

**MINUTES OF THE
SENATE COMMITTEE ON FINANCE**

**Seventy-third Session
February 11, 2005**

The Senate Committee on Finance was called to order by Chair William J. Raggio at 8:02 a.m., on Friday, February 11, 2005, in Room 2134 of the Legislative Building, Carson City, Nevada. [Exhibit A](#) is the Agenda. [Exhibit B](#) is the Attendance Roster. All exhibits are available and on file at the Research Library of the Legislative Counsel Bureau.

COMMITTEE MEMBERS PRESENT:

Senator William J. Raggio, Chair
Senator Bob Beers, Vice Chair
Senator Dean A. Rhoads
Senator Barbara K. Cegavske
Senator Bob Coffin
Senator Dina Titus
Senator Bernice Mathews

STAFF MEMBERS PRESENT:

Jeffrey A. Ferguson, Program Analyst
Gary L. Ghiggeri, Senate Fiscal Analyst
Bob Guernsey, Principal Deputy Fiscal Analyst
Cindy Clappitt, Committee Secretary

OTHERS PRESENT:

Brian K. Krolicki, State Treasurer, Office of the State Treasurer
Janet Murphy, Management Analyst, Office of the State Treasurer
Janice A. Wright, Senior Deputy Treasurer, Office of the State Treasurer
Susan K. Moore, Ed.D., Executive Director, Millennium Scholarship Program,
Office of the State Treasurer
Kathy Augustine, State Controller, Office of the State Controller
Kim Huys, Acting Chief Deputy Controller, Office of the State Controller
Steve Jackson, Chief Accountant, Integrated Financial System/Operations,
Office of the State Controller
Alex Echo, Data Processing Manager, Information Technology Division, Office of
the State Controller
Brenda Laird, Chief Accountant, Financial Reporting, Office of the State
Controller
Christie Thompson, Chief Accountant, Debt Collection, Office of the State
Controller

CHAIR RAGGIO:

Hearing no proposed bill draft requests (BDRs) we will turn to a staff report.

MR. GARY L. GHIGGERI (Senate Fiscal Analyst, Fiscal Analysis Division, Legislative Counsel Bureau):

I have prepared a listing of all the budgets listed within the *Executive Budget* ([Exhibit C](#)) and distributed it to the Committee.

There are 422 budgets within the *Executive Budget*. You will note in [Exhibit C](#) scheduled budgets to be heard by the full Committee are in the column labeled "SF." Those to be heard by the joint subcommittees are listed under "Sub" and "Staff." Those that are assigned to staff will be reviewed by staff with recommendations for adjustments, if any, and brought back to the full subcommittee for action prior to the subcommittee reporting recommendations back to the full Committee. The right four columns indicate in which joint subcommittee those budgets will be heard.

The full Committee will consider 64 budgets and 358 will be assigned to subcommittees for review. Staff requests Committee members to review [Exhibit C](#) and advise staff of any necessary changes.

CHAIR RAGGIO:

Is this consistent with what our prior practice has been?

MR. GHIGGERI:

That is correct.

CHAIR RAGGIO:

Does the Assembly have the same list?

MR. GHIGGERI:

Their list is fairly similar. They are reviewing a similar list this morning.

CHAIR RAGGIO:

I will ask the Committee to review [Exhibit C](#). If there are any budgets indicated for review by staff that someone feels should be heard in subcommittee, please let the Chair know.

We will now open the hearing on the budgets of the Office of the State Treasurer.

BRIAN K. KROLICKI (State Treasurer, Office of the State Treasurer):

This will be my last opportunity to appear before the Committee as State Treasurer if we complete our business today.

I was President of the National Association of State Treasurers last year. It gave me the opportunity to travel throughout the country and see other state staffs and I would match the Nevada team as the finest State Treasury in the country.

I will now highlight some of the accomplishments of the Office of the Treasurer. The debt service agreement of 2002 literally squeezed \$30 million from the debt portion of the balance sheet and it was made available when the Governor and the Legislature had to make some difficult budgetary decisions.

Nevada was the first State to innovate and utilize interest rate swaps which have netted the State well over \$10 million.

The Millennium Scholarship Administration otherwise known as the Millennium Scholarship Program (MSP) was a concept rolled out in 1999 and 2000. No one had ever done such a program. The pace of the MSP and the over 40,000 millennium scholars using the program are a testimony to its success.

We have issues to discuss concerning the trust fund itself, but the mechanics and the execution worked wonderfully.

The College Fund 529 Plan was a great success. Some of the things you do not see are those that I count as some of the more wonderful moments.

We have all watched corporate governance failures around the country, seeing officers of companies looting their own companies, including some of the largest companies in this country. There have never been investments within the State Treasurer's Office like Enron, Global Crossing or similar companies because of prudent management and oversight by the Legislature. In the past year, the office has invested \$2.5 billion in assets and managed a debt portfolio of similar size.

There are over 10,000 prepaid tuition scholars enrolled in the MSP and approximately \$71 million is invested in scholarship trust funds. Projections were made in the College Fund 529 Plan of what was needed with conservative estimates. We had hoped to have about 3,000 participants and \$17 million in assets. At this time we have 90,000 participants and over \$600 million in assets in the program.

The Unclaimed Property section that transferred into the Office of the State Treasurer performs well despite some serious staff problems. The revenues have tripled from audits and the number of audits has increased by nearly 50 percent. The amount of money returned to rightful heirs from unclaimed property has doubled. If funds cannot be returned to heirs, they revert to the General Fund. We have outperformed the economic forecast of the last biennium by over \$13 million.

The budgets are fairly straightforward. There are some idiosyncrasies we are attempting to eliminate in our budget.

Office of the State Treasurer — Budget Page ELECTED-120 (Volume I)
Budget Account 101-1080

MR. KROLICKI:

There has been a significant change in treasurer assessment figures caused by a move to the interest distribution portion of the budget. It is a better way to manage staff. Some of the items included in the move are lockbox fees, armored car services and vault insurance.

The requests in travel funds and other ongoing costs are similar to where they have been in the past year. We are eliminating a vacant position of an accounting assistant I. We are adhering to the Department of Information Technology (DoIT) schedules for our technology acquisitions. Perhaps the one area where we are not following the DoIT schedules concerns disaster recovery purposes. We are requesting two replication servers in the event of a catastrophe in either Las Vegas or Carson City. The Office of the State Treasurer could continue to function and pursue the financial business of the State.

Another request would transfer the position of senior deputy treasurer out of the Prepaid Tuition budget into budget account 1080. The justification for the transfer is the position has functions within all of the activities of the Office of

the Treasurer. The position was funded in the 2003 Legislative Session by the elimination of the prepaid tuition director and the consolidation of another position in that office.

SENATOR BEERS:

Please refer to the *Executive Budget*, pages ELECTED-123 and ELECTED-124 under decision module E-500. There appears to be a significant appropriation from the General Fund to that budget.

MR. KROLICKI:

I will defer that question to Ms. Janet Murphy for response. I believe that represents the movement of the assessment.

JANET MURPHY (Management Analyst, Office of the Treasurer):

The appropriation represents two revenue transfers. Decision unit E-500 corresponds with the E-900 module. The senior deputy position is part of the appropriation being moved from budget account 1081. The other appropriation is the information technology (IT) allocation. Our office is requesting to move all the IT costs into budget account 1080 and reallocate them to the other administration budget accounts based on full-time equivalent positions. There has also been a revenue source created for those IT costs.

SENATOR BEERS:

Were those costs paid from the General Fund in the previous accounts?

