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**AGENDA ITEM**

- Action Item
- Information Only

**Date:** May 26, 2022

**Item Number:** VII

**Title:** Framework for development of the Agency Budget Request for the 2024-2025 Biennium

**SUMMARY**

This report provides updates on budget direction and proposed budget recommendations for PEBP’s Agency Request FY24/25 Budget submission.

**REPORT**

BACKGROUND

During the statewide budget kickoff meeting in March, agencies were given direction to build their FY24/25 agency request budget using two times the FY23 cap. This is effectively a “flat” budget. Recognizing the impact flat budgets could have on employee health benefits, PEBP immediately brought the issue to the attention of the Governor’s Office and began discussions on possible alternatives.

BUDGET DIRECTION

The message from the Governor’s Office has been very clear; there is no desire to cut employee health benefits and active measures would be taken to avoid a scenario in which the PEBP Board is asked to reduce or remove benefits in order to meet budget requirements. As a result, PEBP began discussing possible options with both the Governor’s Office and Governor’s Finance Office and ultimately, PEBP was granted the authority to submit its agency request budget using projected costs to maintain current benefit levels (while still spending down any excess). This means that PEBP will be working with our actuary, Segal, this summer to project FY24/25 costs using current plan benefit design while taking into account projected trends over the biennium.

BUDGET ENHANCEMENTS

There is no guarantee that any additional benefits will be included in the Governor’s Recommended Budget (Gov Rec) above and beyond the current benefit levels in place today; therefore, PEBP is only recommending minor staff enhancements to be included in the agencies’ budget request.

The most concerning gap at PEBP by far is the lack of health care specific legal resources available to the program. Although PEBP leans on the Attorney General’s Office for legal support, the Deputy AG (DAG) assigned to PEBP is usually assigned to several other agencies and does not necessarily have subject matter expertise in health care specific matters. Each time the agency is assigned a new DAG, there is a substantial learning curve and the constant and increasing need for legal assistance exposes the agency to potential risk if the representing counsel is unfamiliar with health care law. As the agency grows and health care legislation becomes more and more complex, the need for industry specific legal experience increases, in addition to the time a DAG must dedicate specifically to PEBP. It is staffs’ opinion that an in-house legal counsel would be highly beneficial to the program by not only providing on-going legal expertise in specific health care related issues but could also assist in benefit compliance reviews and contracting matters.

In an attempt to remain cost neutral, staff is recommending eliminating the Chief Information Officer (CIO) position and replacing it with an in-house counsel. In the last several years, PEBP has steadily transitioned much of its IT responsibilities and oversight to the states’ Enterprise IT Services (EITS) and vendors. IT responsibilities remain, but those duties can be shifted to the remaining two IT staff. As such, PEBP is also recommending reclassifying the ITP II and III to a III and IV, respectively. The chart below illustrates the projected cost differential:

<b>Current Position</b>		<b>Requested Position</b>		<b>Differential</b>
Chief Information Officer (U2805)	\$112,798.00	Lead Insurance Counsel (U9073)	\$120,344.00	\$ 7,546.00
IT Professional 2 (Grade 38-10)	\$ 87,320.16	IT Professional 3 (Grade 40-10)	\$ 95,672.16	\$ 8,352.00
IT Professional 3 (Grade 40-10)	\$ 95,672.16	IT Professional 4 (Grade 42-10)	\$104,901.12	\$ 9,228.96
<b>Total Cost Differential</b>				<b>\$ 25,126.96</b>

It’s important to note that although this is on the surface a \$25,000 enhancement in our budget, it can be argued that an in-house counsel will reduce PEBP’s yearly AG assessment by at least that dollar amount or more, so it is realistic to expect this request to ultimately *save* the program rather than *cost* the program.

#### TIMELINE

All agencies are required to submit their respective budget requests by the end of August. GFO spends the remainder of the year reviewing each agencies' budget request and working with agency heads to address questions, issues, or necessary changes. Once this process is complete, it becomes part of the Governor's Recommended Budget, which remains confidential until it is publicly announced in January, prior to the commencement of the biennial legislative session. During the course of the legislative session, agencies are required to present their Gov Rec approved budgets to the legislature and ultimately, those budgets receive final approval in April/May just in time for the start of the fiscal year.

***Recommendation:***

*Approve the submission of PEBP's agency request budget based on existing plan benefit design through the biennium and 2) include enhancement request for in-house counsel and upgrade of two existing IT positions.*