and written instructions provided by their Budget Division Analyst.
- A budget is considered submitted only if all required forms and electronic data in NEBS are complete as of the budget deadline.

BUDGETING APPROPRIATIONS

In general, appropriations are only available for the fiscal year to which they are allocated. In certain circumstances, an appropriation may contain specific language to allow for a different period for expenditure of funds, either to limit the appropriation to a specific period or for an additional time period beyond that provided in the general language.

If an agency has a substantiated need for an appropriation to be available for a period of time different from the single fiscal year, they need to contact their assigned Budget Division Analyst to discuss the request. The Budget Division will consider such requests and whether or not to recommend those requests be included in the Governor Recommends Budget request.

If an agency submits a request for an appropriation tied to a contingency or subject to a required certification, the agency must notify their assigned Budget Division Analyst and provide details regarding the contingency or certification including the date by which the agency anticipates the contingency will be resolved or the certification will be received.

Expenditure Categories

Agencies should utilize standard categories to the extent practicable. Special use categories are used to track and report expenditures separately where it has been deemed appropriate, such as for a federal grant program requiring costs be tracked and reported separately. Certain expenditures may only be charged to their standard categories, and special use categories may not be used to avoid budgeting in standard categories.

Base Budget Expenditures

Fiscal Year 2016 expenditures serve as the base amount for developing the 2017-2019 biennial budget. Base expenditures are adjusted in NEBS for personnel service cost projections based on the incumbent in each position in each budget account.

Adjusted Base Budget Expenditures

The Adjusted Base Budget is the estimated cost for continuing operations at current service levels. Agencies must adjust their 2017-2019 base budget for items such as (this is not intended to be an all-inclusive list):

- The removal of one-time costs occurring in the base year, including equipment, one-shot appropriations, start-up costs, IFC Contingency Fund allocations and stale claims paid from the budget account as well as expenditures only occurring every other year;
- The annualization of partial year spending or reductions, including positions; and
- The removal of revenues and expenditures for discontinued programs.

Inflation Adjustments

These adjustments represent the amount added to or subtracted from base budget expenditures to estimate the future cost changes for goods or services. There is no specific statutory authority to hold state budgets harmless with respect to inflation. Agencies should not adjust their budgets for projected increases due to inflation except as noted in the next paragraph. When deemed appropriate, the Governor will approve general inflationary adjustments on a statewide basis.

Under certain circumstances, agency-specific inflationary adjustments may be approved. These requests must be accompanied by adequate justification and documentation supporting the requested increase as well as the methodology used to develop the estimates. There is no guarantee the Governor will concur with the request.

Demographic and Caseload Adjustments
These adjustments reflect the incremental cost of providing existing services to an increased or decreased number of clients. Only certain agencies have pre-approved caseload adjustments. Any additional requests for demographic or caseload adjustments must be submitted as an enhancement to the Agency Request Budget.

Federal Mandates, Court Orders and Consent Decrees
These adjustments reflect the cost for an agency to comply with federal laws or legal decisions impacting their daily operations. When an agency determines there are costs directly related to compliance with a mandate, court order or consent decree, those costs should be included in a maintenance decision unit. The agency must also include a full-text copy of the mandate or ruling as well as documentation detailing the assumptions and calculations used to develop the request.

Agencies must consult with their assigned Budget Division Analyst prior to including these decision units in their request.

Transfer In/Out Decision Units
These adjustments reflect the transfer of revenue, expenditures and/or positions from one budget account to another. Transfers may be made for a variety of reasons and should include in their justification the benefits to the state of making the transfer. Transfers may be between budget accounts in the same fund (intra-fund) or agency (intra-agency) or between budget accounts in different funds (inter-fund) or agencies (inter-agency). All transfers must be reconciled between the sending and receiving budget accounts and should net to zero.

Agencies must use the same decision unit in both the sending and receiving budget accounts and must consult with their assigned Budget Division Analyst prior to including inter-fund or inter-agency transfer decision units in their request.

SUPPLEMENTAL APPROPRIATIONS
Agencies encountering unforeseen or unanticipated expenditures may request additional General Fund or Highway Fund appropriations as applicable based on the funding source of the agency. Supplemental appropriations are only for the fiscal year in which the Legislature is in session and are acted upon through separate bills by the full Legislature. Only agencies receiving appropriations from the General Fund or Highway fund are eligible for a supplemental appropriation.

Before requesting a supplemental appropriation, an agency must consider all other options and demonstrate and certify there is no alternative to cover the unforeseen expenditures. Supplemental appropriation requests need to be submitted with the Agency Request Budget and must include a detailed and substantiated justification documenting the adverse consequences encountered and detailed cost projections of the amount of the request.

Agencies should contact their assigned Budget Division Analyst as soon as a need for a supplemental appropriation is anticipated in order for the Budget Division to explore all available options.

ONE-SHOT APPROPRIATIONS

Agencies needing funds for a purpose not anticipated to continue may request a unique General Fund or Highway Fund appropriation, whichever applies to the agency. Examples of one-time funding include start-up costs for a new program or facility, major equipment or vehicle purchases or the implementation of a replacement computer system. Any request for one-time funding must include a detailed, written justification substantiating the need and supporting documentation demonstrating the cost.

These requests should be included in the Agency Request Budget. Agencies should also identify any other funding sources available to pay for all or some of the costs of the request.

During the Governor Recommends phase of the budget process, the Budget Division will determine if the funding is available and, if approved, submit the decision unit to the Legislative Counsel Bureau for placement in a separate bill for the Legislature to consider.

Multi-Biennium Requests

One-Shot appropriations may be authorized for time periods beyond the biennium. Any unused funds remaining at the end of the designated funding period revert to the fund of origin (General Fund or Highway Fund).

