

**MINUTES OF THE MEETING  
OF THE  
ASSEMBLY COMMITTEE ON WAYS AND MEANS**

**Seventy-Third Session  
February 9, 2005**

The Committee on Ways and Means was called to order at 8:05 a.m., on Wednesday, February 9, 2005. Chairman Morse Arberry Jr. presided in Room 3137 of the Legislative Building, Carson City, Nevada. [Exhibit A](#) is the Agenda. All exhibits are available and on file at the Research Library of the Legislative Counsel Bureau.

**COMMITTEE MEMBERS PRESENT:**

Mr. Morse Arberry Jr., Chairman  
Ms. Chris Giunchigliani, Vice Chairwoman  
Mr. Mo Denis  
Mr. Joseph M. Hogan  
Mrs. Ellen Koivisto  
Ms. Sheila Leslie  
Ms. Kathy McClain  
Mr. Richard Perkins  
Mrs. Debbie Smith  
Mrs. Heidi S. Gansert  
Mr. Lynn Hettrick  
Mr. John Marvel  
Mr. Bob Seale  
Ms. Valerie Weber

**STAFF MEMBERS PRESENT:**

Mark Stevens, Assembly Fiscal Analyst  
Steve Abba, Principal Deputy Fiscal Analyst  
Jeffrey A. Ferguson, Program Analyst  
Michael J. Chapman, Program Analyst  
Anne Bowen, Committee Secretary  
Carol Thomsen, Committee Secretary  
Lila Clark, Committee Secretary

**ELECTED OFFICIALS**

**CONTROLLER'S OFFICE (101-1130) – BUDGET PAGE ELECTED 99**

Chairman Arberry stated that the Committee would begin with the budget for the Controller's Office, Budget Account 101-1130.

Kathy Augustine, Nevada State Controller, read into the record from a prepared statement contained in [Exhibit B](#):

Mr. Chairman, I would like to preface my remarks here today by restating the mission of my office. The mission of the State Controller's Office is to ensure integrity, accountability, and efficiency in the State's fiscal operations; to provide agencies with the financial systems and information to facilitate their decision making processes; to provide Nevada's citizens with accurate and timely financial reporting; and to foster leadership and professional guidance in the area of state fiscal policy.

I would like to provide the Committee with a brief overview of the accomplishments of my office over the last biennium. Perhaps one of our most significant achievements is the realization of a long-term goal. We completed the rollout phase of the statewide Integrated Financial System. To continue to support that system, we created an ongoing training and education program to train new system users and to advance and support existing users. We also enhanced the system with the introduction of the Discoverer reporting tool, which allows agencies to produce *ad hoc* financial reports and obtain specific financial data outside of existing reports.

My office continues to produce the State of Nevada's Comprehensive Annual Financial Report (CAFR) and for the first time produced the report on CD to eliminate the need for additional printed copies and to reduce the cost of mailing printed copies. We received the Government Finance Officers Association (GFOA) *Certificate of Achievement for Excellence in Financial Reporting* for the sixth year in a row.

Additionally, my office continued to produce a Popular Annual Financial Report (PAFR) distributed to our state citizens through the public library system and other means, in order to disseminate information regarding the state's financial condition to the general public. We again received the *Award for Outstanding Achievement in Popular Annual Financial Reporting* from GFOA for this publication.

The State Controller's Office debt collection program has continued to grow at a rapid pace. Currently, 23 state agencies, boards, and commissions have signed interlocal agreements and are utilizing the Controller's Office to collect past due, over 90 days, receivables. To date, we have returned over \$3.6 million to the state coffers that would have gone otherwise uncollected.

During the 20th Special Session, the State Controller's Office added another tool to aid our debt collection program. A uniform statewide returned check fee of \$25 for non-sufficient funds checks written to the State was initiated. Previously, not all State agencies were charging a non-sufficient funds fee to those who remitted a bad check. Apart from being a standard business practice, this aids the State in recovering some of the costs associated with processing bad checks and strengthens the debt collection program by allowing the State to submit for collection some checks that would have otherwise been too small to collect. The new fee went into effect January 1, 2004, and is estimated to generate over \$80,000 in additional revenue over this biennium. This session, we are seeking to extend the \$25 returned check fee to cover electronic payments and credit card payments that are returned.

Additionally, we undertook the massive endeavor of reorganizing and streamlining the State Controller's Office Vendor Services Division to provide faster and more accurate processing of vendor information. My office created new and updated vendor registration forms and posted those forms on our website for direct vendor access. We established formal policies and procedures to

create and maintain the statewide vendor database, which ensures prompt and accurate payment to state vendors, and accurate 1099 reporting. The Vendor Services Division completed a full update and cleanup of existing vendor files to ensure all data was correct and complete. By doing so, it eliminated all vendor duplications, thereby reducing the total number of vendors in the database by 25 percent.

Lastly, we made great strides to provide for long-term storage and online availability of the state's financial information in an electronic data format. We formalized an official electronic data retention schedule and determined the required storage capacity for existing and future data. My office also completed the transfer of financial data storage from microfiche to microfilm, resulting in a 50 percent savings in creation and storage fees.

I have with me today Acting Chief Deputy Controller Kim Huys and Chief Accountant/Operations Steve Jackson, who will discuss the overall budget; Data Processing Manager Alex Echo to answer technical questions on the IFS system; Chief Accountant/Financial Reporting Brenda Laird, who will discuss Accountant III upgrades; and Chief Accountant/Debt Collection Christi Thompson, who will answer any questions about our debt collection program.

Ms. Augustine stated that if there were questions after the presentation of the budget regarding the Governor's proposed rebate program, figures and data would be provided.

Kim Huys, Acting Chief Deputy Controller, read the following statement, contained in [Exhibit B](#), into the record:

The State Controller's Office is proud to present a lean budget that asks for moderate funding to provide valuable services to the state. During fiscal year 2004 and continuing in fiscal year 2005, we have made several improvements in service delivery along with achieving efficiencies in our operations. Specific improvements include:

- Eliminated between 10 and 15 sets of microfiched financial reports distributed to various state agencies. All reports are now microfilmed by State Archives and immediately stored with them. Users can access reports through the data warehouse or Vista Plus.
- Rolled out journal voucher entry to all state agencies. Agencies can now post general ledger corrections and cost allocation distributions immediately. This has also eliminated all backlogs for documents, such as billing claims, that we continue to enter for agencies.
- Increased daily data warehouse availability from 11 hours to 14 hours. Our goal is to have it available 24 hours a day, except for scheduled maintenance.
- Cleaned up thousands of vendor records by consolidating or eliminating duplicate records. Our vendor database now contains about 72,000 records, including employees,

which is about half the number we had when we started the cleanup over two years ago.

- Reduced the number of 1099s issued by 22 percent. In 2004, 3,637 forms were issued compared to 4,682 issued for 2003.

We have also stepped up our efforts to assist agencies with clearing up outstanding and stale-dated warrants. During 2004, the Controller's Office worked with the Division of Child and Family Services to identify and clear 2,300 stale-dated warrants, totaling \$317,875 from the books.

Our enhancement requests are focused on technology improvements and software and hardware replacements. The Controller's Office Data Processing Manager, Alex Echo, who heads our Information Technology section, will present the details of these requests.

The other significant enhancement request involves creating a new class in the accountant series in order to retain and recruit qualified staff to produce the State's Comprehensive Annual Financial Report (CAFR). Our Chief Account/Financial Reporting, Brenda Laird, CPA, will discuss this request.

The State Controller's Office continues to work toward providing high-quality service to our internal and external customers in the most cost-effective manner. As you have just heard, we have made significant strides toward this goal and are proud to have reverted nearly \$350,000 back to the General Fund during the past two fiscal years.

Assemblyman Seale asked how many employees were assigned to the debt collection program. Ms. Augustine replied that there was an organizational chart included in the packet provided to the Committee in [Exhibit B](#). Currently there was a chief accountant, an accountant III, an accountant technician, an accounting assistant, and an administrative aide assigned to the debt collection program, which totaled five employees. Mr. Seale inquired whether those five employees performed only debt collection duties. Ms. Augustine replied that in addition to debt collection duties, those employees were also responsible for bank reconciliation reports, accounts receivable reports, and daily bank deposits. Mr. Seale asked why the cost per collection had gone down. Ms. Augustine replied that when the program first started there were fewer collections referred to the Controller's Office, and since more collections had been submitted, the amount per collection was costing less. It was anticipated it would become even lower in the next biennium.

Mr. Seale asked how much had been collected in bad debts in the past year. Ms. Augustine replied that her office was consistently collecting over \$100,000 per month and the total cost per dollar collected had gone down to approximately 17 cents. Mr. Seale stated that he was trying to ascertain what it was costing to run the debt collection program versus what was being collected. Ms. Augustine replied that more was being collected than was being paid out, but she would provide exact details to the Committee at a later time.

Assemblywoman Giunchigliani inquired as to whether any state agencies had requested assistance for debt collection from the Controller's Office.