MS. MURPHY:

The IT costs were not. They were paid with other revenue sources. The intention is to reallocate each portion and administration will receive the revenue as reimbursement. In the past, approximately 53 percent of our general IT costs were paid with a General Fund appropriation and the remainder was paid from other revenue sources. The allocation request would cause 56 percent to be paid from the General Fund and the remainder from other revenue sources.

CHAIR RAGGIO:

I will close the hearing on budget account 1080 and open the hearing on budget account 101-1081.

Treasurer Higher Education Tuition Administration — Budget Page ELECTED-132
(Volume I)

Budget Account 101-1081

MR. KROLICKI:

There is a request in this budget to move one position into budget account 101-1080. As you can see, we are paying back the General Fund loan of approximately \$300,000 over the biennium. That represents a commitment from the Prepaid Tuition Fund to the General Fund. The remainder of budget account 101-1081 is self-explanatory.

CHAIR RAGGIO:

The Committee has been informed the Board of Trustees has increased the price of the prepaid tuition contracts. Is that correct?

MR. KROLICKI:

The cost for prepaid tuition is actuarially determined. We consider what the marketplace has done and the projected costs of future higher education costs in Nevada. We provide that information to a contracted actuarial firm that sets the tuition payment pricing for future students, beginning with payments for newborns to the ninth grade level. Our commitment is to review the pricing each year so no unfunded liability occurs. On March 31, 2005, the Treasurer's Office will deliver our report to this Committee which includes our actuarial valuation. The issue was discussed in the 2003 Legislative Session with a possibility of an unfunded liability of several million dollars. I am pleased to tell the Committee that with the market performance, the fees charged and the conservative pricing on the pre-paid contracts, we are now looking at a funded liability with approximately \$1.9 million surplus.

CHAIR RAGGIO:

Are we looking at the need to cap something or to scale the program back as has been done in other states?

MR. KROLICKI:

Many states have been in a serious position with their prepaid commitments. They did not price them properly or they were invested in unwise ventures. Our approach has been conservative. The three ways to prepay tuition includes: a lump sum, a monthly program of five years and a monthly payment from enrollment to actual matriculation. We issue coupon books such as you would receive on a car loan which include a 7.5-percent return. The majority of participants are on a monthly payment program and those revenues are earning 7.5 percent. With two years remaining, I am pleased with the health of the fund.

CHAIR RAGGIO:

What is the current balance of the investment category?

MR. KROLICKI:

There is a balance of approximately \$71 million serving approximately 10,500 young Nevadans.

CHAIR RAGGIO:

What is the status of the payback of the original General Fund appropriation?

MR. KROLICKI:

In the current biennium, there is a \$300,000 repayment and the General Fund loan is scheduled for complete payback in 2013.

CHAIR RAGGIO:

Is the repayment on schedule?

MR. KROLICKI:

Yes, sir.

SENATOR BEERS:

How is the prepaid tuition program being marketed? There appears to be a shortfall in new contributions in 2004.

MR. KROLICKI:

Marketing has been a challenge. The program is self-sustaining. It has been determined that the trust fund must be at least \$16 million for the program to be funded and cover past liabilities. In the 2003 Legislative Session, the Senate Finance Committee reached a compromise with the Assembly to cut the advertising funds to less than 50 percent. I suggest the number of contracts sold is a direct result of a decreased marketing budget.

SENATOR BEERS:

Were the marketing efforts directed toward consumer-user marketing, or was it marketing to investment advisors and financial planners?

MR. KROLICKI:

We utilized a direct marketing plan. We targeted young people, parents, doctors' offices and other professional services that assist young people. You can access our Web site and look at the higher education and education opportunities links. The reduction in funding is not a dire situation because we got the funding we needed. We have relied on word of mouth and I am amazed that the response has been so great despite the lack of advertising.

SENATOR BEERS:

I note that in budget account 101-1080, all the performance indicators are listed as new. Could you provide the Committee with a list of your previous performance indicators updated for the current period? I would also like to see what the general portfolio performance and rate of return has been for the last five years. I assume the performance has gone down in conjunction with market trends.

MR. KROLICKI:

Performance indicators are strange in that area because of the measure of interest earned. That is a function of principal and interest rates that is beyond an internal performance gauge.

SENATOR BEERS:

I am not particularly interested in that performance indicator.

MR. KROLICKI:

The Board of Finance is responsible for approving all the investment activities on a quarterly basis. There are benchmarks to which the office performs to and we have out-performed those on a regular basis. There is certainly a cash aspect. The State is doing well at this time in terms of management. There is a yield curve to some extent. In depressed budget times when we are ensuring there is enough liquidity to pay the bills, as Nevada did several years ago, we invest in a very short-term type of security. I will provide the Board of Finance reports to the Committee. The office has performed at or above the benchmarks consistently for the past several years.

CHAIR RAGGIO:

Please indicate where the funding for the marketing effort is located.

MS. MURPHY:

The funding for marketing is included in the Base Budget under the Operating line item.

CHAIR RAGGIO:

What are the funding requests in that category for fiscal years (FY) 2006 and FY 2007?

Ms. Murphy:

That amount is \$101,500.

CHAIR RAGGIO:

Is that the biennial amount?

Ms. MURPHY:

No, that is for the fiscal year.

CHAIR RAGGIO:

Please turn to page ELECTED-137 in the *Executive Budget*.

MR. KROLICKI:

I will defer that portion of the budget to Ms. Janice Wright who is in charge of the Prepaid Tuition or 529 Program.

JANICE A. WRIGHT (Senior Deputy Treasurer, Office of the State Treasurer):

During the 72nd Legislative Session, the approved appropriation was \$102,500 as shown in Category 04 Operating in budget account 101-1081, because we have a contract. The Rose/Glenn Group has the contract and it has enabled the Treasurer's office to do some combined marketing with the college savings program and the prepaid tuition program which has resulted in reduced expenditures. Thus, we have not exceeded our budgetary request and we are requesting the same appropriation of \$102,500 in the proposed budget as a direct expenditure from the trust fund.

CHAIR RAGGIO:

Is that \$102,500 in each year of the biennium?

Ms. WRIGHT:

That is correct.

CHAIR RAGGIO:

I was concerned about the Treasurer's comment about the reduction in participation because of a lack of marketing. I am curious if this is an increase in the funding or are you requesting the same level of funding?

Ms. WRIGHT:

During the beginning of the Prepaid Tuition Program the Legislature had always authorized \$370,000 as an annual expenditure for marketing. During the 2003 Legislature that amount was cut in half and further split between two budgets. We are now limited to \$102,500 as approved and the request continues forward with no request for increase.

CHAIR RAGGIO:

If there is a problem with lack of participation in the program because you have not had sufficient funding to market the program, why are you not requesting more than level funding in that area?

MR. KROLICKI:

We are attempting to use trust fund revenues rather than taxpayer dollars to fund these efforts. We have recently issued some requests for proposals (RFPs) to encourage joint ventures and perhaps have the Program be adopted by private sector entities that believe in the merits of the Prepaid Tuition Program to assist with advertising.

SENATOR BEERS:

It might clarify the issue to see a line item in the budget for marketing. How much did your office spend of the authorized amount in FY 2004?

MS. WRIGHT:

We spent nearly all of the legislative authority. We produced a direct-mail piece and cooperated with the college savings account promoting both programs. We tried to use the reduced funding in a smart way.

SENATOR COFFIN:

You did not mention hospitals as a source of marketing. This program does not get the publicity of the MSP which is more controversial. Parents of Prepaid Tuition Program scholars can help market by word of mouth, but hospitals could be a great source. Life insurance is sold at hospitals and I am not sure of the discounted value of prepayment levels for a newborn, but it seems a bargain new parents could not pass up.