An example of a multi-biennium request is the replacement of a large computer system which is expected to take four years to implement. Agencies believing their request will require more than one biennium to complete should provide a schedule of anticipated expenditures coinciding with the time period identified in the narrative description. The documentation must be sufficiently detailed to allow the Budget Division to analyze the costs and timing associated with the project. The Budget Division will determine whether or not the request should be in a single One-Shot Appropriation or separated into multiple biennia requests.

Agencies who have previously received an appropriation spanning multiple biennia must provide an update on the status of the project and the expenditures to date along with a reconciliation of the original appropriation to the amount being carried forward and a revised schedule showing the remaining anticipated expenditures. If the project has a Technology Investment Request, the status of the project should be certified by the Chief Information Officer.

Equipment

Equipment is defined as non-consumable items with an anticipated useful life greater than one year and a cost of more than $5,000 (except computer equipment and software). Equipment purchased in the base year must be removed from the Agency Request Budget as part of the adjusted base budget. Equipment is classified as either the replacement of existing equipment or the addition of new equipment with the exception of new equipment associated with new staff or new programs which should be included in the decision unit with the other related costs.

Agencies must use the equipment schedule amounts unless they can justify and explain the need for a specialized item.

Capital Improvement Projects

A capital improvement project (CIP) is used to acquire, plan, construct, maintain or improve facilities, land, major equipment or other infrastructure.

CIP requests for carpet, drapery, painting, non-structural, non-statewide and other projects less than $100,000 may be included in the Agency Request Budget using a Deferred Facilities Maintenance decision unit or a one-time decision unit depending on the rationale for the improvement without the approval of the State Public Works Division (SPWD), but all projects on state land must be reviewed by SPWD to ensure code compliance. SPWD charges a fee for providing code compliance services.

Agencies requesting a CIP exceeding $100,000 or which meets the definition of a structural or statewide project must submit an application to the SPWD by April 4, 2016. A CIP request exceeding $10 million shall be funded in two phases: design and planning in one biennium and construction in a subsequent biennium which depends on the availability of CIP program funding. Information regarding the CIP application process can be found on the SPWD website (www.publicworks.nv.gov), and questions regarding the process should be directed to SPWD.

The State Public Works Board must submit its CIP recommendations, including cost and priority, to the Governor by October 1, 2016 with a copy to the Legislature. The Budget Division and the Governor's Office will then develop the Governor's final CIP recommendations and submit them to the Legislature. The CIP program is approved through a specific bill which also provides for the funding structure of the program.

Position Control and Full-Time Equivalents

Position Reconciliation

It is critical to reflect accurate position information in the budget submittal request and to provide documentation and justification in support of the proposed staffing levels. The position reconciliation process ensures base positions and associated information in NEBS accurately reflects the legislatively approved positions as amended by actions during the interim. Positions which are being eliminated as part of the Agency Request Budget must still be accounted for in the base position reconciliation and removed in a separate decision unit.

Prior to July 1st, agencies must confirm the accuracy of the positions in their budgets, by position control number, to the current records in the state's Human Resource system. Agencies must notify their assigned Budget Division Analyst of any errors and eliminate any expired or non-permanent positions such as temporary or overlap positions. After the last pay period in June is posted, NEBS will be updated to reflect the latest incumbent information and projections for salaries and related position driven costs for the two years of the biennium for each position in each budget account. Agencies must confirm the accuracy of the incumbents as of the submission date of the budget request.

Seasonal and intermittent positions recurring from year to year should be included in the Agency Request Budget to the extent revenue to support these positions has been identified and determined to be available. Any positions, whether temporary or permanent in nature, not supported by available revenues must be deleted from the Agency Request Budget.

Justification for Maintaining Vacant Positions

Agencies must justify retaining in their budget request any position which has been vacant for at least 12 months. Agencies must submit documentation to certify there is sufficient funding available to support the currently vacant position and include details regarding the classification of the employee, the amount of time it has been vacant, the reason for the position being vacant and justification for retaining the position.

Vacant positions under grade 30 are to be budgeted not to exceed a step 4, grades 31 through 38 not to exceed a step 7 and grades 39 and higher not to exceed a step 10 with a retirement code 1.

Adding New Positions

If an agency is requesting a new permanent position, it should engage in preliminary discussions with the Division of Human Resources Management (DHRM) regarding the classification of the position prior to submission of the budget. Agencies must include a Position Questionnaire (NPD-19) for each position requested, as well as identification of the revenue source(s) to support the request.

Within the enhancement or maintenance decision unit, as applicable, where the position is added, the agency must identify the conditions creating the need for the new position as well as the responsibilities of the position and how the new position advances the agency's mission and impacts existing personnel. The agency must also include in the decision unit any associated costs with the addition of the new position, including furniture, equipment, space and other needs.

The default start date in NEBS for a new position is October 1 of the first year of the biennium. If the request includes a start date other than the default date, the agency must change the start month for the specific Position Control Number and provide an explanation and the need for a different start date.

In previous biennia, new positions were budgeted at step 1. Based on the fact many new positions are filled above a step 1, this, when combined with vacancy savings, creates budget pressure for agencies to leave certain positions vacant which can limit the benefit of the newly created positions. For the 2017-2019 biennium, agencies should, based on the class and grade assigned to the position as a result of discussions with the DHRM, budget new positions under grade 30 not to exceed a step 4, between grades 31 through 38 not to exceed a step 7 and grades 39 and higher not to exceed a step 10 with a retirement code 1. [NOTE: Even if approved, this budgeting procedure does not automatically allow agencies to hire employees at the budgeted step. Agencies must still follow the existing process to bring in employees at accelerated steps.]

