

**MINUTES OF THE
JOINT SUBCOMMITTEE ON GENERAL GOVERNMENT
OF THE SENATE COMMITTEE ON FINANCE
AND THE ASSEMBLY COMMITTEE ON WAYS AND MEANS**

**Seventy-third Session
April 6, 2005**

The Joint Subcommittee on General Government of the Senate Committee on Finance and the Assembly Committee on Ways and Means, was called to order at 8:00 a.m. on Wednesday, April 6, 2005. Chair Bob Beers presided 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.

SENATE COMMITTEE MEMBERS PRESENT:

Senator Bob Beers, Chair
Senator Dean A. Rhoads
Senator Bob Coffin

ASSEMBLY COMMITTEE MEMBERS PRESENT:

Ms. Kathy A. McClain, Chair
Mr. Lynn C. Hettrick
Mr. Joseph M. Hogan
Ms. Ellen M. Koivisto
Mr. Bob Seale

COMMITTEE MEMBERS ABSENT:

Mr. Morse Arberry Jr. (Excused)

STAFF MEMBERS PRESENT:

Steven J. Abba, Principal Deputy Fiscal Analyst
Laura Freed, Program Analyst
Bob Guernsey, Principal Deputy Fiscal Analyst
Anne Vorderbruggen, Committee Secretary

OTHERS PRESENT:

Mary Keating, Administrator, Administrative Services Division, Department of Administration
Greg Smith, Administrator, Purchasing Division, Department of Administration

CHAIR BEERS:

We will be doing budget closings today. You have received a copy of the "Joint Subcommittee on General Government, Closing List #1" ([Exhibit C](#)).

ADMINISTRATION

Merit Award Board – Budget Page ADMINISTRATION-25 (Volume I)
Budget Account 101-1345

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Purchasing – Equipment Purchase – Budget Page ADMINISTRATION-76
(Volume I)
Budget Account 718-1364

ASSEMBLYMAN HETTRICK:

There are no changes to budget account 101-1345, and the recommendation is to eliminate budget account 718-1364.

ASSEMBLYMAN HETTRICK MOVED TO RECOMMEND TO THE FULL COMMITTEE TO ELIMINATE BUDGET ACCOUNT 718-1364 AND CLOSE BUDGET ACCOUNT 101-1345 AS RECOMMENDED BY STAFF.

ASSEMBLYMAN SEALE SECONDED THE MOTION.

THE MOTION CARRIED. (ASSEMBLYMAN ARBERRY WAS ABSENT FOR THE VOTE.)

Deferred Compensation Committee – Budget Page ADMINISTRATION-22
(Volume I)
Budget Account 101-1017

LAURA FREED (Program Analyst, Fiscal Analysis Division, Legislative Counsel Bureau):

Refer to pages 2 and 3 of [Exhibit C](#). The Deferred Compensation Fund provides reimbursement for operational expenses of the Deferred Compensation Committee. The members of the Deferred Compensation Committee manage the investment options, performance and issues dealing with the providers of deferred compensation for state employees.

There is only one technical adjustment in this budget account. It decreases the amount paid to the Administrative Services Division by \$1,172 each year due to a reduction in the Administrative Services cost allocation.

There is one closing issue in this budget account. The Budget Division has suggested eliminating the Attorney General (AG) cost allocation for the upcoming biennium. This represents a decrease of \$24,403 in each year. The Budget Division recalculated deferred compensation's AG cost allocation and it would be approximately \$55,000 a year. The reserve in the budget is for the new request for proposals (RFP) for deferred compensation vendors. This occurs every five years. The next RFP is scheduled for fiscal year (FY) 2008. Department of Administration staff have indicated it will cost as much or more than the FY 2003 RFP which cost \$117,000. They wish to use the \$24,000 in the budget for the AG cost allocation to pay a portion of the cost of the 2008 RFP for new vendors.

Does the Subcommittee wish to approve the suggestion of the Budget Division and permit the deferred compensation budget to move its AG cost allocation into reserve with the understanding the AG cost allocation will not be assessed this biennium?

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CHAIR BEERS:

If we wanted to keep the AG cost allocation and create a \$120,000 balance to fund the FY 2008 RFP, would we have to increase the administration charge?

MARY KEATING (Administrator, Administrative Services Division, Department of Administration):

I am the chair of the Deferred Compensation Committee. The funding for the Deferred Compensation Committee comes from the contracted vendors, The Hartford and ING. We are in locked contracts with the vendors through December 31, 2007. At the time we negotiated those contracts in calendar year 2002, there had never been an assessment from the Attorney General. The rates the vendors are paying us cover the cost of our investment advisor. We have hired Segal Advisors to manage the investment side of the program. Our operating expense is approximately \$34,000 a year. If we were to pay the AG cost allocation, it would completely wipe us out and we would have no funding available to do the RFP.