MS. WRIGHT:

One of my outreach efforts has been to go to a number of hospitals and they have set up programs such as Mommy and Me and a number of other opportunities with parents who were either expecting a child or had young children. I have also received wonderful cooperation from counselors' groups. A direct expenditure is not shown for those kinds of efforts because the primary cost is my time. I have been involved in Parent Teacher Associations to explain the program.

SENATOR COFFIN:

My question was whether new parents were getting the brochure in the free packet provided by hospitals? Does the Prepaid Tuition Program cover college fees other than tuition?

MS. WRIGHT:

We cover the dollar per credit hour costs of higher education. Currently, the University and Community College System of Nevada (UCCSN) charges \$91 per credit hour. In addition, they assess a \$4 technology fee. We do not cover the fees. The College Savings Program covers all other related expenses including room and board, books and other fees including graduate school. Prepaid tuition will simply cover 100 percent of the cost of tuition when the child enters college.

MR. KROLICKI:

I would remind the Committee the Prepaid Tuition Program is portable to any accredited college or university in the country at the rate currently charged by the UCCSN.

SENATOR TITUS:

I know you have done some television advertising because I have seen it.

MR. KROLICKI:

Those efforts are from the College Savings Program.

SENATOR TITUS:

Do you see any relationship between the MSP and this program as the Millennium program funding gets tighter, or whatever changes are made to that in the future? Do you feel the Prepaid Tuition Program interest will increase as available Millennium Scholarship funding decreases?

MR. KROLICKI:

It is hard to say. When Ms. Wright or I am before groups discussing the programs, we talk about all three programs. All are needed because the costs of college are going to increase. A \$10,000 Millennium Scholarship, assuming we do something to ensure the program endures, is not a lot of money ten years down the road.

The College Savings Programs are for the youngest of our children. The earlier parents start, the more funding is compounded tax free. None of them, by themselves, completely cover the costs of college. Some of Nevada's best and brightest students wish to attend college in another state and are therefore not eligible for the MSP.

CHAIR RAGGIO:

I will now close the hearing on the Higher Education Tuition Administration and open the hearing on the Millennium Scholarship Program.

Millennium Scholarship Administration — Budget Page ELECTED-138 (Volume I)
Budget Account 206-1088

MR. KROLICKI:

The Millennium Scholarship Program (MSP) has been receiving a great deal of attention recently. It is one of the greatest programs ever initiated in Nevada. It is not only a program that assists Nevada's brightest students; in the future it will prove to be an economic development tool in this State. When companies see the educated, energized, workforce being generated out of the UCCSN, they will locate in Nevada. I consider the program a broad-minded approach to education.

The MSP is a victim of its own success in many ways. There have been tremendous pressures placed on the trust fund. When the program was initiated, it was envisioned with information from the UCCSN, that perhaps 50 percent of Millennium scholars would actually use the scholarship. Our most recent data covering the graduating class of 2000 has shown a 74-percent usage rate. Those same individuals still have another four years to utilize the program.

Changes have been made in the past, including raising the grade point averages (GPA), changes in duration and other eligibility requirements. While it is not part of the budget today, you will be seeing additional changes from my office that I feel are worthy of your consideration. Passage of the proposed changes would relieve the pressure on the trust fund.

Also in the news has been the fact that people are smoking less than they were once projected to be. The revenue has decreased from the 1999 settlement agreement entered into by 46 states by approximately 8.5 percent.

CHAIR RAGGIO:

Are we down 8.5 percent from the anticipated revenue at the inception of the program?

MR. KROLICKI:

The payments received on a cash basis are 8.5 percent less than had been anticipated in 1999.

CHAIR RAGGIO:

The Senate passed a bill that would have provided for the securitization of the funding in the program; however, it did not pass in the Assembly. I feel the bill would have reduced the anticipated loss.

MR. KROLICKI:

I am responding to the Chair's question and not a gratuitous comment on tobacco securitization.

This Senate passed legislation three times in 1999, 2001 and 2003.

CHAIR RAGGIO:

What I am asking is if the legislation had passed, has there been some kind of analysis as to what the revenue could have been? Would revenues have been less or more?

MR. KROLICKI:

I have commented in the past, if we had securitized in 2001, when it was advantageous, Nevada would have been one of the first states to initiate such measures. There was a \$20 billion marketplace for tobacco securities, but they are now junk bonds. At the time of the first proposal, the securities were investment-grade bonds. In fact, the credit was better than the State of Nevada's credit if we had sold tobacco-backed revenue bonds. No tobacco securitization has occurred in the United States in the past two years.

To quantify the result of interest earned and projected less amount under the Millennium Scholarship Administration, there is approximately \$200 million in revenues the State left on the table.

CHAIR RAGGIO:

Over what period?

MR. KROLICKI:

We would have generated approximately \$97 million to nearly \$100 million in interest today if we had securitized. We would have generated approximately \$550 million to \$590 million in proceeds. If compounded over time the \$100 million would have been much greater.

CHAIR RAGGIO:

Securitization would have been protection against the reduced amount of tobacco funds presently being received.

Projections by both your office and the fiscal staff indicate revenues being received are going to be exceeded by expenditures as early as 2006. Is that a valid analysis? What are your proposals to prevent that from happening?

MR. KROLICKI:

We are proposing three to five changes during this Legislative Session. These include elimination of the MSP availability for summer school and funding only 12 credits at the university level and 6 at the community college level.

CHAIR RAGGIO:

Is there a cap on requirements currently?

MR. KROLICKI:

At this time we provide funds for whatever is requested within the original parameters up to \$10,000.

Currently, if a Millennium scholar, for whatever reason, loses that distinction, they have the ability to regain that status. I propose that if a scholar loses the distinction for academic or course load reasons, they could not regain that status. The proposed changes would create significant savings in the trust fund. If they are not adopted, it will cost more to operate the program.

The program is beyond tweaking. We can make all the changes proposed and still come to the reality we are millions of dollars short for the biennium. We suggest bonding the Abandoned Property Trust Fund, otherwise known as Unclaimed Property, revenues. The plan has been evolving over the past year without realizing the State would have a budget surplus. If we take \$7.5 million to \$8 million in each year of the biennium from the Unclaimed Property program and divert the funds, it would successfully amortize a well-priced security in the market of approximately \$100 million. The total received into the Unclaimed Property program in the past year was approximately \$30 million. I note that \$13 million more was generated in the current biennium over the Economic Forum forecast.

There has been some discussion concerning financing the MSP. The Capital Improvement Projects total \$278 million. Whether \$100 million is used to relieve general obligation bonds allowing the State to pay cash, or would be an ad valorem from a bond backed by property tax, is a choice to be made. The Millennium Scholarship proposal to use funds from the Unclaimed Property bonds would be backed by funds individuals have lost. With the proposed changes and the bonding from Unclaimed Property we expect the Millennium Program to have life until 2015.

CHAIR RAGGIO:

Is the revenue stream in the Unclaimed Property account historically consistent?

MR. KROLICKI:

Our office has worked with rating agencies, underwriters and potential buyers of the securities to determine a fair market value. We intend to create a reserve, and with the historical revenues and use of other measures to help secure the MSP. When you compare an \$8 million diversion from a \$30 million revenue source, people are comfortable with the coverage.

In a worse case scenario if the reserves were depleted, this is an obligation for the trust fund toward the Unclaimed Property account. It is not an obligation to the State of Nevada. Most important, this would not be counted against the 2-percent cap of the State's debt capacity.