Position Reclassifications, Reorganizations and Compensation Adjustments

Reclassifications

Reclassification is the process of changing the classification of an existing position to a class with a higher grade, to a class with a lower grade, to another class at the same grade, to the unclassified service or to a different unclassified code. A reclassification must be based on significant changes in the type, difficulty or responsibility of the work performed and documentation must be provided stating the conditions which necessitate the reclassification. A completed NPD-19 for the revised classification must be submitted with the request.

Reorganizations

The head of an agency may transfer personnel from one division to another if it is determined such a transfer will result in greater utilization of personnel, a more efficient operation, economies of scale or improved organizational structure. Any request to reorganize an agency, including a merger or deconsolidation, must be justified, fit within the Governor's Initiatives and address the reason for and the consequences or benefits of the reorganization.

Agencies must consult with their assigned Budget Division Analyst prior to including a reorganization decision unit in their Agency Request Budget. Reorganizations will be evaluated for potential organizational efficiencies, cost savings or increases, impacts to customers or quality of service, and issues or challenges associated with implementing the reorganization.

Compensation Plan Adjustments

Reclassifications only apply to single positions. Any request to revise the compensation for one or more series of positions must be submitted separately from the Agency Request Budget. Proposed compensation plan adjustments (e.g., increasing the Social Worker classifications by one grade) must be submitted for consideration, along with justification supporting the request, to the Budget Division by July 1, 2016. Any approved changes will be included with the Governor Recommends Budget as a separate enhancement. There is no guarantee a submitted proposal will be approved.

Full-Time Equivalent (FTE) Driven Costs and Assessments

As part of the Position Reconciliation, agencies must review and update individual employee information in the appropriate fields for fringe benefit elections in the Positions section of NEBS. Fringe benefit rates are subject to change throughout the budget building process. Agencies should not make any changes to the assessment calculations. Any necessary changes will be done by the Budget Division.

NEBS should reflect health insurance premiums charged for both years of the biennium even if the current incumbent has elected not to participate in the Public Employees' Benefits Program.

Vacancy Savings

The goal of the vacancy adjustment is to reflect budget savings reasonably expected from all positions not being filled for the entire twelve months of the fiscal year due to the normal turnover of employees. Vacancy savings is calculated for budgets funded in whole or in part by General Fund or Highway Fund, including internal service funds receiving support from the General Fund or Highway Fund, based on historical vacancy information. Vacancy savings may be adjusted for positions with starting dates other than July 1 and will be applied to all positions, including new positions requested, in the respective budget accounts.

Agencies may propose an alternative vacancy savings calculation approach as long as the net effect generates an overall budget savings. Agencies believing the vacancy savings calculation would create an undue hardship on the budget account must provide documentation substantiating any unique or special circumstances to justify a lower vacancy rate, including positional capacity as shown on the agency organization charts, and discuss the issue and potential alternatives with the assigned Budget Division Analyst. The ultimate decision will be made by the Budget Division.

Overtime and Pay Differentials

In general, overtime related pay (e.g., overtime pay, holiday pay, call-back pay, standby pay), pay differentials (e.g., shift differential pay, remote area differential pay) and leave payouts must be removed from Agency Request Budgets in the adjusted base budget.

BUDGETING REVENUES

Revenues must cover the requested expenditures in each budget account and should never be revised as a method of balancing the agency budget. Budgeted expenditure levels cannot exceed the total of expected revenues and fund balances. Below are types of revenues and the budget requirements for estimating the available resources.

General Fund and Highway Fund Appropriations

General Fund revenues are projected at the statewide level by the Economic Forum and are balanced to expenditures during the Governor Recommends phase of the budget process. Highway Fund revenues are projected at the statewide level by the Department of Motor Vehicles in consultation with the Budget Division and are also balanced to expenditures during the Governor Recommends phase of the budget process. If projections exceed the adjusted base and maintenance decision units, the Governor may consider funding enhancements to the General Fund or Highway Fund budgets.

General Fund and Highway Fund appropriations must match the program expenditures they fund. Neither General Fund nor Highway Fund appropriations can cross biennia without specific legislative approval, so generally there is no beginning or ending appropriation balance in a budget account.

Agencies must budget in accordance with their Agency Request Limit which is discussed later in these instructions.

Other Revenues

Other revenues include licenses, fees, fines, loan repayments, charges for services or other revenues used by the agency to fund the agency's expenditures which are not deposited into the General Fund for use in the appropriations process.

Agencies must submit detailed information on any fee which is established, increased or decreased in the Agency Request Budget. Further, in order to create a statewide fee database, agencies will be asked to provide information on every fee they administer. This request will be sent under a separate request prior to July 1, 2016.

Federal Funds

These revenues should only include receipts generated and collected directly from the federal government. Federal funds received from another agency or fund should be shown as "Transfer

In" revenue. Federal revenues should not be consolidated into one line but should be reported separately in detail by grant award, including the identification of the source (e.g. federal agency), grant name, revenue account code and amount.

Recurring federal grants should be included in the Agency Request Budget, including revenue, expenditures and positions associated with those grants. Federal revenues should also include any projected federal cost recovery under the agency's approved indirect cost plan.

Budgeting federal funds as accurately as possible during the budget development may avoid the necessity for budget adjustment during the biennium. Base federal revenues must be adjusted to cover all base salary costs for any position funded in whole or in part by the applicable grant. Other revenue adjustments may be made in the adjusted base decision unit.