Ms. Augustine stated that 23 boards, commissions, and agencies were utilizing the services of the Controller's Office and they were listed in [Exhibit B](#). Ms. Giunchigliani inquired as to the nature of the debt collections for the Ethics Commission and Employment, Training and Rehabilitation. Ms. Augustine replied that those collections were from people who had not paid their fines within 90 days. She noted that current totals for past due receivables over 60 days totaled over \$150 million, but it had to be turned over to the Controller's Office before it could be collected. Ms. Giunchigliani asked if agencies were good at complying with that time line. Ms. Augustine replied that some agencies were very slow to turn over their debt.

Steve Jackson, Chief Director of Operations, Nevada State Controller's Office, directed the Committee to a document included in [Exhibit B](#), entitled "State Controller's Office Statistics," which was basically comparative data of different functions in the operations section between fiscal years 2003 and 2004. The first part of the document outlined quantities of transactions processed and dollar activity regarding revenue collected from counties, escheated estates, Taylor Grazing revenues, and National Forest receipts. Mr. Jackson commented that the 1099s issued went down by over 22 percent, which was the result of determining the nature of payments to agencies to determine if they were truly reportable to the Internal Revenue Service. As a result there had been a significant reduction in the number of 1099s issued.

Mr. Jackson pointed out on the page of [Exhibit B](#) which was entitled "Distributive School Account (DSA) Payments May 1999 thru April 2005," that the quarterly payment made on February 1, 2005, was made timely. Prior payments had not been made timely, but Mr. Jackson expected that future payments would.

Alex Echo, Data Processing Manager, Nevada Controller's Office, read the following testimony contained in [Exhibit B](#) into the record:

#### E275 Disk Upgrade for Statewide Financial Data Warehouse

More disk space will be needed to meet data retention commitments of the State Controller's Office statewide financial data. The DAWN Financial Data Warehouse has a ten data retention cycle. Once we have populated ten years of data, there will never be fewer than ten closed fiscal years in the DAWN Financial Data Warehouse. This meets or exceeds the retention rates specified by the State Library and Archives' Records Retention Schedule. The one exception to the ten-year retention cycle for data is the Chart of Account Tables that will be kept indefinitely. Furthermore, in order to keep ten closed fiscal years of data, we must also have up to two fiscal years of data still open. Therefore, there must be storage space for twelve years of data before any data can be purged and the disk space reused.

We presently have five full years of data on the Data Warehouse, and we will be growing to twelve years. The addition of the new disk space will allow for data growth, software growth, and leave ample working space for database operations such as large sorts, re-indexing operations, and "hot" backups, where data is first copied to extra disks and then to tape so as not to impact batch cycle run times as the database grows.

E276 Buy licensing to add 50 users to Vista Plus online reports system

Vista Plus online reports system is an electronic, web-based method for agencies to electronically receive financial reports traditionally distributed on green bar paper. We are approaching the 300-user limit of our present licensing. As a growing number of people in more agencies request financial reports, we need to increase our licensing.

The benefit of adding 50 users to our online reporting system is that there will be 350 users not needing to receive a multitude of green bar report printouts, some of which are very large, and often just the final summary page is used.

E710 Replace personal computers, software and a server

Our departmental server needs to be replaced to be within State of Nevada guidelines for reliability, interoperability, and maintenance purposes.

Personal computers are replaced for our employees who are either power users or technology users, according to State of Nevada guidelines.

We must stay current on products that protect our systems from viruses, spam, and other malicious software. The assaults on PCs, networks, and email systems keep getting more sophisticated and more destructive.

Office productivity software such as word processing, spreadsheets, PowerPoint, Visio, must be kept up to date for reliability, compatibility, interoperability, and support, as per State of Nevada standards.

Development software for our technology users, such as Microsoft Front Page, used for web development, and Adobe Acrobat, used for CAFR reporting and putting various financial reports on the web, also need to be kept up to date for reliability, compatibility, and support.

Assemblyman Denis asked if the added disk space requested in decision unit E-275 would be added to a mainframe or server. Mr. Echo replied that there were different levels, such as departmental servers, midrange servers, and the mainframe. The added disk space was being requested for the midrange server, an IBM RS6000 system, which was a step between the departmental server and the mainframe.

Mr. Denis noted that it had been mentioned that five years' worth of space had been populated and an additional five years was needed. Mr. Echo stated that the main source of the data was the Advantage Integrated Financial System, the online, statewide financial system. Every day after the nighttime processing of Advantage took place, that amount of data was moved into the Data Warehouse. The Data Warehouse would have a twelve-year history of all financial transactions when completed. Mr. Denis inquired if the plan was to go back five more years, or if five years from now the office would have completed populating ten years' worth of data. Mr. Echo replied that once ten years of

data was populated they would maintain that, keep the live data going, and purge the oldest data, so there would always be a “rolling” ten years of closed fiscal data in the Data Warehouse. Mr. Denis asked if currently there was five years of data in the warehouse. Mr. Echo replied that there were five closed fiscal years and two more fiscal years that were in the process of being stored.

Mr. Denis asked if this storage included any type of redundant backup or if it were only the disk space that was being requested. Mr. Echo replied that backup was being accomplished by several methods at the present time, for example, a nightly backup to tape and a smaller backup to disk. The added disk space would allow the large backup to go directly to disk, allowing the backup to be done from the secondary disk. Mr. Denis asked for confirmation that the \$37,000 being requested was to be used for additional disk space to enable the Data Warehouse to store up to twelve years of fiscal data. Mr. Echo stated that was correct.

Mr. Denis asked if the Controller’s Office was following Department of Information Technology (DoIT) guidelines for the replacement of personal computers. Mr. Echo replied that DoIT guidelines were not only being followed, but the agency was using the more conservative three-year life cycle as opposed to the two-year life cycle for power users and technical users. Three years would also be the time frame of the manufacturer’s warranty. In the first year, the agency planned to replace 6 PCs, and in the second year 26 PCs would be replaced.

Brenda Laird, Chief Accountant, Financial Reporting, State Controller’s Office, read the following testimony contained in [Exhibit B](#) into the record:

There currently exists an inequity between Accountant III positions within the State of Nevada in terms of duties, responsibilities, and extent of financial reporting. Our goal is to eliminate these inequities by upgrading the Comprehensive Annual Financial Report (CAFR) accountants to recognize the greater level of expertise and responsibilities required of them. This action is necessary to recruit and retain the quality of employees needed to fill the CAFR accountant positions. As a comparison, CAFR accountants employed by local governments receive higher compensation than that paid to state CAFR accountants, thus making recruitment difficult and putting the state at a disadvantage.

The Controller’s Office is the only state agency where Accountant IIIs prepare an audited Comprehensive Annual Financial Report in-house consisting of multiple funds and fund types, approximately 100 funds and 10 fund types. Of the remaining few state agencies that generate audited financial statements, they either 1) do not have the capability/expertise of preparing them in-house and must pay an audit firm to do this function, or 2) do not have the complexity of multiple funds and fund types.

In summary, the CAFR accountants within the Controller’s Office can be distinguished from other accountants in the state by:

Preparation of the State of Nevada Comprehensive Annual Financial Report (CAFR), which encompasses approximately 100 individual fund financial statements.



Involvement in establishing and maintaining the statewide integrated financial reporting and accounting system, whereas accountants in other state agencies only utilize the accounting system for their specific agency.

Responsibility to oversee accounting issues for the entire state, not just a department or division as do accountants in other state agencies.

Responsibility to implement pronouncements issued by the Governmental Accounting Standards Board (GASB), which requires exercising professional judgment and independence in the interpretation and application of pronouncements.

Responsibility to calculate and report arbitrage.

Responsibility to provide accounting expertise and guidance to other state agencies.

Ms. Giunchigliani asked if the Controller's Office had been part of the study conducted by the Nevada State Personnel Department regarding classified employees versus unclassified employees. Ms. Laird replied that their office was not included in the study.

Ms. Giunchigliani asked what criteria had been used to determine whether a job category was classified or unclassified; for example, a chief accountant as opposed to an accountant III. Ms. Laird replied that both positions were classified. Ms. Giunchigliani inquired as to the difference in the job responsibilities of a chief accountant and an accountant III. Ms. Augustine indicated that if she understood the question, Ms. Laird was a chief accountant, and the Controller's Office was requesting that accountant III positions be upgraded to accountant IV positions and those positions were still classified positions, as was the chief accountant position.

Ms. Giunchigliani requested an explanation of what job duties would indicate that an accountant III should be made an accountant IV. Ms. Laird stated that accountant III positions at the Controller's Office are distinguished from other accountant III positions in the state by the complexity and volume of the work that they do, as they report for the entire state of Nevada and not just one agency. Accountant III positions in the Controller's Office must be familiar with Governmental Accounting Standards Board (GASB) standards and have the ability to implement those standards; therefore, the position had a much higher level of responsibility. Ms. Giunchigliani asked if other agencies with accountant III positions were required to be cognizant of GASB standards. Ms. Laird replied that in some cases they did, but in most cases they did not because only a few agencies produced their own audited financial statements, which would require them to follow GASB standards. There were only two other Comprehensive Annual Financial Reports produced within Nevada besides the State CAFR, which were the Public Employees' Retirement System (PERS) and Colorado River Commission (CRC). Ms. Laird continued by stating that PERS consisted of 3 funds and CRC consisted of a general fund and 3 enterprise funds, which put them on a much smaller scale than the Controller's 100 funds.