CHAIR RAGGIO:

Are you stating if your unclaimed property proposal were adopted, there would not be a general obligation bond of the State? Would this proposal still be a saleable security?

MR. KROLICKI:

That is correct.

CHAIR RAGGIO:

There is obviously an additional cost other than just appropriating additional funds to the program. There has been one suggestion to use some of the budget surplus rather than entertaining a bonding effort because bonding obviously has a cost. Provide us your input on that suggestion.

MR. KROLICKI:

The most important thing is to preserve the MSP. It is one of the most valuable tools we have ever deployed in the State. How we obtain the \$100 million is subject to some debate.

CHAIR RAGGIO:

Why must the amount be \$100 million?

MR. KROLICKI:

The \$100 million from the budget surplus is a completely separate question. The \$100 million was sized from the unclaimed revenue side. There are certain Internal Revenue provisions and requirements that the State cannot tax or exempt certain provisions beyond a certain time. Through consultation with our extended bonding experts, we believe the State will avoid any scrutiny or abuse of tax exempt purposes if the projections go out about three years. The Millennium expenditures are approximately \$30,000 annually and I rounded the figure to \$100 million to give us tax exemption for three years. Those three years of bond funding, when properly spent, avoiding any arbitrage, would allow the tobacco funds not to be utilized for three years which would extend the program to 2015. It is sized for tax purposes.

SENATOR MATHEWS:

Does the Committee have any written data that tracks the progress of students in the Millennium program?

MR. KROLICKI:

We have captured many data points. Dr. Susan Moore will provide statistics on the Program concerning the number of students, how it is changing lives, the number of students who are staying in Nevada because of the Millennium Scholarship and graduation rates.

SENATOR MATHEWS:

I would prefer to have the information in writing. This information has been requested every time your agency has appeared before this Committee.

MR. KROLICKI:

I believe we have submitted all information we have available to the Committee.

SENATOR MATHEWS:

With all due respect, I need to read the data. You are making some unusual requests in this budget cycle and I have not seen any data to back up the requests.

MR. KROLICKI:

We have been working with your staff extensively in terms of the Millennium scholarship and the data we capture. Some data does not exist. Dr. Moore will share with you what is available.

SENATOR MATHEWS:

I would like to see graduation rates, remedial rates, tracking, ethnicity and all of the information.

SUSAN K. MOORE, Ed.D., (Executive Director, Millennium Scholarship Program, Office of the State Treasurer):

We have a variety of reports we can put together for the Committee.

SENATOR MATHEWS:

I want the information that tracks the students within the Program. I do not need the information today, but I would appreciate written information provided to the Committee. I would like to see graduation rates, remedial rates, ethnicity and that kind of data.

CHAIR RAGGIO:

Does the Office of the Treasurer have the requested information?

DR. MOORE:

We have most of that data and would be happy to provide it to the Committee.

CHAIR RAGGIO:

Is there a time limit for students to apply and use the scholarship funds?

MR. KROLICKI:

Six years is the time for a student to apply to use the funds.

CHAIR RAGGIO:

The information requested by Senator Mathews is good. Dr. Moore, please put that information together for all Committee members.

DR. MOORE:

I will be happy to do so.

MR. KROLICKI:

Last Legislative Session you funded a baseline study that generates much of this information, tracking actual Millennium scholars. That was cut from the budget last time. We tracked some of these students, but we were not able to complete the tracking process.

SENATOR MATHEWS:

One more item I would like to see in the report is how many Millennium scholars have graduated.

SENATOR CEGAVSKE:

I am concerned about the bonding proposal. The testimony today has not satisfied my concerns. I would like to solicit other suggestions or ideas that might have been discussed prior to the bonding proposal. I have not received positive feedback from constituents or other legislators for the bonding proposal.

Over the last few years, since I have served on the Senate and Assembly money committees, I have not seen the proposals, where I have stated concern, implemented. I have also stated previously my concerns regarding refund checks and I have received your explanation. I do not feel the Millennium funds should be used for remediation efforts and I did not hear that in your proposals today. If a student is tested and needs remediation, that is something for which they should pay. A student should attend high school in Nevada all four years to be eligible for the scholarship funds. The current GPA required is 3.0 and it will be raised to 3.2, is that correct?

MR. KROLICKI:

The next increase is to a 3.1 GPA and eventually to a 3.5 GPA.

SENATOR CEGAVSKE:

How often is the GPA raised?

MR. KROLICKI:

We felt it was unfair, as did the Legislature, to change GPA requirements when students were in the middle of high school. The GPA of 3.1 is for those who have finished their freshman or sophomore year of school. The 3.25 GPA requirements are for those who were entering ninth grade.

SENATOR CEGAVSKE:

There are issues concerning that concept. Are all Nevada students eligible or should there be means testing?

When we first started working with the program, Assemblyman Lynn Hettrick had talked about using only the interest to fund the program because we were unsure of future funding. In another hearing, it appeared the Nevada tobacco funding had increased. Was that incorrect?

GARY GHIGGERI:

It increased due to the increases from the tax per package as approved in S.B. 8 of the 72nd Session.

CHAIR RAGGIO:

Are some bill draft requests being presented for the proposals?

MR. KROLICKI:

There are two additional important requests the Office of the Treasurer will be making through bill drafts. I agree with Senator Cegavske that remedial education should not be eligible for Millennium scholarship funding. There will

be a bill draft request along those lines. We have made a commitment to our students to have a Millennium Scholarship if they were ready for it.

Another change to requirements is that a student must complete the Free Application for Federal Student Assistance (FAFSA). It is our belief there are significant amounts of federal financial scholarships and grants available and many Nevada students are not accessing those funds. Instead, they are simply applying for Millennium Scholarship funds. If a student acquired a Pell Grant, the State could access additional funds that would be debited before the Millennium Scholarship funds would be debited. We may still spend \$10,000 on a student, but from a cash flow standpoint, the funds would be extended.

One of the requirements of the FAFSA form is to submit a social security number, and that opens up other questions. Any person who applies for a Millennium Scholarship and does not supply a social security number, for any reason, would be ineligible for Millennium Scholarship funds.

SENATOR RHOADS:

What happened to the idea that when an individual goes to college, they must work? I would like to see a survey of students, utilizing the Millennium Scholarship funds, to see if they actually work during the summer or during college to supplement their income.

CHAIR RAGGIO:

Does the Treasurer's office have that information?

MR. KROLICKI:

Dr. Moore has just informed me that FAFSA does include a work/study requirement.

When I was in college the financial aid office had a package deal. The student received a certain amount in grant funds and in loans and was expected to generate a set amount of income from a campus job throughout the year. That is a financial aid office procedure, not one from the Treasurer's office. We will do what we can along those lines.

CHAIR RAGGIO:

Please include the number of students who work in addition to accessing scholarship funds when you provide your written report to the Committee.

SENATOR TITUS:

I would also like to see the statistics. You have mentioned several times this is one of the best programs ever rolled out, but the overview says the purpose was to increase the number of students that attend and graduate from college.

The Treasurer and I have disagreed in the past concerning securitization, but some people would argue that when you compare the 3 years of scholarship life remaining in fund obligations with projections out 24 years or whatever that number of years in indebtedness, it is not practical. The Goldman Sachs Group Inc. indicated we would have lost approximately \$9 million through the period we are analyzing.