Federal revenue submitted in the Agency Request Budget should present the most accurate projections of federal funding available for the biennium. Federal funds are often available on a federal fiscal year and may be available for multiple state and/or federal fiscal years. Documentation, including the Notice of Grant Award (NoGA), must be provided to substantiate any increase or decrease to the grant award amount. Agencies should provide detailed calculations projecting the carryforward of any unspent authorizations in order to substantiate any projected federal revenues included in the Agency Request Budget above or below the projected grant award amount for each fiscal year, including a reconciliation to the projected grant award amount.

Federal grants are not subject to budgetary caps or other restrictions placed on budget increases, but are required to adhere to and be consistent with statewide cost decisions (e.g., salary and benefit increases, changes to assessments, etc).

Most federal funds are provided on a reimbursement basis and there is no beginning or ending balance. However, there may be exceptions to this policy. Agencies should work with their assigned Budget Division Analyst if there are questions about federal revenues.

Transfer-In Revenue

Transfer-in revenue is generally used for non-reciprocal transactions. That is, the entity making the transfer-out does not receive anything of value (a good or service) in exchange for the transaction.

Agencies receiving a transfer-in from another state agency must identify the source of the funds and the agency or fund from which the revenue will be received. This information must be verified and reconciled against the transfer-out reported by the agency originating the transfer.

If one agency transfers federal funds to another in the form of a sub-award or sub-grant, the receiving agency would record the federal funds in a transfer-in general ledger account and the sending agency would record the expenditure in a transfer-out general ledger. The receiving agency must be able to maintain the federal identity of the revenues and associated expenditures for federal grant reporting. If an agency receiving a federal grant elects to contract with another state agency for a particular good or service using federal grant funds, the agency receiving the contract should record the revenue using the appropriate revenue account code for that service and the agency sending the contract should record the expenditure as a federal grant expense.

If an agency receives a Transfer from Interim Finance, the revenue must be eliminated in the adjusted base decision unit as must any one-time appropriations received from the prior session (adjustment should cite the statutory reference for the one time appropriation). Any associated expenditures must be either eliminated or paid for with another funding source.

Transfer-in revenue may also include cost allocation or indirect costs from other budget accounts within the same state agency. See the separate section on Cost Allocation Plans and Indirect Cost Plans for additional information.

Transfer-in revenues should not include revenue generated from enterprise-type payments for services provided by one agency to another, such as the receipt of payment for services from Enterprise Information Technology Services or the receipt of payment for a vehicle rental from Fleet Services. The receipt of funds for enterprise-type services provided to another state agency or fund should be reflected using the appropriate revenue account code for that service. Enterprise service revenue codes must be reconciled to the corresponding expenditure codes included in the budget accounts paying for those services.

Reserves

Agencies with programs supported by other revenues must retain enough ending fund balance ("Agency Reserve") to meet the cash flow and contingency needs of the program as well as to accommodate any statewide increases in salaries, benefits and assessments included in the Governor Recommends Budget. Agency Reserves are generally considered non-recurring funding sources and should only be used to cover unanticipated expenditures, one-time expenditures, economic downturns impacting future revenues and gaps in cash flow due to timing of receipts.

Agency Reserves should be limited to between 30 and 60 days of operating expenditures depending on the volatility and risk associated with the revenue source. An excessive Agency Reserve may indicate the need for a revenue reduction. Agencies should work with their Budget Division Analyst to determine Agency Reserve calculations and needs.

Estimating Revenues

Revenue sources must be projected separately and account for any seasonal fluctuations in collections. Agencies must base their estimates of revenues available in each fiscal year on a reasonable and sound methodology. Forecasts are only educated guesses with varying degrees of subjectivity and uncertainty. Supporting documentation for the chosen projection methodology along with historical information, assumptions which could materially change the projections and calculations of future estimates must be submitted with the Agency Request Budget. Any programs where anticipated revenues are not expected to be sufficient to support current service levels must be shared with the Budget Division Analyst as early as possible.

Adjustments should be made to account for any previously approved rate changes and agencies must provide documentation of the approval of the rate change (e.g., legislation, regulation, policy and procedure, as applicable). Any proposed request to change a legislatively approved fee may only be included in an enhancement decision unit.

Agencies should be prepared to submit updated projections during the Governor Recommends phase as well as during the Legislative Session.

OTHER CONSIDERATIONS

Federal Grant Matching Requirements

The federal government provides significant funding to the State for services provided to our citizens. For certain federal grants, the State must provide a percentage of the total cost of the program. This is known as a Match Requirement. In some instances, agencies obtain the Match Requirement from third parties.

Agencies must document any Match Requirements for federal operating or capital grants received and include the following as part of their budget submittal request:

- Grant Name;
- Federal Catalog of Federal Domestic Assistance (CFDA) number;
- Grant amount awarded by state fiscal year for term of the grant;
- Match funds required by state fiscal year for the term of the grant;
- Source of match funds; and
- The impact of not appropriating the match requirement.

Agencies should consult with their assigned Budget Division Analyst with any questions regarding documentation of Match Requirements.

Federal Grant Maintenance of Effort Requirements

In addition to or in place of Match Requirements, some federal grants require recipients to maintain their level of state and/or local expenditures. This is known as the Maintenance of Effort requirement (MOE). If a recipient fails to meet the required level of financial commitment, the federal government may rescind funds promised to the state. Agencies are required to maintain documentation necessary to show the federal government the State of Nevada is complying with the required level of financial commitment.

Agencies must include their assumptions and calculations for meeting required MOE levels for the current and upcoming biennia in their budget submittal request. Since state and federal fiscal years are not aligned and the MOE calculations can change based on actual expenditures incurred, agencies will be required to update MOE documentation, assumptions and calculations during the budgetary cycle.

Agencies should work with their assigned Budget Division Analyst to identify and document any grants containing MOE provisions.