There are approximately 9,800 state employees in this fund with \$300 million invested. We have 15 local government partners for another \$50 million. We feel it is our fiduciary responsibility to hire experts to handle the investments. The RFP for deferred compensation vendors cost \$117,000 in calendar year 2002. It will cost at least that much in calendar year 2007 when we renegotiate these contracts. State law requires that we do an RFP not less than once every five years. At that time, we will ensure there is funding to cover the AG cost allocation. We do not disagree that is a service for which we need to pay. It was not something we anticipated when we prepared the 2002 RFP because it had not been assessed in previous years.

CHAIR BEERS:

Why is the administration charge for the FY 2004-2005 work program about \$10,000 more than FY 2003-2004?

Ms. KEATING:

Our operating expense is approximately \$34,000. We also get \$25,000 a year split between the two vendors to build up the \$125,000 at the end of FY 2007. In addition, they pay us \$85,000 a year to cover the cost of Segal Advisors who provide our investment analysis.

CHAIR BEERS:

Why does your administration charge increase to \$151,253 in the FY 2004-2005 work program?

Ms. KEATING:

In FY 2005, The Segal Company is doing a compliance audit for us. We are spending an additional \$20,000 to make sure we are in compliance with the Internal Revenue Service (IRS) regulations. In the previous biennium when the budget came forward for Legislative approval, we left it at what it had been in 2002. So, the 2004 and 2005 budgets were the same as 2002. We do work programs to adjust for that. We have done several work programs in 2004 and there may be a work program in 2005. We will collect only what we are allowed in our contract which is \$1 per participant per quarter, \$25,000 to build the reserve for the next RFP and \$85,000 to cover Segal Advisors. Therefore, if

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we collect more than the \$140,914 at the end of FY 2006, we would do an accounting adjustment to make it correct. There is no ability for play in this budget account. It is exactly what the contracts require.

If we were to be charged the \$55,000 each year for the AG as recalculated by the Budget Division, we would wipe out the reserve and have no funding to do an RFP. Our committee members are concerned because investments are not our area of expertise. Ms. Laura Wallace, the Investment Officer from the Public Employees Retirement System, is the most qualified person on our committee.

CHAIR BEERS:
Are you using 500 hours of AG time a year?

Ms. KEATING:
That is what they billed us.

CHAIR BEERS:
Do you ever see anyone from the Attorney General's Office?

Ms. KEATING:
Yes, they spend a lot of time on deferred compensation matters. We have 15 local government partners. Those are all contractual obligations. A lot of work goes into managing this account. When the IRS changed the rules and allowed for portability, it required many changes to our plan document.

CHAIR BEERS:
Was that a onetime change?

Ms. KEATING:
Yes, it was.

CHAIR BEERS:
How much of the time spent is for onetime occurrences?

Ms. KEATING:
I did not go through and analyze onetime versus ongoing. There will be ongoing expenses. The legal department will be very involved in our RFP. In the next biennium this committee may come back to the Legislature with a request for professional management because it has gotten so large and there is so much money.

CHAIR BEERS:
Will that be funded by increasing the administration charge?

Ms. KEATING:
The administration charge comes from the vendors. It is by contract. We currently have two vendors, The Hartford and ING. They do bundled side-by-side plans. Bundled means they handle the investments and the administration. The Public Employees Retirement System is an example of an unbundled plan. They have an administrative staff which handles the administration and the accounting. They buy investment options directly from the market. Our goal is to add local governments. We have no administrative

charge from our vendors, but local governments are being charged because they have smaller amounts in their plan. By adding local governments, we would get a larger plan and they would get the benefit of not having an administrative charge. We will probably look at having an unbundled plan, hiring a company to handle the administrative matters and buying investment options directly from the market. It is most cost-efficient to do that. With mutual funds there are 12b1 fees and rebate fees that can be used to fund the program. We pay attention to what is done on the national level. When a plan reaches the \$500 million to \$700 million mark is when you should take a look at whether bundled is the best option.

CHAIR BEERS:

Do you anticipate we will eventually have a General Fund line item revenue source here?

MS. KEATING:

No, we never will.

CHAIR BEERS:

It appears the choice would be the state pays for the administration or it comes out of the contributions of the participants.

MS. KEATING:

It has always been intended this be a self-funding program and there be no General Fund. Not paying an AG assessment is a form of a General Fund appropriation. We discussed with the Budget Division the possibility of tracking that amount and doing a General Fund reimbursement when the next RFP is done. We understand we are responsible for paying our expenses. It is just that we are in the middle of a contract and this expense came up that we had not seen previously. I have been involved in this plan since 1984 and I have never seen an AG assessment. They did provide services but it was never anything for which the committee was directly charged. It is our intent to completely pay for all of our expenses.