The Legislative Counsel Bureau (LCB) Fiscal Analysis Division came to the same conclusion, and that analysis was confirmed in an independent analysis by

Global Insight, a nationally recognized firm, as a leading expert on tobacco consumption projections. In a January 13, 2005, letter to Mr. Mark Stevens, Assembly Fiscal Analyst, LCB, Mr. James Diffley, of Global Insights writes, "after examination, I conclude that the Fiscal Analysis Division is correct. Treasurer Krolicki's estimates of the opportunity costs of the decision in 2001 not to securitize are not substantiated." I request this information be placed in the record.

Concerning requirements, I have long said a student should not be eligible for a Millennium Scholarship when taking remedial courses. I do not believe remedial courses should even be taught at the university level. I take exception to some of the requirement changes you discussed. If summer school is not funded, some of the fast-track programs will be in jeopardy. One of those programs needed is the nursing program. Nursing students attend school three semesters a year.

I think the GPA requirement needs to be raised for eligibility, but a one strike and you are out philosophy is unreasonable. Every student has a bad semester.

To the issue of bonding from the excess funds in the Unclaimed Property account, I feel the State should pay as it goes, not get a loan that will be paid over a longer period of time at a higher rate of interest. The resulting indebtedness would reach into future generations. Many taxpayers would like to see the State's excess revenues available to students, even if it means the rebate promised by the Governor is a little less.

MR. KROLICKI:

It is a fact that tobacco consumption is going down. If you compare 1999 with the present, tobacco receipts are 8.5 percent less.

In terms of Goldman Sachs Group Inc., I would appreciate the name of the individual you spoke with because submissions to LCB from my office include numbers generated by Goldman Sachs, among others. We used a variety of underwriters and Goldman Sachs indicated approximately \$191 million was left, but, compounded over time, could be as high as \$500 million.

CHAIR RAGGIO:

I opened the subject, but we understand securitization is no longer an option. The Committee understands there is an argument on both sides of the issue.

MR. KROLICKI:

Bonding unclaimed property for the Millennium Scholarship Program is extremely relevant and appropriate. I would argue that the young people who will stay in the State, work and raise their families are as important to Nevada's future as any capital improvement project financed through bonds.

CHAIR RAGGIO:

It is a fact, as Senator Titus stated, if bonding is approved and the Unclaimed Property account is used for collateral, the debt service is money that would otherwise be flowing into the General Fund.

The funds you are suggesting for the debt service currently come into the General Fund so there will be a higher General Fund cost over a period of time for the bonding. Is that not true?

MR. KROLICKI:

That is true. However, if we are considering bonding, would you rather have property tax service the bond or have lost money service the bond?

CHAIR RAGGIO:

There will be further discussion when the bill drafts come before us.

SENATOR COFFIN:

I am one of those committed to keeping the Program. However, I am also troubled, or maybe even opposed to, borrowing to support the Program. Two years ago I suggested we make a big step concerning the GPA by making the retention GPA 3.0. Even now, I feel the retention GPA of 2.6 is too low. It is no longer feasible to rely on the GPA as a predictor of college success. What I am leading up to is a major step is needed to keep the Program alive. You have suggested creative financing. However, since the State currently has surplus revenue, why not provide a four-year infusion of cash from that source? What would the cost to the surplus be to keep the program going four more years as it is within the diminishing principal?

MR. KROLICKI:

It is our projections, working with staff of the Fiscal Analysis Division, if nothing is done, a commitment of approximately \$45 million is needed to keep the program solvent and assume tobacco revenues arrive on April 15, 2005, as is anticipated. For the subsequent biennium, another \$25 million would be needed. Over the next four years \$60 to \$70 million would be needed to keep the program at its current level.

SENATOR COFFIN:

I am curious why so much is needed in the current biennium and a large decrease in the next biennium?

MR. KROLICKI:

There is a ramping up of monies under the MSP. The trust fund is currently at approximately \$700,000, so we are metal on metal at this point. The university campuses loaned the program money until the April 15, 2005, tobacco revenue is received. Those revenues will be immediately disbursed to pay off the bridge loan and no further revenue will be received until April 2006.

SENATOR COFFIN:

You would find the revenues would be present to keep students in the Program if it got tough with those students currently under the Program who are just coasting in their academic efforts. I concur with Senator Titus that a one-strike rule is a little tough because everyone typically has a bad semester.

MR. KROLICKI:

I am only suggesting options of an increased GPA requirement or one strike you are out rule. It is ultimately the decision of the Legislature. My point remains if some option is not adopted, there will be a cost to the Program. The one-strike rule is a \$5 to \$7 million annual cost.

SENATOR COFFIN:

What would the cost be for a two-strike rule or an increased retention GPA?

CHAIR RAGGIO:

There will be many questions when the bills come before this Committee so please be prepared with other options.

SENATOR BEERS:

I saw a recent news article which stated 40 percent of incoming college freshman from Nevada high schools were in remedial education. Was that a result of testimony from your office?

MR. KROLICKI:

No, sir. I saw the same article. It did indicate a 40-percent remedial rate.

SENATOR BEERS:

I recall the remedial rate being approximately 20 percent when the MSP was established. That seems to mean rampant grade inflation is occurring in our high schools to address eligibility for the Program.

If the Millennium Scholarship was dependent on a passing grade on high school proficiency exams, would that be another option? It is an objective measure that cannot be adjusted for social reasons and it would eliminate the grade inflation problem. It appears to be easily administered on the surface. It might even provide insight on how many scholarships should be awarded. If 75 percent of high school students are maintaining a 3.0 GPA, that is not a viable measure of whether a student is college material or not.

You are suggesting that the State use General Fund revenues for the next 20 years at \$7.5 million annually or \$150 million over the next 20 years. The State would also lose the interest it could earn by retaining the \$7.5 million. The funds could be spent on public works projects in exchange for enough funding to carry the MSP out seven years.

MR. KROLICKI:

Students are assets that are amortized over a long period of time. The State has surplus revenues of at least \$300 million. The taxpayers deserve a rebate of \$300 million. If, after that rebate is accomplished and there are excess revenues beyond that amount, they should be placed in the Millennium Scholarship trust fund. I do not think we disagree. The Legislature is considering funding \$278 million in capital construction grants. Financing productivity for decades is a fair matching of the balance sheet.

SENATOR BEERS:

You are an investment banker. It makes sense to make 20-year payment plans on construction of a building and 4-year payment plans on cars.

MR. KROLICKI:

I do not disagree; however, if you have the leap of faith that the MSP is bringing and keeping young people in Nevada who will fill jobs and be a part of the economy, how can that be quantified? The Millennium Scholarship is in two parts. One part helps young people go to college and the second is their performance and participation in Nevada's economy.

My plan is to extend the Program for ten years and, at that point, the next political generation could determine whether the economic benefits warrant the Program's continuation.

SENATOR BEERS:

Bonding for 20 years to extend the Program by 7 years does a disservice to the young people who are currently 10 and 11 years old now. The Program would be far worse than it is currently. A better plan would be to make some easy adjustments and make qualification merit based, possibly reducing the number of students who would qualify for the Program.

Budget account 1088 has completely eliminated the performance indicators of two years ago. The Committee has received no data over the past six years on the MSP despite repeated requests. Does the transfer of a position from the Prepaid Tuition Program to the Treasurer's Budget save funding in budget account 1088? I am concerned about what is going on in this office.

I would request you release to the media all the data on the MSP and bring the Committee all the updated performance indicator information from FY 2003 to FY 2005.