Cost Allocation Plans and Indirect Cost Plans

Agencies may use indirect cost plans or cost allocation plans to allocate costs to programs within their department. These plans result in amounts being transferred from one budget account to another to cover costs in the receiving budget account such as the costs of a centralized accounting unit or the costs of a Director's Office. A separate schedule is created for each agency-specific indirect cost or cost allocation plan. The Budget Division Analyst must initially set up the cost allocation in NEBS.

In general, indirect cost plans must be approved by a Federal Cognizant Agency and agencies must include a copy of their federal authorization document which includes the approved rate with their budget request.

Agencies using a cost allocation plan must make sure the costs incurred in the receiving budget account are covered by the revenues derived from the contributing budget accounts. The basis for the allocation methodology and the assumptions and calculations must be included in the Agency Request Budget. Maintenance and enhancement decision units in the receiving budget account must have corresponding maintenance and enhancement units in the contributing budget accounts. Corresponding revenues and expenditures in the receiving and contributing budget accounts must be reconciled and included with the Agency Request Budget.

Agency specific cost allocation plans should not be used to bill other agencies for services or support provided to the using agencies. For example, if one agency rents space from another, the amounts should be budgeted in building rent for the paying agency and miscellaneous revenue for the receiving agency. All inter-agency transactions must be reconciled when the Agency Request Budget is submitted.

TECHNOLOGY INFORMATION REQUESTS

Any Technology Investment Request (TIR) should be aligned with the Governor's goals and priorities. Proposed IT investments should also be clearly linked to the agency's strategic and business plans and be justified on the basis of a sound business case which clearly describes how the project aligns with and supports the agency's plans and the Governor's goals.

NEW PROJECTS

A TIR, including the business case for approval, must be completed and submitted for any NEW IT project the agency has underway or plans to initiate in the 2017-2019 biennium which will exceed $50,000, including any proposed outsourced initiatives where the vendor receives a percentage of revenues instead of direct payments or where the project is proposed as a "software as a service" solution to be implemented by an agency. A TIR is required regardless of the funding source used to pay for the project.

EXISTING PROJECTS

EXISTING IT projects in excess of $50,000 in projected costs should already have an approved TIR, which should be submitted with the budget request. If the existing project does not have an approved TIR, one must be submitted with the budget request.

Agencies will also need to provide the following information for all continuing IT projects in excess of $1 million in projected costs:

- The status of the implementation of existing projects, including a comparison of the scope and status to the approved TIR.
- The projected status at the end of the 2017-2019 biennium.
- The impact of not completing the project or implementing a new system.
- The estimated expenditures by fiscal year for the 2017-2019 biennium.

An updated TIR must be submitted if the project schedule, budget or scope change exceeds 5% of the originally approved project schedule, budget or scope. The information above must be submitted with the Agency Request Budget.

All TIRs should include all of the costs relating to the implementation and on-going operations of the project, including future maintenance and support costs, and must include a confirmation that EITS was involved in creating the cost estimates relating to EITS provided products and services.

Agencies should complete the TIR, and submit it in accordance with the timeline stated in the Due Dates and Submission Section above. TIRs submitted late may not be considered for funding during the upcoming budget cycle.

Resources for completing a TIR, including forms, examples and training may be found on the EITS website: http://it.nv.gov/Sections/IT-Investments/TIR/IT_Business_Case/

PRIORITIES AND PERFORMANCE BASED BUDGETING

Priorities and Performance Based Budgeting (PPBB) is the process of mapping expenses at the budget account level to the goals and priorities identified by the Governor. The rationale for a performance based budgeting methodology is to identify the services the state provides and to measure the effectiveness and efficiency of delivering the outcomes. Put simply, the goal of performance budgeting is to answer the question “Are we getting what we need in exchange for the resources we are expending to get it?”

The Governor’s four Strategic Priorities and the eight Core Functions of Government remain the same but certain other components are changing. What were known as Objectives will now be known as Mission Driven Goals, while what were known as Benchmarks will now be known as Objectives. Mission Driven Goals, which are the results of the Strategic Planning sessions conducted by the Governor’s Office, are intended to create a roadmap of where the state should be headed, and are tied directly to the eight Core Functions. For each Mission Driven Goal, there are a set of high level, measurable Objectives which show the State’s progress towards meeting the Mission Driven Goals. Preferably, agency Performance Measures should support the statewide Objectives. Lastly, Activities which were previously defined by the agency are now pre-defined and tied to specific Mission Driven Goals. Activities are intended to identify cross-agency functions and potential synergies to improve overall efficiency and effectiveness. As noted previously, the Mission Driven Goals, Objectives and Governor’s Initiatives will be released during the week of April 10, 2016.

FUND MAPPING CHANGES

As required in the past, agencies are required to map line item expenditures in each budget account to the revenue source used to pay for those expenditures. The functionality for mapping expenditures to revenues by position, category and object code either as a percentage or fixed amount has not significantly changed. After the expenditure mapping to revenues is completed, agencies will be required to map the individual revenues to one or more of the predefined Activities. The mapping of Activities to Mission Driven Goals and Core Functions will be done based on a predetermined structure allowing the Budget Division to generate reports which roll-up expenditures and revenues to the Activity, Mission Driven Goal and Core Function levels providing an alternative view of the State’s budget for the public to see where resources are directed.

PERFORMANCE MEASURES

Performance measurement facilitates accountability and provides an opportunity to identify programs that work and those in need of improvement or elimination. They are intended to answer the question: “Are we making progress toward achieving our targeted results?” A credible answer must be backed by evidence in the form of Performance Measures which provide data on how the program is operated, how well the customers are served and whether the program is achieving its intended outcome. Analyzing the performance of an Activity is important to assess whether the investment has proven worth the cost and whether performance can be improved or a different strategy could better contribute toward achieving the desired statewide result. Agencies should use performance data to target low-performing programs for elimination and to redirect funding to programs with a higher return on the State’s investment.