Ms. Giunchigliani asked how many accountant IV positions existed within the state at the present time, or if this was a new job category. Ms. Laird stated that the accountant IV position was a new job category that did not currently



exist, but it would be in line with the budget analyst IV and the executive branch auditor IV positions which already existed. The new job category was proposed because the agency recognized a need to increase this level in order to recruit and retain competent personnel to perform those duties.

Ms. Giunchigliani asked how the Controller's Office arrived at the salary for the proposed accountant IV position. Ms. Laird replied that within the accountant classification there were I, II, and III levels, which were two grades apart. The agency proposed a grade IV, which would be two grades up and followed the pattern already in place.

Ms. Giunchigliani requested that the Controller's Office provide a brief description of the duties for the new proposed job category in order for the Committee to make an educated determination.

Mr. Seale asked if the Controller's Office had consulted with the Nevada State Department of Personnel regarding the reclassifications and if the department had their support.

Ms. Huys responded that the Controller's Office had been dealing with the Department of Personnel and had requested that those positions be included in a current occupation study. The Department of Personnel had declined because they did not feel it was in line with the particular group they were studying. Ms. Huys stated the Controller's Office had been in communication with the Department of Personnel, who understood that the request was being submitted to the Legislature and would review it when requested. It would cause the creation of a new classification, which the Department of Personnel had been informed about and understood. The responsibility to inform the Department of Personnel about the difference in the proposed new position and why it was needed would fall upon the Controller's Office.

Mr. Seale asked how this proposed new position compared with other accountant positions in the Executive Branch and if it would create a disparity with accountants in, for instance, the Treasurer's Office. Ms. Laird responded by stating she did not believe it would create a disparity because accountants in the Controller's Office performed a very unique function that other accountants within the state government did not. Mr. Seale said that he did not know if he agreed with that statement because there were accountants within other state offices that also performed unique functions that did not occur in other offices.

Ms. Laird stated that when compared with accountants who prepared CAFRs for local governments, accountants in the Controller's Office were paid less, which made recruitment very difficult. Mr. Seale commented that was probably an argument that many state agencies could make as well.

Ms. Augustine introduced Christi Thompson, Chief Accountant, Debt Collection, State Controller's Office. She stated Ms. Thompson had no prepared remarks but was available to answer any questions regarding debt collection.

Ms. Giunchigliani requested that the impact on the Controller's Office of the Governor's proposed rebate to the citizens of Nevada be addressed and also requested comment on the additional 224 square feet of office space requested for the Controller's Las Vegas office.

Ms. Augustine responded regarding the additional space in the Las Vegas office by stating that it was a consolidation of the entire office, as presently Las Vegas employees were occupying two different spaces in the Grant Sawyer

Building. Ms. Giunchigliani asked where the offices in Carson City were at the present time and Ms. Augustine informed her that the Controller's Office occupied the entire second floor at 515 Musser St., Carson City, and additionally occupied a couple of offices in the Capitol Building basement.

Ms. Augustine stated that the number of rebate checks the Controller's Office would be required to issue was 2,066,546. This figure had been supplied to them by the Department of Motor Vehicles. Ms. Augustine continued by informing the Committee that the estimated cost for printing the laser check rebates would be as follows:

Infoprint software	\$ 30,000
Print server	5,000
IBM setup charge	12,000
IBM Infoprint 1145 MICR printers, qty-8	68,040
Maintenance/support for 8 printers	4,640
Shipping estimate for 8 Infoprint printers	3,200
MICR toner, 150 cartridges	71,400
Infoprint 1145 Usage kits	4,860
Shipping estimate for toner and usage kits	1,500
Pressure Checkstock, 2106 cases	82,134
Shipping for Checkstock	8,500
Infoprint Manager/Installation	23,550
Folder Equipment	100,485
AutoSeal FD 2092	10,500
Folder Equipment 1-AutoSeal FD2052	12,995
AutoSeal FD 2052 maintenance	1,450
Single Bin Jogger, 4 units	3,180
Shipping Folder/Jogger units	2,100

Ms. Augustine stated that the total cost for equipment and consumables for 2,066,546 checks would be \$459,034. Estimated labor, including overtime, extra help, and facility preparation, would cost an additional \$50,000, bringing the total cost for the Controller's Office only, to \$509,034, or a cost per check of .246 cents. Ms. Augustine continued by stating that the agency was estimating that 100,000 checks would be returned, costing approximately \$5.00 per check to reissue, for a total of \$500,000.

Ms. Giunchigliani asked what the postage cost would be for the rebate checks and Ms. Augustine informed her that the Nevada State Treasurer would handle that function. Ms. Augustine stated that checks clearing pattern analysis had been considered because there had been a disagreement between the Controller's Office, the Treasurer's Office, and the Department of Motor Vehicles (DMV) as to what the stale date should be for each check. The DMV and the Controller's Office believed that a 90-day stale date would be appropriate, but the Treasurer's Office was proposing a 180-day stale date. The checks clearing pattern analysis that had been conducted on the checks that had been issued in March and July of 2004 indicated that the great bulk of checks were cashed within 90 days. In July 2004, the Controller's Office issued 23,703 checks, and 22,883 were cleared within the 90-day period; and between 91 and 180 days, only 116 checks were cleared.

Ms. Giunchigliani asked what the current cost was to produce one check by the Controller's Office. Ms. Huys stated that the current printing cost for one check was approximately 15 cents. Ms. Giunchigliani requested a breakdown to compare the current costs of producing a check and what the impact of the rebate checks would be on the Controller's Office. Ms. Huys wanted to make

clear that the present system was sized for a much smaller production so any breakdown would be "comparing apples and oranges." Ms. Giunchigliani stated that she understood that and reiterated that the Controller's Office would be purchasing new equipment for the rebate program, as they did not use this program on a regular basis. Ms. Huys commented that the Controller's Office could use much of the processing program in the future, which would bring the office to the current industry standard.

Ms. Augustine commented that the Controller's Office currently produced approximately 260,000 checks per year. Ms. Giunchigliani questioned the production of 2 million checks with the cost of only \$50,000 for staffing. Ms. Huys commented that most of the work was done with laser equipment, which reduced the human element to input and output. Ms. Giunchigliani asked if the \$50,000 represented another position. Ms. Huys stated that the \$50,000 represented additional temporary labor just for this event.

Chairman Arberry asked if the Controller's Office had considered contracting out the job. Ms. Augustine replied that contracting had been investigated and it was found to be cost-prohibitive as opposed to performing the job in-house.

Mr. Denis asked if each person entitled to a rebate would receive one check for all vehicles owned, or a check for each individual vehicle. Ms. Augustine replied that the Department of Motor Vehicles did not have the capability to merge files, which would prevent them from issuing combined checks.

Mr. Denis noted that the Controller's Office had stated they would be able to reuse the equipment; however, they would be purchasing equipment for a large-capacity job and the need after that would not be as large. Ms. Augustine stated that some of the equipment would be leased, not purchased.

Mr. Seale inquired as to the job descriptions for the Las Vegas personnel. Ms. Augustine replied that the Las Vegas personnel handled all vendor services. Mr. Seale asked why vendor services were not performed in the Carson City office. Ms. Augustine replied that the Las Vegas office was the most efficient place for that function, as they had the largest consumer base.

Assemblyman Seale stated for the record that he had a consulting contract with GIF Services, LLC, and GIF Plan Advisors, which had a contract with the Office of the State Treasurer and several city and county treasurers. He further stated for the record that he was a member of a board of directors that owned stock in International Settlement Corporation, which had a contract and dispute with the Department of Taxation relating to electronic payments, as well as chairman of the Government Investment Foundation, Inc., a not-for-profit 501C3 organization that provided scholarships to state and local treasurers and finance directors for participating in money management training. Mr. Seale stated he would be watchful for bills, resolutions, and amendments regarding state and local treasurers and the Department of Taxation, which might create a conflict of interest. Mr. Seale noted that he would file his statement with the Director of the Legislative Counsel Bureau.

**ELECTED OFFICIALS - STATE TREASURER (101-1080) – BUDGET PAGE  
ELECTED-120**

Brian K. Krolicki, State Treasurer, introduced himself and Patrick Foley, Senior Deputy Treasurer; Mark Winebarger, Deputy of Cash Management; John E. Adkins, Chief Deputy Treasurer; Janet Murphy, Management Analyst III; Janice A. Wright, Senior Deputy Treasurer; Kathryn A. Besser, Assistant Treasurer;

Dr. Susan Moore, Director of Millennium Scholarship Program; Robin Reedy, Deputy of Debt Management; and Anthony Marcin, Information Systems Specialist III.

Mr. Krolicki said that his work as State Treasurer had taken him around the country, particularly in 2004, when he had the privilege of being the president of the National Association of State Treasurers (NAST).

Mr. Krolicki stated he wished to take this opportunity to submit to the Committee on Ways and Means that whether measured individually or as a group, the people he had introduced represented the finest state treasury staff in the country. Hard work and dedication came first, but these people were among the most highly skilled and innovative public finance managers in the country. Mr. Krolicki went on to say they were joined by an extraordinary staff back in the office doing the day-to-day tasks necessary to keep the office running.

Mr. Krolicki further noted that his claim was made more credible by the stack of awards and distinctions his staff had earned from their peer groups throughout the nation over the past years.