MR. KROLICKI:

Everything we have done has been done openly and I am proud of it. I feel sure everything you are asking for exists in files somewhere in this building. On November 17, 2004, the Chair of the Assembly Committee on Ways and Means requested an extraordinary amount of information including performance standards data and bonding information. I not only responded to the Chair's request, I also shared it with the media. I am happy to provide that information again.

From a financial management standpoint, the costs of the position transfer in the Prepaid Tuition budget is moved to the proper source. If a person is performing *de minimis* amounts of duties for the Prepaid Tuition Program and the preponderance of their activities for cash management, e-payment engines, supervision of entire staff and a variety of other activities of a general nature, their funding should not only be from a specific program.

SENATOR BEERS:

Does that mean you have been overcharging the Prepaid Tuition Program to date?

MR. KROLICKI:

That position in the Prepaid Tuition budget is a senior deputy treasurer. In 2003, the Legislature approved the elimination of the prepaid tuition director position and an additional position within that office. By eliminating those two positions we created the senior deputy treasurer position. Over time that position has evolved to the new job description. I feel it is fair to budgets and to the taxpayers for this position not to be paid from the Prepaid Tuition trust fund, but under budget account 1080 where the position generates tremendous savings and efficiencies from the cash management operations prepayment engine.

I will ask Dr. Moore to provide further explanation on the performance indicators.

DR. MOORE:

I am somewhat surprised at the comments our office has not responded to requested information. We take great pride in responding to requests as quickly as possible. I apologize if the wrong impression has been given.

Our office staff took a class on performance indicators provided by the State. From that class, we determined it would be appropriate to upgrade our performance indicators to make them clearer and to address the responsibilities of the office as addressed in the *Nevada Revised Statutes* (NRS). We feel the new indicators will tell the Legislature more about the actual function of the office.

MR. KROLICKI:

I have two letters to both the Chair of the Senate Committee on Finance and the Assembly Committee on Ways and Means. One is dated October 21, 2004, and the other is dated November 17, 2004. These contain data on the MSP and substantiate we have done nothing but work hard in the interim to ensure such documents are made available. The Legislative Counsel Bureau, Fiscal Analysis Division and the Treasurer's Office agree on the current status of the Millennium Scholarship and the future needs of the Program.

CHAIR RAGGIO:

We will have further opportunities for discussion of this subject as the bills come before the Committee.

SENATOR CEGAVSKE:

In response to Senator Rhoads' question regarding work/study programs, I cannot think of a way the Treasurer's Office could gather information on whether individual students worked throughout their college careers while drawing from the Millennium Scholarship.

CHAIR RAGGIO:

We will ask the Treasurer to do what he can on that measure.

SENATOR RHOADS:

Are recipients of the Millennium Scholarship obligated to seek employment in Nevada after graduation?

MR. KROLICKI:

They can go wherever they wish for employment after graduation.

SENATOR RHOADS:

Those who qualify for the Western Interstate Commission for Higher Education must stay in Nevada. Who made the policy that Millennium scholars do not have to stay in the State?

MR. KROLICKI:

I am just the administrator of the Program. I do not vote on the rules.

CHAIR RAGGIO:

Decision unit E-250 requests one new position of an administrative assistant. The position was eliminated in the 72nd Legislative Session and now you are requesting it be reinstated. In light of the fact the Program is short of funds, why are you making the request?

MR. KROLICKI:

Two positions were eliminated from the MSP in the previous Session. When the Program was created, 5.5 positions were authorized. There are currently only 3.5 positions in the Program. With thousands of young people becoming Millennium scholars, the staff cannot keep up. We are asking for support staff to assist with the workload.

CHAIR RAGGIO:

How does that affect the 2-percent administrative cap within the Program? Current projections would indicate a reduction to zero funding sometime in 2006. Will you be in compliance with the cap at that time?

MS. MURPHY:

Because of the 2-percent cap in the current NRS, we were unable to build a budget with the zero-percent funding projection. We based our budget on a bill draft request (BDR) that will propose a change in the administrative cap to 3 percent of anticipated revenue. That is similar to the Fund for a Healthy Nevada.

CHAIR RAGGIO:

If the Legislature does not pass the BDR, you would not be in compliance?

MS. MURPHY:

That is correct.

MR. KROLICKI:

The BDR does not change the funding amount, but will allow our budget to comply with the law.

SENATOR CEGAVSKE:

In your testimony you stated other grants and programs would be looked at for the Millennium scholars. If a student has other funding, would they still be authorized for use of the full \$10,000 scholarship?

MR. KROLICKI:

The Legislature can make its own decision. My proposal would not do that. The Millennium Scholarship is \$10,000. I am suggesting accessing other financial aid available through federal programs. By using the federal funds first, it would cause the consumption of the \$10,000 Millennium funds to extend over a longer period of time which will assist the cash flow of the Program.

SENATOR CEGAVSKE:

My concern is how would refunds to the millennium scholars be addressed in the situation where additional federal grants are used?

CHAIR RAGGIO:

We will close the hearing on the MSP and turn to the budget on unclaimed property.

SENATOR MATHEWS:

I acknowledge the Treasurer and I disagree on some points, but I need to see the written information. With that said, you have done a good job.

Unclaimed Property – Budget Page ELECTED-144 (Volume I)
Budget Account 101-3815

CHAIR RAGGIO:

Is there a list of individuals who are entitled to receive funds from this account?

MR. KROLICKI:

We are requesting one additional auditor position to be based in Carson City. There are currently three auditors who are all based in Las Vegas. We anticipate an auditor based in Carson City would generate over \$800,000 each year in revenues. The General Fund share would be approximately \$460,000. If statistics continue as projected, approximately \$280,000 would be returned to the rightful owners.

CHAIR RAGGIO:

We will close the hearing on unclaimed property and open the hearing on the Nevada College Savings Trust. Is there a provision for a payback in this account?

Nevada College Savings Trust – Budget Page ELECTED-150 (Volume I)
Budget Account 605-1092

MR. KROLICKI:

There is a transfer from budget account 1092 to the Prepaid Tuition Account to amortize the loan of \$300,000 from the General Fund. This budget is straightforward.

CHAIR RAGGIO:

The budget proposes a payback of \$125,000 in FY 2006, and \$175,000 in FY 2007. Are we on track with the payback?

MR. KROLICKI:

That is correct.

CHAIR RAGGIO:

I will close the hearing on the Office of the Treasurer and open the hearing on the Controller's Office.

Controller's Office – Budget Page ELECTED-99 (Volume I)
Budget Account 101-1130

KATHY AUGUSTINE (State Controller, Office of the State Controller):

I will read from prepared testimony ([Exhibit D](#)). The mission of the Office of the State Controller 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 citizens with accurate and timely financial reporting and to foster leadership and professional guidance in the area of State fiscal policy.

Accomplishments of the Controller's office over the past biennium include the rollout phase of the Statewide Integrated Financial System (IFS) which created an ongoing training and support program for new users and enhanced the system with the introduction of the Discoverer reporting tool. This tool allows

agencies to produce ad hoc reports and obtain specific financial data outside existing report procedures.

We received the Government Finance Officers' Association *Certificate of Achievement for Excellence in Financial Reporting* for the sixth consecutive year. 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 receivables. We have returned \$3.6 million to the State through the program.

The new fee of \$25 for insufficient funds checks went into effect January 1, 2004, and is estimated to generate over \$80,000 in additional revenue over the biennium. The *Executive Budget* contains a request to extend the \$25 returned check fee to cover electronic payments and credit card payments that are returned.

We have reorganized the Vendor Services unit to provide faster and more accurate processing of vendor information. Among other benefits, the reorganization eliminated all vendor duplications reducing the total number of vendors in the database by 25 percent.