Performance Measures should be logically and directly related to the Activity they are purported to measure, incorporate significant aspects of the operations of the agency and be responsive to changes in levels of performance. The three main types of measures for agency activities are output/workload ("How much did we do?"), efficiency ("How well did we do it?" or "Are we doing things right?") and effectiveness ("Is anyone better off?" or "Are we doing the right things?"). Wherever possible, agencies should use Performance Measures tied to data already provided to external parties, such as measures reported to a federal agency in support of a grant received from that agency.

Performance Measures will continue to be at the Activity level reflecting that not all budget accounts will have separate indicators. While each Activity must have at least one Performance Measure, there is no right or wrong number of Performance Measures as long as the measures provide the full story of the operations and value of the Activity. An agency may also have several Activities targeted toward achieving the same outcome and should identify the link of the Activities to the Performance Measure. If an agency and the Budget Division agree it is not possible to identify an appropriate quantitative Performance Measure for an Activity, the agency must submit a narrative description of the intended outcome for the Activity.

If an agency submits an enhancement decision unit, whether to add a new program or increase or reduce funding for an existing program, it must include Performance Measures in the decision unit to clearly indicate the change in performance expected from the investment if the decision unit if it is approved. The Performance Measures may show an incremental change to an existing indicator or a new measure for the Activity. Proposed Performance Measures should be included in the narrative for the decision unit or as an attachment to the decision unit description (or included in the Business Plan if one is being submitted), and should clearly indicate what is being measured, how the measurement is being calculated and what will happen if the program does not meet its proposed metrics. Performance Measure data provided by agencies must be valid and accurate with any data limitations clearly noted. If the decision unit is expected to support a performance change for which a Performance Measure would not be relevant, the expected outcome of funding the investment should be described, and if possible quantified, in the decision unit narrative. Decision units submitted without corresponding Performance Measures or appropriate supporting narrative will not be considered.

AGENCY STRATEGIC PLANS

<u>As used in this section only, agency means department, division, board or commission</u>.

An agency strategic plan is beneficial for developing the Agency Request Budget and mapping the budget to specified goals. While agencies have not been required to have strategic plans in the past, their importance as a foundation for the Agency Request Budget and their usefulness in focusing the state's limited resources demand their creation. Agencies without a strategic plan or whose plan has not been updated in more than five years should create or update their plan prior to July 1, 2017.

Agencies are required to include a mission statement for the agency and Performance Measures for each Activity. The Agency Request Budget must tie to the agency's mission statement as well as one or more of the Governor's Mission Driven Goals.

SERVICE LEVELS

The current service level is defined as the cost to continue the existing legislatively approved program into the next biennium. To the extent funding is available, agencies should build budgets based on the current service level for each program, as adjusted for any phased-in changes made during the current biennium as well as statewide inflation, any agency specific inflation and any pre-approved caseload growth.

If funding is not available to maintain the current service level, agencies must reduce expenditures to accommodate available funding. This includes programs funded by federal and other revenues where the revenues are projected to be insufficient to maintain the current service level or where federal funding for a program has been reduced.

Agencies proposing to increase the current service level must do so by including the request in an enhancement decision unit.

ENHANCEMENT REQUESTS AND REDUCTION OPTIONS

Prior to requesting additional resources, agencies are expected to identify ways to fund needs internally through a reallocation of funds or through process improvement. These efforts allow state agencies to communicate to the Governor, Legislature and citizens what is already being done to get the most out of existing resources and better prepare agencies for their legislative budget hearings.

The budget is an important tool for implementing policy and achieving results. State agency strategic plans and budget requests, including enhancement decision units, should answer the following questions:

- Which strategies will most effectively achieve agency and statewide goals and priorities?
- Which activities are mandatory/core to these strategies?
- How are the outcomes of our highest priority services and activities maximized?

The best budget proposals are persuasive not only at the agency level, but also in the broader statewide context, and those making the strongest case will be ones which discuss the value and benefits they deliver to achieve positive statewide outcomes for Nevada citizens.

AGENCY ENHANCEMENT REQUESTS

Most state systems and processes have room for improvement, and any enhancement requests should outline agency efforts taken and/or plans to find additional capacity. Agencies are encouraged to focus on improving agency performance through innovation by using an evidence-based practice and/or business case approach for new funding requests. Enhancements must also include a rigorous evaluation plan along with Performance Measures to determine if the investment of new dollars does result in the intended outcomes.

Requests for new resources will be limited to two approaches:

(1) The Governor's Office will formally invite agencies to submit specific requests for incremental budget changes through dialogue with agency leadership based on the Governor's Initiatives and available resources.

(2) Agencies may also propose requests for new funding via an Enhancement Concept Request. Enhancement Concept Requests are due to the Budget Division by May 16th and approval or denial will be provided by the Governor's Office by June 17th. Enhancement Concept Requests will be required to meet rigorous standards in order to justify the investment of taxpayer dollars into a program or service. Proposals must include a clear and concise description of the results expected and funding options, including the reprioritization of resources from less effective programs or activities. Agencies with closely aligned programs should be aware of any competing resource priorities and develop collaborative solutions for meeting common goals.

Only invited requests and approved Enhancement Concept Requests may be included in the Agency Request Budget. Each enhancement included in the Agency Request Budget must include a description of the proposed new or expanded activity; an explanation of the purpose for which the requested funds will be used; supporting detail identifying the proposed classification of any positions requested, proposed capital equipment, breakdown of all other proposed expenditures, along with any related revenues and/or transfers.