Mr. Krolicki explained that there had been several highlights for the Treasurer's Office over the past years. The first item was the Debt Service Agreement, which no other state had done in 2002, and which allowed the Treasurer's Office to monetize future payments of debt service monies. The Treasurer's Office cashed out \$20 million and locked the money into a 6 percent earnings rate, which was remarkable. By monetizing refundings in some very unique ways, the Treasurer's Office was able to help balance the budget in FY2002 with an additional \$30 million.

Mr. Krolicki continued with his presentation by stating that the use of interest rate swaps had netted the state over \$10 million in extraordinary revenue. The state treasury had been on the cutting edge of debt-related matters and had managed to squeeze out millions of dollars of cash value from the debt.

Mr. Krolicki stated that the Millennium Scholarship was one of the premier programs in Nevada, and the fact that it was "rolled out" with no significant problems testified to the quality and expertise of his staff. According to Mr. Krolicki, the 529 College Savings Plans went from nothing in 1998 to a prepaid college savings plan that was premier in this country.

Mr. Krolicki offered that the "bread and butter" duties of the Treasurer's Office, such as investments, had gone very well. The state had not lost one taxpayer dime in investments with Enron or Global Crossing, because the Treasurer's Office did not make those investments. Mr. Krolicki said that the Treasurer's Office invested \$2.6 billion every morning, managed debt of approximately \$2.4 billion, and helped over 40,000 young Nevadans become Millennium scholars. The Prepaid Tuition Plan had 10,500 participants and \$71 million invested on their behalf. The UPromise College Savings Plan had 90,000 participants and \$602 million in assets in a program projected to be just over 3,000 participants and \$17 million in assets. Mr. Krolicki stated the Unclaimed Property operation, which had endured extraordinary changes and events in staff, had hugely outperformed original projections. The program had tripled the amount of revenues from audits, increased the number of audits by almost 50 percent, and more than doubled the amount of money returned to rightful owners and heirs. Mr. Krolicki said the good news was that Unclaimed Property had generated

more than \$13 million in revenues above what had been forecast by the Economic Forum during the past biennium.

Mr. Krolicki said there were seven separate budgets that would be examined and discussed today. Aside from the Millennium Scholarship, the budget presented would be modest and largely "housekeeping" in nature. The highlights of the budget were as follows:

- A new auditor for unclaimed property.
- An administrative officer in the Millennium Scholarship program.
- Pay parity between the Assistant Treasurer, who also functioned as the chief of staff, and the Chief Deputy.

Chairman Arberry requested that Mr. Krolicki begin presenting each budget.

Mr. Krolicki stated that primarily housekeeping items were contained in Budget Account 1080. Currently there were a variety of revenues from lockbox fees, armored car services, vault fees, reimbursement of expenses, and transfer from Municipal Bond Bank Revenue. Mr. Krolicki stated that for cash management purposes, those revenues were better utilized by going directly into interest distribution accounts where those monies could be disbursed and invested in a more efficient way. It might appear that the Treasurer's Office was leaving traditional revenue sources but they believed it was a better way to package their program.

Mr. Krolicki continued and said that all travel and operation expenses were consistent with past years. In certain programs, such as pooled collateral, the Treasurer's Office was considering making adjustments to the base to include costs for a contract with Bloomberg. Those costs were assumed by the revenue sources of the pooled collateral program. A position was being eliminated that was currently vacant in the Treasurer's Office. All equipment acquisitions were conforming to DoIT standards. The agency was planning to purchase two replication servers to be used as backup systems for disaster recovery. Mr. Krolicki said it was critical to have the ability to perform daily activities in either Las Vegas or Carson City in event of a disaster at one of the sites.

Chairman Arberry requested information regarding the transfer of the senior deputy position in decision unit E-906.

Mr. Krolicki responded that two years ago there had been two positions in the Prepaid Tuition Program, one a director and the other a staffing position. Those two positions had been eliminated and a senior deputy position was created, which was currently funded by the Prepaid Tuition Program. In light of the position's duties, it was decided that it was not appropriate to compensate it from the prepaid tuition fund. The senior deputy essentially oversaw administrative activities in the Las Vegas offices, including oversight of the pooled collateral program, and special projects such as evaluating and implementing an e-payment solution for the state. Mr. Krolicki said that the person in this position served as an overseer of many of the State Treasurer's programs. According to Mr. Krolicki, the Prepaid Tuition Program was a very special program and anything that could be done to preserve the trust fund for the payment of college tuition would be appropriate; therefore, the position and related costs should be paid from the State Treasurer's Office budget.

Ms. Giunchigliani asked if it were not true that the Prepaid Tuition Program was basically "going broke" and that was why the Treasurer's Office wanted to use

General Fund monies to subsidize the senior deputy position. Ms. Giunchigliani continued that the Legislature should have dealt with this problem in the last session, but had not, and perhaps it was time to make sure that everyone who had paid into the program was held harmless and received their prepaid tuition, but ensure there was no liability for the state in the future.

Mr. Krolicki responded that was not the reason for the shift of costs. He stated that anything that could be done to relieve expenditures that were not quite appropriate from the Prepaid Tuition Program was meritorious.

Ms. Giunchigliani inquired as to whether moving the position, which had always been paid out of the Prepaid Tuition Program, and assigning the position other duties justified paying for the position out of the General Fund. Mr. Krolicki responded that that person currently performed more tasks for the office in general than for the Prepaid Tuition Program. Ms. Giunchigliani stated that she would like to see a breakdown of what tasks the person in that position performed.

Mr. Krolicki stated for the record that he was compelled to respond to Ms. Giunchigliani's comment regarding the Prepaid Tuition Program being in financial difficulty. Mr. Krolicki said the program was doing fine and asked Ms. Giunchigliani if in her estimation the Prepaid Tuition Program would be more meritorious if it had no unfunded liability. Ms. Giunchigliani replied that was not her question. She stated she was remembering last session when there had been much discussion regarding the entire program. At that time, the Legislature had discussed the financial viability of the Prepaid Tuition Program and whether there was a potential liability for the state. Ms. Giunchigliani continued that perhaps it was time to review ways to make sure that the program did not continue to drain funds and make sure the Legislature dealt with the problem this session.

Mr. Krolicki emphasized that the Prepaid Tuition Program was very viable, contained \$71 million in assets, and that 10,500 young children in Nevada were enrolled in the program. Mr. Krolicki stated he was very proud to say that with prudent management and sound investment strategies at the end of the last fiscal year the program was fully funded and in fact had a surplus of \$1.9 million. Every March 31, the State Treasurer's Office was required to submit to the Legislature and the Governor an actuarial evaluation and an annual report regarding the Prepaid Tuition Program. Mr. Krolicki stated he hoped that the peace of mind that could be purchased through the Prepaid Tuition Program would be an asset that could be secured by any of Nevada's families in order to pursue higher education. He said he believed the program had been tremendously successful and was adequately funded.

Mr. Seale pointed out to those present that the Prepaid Tuition Program had been a "brain child" of his several years ago when he was the State Treasurer and something he continued to be proud of. Obviously, it had some problems as the stock market went up and down, plus the pressure of increased costs in the university system. Mr. Seale noted that a number of states had chosen to move away from prepaid tuition plans in favor of college savings plans. He asked Mr. Krolicki if there were significant steps being taken with the Prepaid Tuition Program that would give additional assurance that the program would not have to be abandoned, nor would the state have an unfunded liability in the future.

Mr. Krolicki explained that there were several steps that had been taken to make Nevada's Prepaid Tuition Program different from other states. Several

states had essentially shut down their programs or cut off any new enrollment possibilities. Mr. Krolicki noted that several differences made the Nevada program unique. From a liability standpoint, those funds were guaranteed by the trust fund and it was not a full faith obligation of the State of Nevada. Mr. Krolicki explained that, actuarially, an annual price had been established for the range of youngsters, from newborns to ninth grade, which allowed the state to predict what it would cost to go to college at a future point in time. The performance of the market place was monitored during the same period of time and significant reserves had been accumulated. In addition, there were different ways to pay; for example, lump-sum, five-year, or monthly until the child matriculated. The monthly payment plan, or the five-year plan of 60 payments, had a built-in interest rate earning of 7.5 percent. The majority of participants were making monthly payments; therefore, the program was generating 7.5 percent return beyond the stock market because the interest was already included in the payment plan. Mr. Krolicki emphasized that Nevada had one of the most thriving programs in prepaid tuition in the country. He wanted to assure any parent in Nevada that the program was perfectly sound and he hoped it would be available for young Nevadans for years to come.

Chairman Arberry noted that a great deal of work had been invested in the Prepaid Tuition Program, but since this would be Mr. Krolicki's last term as State Treasurer, he wondered if the incoming Treasurer would have the same passion about the program and if any controls had been put in place to make sure the program was not derailed along the way.

Mr. Krolicki indicated that those programs had been established to be beyond any individual's control and the State Treasurer's budget had been drafted to make it clear to those who followed how funds were to be allocated. There was also a board that adopted policies, procedures, and regulations, which had to be approved by the Legislature. Mr. Krolicki stated that he believed a system was in place that contained enough safeguards to protect the program.