KIM HUYS (Acting Chief Deputy Controller, Office of the State Controller):
I will read from prepared testimony ([Exhibit E](#)). The budget requests are few, due, in part, to achieving certain efficiencies in our operations.

Specific improvements include the elimination of between 10 and 15 sets of microfiched financial reports; the rollout of journal voucher entries to all State agencies; the increase of the availability of the data warehouse from 11 to 14 hours each day with a goal of 24-hours service each day except for scheduled maintenance; the vendor file cleanup and a 22-percent reduction in the number of 1099s issued.

In 2004, office staff assisted the Division of Child and Family Services in clearing 2,300 stale-dated warrants from the books totaling \$317,875.

Enhancement requests are focused on technology improvements, software and hardware replacements. The other enhancement request involves creating a new classification in the accountant series to retain and recruit qualified staff to produce the annual report.

The office is proud to have reverted nearly \$350,000 to the General Fund over the last two fiscal years.

STEVE JACKSON (Chief Accountant, Integrated Financial System/Operations, Office of the State Controller):

Please refer to ([Exhibit F](#)) titled State Controller's Office Statistics Fiscal Years 2003 and 2004. The statistics quantify various activities within the State Controller's office. The first several items depict numerical activities and the remainder represents budgetary figures.

A significant decrease was achieved in the issuance of 1099s from 4,682 in FY 2003 to 3,637 in FY 2004.

The next page of [Exhibit F](#) lists the Distributive School Account payments from May 1999 through April 2005. Prior to the previous quarter, the payments were made monthly due to lack of funds. The last payment was made as a quarterly payment and on time. We are optimistic that trend will continue.

ALEX ECHO (Data Processing Manager, Information Technology Division, Office of the State Controller):

E-275 Maximize Internet and Technology – page ELECTED-102

I will refer you to ([Exhibit G](#)) titled State of Nevada Controller's Office testimony of Controller's Office Budget 101-1130. The disk upgrade for the statewide financial data warehouse is needed to meet data retention commitments in the office. Once ten years of data has been accumulated and stored, there will never be fewer than ten fiscal years in the 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 schedule is the Chart of Accounts tables that will be kept indefinitely. To store ten years of closed fiscal data, we must have up to two open fiscal years of data. There must be storage space for 12 years of data before any data can be purged and disk space reused.

At present there are five full years of data on the data warehouse storage system. The addition of new disc space will allow for data and software growth and leave ample working space for database operations, including large sorts, re-indexing operations and hot backups.

E-276 Maximize Internet and Technology – Page ELECTED-102

This decision module will allow the purchase of extra licensing to add 50 additional users to the Vista-Plus on-line report system. The report system is a Web-based method for agencies to electronically receive financial reports traditionally reported on green bar paper. We are approaching the 300-user limit in licensing as a growing number of people in more agencies request financial reports, and the licensing must be increased. The benefit of having the ability for 350 users of the system is that those users would not need to receive a multitude of green bar printouts. Some reports are large and often only the summary page is used.

CHAIR RAGGIO:

Is the cost of the enhancement \$12,000 over the next biennium?

MR. ECHO:

That is correct.

E-710 Replacement Equipment – Page ELECTED-102

As indicated on the second page of [Exhibit G](#) and in the *Executive Budget*, Decision Unit E-710 would replace personal computers, software and a server. The departmental server must be replaced according to State guidelines for liability, interoperability and maintenance purposes.

Personal computers for our employees who are either power users or technology users must be replaced according to State guidelines.

The assaults on personal computers, networks, and e-mail systems continue to be more sophisticated and destructive, and we must stay current in our protective software. Office productivity software must be current for reliability, compatibility, interoperability and for support in compliance with State standards. Development of software for the technology users such as Microsoft Front Page and Adobe Acrobat also need to be kept up to date.

CHAIR RAGGIO:

The request is for \$56,000 in FY 2005 and over \$52,000 in FY 2007. Has that been analyzed by staff?

MR. GHIGGERI:

Those requests have been analyzed.

SENATOR BEERS:

Your performance indicators in 2004 included a fairly steep projection of having the IFS available to users during stated hours for 95 percent of the time. The actual availability is shown for the system as being available for 99 percent of the time. Are you responsible for that achievement?

MR. ECHO:

My staff has to be given credit for the achievement. We have some of the best technicians in the Information Technology industry working for the State Controller's office.

MS. AUGUSTINE:

All of the performance indicators for our office achieved higher than the projections.

Ms. Brenda Laird will discuss a new position classification of accountant IV. The position is needed for the Comprehensive Annual Financial Report (CAFR) accounts.

BRENDA LAIRD (Chief Accountant, Financial Reporting Division, Office of the State Controller):

E-805 Classified Position Reclassifications – Page ELECTED-103

As indicated in [\(Exhibit H\)](#) titled State of Nevada Controller's Office Testimony for Controller's Office Budget 101-1130, there is an inequity within the accountant III positions in the State in terms of duties, responsibilities, and extent of financial reporting. The goal is to eliminate the inequities by upgrading the CAFR accountants to recognize the greater level of expertise and responsibility required. The action is necessary to recruit and retain the quality employees needed.

In comparison, CAFR accountants employed by local governments receive higher compensation than that paid to State CAFR accountants. 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. These include approximately 100 funds and 10 fund types. Of the remaining State agencies that generate audited financial statements, they do not have the capability or expertise for in-house preparation and must pay an audit firm to perform the function. In preparation of the CAFR, the accountants

must comply with and implement standards established by the Governmental Accounting Standards Board (GASB). The GASB is the highest level of authority, and the complexity of statements issued by GASB has increased significantly in recent years.

When the accountant classification was established in 1993, the GASB issued 17 statements. There are now 46 statements, or an increase of 28 statements over a 12-year period. One of the most recent statements, GASB 34, was the most significant and controversial statement implemented in the history of governmental accounting. The Controller's office accountants were required to implement the statement for the entire State.

In summary, the accountant IV classification would be distinguished from the accountant III by the greater scope of responsibility, level of decision making and complexity of work.

CHAIR RAGGIO:

What will be the distinction between your position and the newly proposed classification? How many positions would be reclassified?

MS. LAIRD:

We are proposing to reclassify eight positions. To qualify for the accountant IV classification, the individual must meet certain requirements including a certain number of years' experience in preparation of the CAFR. Some individuals may not meet the experience requirements right away.

CHAIR RAGGIO:

In an analysis prepared by our staff, it appears you are requesting \$120,000 in General Fund increases to reclassify ten existing classified positions. What happens to the chief accountant position? Will it be upgraded from grade 41 to grade 42?

MS. LAIRD:

That is correct.

CHAIR RAGGIO:

Would the title of chief accountant be changed? One management analyst II position is requested to be changed to an agency information specialist II and a management analyst III to an agency specialist III.

MS. LAIRD:

The two management analyst positions are in the final phases of being reclassified.

CHAIR RAGGIO:

Have all the position reclassification requests been submitted to the Department of Personnel (DOP)?

MS. LAIRD:

We have had discussions with the DOP, but when a formal request is submitted to them, any salary adjustment is retroactive to that submission date. Without the funding in the current budget, the documents have not been submitted.

We anticipate a title distinction to occur for the position of chief accountant changing it to a chief accountant IV who produces comprehensive financial reporting for the State.

CHAIR RAGGIO:

The accountant III positions would be upgraded to accountant IVs?

MS. LAIRD:

A new classification of accountant IV would be created.

CHAIR RAGGIO:

Will the DOP establish the classification specifications for the accountant IV classification?