While the use of a Business Plan is encouraged for smaller enhancements, if an agency is requesting a new program or the expansion of an existing program exceeding $1,000,000 in costs over the biennium, the agency must include a Business Plan with its submittal.

AGENCY REQUEST LIMITS

For agencies or departments funded with General Fund or Highway Fund appropriations as well as other funds receiving General Funds or Highway Funds, such as internal service funds, the total Agency Request Budget for the 2017-2019 biennium shall not exceed two times that agency's FY 2017 legislatively approved expenditure level unless the agency receives prior written approval from the Budget Division.

Exceptions to the limits will be considered for pre-approved agency caseload/population growth, pre-approved agency specific inflation as well as certain federally mandated and court ordered activities. Approved enhancement requests will also be exempt from the limits. All other decision units must fit within the agency's limit.

This limitation does not apply to requests supported from 100% non-General Fund, non-Highway Fund resources such as federal funds, other receipts or use of cash balances from non-reverting accounts.

AGENCY REDUCTION PLANS

At this time, revenue collections and projections continue to be slightly below the level necessary to keep up with expected inflation, caseload and other commitments of state resources. Additionally, the state must confront cost pressures to address workforce compensation needs as well as demands related to continuing and emerging policy issues. It is also fiscally prudent to plan for unforeseen changes to the nation's economy. While these types of financial challenges are not new to the state, a return to pre-Recession funding levels is unlikely and "trimming around the edges" or across-the-board cuts are no longer a viable approach. As a result, agencies are being asked to become creative in their approach to budgeting for the upcoming biennium and look at how the state can do things differently to manage public resources in a way that demonstrates accountability and results.

Each agency or department funded in whole or in part with General Fund or Highway Fund, including other funds receiving General Funds or Highway Funds such as internal service funds, will be required to submit with their budget request an alternative plan to reduce their request by five percent. Reductions should be prioritized around programs, statutory assignments, or other whole functions, not across-the-board reductions, and agencies are encouraged to eliminate or substantially reduce lower priority programs and utilize the resources for higher priority programs which support the agency's core mission.

While reduction plans will not be required from agencies funded 100% by federal or other unrestricted grant revenues, a plan will be required from central service agencies and agencies whose dedicated revenue is derived from, subsidized by, affects or interacts with the General Fund or Highway Fund, including agencies funded by fee or other self-supporting revenues.

As part of the reduction plan, agencies should specifically identify the activities or programs to be discontinued, along with the impact on any related Performance Measures or the likelihood of advancement toward a Mission Driven Goal without the activity/program in question. Conversely, agencies may propose process improvements to generate efficiency savings; however, as efficiency savings can easily become unallocated, non-specific budget cuts, agencies committing to efficiency based reductions must be sure such reductions can be implemented without service impacts (true savings from process improvement), or must clearly state the service level impact of the reduction (reduction of a lower-priority activity or service). Sufficient information must be provided in order to allow consideration of each proposed reduction option.

As part of the reduction plan, agencies may propose expanding a higher priority program in order to improve the outcomes of the program as long as the net savings when combined with the reduction option is greater than the five percent reduction plan threshold for the agency. For example, an enhancement decision unit equaling a two percent increase must be offset with a seven percent reduction option to achieve the five percent reduction option.

Agencies must rank activities or programs proposed for elimination and explain the criteria and methods used to determine the ranking. Agencies must also identify and explain the impact of the reduction on any other revenues, expenditures or programs (e.g., loss of matching funds), and must discuss the reduction options with any other agency affected by the reduction (e.g., transfers to other agencies).

Agencies will not be required to submit any corresponding bill draft requests necessary to implement the reduction plan with the Agency Request Budget but will need to provide the necessary information if so requested by the Governor or the Budget Division.

More, or different, options may be requested if the proposed options are not feasible or are not compatible with other statewide efforts or policies.

MAJOR BUDGET INITIATIVES

The Major Budget Initiative (MBI) functionality remains in NEBS. The MBI module may be used for certain agency enhancement requests that cross budget accounts or departments or for certain position realignments or agency reorganizations. If a MBI is identified and requested by the Governor's Office, affected department directors will be notified and provided with additional direction. Agencies may not submit a MBI unless it has been approved by the Governor's Office.

REQUIRED FORMS

BUDGET SUBMISSION CERTIFICATION LETTER

Over recent biennia, as the Budget Division has gone away from hard copy submissions, there has been a drop off in the completeness of the Agency Request Budgets. Agency staff have worked up until the deadline and considered their submission completed when NEBS was closed to additional entry regardless of the actual completeness of the work product. In order to underscore the importance of Agency Request Budgets and restore formality to the budget submission process, the Budget Account Summary Form is being replaced with the Budget Submission Certification Letter. The template for the letter will be available on the Budget Division website and will identify the specific required elements, including certain components from the Budget Account Summary Form as well as new attestations, which the signer will certify have been completed and submitted in accordance with the State Budget Act.

One letter will be submitted for each agency along with the agency's two-times budget limit calculation spreadsheet. The letter must be signed by the director or, if the agency is headed by a board or commission, the board or commission chairman. The title of the person signing the letter must also be entered. The letter will include the name and contact information for the appropriate person within the agency to address questions regarding the Agency Request Budget.

ORGANIZATION CHART

In addition to the Budget Submission Certification Letter, agencies will be required to provide hard copies of the agency's proposed organization chart reflecting their Agency Request Budget including any programs or positions proposed to be added, eliminated or changed as part of the request. An organizational chart will be submitted for each agency with the following elements:

1. The programs, activities and organizations in the agency.
2. The full-time equivalent positions in the agency.
3. Highlights of any programs or positions added, changed or eliminated during the upcoming biennium or as part of the budget request submittal.
4. Any boards and commissions overseen, administered or supported by the agency.