Ms. Giunchigliani commented that the audit from last session indicated that there was a 40 percent chance that there would not be enough reserves to fund the Prepaid Tuition Program. She requested the audit for the present session be submitted before March 31, 2005, if possible.

Mr. Seale pointed out that an unfunded liability in the Prepaid Tuition Program was not the full faith and credit.

Mr. Seale said that he had noticed in the State Treasurer's budget some expenditures pertaining to Allodial Title, and inquired as to whether that program still existed and, if so, why. Mr. Krolicki responded that for anyone who might not be aware of it, one of the programs the State Treasurer was responsible for was the Allodial Title Program. Allodial Title was essentially a unique program in Nevada that enabled someone, in perpetuity, to defease any future property tax liability. The essence of the program was that if a property owner had an Allodial Title contract, their property could never be confiscated for lack of payment of property taxes. Mr. Krolicki went on to say there was only one participant in the program, although scores of people had inquired about it.

Assemblywoman Gansert asked what the difference was between enrollment in the 529 College Savings Plan and the Prepaid Tuition Program. Mr. Krolicki replied they were both going very well, but that they were very different products. He went on to suggest that if you had a child who was going to live on campus, all three programs, the 529 College Savings Plan, the Prepaid



Tuition Program, and the Millennium Scholarship, would be needed. He explained that Prepaid Tuition was just for Nevadans for guaranteed tuition to a Nevada school. It was portable, but only the in-state tuition amount could be used in another state; any difference in tuition would have to be made up. The 529 College Savings Plan allowed parents to save a lot more money and there was more flexibility as to how it was spent on education, but it was subject to the fluctuation of the stock market. Mr. Krolicki reiterated that both plans were doing very well.

Mr. Hettrick asked if it would be possible on the Allodial Title to take whatever funds were coming in, purchase some type of policy, turn it over to a private entity, and close it out. Mr. Krolicki replied that the State Treasurer's Office would investigate, and if there was a way to do it without harming the one individual in the program, they would provide the information to the Committee. Mr. Hettrick said he could not imagine with only one person participating in the program it could be cost-effective for the State Treasurer's Office.

Mr. Seale asked if it would take legislation to change or delete the program. Mr. Krolicki stated that the program existed through legislation. The State Treasurer's Office was required to make it available and it would have to be deleted through legislation.

Chairman Arberry noted that in the adjusted base budget, the Governor recommended instituting a cost allocation plan. Janet Murphy, Management Analyst, State Treasurer's Office, said that what was being requested in the decision unit E-900 series was to implement a cost allocation of information technology (IT) costs. The Treasurer's Office had five administration budgets and they wanted to share the common IT costs among all five budgets based on full-time equivalents. Ms. Murphy stated that what was done in the budget was to transfer in any IT costs being incurred by the other Treasurer's Office Administration budgets for Prepaid Tuition Program, Millennium Scholarship, and Unclaimed Property into Budget Account 1080, the general treasury budget. A revenue source was then created for the cost allocation to receive an allocation back from those budget accounts to cover the costs.

Chairman Arberry asked if it would save or cost general funds. Ms. Murphy replied that the cost was approximately the same for the General Fund. Currently the General Fund paid about 53 percent of the common IT costs and in the cost allocation plan it would pay approximately 56 percent. Where the recommended cost allocation plan would save, would be with the request for server replacements. In the past those funds would have been paid out of the General Fund instead of being allocated. Chairman Arberry requested that the Treasurer's Office inform the legislative staff how they arrived at those figures.

Assemblyman Marvel asked if Mr. Krolicki was satisfied that the IT costs were valid. Mr. Krolicki replied that he was. Mr. Marvel inquired about disaster recovery and if it was a concern.

Anthony Marcin, Information Systems Specialist III, State Treasurer's Office, stated that the agency was beginning to investigate different aspects of disaster recovery. The servers being requested in the budget would allow all data to be backed up to the Las Vegas office. The utilization of the split of information would permit the Treasurer's Office to move all operations to the Las Vegas office in the case of an emergency. Mr. Marvel asked if the Treasurer's Office or DoIT was responsible for this system. Mr. Marcin replied that the Treasurer's Office was responsible as DoIT did not have a facility in Las Vegas.

Chairman Arberry recessed the meeting at 9:33 a.m. and reconvened at 9:46 a.m.

**ELECTED OFFICIALS – TREASURER HIGHER EDUCATION TUITION  
ADMINISTRATION (101-1130) – BUDGET PAGE ELECTED 132**

Mr. Krolicki continued the presentation by addressing Budget Account 101-1081, Treasurer Higher Education Tuition Administration. Mr. Krolicki pointed out that the original loan from the General Fund to start the Prepaid Tuition Program would be repaid in the amount of \$300,000 over the current biennium. Travel and operations had been consistent with past practices. Mr. Krolicki restated that there was a funded liability of \$1.9 million.

**ELECTED OFFICIALS – MILLENNIUM SCHOLARSHIP ADMINISTRATION  
(206-1088) – BUDGET PAGE ELECTED 138**

Mr. Krolicki addressed Budget Account 260-1088, the Millennium Scholarship Administration, by stating that the budget was very similar in terms of cost to the past budget. Last session, two positions had been eliminated from this budget, and this session the Treasurer's Office was looking to regain one position and reclassify another position. All equipment changes had been recommended by DoIT and they were studying how to fund the Millennium Scholarship in terms of the percentage cap. Mr. Krolicki noted that the Millennium Trust Fund had no dollars in it, but when the monies arrived from the tobacco settlement on April 15, 2005, the Fund would have money. Past practice had allowed up to 2 percent assessment against that money to cover costs. Mr. Krolicki stated that since the amount of money was smaller and there was no existing principal for the new payments to be added to, the Treasurer's Office anticipated a 3 percent number, which was consistent with what had been provided to the Trust Fund for a Healthy Nevada. According to Mr. Krolicki, it did not change the amount of money that had been expensed in the program, it allowed the Treasurer's Office, for budget purposes, to arrive where they needed to be. For example, the 2 percent number for the fund balance at the end of FY2005 was approximately \$32,000, which obviously would not pay for the program.

Chairman Arberry asked how long the \$100 million in bond funds was expected to finance the Millennium Scholarship program before additional funding was necessary. Mr. Krolicki stated there would be two pieces of legislation submitted in the near future. One related to an extraordinary infusion of money, \$100 million, and the other related to proposed changes to add longevity to the program. The Legislature had made several changes over the years to the requirements of the program, either how to receive a scholarship or sustain one. Mr. Krolicki called that the "tweaking aspect." He stated at the present time the program was beyond "tweaking," however. On the demand side, the program had been phenomenally successful, but the tobacco revenues had come in approximately 8.5 percent lower than had been projected in 1999. While the program was financially challenged, the Treasurer's Office had projected that with the changes being proposed and the addition of \$100 million to the Millennium Trust Fund, the program would be viable until approximately 2015.

Chairman Arberry asked Mr. Krolicki if he could outline those changes to the Committee.

Mr. Krolicki stated that the Treasurer's Office was considering three primary changes and perhaps two more. He indicated it was being considered to no

longer fund the summer school session, which would save approximately \$2 million per year. Mr. Arberry asked how that would affect the nursing school. Mr. Krolicki replied that he did not know. Most scholarships did not fund summer school, according to Mr. Krolicki, and anything that was done to make it easier to disburse funds from the Millennium Trust Fund would make the program more expensive.

Mr. Krolicki continued with recommendations and options for the Committee's consideration. He reiterated that eliminating funding for summer school would save approximately \$2 million per year.

Mr. Krolicki stated it was being considered that the Millennium Scholarship fund a maximum of 12 units at the university level and 6 units at the community college level. Inefficiency had been observed in how students used their Millennium Scholarship. For example, a student could sign up for 18 units and drop 6 after the drop-off date. While they would still be required to carry 12 units to maintain the scholarship, they would have already received scholarship funds for the 6 dropped units. Payment for 6 units, spread out among many students, resulted in a significant amount of cash that had been disbursed. This change would save an estimated \$5 million per year.

Mr. Krolicki stated they were also looking at something he called the "tough love" change. Mr. Krolicki explained that currently a Millennium Scholar who lost the scholarship for academic reasons, such as grade point average, number of units carried, or not being successfully on track to secure a degree, could be suspended from the scholarship but be reinstated at a later date. The "tough love" change would prevent a student from being reinstated after being suspended. Mr. Krolicki estimated that would save the program approximately \$4.5 million per year.

Mr. Krolicki said that he believed funding remedial education at the college level was inappropriate, and therefore it was recommended that remedial education no longer be funded by the Millennium Scholarship.

Ms. Giunchigliani maintained that part of the problem regarding remediation was that the University System accepted American College Testing (ACT) and Scholastic Aptitude Test (SAT) scores for admittance and then used the same documents to place students in remediation classes. She stated an ACT score was not the proper document to use for testing purposes. If those scores were accepted for admittance, then the University System should not be placing every student into a remediation class and collecting the dollars when the student did not earn any credit and would have to take the class over again. Ms. Giunchigliani said while she was aware it was not the problem of the Treasurer's Office, it was a problem within the system. She emphasized that if students were good enough to be accepted and admitted with an ACT score, the University System should not be using that same ACT score to put the student into a remediation class. Mr. Krolicki commented that remedial education in the University System was up by 40 percent. Ms. Giunchigliani stated that the problem was within the system itself for accepting students and then making them take remediation classes based upon a test that did not really show if they knew math, English, or reading. Most places did not use ACT scores as placement tests, and that was part of the problem, according to Ms. Giunchigliani.