MS. LAIRD:

That is correct. We have had discussions with the DOP and they are position neutral at this time concerning the request.

MS. AUGUSTINE:

The reclassification summaries have been included in the State Controller's Office Request to Create CAFR Accountant IV Position ([Exhibit H](#)). The reclassification would only apply to accountants who prepare the CAFR report within the Office of the State Controller.

The totals on debt collections have been submitted and are also included in the handout titled State Controller's Office Debt Collection Totals through February 7, 2005 ([Exhibit I](#)).

CHAIR RAGGIO:

You mentioned in your testimony that the target collection cost has been lowered which had been approximately 45 cents and is now 17 cents. How are you able to quantify that significant reduction?

CHRISTIE THOMPSON (Chief Accountant, Debt Collection Division, Office of the State Controller):

The high collection cost came when preliminary figures were all that was available on the collection figures. Only \$55,000 was collected in 2001. Currently, collections are at a rate of \$100,000 each month.

CHAIR RAGGIO:

Are there any significant State agencies that are not referring debt collection to the Office of the State Controller?

MS. THOMPSON:

We are working with the Department of Human Resources, Welfare Division, that will begin sending its debt collection needs. The only other agency is the Department of Employment, Training and Rehabilitation (DETR), that has only referred one account to our office.

CHAIR RAGGIO:

Do you have a dialogue established with these agencies?

Ms. THOMPSON:

We have had discussions with the DETR which has an in-house collections program and prefers it that way.

Ms. AUGUSTINE:

We have provided the Committee with a list of the 23 agencies, boards and commissions that have entered into interlocal contracts with our office and are using our services as seen in [Exhibit I](#).

CHAIR RAGGIO:

What period does that cover?

Ms. AUGUSTINE:

These agreements represent the contracts entered into since the beginning of the debt collection program and we continue to add agencies. The Over 60-Day Receivable Report ending September 30, 2004, shows \$150,783,458 still owed to the State.

CHAIR RAGGIO:

What amount of the \$150,783,458 is actually collectible?

Ms. AUGUSTINE:

We believe most of that amount is collectible because our receivable reports have become more sophisticated as agencies are writing off bankruptcy debts.

CHAIR RAGGIO:

What has to be done to reduce the outstanding receivables amount?

Ms. AUGUSTINE:

We are completely dependent upon what the agencies choose to turn over to the Office of the State Controller. Once a debt is our responsibility, we send those debts that are not collectible in house to our contracted debt collection agency. Most payroll overpayments are done in house and the rest are sent to OSI Collection Services, Inc.

CHAIR RAGGIO:

Do you have a list for the Committee of the agency breakout within the \$150,783,458 collectibles amount?

Ms. AUGUSTINE:

We can provide that information to the Committee. The report provided will be current through December 31, 2004.

CHAIR RAGGIO:

If that much in potential receivables exists, why are the agencies not proceeding with collection? I have never understood, with that amount in potential collectible, why so little is recovered.

Ms. AUGUSTINE:

Our office does not have the authority to collect for the agencies unless they refer the debt to our office. That is why we provided the list of 23 agencies that are referring their debt to our office. There is no mandate.

CHAIR RAGGIO:

How does your office know what agencies have this amount owed to them? How do you know what amount is collectible and what amount must be written off?

Ms. AUGUSTINE:

We have the authority to require each agency to submit a quarterly receivable report. We have received those reports over several years. These agencies have written off certain debts such as those involved in bankruptcy. We believe the potential collectibles figure to be accurate.

CHAIR RAGGIO:

Do the potential receivables figures represent debt that has not been written off?

Ms. AUGUSTINE:

That is correct. The amount was much higher at one point.

CHAIR RAGGIO:

Can staff provide clarification on this point?

MR. GHIGGERI:

I do not have specific information with me today, but I have reports in my office provided by the State Controller.

CHAIR RAGGIO:

Please have staff of the Fiscal Analysis Division contact the agencies and determine what portion of the \$150,783,458 they deem is collectible.

MR. GHIGGERI:

I will do that.

Ms. AUGUSTINE:

Our office has provided the Committee with a document indicating projected costs if our agency were to remit refund checks to citizens as proposed by the Governor ([Exhibit J](#)).

After meetings with the Department of Motor Vehicles (DMV) and the Office of the State Treasurer, we have estimated our costs for laser printing approximately 2,066,546 rebate checks. [Exhibit J](#) indicates the cost to our office for total equipment and consumables for those checks in the amount of \$459,034. The estimated labor that includes overtime, extra help and facility preparation is \$50,000. The total cost for our office to issue the rebate checks will be \$509,034 or a cost of 24.6 cents for each check. If checks have to be reissued because of returns, estimated at approximately 5 percent or 100,000 checks, we would incur another \$5 in cost for each check reissued, or a total of \$500,000.

CHAIR RAGGIO:

You are suggesting a total potential cost of over \$1 million?

Ms. AUGUSTINE:

The initial issue would be approximately \$509,000.

CHAIR RAGGIO:

Why is the initial cost for each check 24.6 cents and \$5 for a reissued check?

Ms. HUYS:

The fixed cost of issuing the check remains the same, but a reissuance incurs additional labor costs. A reissue requires research and certain additional paperwork.

CHAIR RAGGIO:

This is the cost that would be incurred by the Controller's office only in the event of a rebate program?

Ms. AUGUSTINE:

That is the Controller's cost only.

The DMV has also prepared their cost estimates of slightly more than \$205,817 for their telecommunication charges. The DMV will provide the Committee its cost figures.

The DMV and the Controller's office believe the checks should only be issued for 90 days before going stale. The State Treasurer would then be extended to 180 days. The Controller's office has provided a check-clearing pattern analysis in [Exhibit J](#) indicating the greatest number of checks are cleared within 90 days.

CHAIR RAGGIO:

What is the request for a letter of ruling from the Internal Revenue Service (IRS) included in [Exhibit J](#)?

Ms. AUGUSTINE:

The Controller's office has a new deputy attorney general, Mr. Jesse Wadhams, who provided our office with the memo dated February 4, 2005. He has determined our office cannot go to the IRS for a letter of ruling because the associate offices ordinarily do not issue letter rulings on a matter involving the federal tax consequences of any proposed federal, state, municipal or foreign legislation. Until legislation becomes law, we cannot request a ruling from the IRS.

SENATOR BEERS:

Regarding the cost of \$459,000 for equipment and consumables, would some of the printers be sold to recoup a certain amount of that cost?

Ms. AUGUSTINE:

The cost reflects leasing of laser printers for the rebate project rather than a purchase.

SENATOR BEERS:

Could Mr. Wadhams cast the case as extraordinary and bypass the word "ordinarily" in his memo included in [Exhibit J](#)?

Ms. AUGUSTINE:

One of our accountants, Mr. Nathan Palani, has prepared an analysis of potential 1099 reporting responsibilities and issues in a letter to you. He recommended the LCB research these issues, and, if necessary, obtain a private

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letter ruling from the IRS. We believe that would be within the authority of the Legislature.

CHAIR RAGGIO:

I received a facsimile from Mr. Randy Black ([Exhibit K](#)). It is a request for a bill draft from the Nevada Military Advocacy Commission to Governor Guinn. The Committee will consider a Committee bill draft introduction on February 14, 2005.

There being no further business to discuss at this time, I hereby adjourn the meeting at 10:24 a.m.

RESPECTFULLY SUBMITTED:

Cindy Clampitt,
Committee Secretary

APPROVED BY:

Senator William J. Raggio, Chair

DATE: _____