Full-time equivalents in NEBS must reconcile to the agency's Organizational Chart.

The Legislative Counsel Bureau Fiscal Analysis Division requests all material be provided in the same format as submitted to the Budget Division. Copies of any additional documents or information supporting the agency budget must be provided simultaneously to the Budget Division and Fiscal Analysis Division.

BILL DRAFT REQUEST (BDR) INSTRUCTIONS

OVERVIEW

By law, the Legislative Counsel Bureau (LCB) is required to advise and assist state departments and divisions in the preparation of measures to be submitted to the Legislature. LCB is prohibited from preparing proposed legislation for any agency of the Executive Branch of state government for introduction at any regular session of the Legislature, unless the request is approved by the Governor or a designated member of his staff and transmitted to LCB on the prescribed form. **For the 2017 Regular Legislative Session, the Governor may request up to 110 non-budgetary legislative measures, and all agency requests must be submitted to LCB on or before August 1, 2016.**[3]

During the 78th Regular Legislative Session in 2015, the Legislature approved changes to the bill drafting process that directly impact Executive Branch agencies. With the passage and approval of Assembly Bill 495, two important changes were made to the bill drafting request processes outlined in NRS 218D. First, AB 495 changed the **deadline for prefiling**[4] of agency requests from December 20th to the third Wednesday in November preceding the regular session. A request that is not pre-filed on or before that day will be considered withdrawn. Second, AB 495 specified that LCB shall not assign a number to a request for the drafting of a legislative measure submitted by an Executive Branch agency establishing the priority of the request until **sufficient detail** has been submitted to allow complete drafting of the legislative measure.

The changes enacted through AB 495 implement a shorter timeframe during which Executive Branch agencies must develop, review, and ultimately submit legislative requests for pre-filing prior to the next regular session. Given this condensed period of time, it is essential that agencies begin to review potential legislative requests and engage in discussions with the Governor's Office regarding those requests earlier rather than later. This will help to ensure that the legislative priorities of the Executive Branch are sufficiently developed and submitted in a timely manner in accordance with state law.

BILL DRAFT REQUESTS (BDRs)

A BDR is a written request submitted to the Legislative Counsel by a legislator, an executive agency, a member of the judiciary, or a local government proposing a new or modified law for enactment. To provide a systematic review and correlation of requests within the framework of the strategic planning and budget process, all legislative requests must be submitted through the Governor's Finance Office Budget Division using the Nevada Executive Budget System (NEBS) BDR module. Legislative requests should be designated as either **Budget**, **Policy-Housekeeping**, i.e., clarification or minor changes to existing statutes, or **Policy-Substantive**, i.e., all other requests. This will help to expedite the review process and facilitate an orderly bill drafting process. Agencies must submit a separate request for each BDR. Please note, each bill must be limited to one subject, but may contain proposed revisions regarding more than one NRS

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[3] See NRS 218D.175(1)

[4] See Nev. Legislative Manual, 78th Reg. Session, at 148 (2015). "Prefiling allows drafted bills and joint resolutions, upon the approval of the primary sponsor, to be numbered, printed and made available for public review, and scheduled for a hearing before the start of session…The process of prefiling is designed to help expedite the review of a significant number of bills early in the session."

section that relates to the single subject of the proposed bill. If unsure about the classification of a non-budgetary bill, designate the BDR as Policy-Substantive.

LEGISLATIVE SUMMARIES

To allow adequate time for action, the Governor has directed Executive Branch agencies to **submit an abbreviated summary descriptor of any non-budgetary legislative proposal to the Governor's Office for consideration and review by April 15, 2016.** The rationale behind these summaries is to provide the Governor's Office with the purpose and justification for the agency request, in order to ensure the request aligns with the Governor's priorities and initiatives. Summaries should be no more than 1,000 characters and include the title, primary department, primary division and the "Request Description." No additional information should be provided at this stage. The Governor's Office intends to review and approve or deny the summary proposals by **May 6, 2016.**

NON-BUDGETARY BILLS

Following initial review and approval of legislative summaries by the Governor's Office, agencies will complete the remaining fields in the NEBS BDR portal. **Executive Branch agencies must submit all final non-budgetary BDRs to the Budget Division through NEBS by June 1, 2016.** In order to ensure compliance with the requirement that legislative proposals contain sufficient detail enabling legislative counsel to draft the measure, a non-budgetary legislative request that has not been summarized and reviewed pursuant to this directive will not be submitted to legislative counsel for drafting. It is important to bear in mind that **BDRs must be drafted and prefiled by November 16, 2016**, or they will be considered withdrawn. Any modifications or revisions must be made prior to that date.

BUDGETARY BILLS

All budgetary BDRs must be submitted to the Budget Division in **NEBS by September 1, 2016** with the Agency Request budget. A budgetary BDR must complement the agency's budget request and identify the decision unit with which it is associated. Any BDR related to an enhancement must comply with the requirements for submitting an enhancement which are included in the Budget Instructions.

Agencies must claim "no fiscal impact" in fiscal notes if the cost is included in the Executive Budget or is less than $2,000; the Governor is expecting agencies to pay for such costs by proposing savings in existing programs or to justify why those costs should be included in the state's priorities. This includes bills submitted by other agencies as budget bills and included in the Executive Budget. When submitting a budget bill, **it is the responsibility of the requesting agency to communicate with other state agencies to ensure fiscal impacts to all state agencies are included in the Executive Budget.**