Susan Moore, Executive Director of the Millennium Scholarship, stated that the most recent information from the University and Community College System of Nevada (UCCSN) was that they did not require the SAT or ACT for admissions

at the present time. However, Ms. Moore said that the primary purpose of the ACT and SAT testing was for placement purposes in English and math. Assemblywoman Giunchigliani stated that no teacher would use those tests for placement scores.

Mr. Marvel asked if students were receiving credit for remedial classes. Mr. Krolicki responded that they were not receiving credit toward graduation.

Assemblywoman McClain asked Mr. Krolicki to explain why such a large increase in revenue from the tobacco settlement had been projected for 2008, 2009, and 2010. Mr. Krolicki responded that was the projection of the Master Settlement Agreement. Ms. McClain asked if the projections were from the original agreement. Mr. Krolicki responded that the Treasurer's Office did not know what the revenues were going to be on an annual basis until they were notified on April 15th. The newest information available was approximately one year old.

Mr. Krolicki stated that the Millennium Scholarship Fund was insolvent. It was hoped that by late summer the fund would be solvent when the longer term funding issues had been addressed. Mr. Krolicki said it was his intention to introduce a federal financial aid document as part of the Millennium package and that financial aid information would access any federal financial aid programs available, such as Pell Grants, although there were many others. He felt it was incumbent upon the State of Nevada and the State Treasurer's Office, as a shepherd of the Millennium Trust Fund, that whatever monies existed to complement the Millennium Scholarship Program be identified. Presently, that was not being accomplished. Mr. Krolicki commented that if more funds could be secured that were lawfully and readily available to students, he would prefer to debit those funds before accessing the Millennium Scholarship. There were presently about 12 states that offered some type of scholarship program. They all required a Free Application for Federal Student Aid (FAFSA) document and a social security number or some other proof of residency. Any student who was not able to provide a social security number would not become a Millennium Scholar. Mr. Krolicki stated that was his second recommendation.

Chairman Arberry commented that many of the Committee members had been around when the Millennium Scholarship was started, and the original concept was to keep the best and the brightest students in Nevada. He was very supportive of the scholarship in the beginning, but now believed the program was in trouble and suggested it might be required to phase out the program while making sure that the students already in the program were protected. Chairman Arberry stated that people were not smoking as much, which made the tobacco settlement funds much less, putting the Millennium Scholarship in jeopardy.

Mr. Krolicki stated that he truly "believed that the Millennium Scholarship Program was one of the most precious programs ever rolled out in Nevada." The Millennium Scholarship was not only about the students and their ability to lead quality lives through education, but it was also about the state of Nevada. It was about economic development. Mr. Krolicki said that as wonderful as the scholarship was for our best and brightest students, this was also about Nevada's future and an educated workforce. Mr. Krolicki was under the impression that there was a bipartisan desire to preserve the Millennium Scholarship, but how that was to be accomplished was subject to much discussion and debate. The proposed \$100 million infusion would give the program another ten years of life. Whether that goal was accomplished by a bonding program for unclaimed property, which would not be an obligation of

the state, or the use of surplus monies, Mr. Krolicki said educated workers, the foundation of Nevada's future, were just as important as any financed capital construction program.

Chairman Arberry responded that he did not necessarily disagree, but that he would be taking a hard look at the scholarship program. He said that perhaps some of the money could be diverted to the University System for their scholarship programs, as they might be able to do a better job, and remove the burden from the Treasurer's Office.

Ms. Giunchigliani commented that while it was absolutely correct that the Millennium Scholarship Program had been conceived to keep the best and brightest students in Nevada, it was also to give an opportunity to those students who might never have thought about going to college.

Ms. Giunchigliani requested information regarding the summer school issue and what impact there would be on the fast-track requirement for the nursing school. Ms. Giunchigliani was very concerned about students who may have believed they could never attend college because of financial restraints. She was also interested in statistics that tracked how many Millennium Scholars there were per high school and wondered if there were still high schools that produced none.

Ms. Moore responded that the State Treasurer's Office could provide records that showed the number of Millennium Scholars per high school.

Mr. Krolicki commented that the Treasurer's Office had performed a baseline study two years before on the statistics requested, but that particular funding had been cut. The Treasurer's Office had lost the ability to gather information about the students who were using the Millennium Scholarship. Mr. Krolicki further commented that the FAFSA document, to which he had referred previously, asked specific questions regarding financial aid which would help guarantee that those who needed help the most would be receiving it.

Ms. Giunchigliani said she was concerned with the issue of denying scholarship funds to students who did not make the grade in the first year of college. She stated that if you looked at colleges across the United States, transition was still a problem for retention purposes and unfortunately, many were minority students still adjusting to the first year of college. Ms. Giunchigliani opined that perhaps lowering the credit load from 18 units to 12 units would be of assistance to some of those students. She stated that she believed there was an obligation, since the Legislature had made a commitment, to fund the program by taking some of the unclaimed reserve to add to the Trust Fund. There had always been concern expressed about using tobacco money for the scholarship because that was supposed to be health related, not educationally related, and it was a shortsighted funding stream. Ms. Giunchigliani commented that as the Committee wrestled with this issue they would need to take a close look at where those dollars came from and make sure it was properly invested in order to fund the long-term commitment to the young people of Nevada.

Mr. Krolicki stated that he was absolutely committed to work with the Committee in whatever way necessary to continue the Millennium Scholarship.

Mr. Seale noted that Mr. Krolicki had mentioned four or five different items with a price tag on each. He asked if the cost of those items were added up, how close would it get to being balanced with the tobacco funds. Mr. Krolicki

responded that removing payment for summer school, allowing only 12 units, and "one strike you are out," along with the \$100 million infusion, would give the scholarship ten more years. Mr. Seale asked how much it would add up to if the \$100 million infusion were removed. Mr. Krolicki stated it would require \$35 million to \$45 million for the biennium to sustain the Millennium Scholarship. Mr. Seale commented that the state was spending approximately \$34 million on the scholarships and receiving \$15 million in tobacco funds. He asked if Mr. Krolicki was telling him that the gap could not be closed with additional ideas to save money. Mr. Krolicki responded that the Millennium Scholarship was beyond "tweaking" and changing; it needed an extraordinary infusion of money, a long-term plan, or a serious commitment on a biennium basis from the Legislature to fund it. Mr. Seale commented that it seemed to him if the program was worth doing it was worth doing for more than 10 years, particularly if the state would be paying for it for 20 years. He asked if there had been any consideration given to endowing the scholarship.

Mr. Krolicki said endowment could be achieved by monetizing a future cash flow, bonding, or dedicating something such as unclaimed property revenues to the fund. The Treasurer's Office proposal was conceived prior to the awareness of \$500 million surplus. It had been the intent to intercept approximately \$8 million per year of the \$30 million per year unclaimed property money. It would not constitute a debt for Nevada because of its source and would not count against the debt limit. Mr. Krolicki stated he would love to see an endowment, and anything that could be done to ensure the scholarship continued in perpetuity would be excellent. His attempt to fund the scholarship for the coming ten years was to keep the scholarship through the present political generation. A decade from now the political landscape would be totally changed due to term limits and other factors.

Mr. Seale wondered how much money it would take to endow the Millennium Scholarship. Mr. Krolicki stated that he did not know. Mr. Seale asked if Mr. Krolicki could find out.

Assemblyman Denis stated that the ten-year plan for the scholarship was based upon implementing all three recommendations, and asked, if none of those recommendations were implemented, how much money would be required. Mr. Krolicki answered that \$45 million for the biennium would be needed. Mr. Denis asked if the recommendations were implemented and infused with an additional \$200 million would the program be funded for 20 years. Mr. Krolicki answered that it probably would be funded for 20 years, but his agency would have to run the numbers. Additionally, all projections assumed that the tobacco payments would be sustained, and that was a variable that the Treasurer's Office had no control over.

Mrs. Gansert inquired as to whether fewer students were applying for other grants and financial aid because of the availability of the Millennium Scholarship. Mr. Krolicki stated that the Treasurer's Office did not have extensive records regarding that aspect, but intuitively, he felt that there were a significant number of resources not being utilized by students because of the availability of the Millennium Scholarship. Mrs. Gansert wondered if this should be more like an insurance policy where a claim went to the first insurance carrier and then the second carrier picked up the balance. The scholarship program could guarantee up to \$10,000 and make it a function of what a student could receive in additional financial aid.

Mr. Krolicki addressed Budget Account 101-3815 by stating that, except for the addition of one auditor to be based in northern Nevada, the budget conformed to those presented in the past. Based upon statistics compiled by the State Treasurer's Office, the new auditor position for unclaimed property would generate collections of over \$800,000 per year. The General Fund would benefit by approximately \$460,000 and an anticipated \$280,000 would be returned to the rightful owners.

Mr. Marvel asked how often the Treasurer's Office claimed dormant accounts from banks. Mr. Krolicki responded that when Unclaimed Property had been transferred to the Treasurer's Office two sessions before, they had agreed to attempt to accelerate the movement of monies in order to generate \$12 million to \$15 million for the state. Much of the acceleration was due to the shorter holding period of two years for financial institutions.

Chairman Arberry noted that the Treasurer's Office had projected that the new auditor position would generate roughly \$800,000 in additional collections, but performance indicators in The Executive Budget suggested annual collections for all audits of \$1.4 million. He wondered how that projection could be achieved.

Mr. Krolicki responded that in FY2004 almost 50 percent more audits were completed and staff audits generated \$1.3 million, the claims approved and paid went from 1,700 to 5,300, and the dollar amount of the claims paid went from \$2.2 million to \$5.5 million. Mr. Krolicki commented that the Deputy Treasurer for Unclaimed Property had been extremely ill for a good part of the past year and everyone in the department had pulled together and performed an outstanding job. He believed that the projection indicators were accurate and reflected what had occurred in the past year.

Patrick Foley, Senior Deputy Treasurer, Office of Unclaimed Property, State Treasurer's Office, stated that the office had experienced a sudden death within the audit group during the past year. This sudden death had caused a vacancy during a time when there were a few longer audits being conducted. The reduced workforce naturally caused a reduction in the amount of funds that were received. Mr. Foley said that with the addition of the auditor position in the north, the auditors based in Las Vegas would be able to return to full operation.

Mr. Denis asked if agencies were audited to determine if they were actually giving the state unclaimed property as required by statute. Mr. Krolicki replied that was the purpose of the audit. Each type of unclaimed property had a specific holding period, and audits ensured that the company was adhering to the laws and regulations that applied to them. Mr. Denis inquired as to how the Treasurer's Office could be sure that each agency was audited. Mr. Krolicki said that there was no way to guarantee that each agency was audited, but the Treasurer's Office tried to be very careful and there were certain entities that would naturally have more unclaimed property, such as utility companies with deposits. In addition, the auditors were very professional and had years of experience in those matters but it still was not a perfect science. Mr. Krolicki said that he had been considering an amnesty program for unclaimed property, as there were companies that did not comply or were not aware they needed to comply. He felt that an amnesty program would generate additional revenues, as well as create an awareness of requirements for holders.

Mr. Denis commented that he was personally aware of an industry that was required to submit unclaimed property to the state but had not been audited in



several years, and there was no record of any money being submitted by that particular industry. Mr. Krolicki said that was a good point, but two people could not perform all of the necessary audits in the state. If there was a full complement of three auditors in the south and an additional auditor in the north, Mr. Krolicki believed they would pay for themselves very quickly. While he did not want to wield a stick as the administrator of Unclaimed Property, Mr. Krolicki did want compliance.

Mr. Foley stated that Unclaimed Property was planning to do a great deal of holder education during the summer months. In addition, the agency was studying programs in other states and observing their holder education opportunities.

Chairman Arberry stated that due to time constraints the State Treasurer's Office would have to return at a later date to present the rest of their budget accounts.

**PUBLIC UTILITIES COMMISSION (224-3920) – BUDGET PAGE PUC-1**

Assemblyman Denis read the following statement into the record:

While I am on leave without pay during the Legislature's Session, I am employed by the Public Utilities Commission of Nevada, which is a state agency. I hold a position in the classified service of Computer Network Technician II. In that capacity, I am responsible for the maintenance and operation of the hardware and software of all the computers in the Las Vegas office of the Public Utilities Commission and the videoconferencing system. As a public employee, I participate in the Public Employees' Retirement System and all other benefit programs available to public employees generally. Therefore, I will be watchful for bills, resolutions, and amendments regarding the Public Utilities Commission, state employees, and public employees' benefits.

Mr. Denis stated that he had filed his statement with the Director's Office of the Legislative Counsel Bureau.

Don Soderberg, Chairman, Public Utilities Commission (PUCN) of Nevada, introduced Crystal Jackson, Commission Secretary, and Donna Wickham, Assistant Commission Secretary. Mr. Soderberg stated that Ms. Jackson would present an overview of Budget Account 224-3920.

Crystal Jackson, Commission Secretary, Public Utilities Commission, stated that the Commission's biennium budget request was built around the annual regulatory assessment set at 2.60 mills for both years of the biennium. The statutory maximum was 3.5 mills. The PUCN budget was developed using calendar year 2003 work program year gross utility operating revenues, as that had historically provided the Commission as well as the Bureau of Consumer Protection, with a reliable and somewhat predictable base revenue projection. Ms. Jackson said that, should revenues be higher, and/or expenditures lower than projected, the Commission would adjust the annual assessment accordingly for FY2006 and FY2007. The Commission would ensure sufficient funds were available during the fiscal years to meet expenses associated with state and federal utility issues and/or additional expenditures that might be determined to be needed by the Legislature. In fact, the Commission, through its continued efforts to reduce its reserve level and its commitment to create operating and administrative efficiencies, had lowered its annual assessment for

three consecutive years. The annual assessment for FY2005 was set at 1.9 mills; however, this was not sustainable for an agency of the Public Utilities Commission's size, according to Ms. Jackson. The Commission's reserve balance projected to fiscal year-end 2005 was \$3.4 million. If the Commission's budget was approved with the regulatory assessment set at 2.6 mills, the reserve balance was estimated to be \$2.6 million by fiscal year-end 2006. This was an optimum reserve level for an agency the size of the PUCN.

Ms. Jackson stated that in the expert consultant category, the Commission was requesting \$850,000 over the biennium to assist the Commission in performing its function of regulating the utility industry and meeting the demands of the dynamic and ever-changing industry. Specifically, Ms. Jackson focused attention on the areas of general rate case support, telecommunications support, federal energy legislation, technical support in areas of risk management and portfolio management, and technical security and financial issues. The Commission was also requesting \$130,000 to fund and administer an aggressive training plan essentially to meet the needs of the many diverse and highly technical occupations, which demanded very unique and specialized training. The PUCN's training and development plan also provided incentives and recruitment tools for attracting and retaining key staff.

Ms. Jackson said the budget request included \$435,000 for new and replacement computer hardware and software to upgrade and standardize hardware and software applications. It would assist with providing remote access and off-site computing capability to staff that required it, plus it would maximize the productivity of staff through technology. The request also included unclassified salary adjustments for 11 targeted positions and 2 reclassifications to remedy internal inequities to align salaries with comparable classified and/or unclassified positions in other state agencies and to attract and retain employees. The fiscal impact of the unclassified salary adjustment was approximately \$116,000 for the biennium.

To fully implement new state and federal requirements for the gas pipeline safety program, the Commission was requesting an additional three full-time gas pipeline engineers: two engineers in FY2006, and one engineer in FY2007. The three full-time positions and associated costs would be approximately \$444,000 over the course of the biennium. Ms. Jackson noted that up to 50 percent of those program costs were reimbursable through a federal grant pipeline program. The Commission's pipeline safety engineers conducted safety inspections of natural and propane gas distribution and transmission systems statewide. This program was audited annually by the United States Department of Transportation Office of Pipeline Safety and in four of the past five years the Commission had received the highest possible score, resulting in the 50 percent reimbursement of program costs. The Office of Pipeline Safety had recommended that the Commission add new gas pipeline engineers to manage the growth and construction plus new federal inspection responsibilities. Those responsibilities included the federal operator qualification rule and the integrity management rule. Ms. Jackson stated this was in addition to the administration of the new One Call Program, commonly referred to as the Call-Before-You-Dig regulations, which required additional resources to investigate and respond to complaints. The Commission's current staffing resources were not adequate to complete the inspections mandated by the federal program. Given the hundreds of miles of new main and service pipe associated with the growth in Nevada, three new gas pipeline engineers were needed to sustain the quality and coverage of the pipeline safety program and to continue to qualify for federal

funding. The Commission was also requesting \$24,000 for replacement of a safety vehicle for the gas line safety program in FY2006.

Ms. Jackson referred to [Exhibit C](#), a handout entitled "The PUCN's EFRM Summary." The system was referred to as an Electronic Filings and Records Management System (EFRM) and the primary goal of the system was to implement the technologies and processes necessary to support the acceptance and management of legally defensible electronic documents and records as well as collect associated fees electronically, both over the counter and the Internet.

Ms. Jackson stated that the core business process essentially revolved around the acceptance and processing of filings. These filings before the Commission included rate change filings, deferred energy filings, mergers and acquisitions, name changes, discontinuance of service, requests for authority, rule makings, and investigations, just to name a few. There existed over 60 filing types with various statutory and regulatory deadlines. Ms. Jackson said the current process was manual with tracking assistance from an in-house database known as the Docket Tracker. Information contained in that database was textual in nature and was only summarized. Filings consisted of applications, petitions, testimony, and comments, which were submitted over the counter in paper form with an original and nine or more copies. Management and processing of those paper filings was difficult and time-consuming. Ms. Jackson stated that any utilities coming before the Commission simply had to appear at the Commission office to file anything. Utilities had been known to rent trucks to transport all of the paper copies necessary for a filing. Some of the other processes included in the project would be discovery of information, tracking of docket participants, creation of agenda meetings, calendaring of meetings, noticing of meetings, annual reporting, gas pipeline and railroad safety, tracking of compliance, and consumer complaint tracking. Ms. Jackson commented that although the actual business processes were mature, the technology that supported them were not.

Ms. Jackson continued with her presentation by stating that some of the challenges for the Commission members and staff were to align the Commission with the Governor's Priorities for State Government. Fundamental Goal #7 was to maximize use of Internet and other technologies to make government more accessible and economical. Another goal was to develop and implement an improved electronic communication. The Commission had a manual system and currently could post only a limited amount of information to their website. In 2004, the Division of Internal Audit had audited the Commission's operations, and one of the audit recommendations had been to evaluate the benefits of implementing an electronic filings and records management system.

Ms. Jackson stated that the PUCN would like to be aligned with the Federal Government Paperwork Reduction Acts. It was currently estimated that in filings alone, the PUCN was managing and processing over 500,000 pages per year. The Federal Energy Regulatory Commission (FERC), the Federal Communications Commission (FCC), the Eighth Judicial District Court, the federal bankruptcy court, the federal district court, and the Nevada Supreme Court had all implemented some form of electronic communications, and the PUCN had business dealings with each of them.

Ms. Jackson outlined the following reasons why the PUCN should move to an Electronic Filings and Records Management System (EFRM):

- Improved efficiency
- Increased cases and workloads

- Support for the system
- Integration of current databases
- Immediate access to information
- Managed access to information
- Instant retrieval of filings, documents, and records
- Enhanced ability to track and enforce compliance
- Lifecycle management of filings, documents, and records
- Disaster recovery, data security, and contingency planning

Ms. Jackson stated that in an overview of the proposed EFRM System there were two consecutive project segments. Segment 1 was a Records Management Application, known as RMA, which built the infrastructure and laid the foundation. It would implement a compliant records management application and begin the process to accept electronic filings and records over the counter. Ms. Jackson clarified that the Commission would continue to accept filings over the counter, but those filings would be scanned so that they would also be available electronically. Segment 1 also image-enabled existing PUCN applications, making information now on paper immediately available for electronic search and retrieval. Furthermore, it included training of technical staff and users of the records management system. The hardware and software would be housed at the Department of Information Technology (DoIT), and the requirements for Segment 2 would be refined and documented. Segment 1 was expected to take approximately 40 weeks to implement.

Ms. Jackson stated Segment 2 was Application Redesign and Development, known as the ARD segment. This segment essentially leveraged the capabilities of the RMA implemented in Segment 1. According to Ms. Jackson, it consolidated the eight databases into one "industrial-strength" database that accepted electronic filings, documents, and records over the Internet. It also established the electronic signature policies and procedures and allowed public access to information electronically. Segment 2 was expected to take approximately 30 weeks for implementation.

Ms. Jackson addressed the cost of the EFRM System. DoIT sent a request for information to vendors in February 2004. Eight responses were received and were narrowed down to two of the best-value, viable options. Ms. Jackson requested that the Committee keep in mind that the definition of "best value" was the most benefit for the investment, which might not translate into the best cost or quickest solution. The estimated cost of the project for Segment 1 and Segment 2, based upon vendor estimates, would be approximately \$1.3 million for FY2006 and FY2007. Ongoing costs, which included quality assurance, ongoing software licensing, maintenance and upgrades, were estimated at approximately \$400,000. The Commission currently had funding in the reserve account for this project.

Ms. Jackson noted that the PUCN regulated nearly 600 utilities and received 500 filings annually, averaging approximately 40 filings per month. The necessity for change had been demonstrated many times. Paper environments had not kept up with a society that created and used most of its records electronically. The PUCN programs were out of alignment with the needs of customers, relying on tools that had not kept pace with the changing environment, and lacked resources to be effective using current business methods.

In closing, Ms. Jackson commented that as Nevada grew, the demands on regulated utilities and the Commission increased. The Commission must position itself to use technology to mitigate the demands and costs of regulating

utilities as well as find ways to enable utilities to reduce their costs associated with adhering to regulations.

Mr. Denis asked if there was an alternative if the PUCN did not implement the new computer system. Ms. Jackson replied that the manual paper process, in effect, doing business as usual, was the only alternative. The biggest risk for the project was to not do it, and the second biggest risk was to do it without the appropriate funding or project management. Mr. Denis wondered if this would save money for the agency in the long run. Ms. Jackson replied that the Commission was hopeful that the project would save money, but there was not a particular study available that showed dollar savings. It would make the Commission more efficient, and Ms. Jackson was certain that there would be savings for the utilities regulated by the PUCN. In the long run, Ms. Jackson believed the PUCN would save money.

Ms. Giunchigliani said that part of the program being requested was "off the shelf" and part was to be custom designed, and she thought it had been learned from the NOMADS and GENESIS programs that custom-designed programs were not desirable and wondered if there was an alternative. Ms. Jackson replied that she was going to have the technical personnel answer that question. In the meantime, Ms. Giunchigliani asked Ms. Jackson to clarify whether or not the PUCN had the ability to do electronic filings. Ms. Jackson replied that all filings were handled manually.

Rupert D. White, Financial Analyst, Public Utilities Commission of Nevada, stated that prior to his tenure with the PUCN he had been employed with the Department of Information Technology (DoIT) in the Planning Department. He had worked with the PUCN staff members to develop a project plan based on goals to achieve electronic filings over the Internet. An assessment had been performed to determine the state of the technology within the PUCN and the processes that were necessary to accomplish the regulation of utilities. Mr. White said that as a result of that evaluation it had been discovered that the processes were quite mature and that the applications were insufficient to support the electronic filings effort. Even though the databases already in place sufficiently supported the current systems, they were not of sufficient "industrial strength" to work for the Internet, the wide-area network, or to provide the security required to make the information public.

Mr. White stated that in order to accomplish those requirements, the first segment of the upgrade utilized "off-the-shelf" software. The requirements for that software were established by the Department of Defense (DOD) 50.15.2 plan for records management applications. The second phase was to migrate those existing applications, the ones that worked, to the "industrial-strength" database installed in the first segment. There would be modifications to the applications, but they would essentially be the same, just improved to eliminate redundancies.

Ms. Giunchigliani asked if those systems functioned independent of each other and if that was what the PUCN wanted. Mr. White responded that what the PUCN wanted was to overcome that situation. He continued and said that the agency had a very bright, innovative staff and they had developed those applications on desktop platforms with a focus on what was necessary to do the job. Ms. Giunchigliani asked how EFRMS would affect those practices. Mr. White said EFRMS was the entire project, called Electronic Filings and Records Management System. Ms. Giunchigliani asked if that included both the store-bought and custom systems. Mr. White responded that it did. Mr. White further commented that the infrastructure currently in place at the PUCN was

insufficient to support the off-the-shelf software. As the infrastructure was upgraded, it would also support the off-the-shelf software as well as enable the PUCN to redesign the applications. Ms. Giunchigliani asked if the system would be compliant for more than a couple of years. Mr. White said the system was designed for long-term use. Ms. Giunchigliani asked if the old, outdated equipment could be utilized by another state agency. Mr. White responded that it could.

Mr. White added that typically when organizations were examined from a planning standpoint, it was discovered that they were usually not ready for technology. In the case of the PUCN, their business workings were very well established and they were at the point in time when they were very ready. It was a matter of automating good practices rather than bad practices. The PUCN, according to Mr. White, was in a good position to take advantage of the new technology.

Ms. Giunchigliani wondered what the purpose was for needing two licenses for the databases and asked if one would be adequate. Mr. White replied that the software was licensed on a central processing unit (CPU) basis, but the proposed servers had two chips each, requiring a license for each one.

Assemblywoman Weber asked what amount of time would be required from purchase through implementation for the electronic system to be up and running. Mr. White responded that at the end of 40 weeks it was anticipated there would be a system usable for tracking electronic documents. That estimate also included conversion of some historical documents to the system. Ms. Weber asked if the PUCN had sufficient staff to cover all other duties while personnel were in training. Mr. White replied that there were plans to redeploy some staff because their workloads would be changing as the technology was put in place.

Chairman Arberry asked Mr. Soderberg to comment on decision unit E-811, which recommended reserve funding totaling \$116,179 to support unclassified. Mr. Soderberg replied that periodically the PUCN examined all of the unclassified positions to determine if they were competitive with equivalent positions within state government as well as other utility regulatory agencies in the West. It had been determined that some positions were not competitive, and they had been submitted to the Department of Administration and the Governor for salary increases. Mr. Soderberg stated that 11 positions had been recommended for salary increases in order to bring them to current state levels.

Ms. Giunchigliani asked if the rollout of Assembly Bill 431 from the last session, regarding a solar power pilot program, had had a negative impact on the PUCN. Mr. Soderberg replied that at the present time it was believed it was working well. The PUCN employed people who had enjoyed working in this specialized area and there were also people at the power companies who were well motivated in this area.

Chairman Arberry adjourned the meeting at 10:59 a.m.

RESPECTFULLY SUBMITTED:

\_\_\_\_\_  
Anne Bowen  
Committee Secretary

APPROVED BY:

\_\_\_\_\_  
Assemblyman Morse Arberry Jr., Chairman

DATE: \_\_\_\_\_



## EXHIBITS

**Committee Name:** Assembly Committee on Ways and Means

**Date:** February 9, 2005      **Time of Meeting:** 8:05 a.m.

[illegible]