CHAIR BEERS:

Do you anticipate using 1,000 hours of AG time in the next biennium?

MS. KEATING:

In the second half of the biennium, we would probably use several hundred hours but probably not 1,000 hours.

CHAIR BEERS:

That is a big difference. If you are expecting several hundred hours, that is reasonable. We can leave the budget with a \$25,000 per year AG cost allocation. Then you could get your reserve up to the \$110,000 you are looking at, add to it in the first part of FY 2008 and have enough money to do the RFP.

MS. KEATING:

It is not our desire to have only \$110,000. We are being advised in the market that it will cost at least as much as we paid for the RFP in 2002 which was \$117,000.

CHAIR BEERS:

We have added a thousand employees over the biennium so you would get several thousand dollars more from the administrative charge of \$1 an employee.

MS. KEATING:

I would not be comfortable trying to go to bid with only \$100,000 for this kind of plan. It is an expensive plan to manage from a consultant standpoint because of the activity, volume and dollars involved. Our counterparts in other governments are paying from \$100,000 to \$200,000 for consultants for this type of service.

CHAIR BEERS:

Our choices are to give you free legal services or loan you the money to a future biennium so you will have the funding available to go forward with hiring a consultant for your RFP.

MS. KEATING:

If the result of our bid for a consultant to do an RFP search exceeds our availability to pay, we would have to look at options. The only way we could get General Funds is to come back before the full Legislature. We are not eligible to go to the Interim Finance Committee.

CHAIR BEERS:

At that point we could loan you the money and you could build it into your next contract.

MS. KEATING:

The next Legislative Session will start in February of 2007. That is when we should already have a consultant on contract because they will help write the RFP for the vendors. It takes at least four to six months to go through the RFP search. If we change vendors as a result of that search, it takes 90 to 120 days to make that change. We envision starting the RFP process with the consultant 12 to 18 months before our contracts expire on December 31, 2007. If we wait until the next Legislative Session when we are out of funds, I am not certain we can get through the process fast enough.

The State of Nevada went into this plan in the 1970s. The state has been supportive and, until 2004, we never had an AG assessment. We are requesting that state support continue through the next biennium. At that point, we could enter into contracts that would recover all of the AG costs. When we prepared the RFP in 2002, we did not realize we needed to add the AG cost allocation because we had never been charged for it.

CHAIR McCLAIN:

We could consider a payback on the AG cost allocation.

MS. KEATING:

We would be willing to pay it back in our next contract and have that as part of our costs. We fully understand it is our responsibility to pay that.

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STEVEN J. ABBA (Principal Deputy Fiscal Analyst, Fiscal Analysis Division, Legislative Counsel Bureau):

We received information yesterday that about 250 hours of AG time have been allocated to this program according to the documentation we received on this recovery plan. We would like to further investigate that to see if it was appropriately recorded. Our office is presently doing that. This may be a premature recommendation. Staff's suggestion would be to close this budget with the staff technical adjustments, allowing staff to have an opportunity to look at the AG cost allocation of time plus the balance forward that Ms. Keating indicated has been assessed against the account and report back to the Subcommittee. I would also like to investigate the issue of the administrative charge to see if there is some flexibility in that.

ASSEMBLYWOMAN MCCLAIN MOVED TO RECOMMEND TO THE FULL COMMITTEE TO CLOSE BUDGET ACCOUNT 101-1017 AS PRESENTED ON PAGES 2 AND 3 OF [EXHIBIT C](#) WITH STAFF TECHNICAL ADJUSTMENTS, AS RECOMMENDED BY STAFF.

SENATOR COFFIN SECONDED THE MOTION:

THE MOTION CARRIED. (ASSEMBLYMAN ARBERRY WAS ABSENT FOR THE VOTE.)

Purchasing – Budget Page ADMINISTRATION-70 (Volume I)
Budget Account 718-1358

MS. FREED:

The technical adjustments in this budget account are all in the Base Budget. Staff recommends reducing revenue in the warehouse space rental general ledger to \$1,813 in each year to reflect the correct rent received by the Purchasing Division from the Commodity Food Program. Staff recommends decreasing the administrative services cost allocation by \$15,223 in FY 2006 and \$15,225 in FY 2007 due to a reduction in the administrative services cost allocation for the Administrative Services Division. Staff recommends increasing the intra-agency cost allocation transfer to the Commodity Food Program to align the transfer from the Purchasing Division with the revenue received in the Commodity Food Program. There are no major closing issues in this budget. Staff recommends closing the budget account as adjusted.

E-225 Eliminate Duplicate Effort – Page ADMINISTRATION-73

Enhancement unit E-225 replenishes \$5,000 in funding for specification inspection which allows a purchasing buyer and a staffer from the agency purchasing the goods to inspect the goods before delivery.

CHAIR BEERS:

Why is that an enhancement unit? If it is something we have established, should it become a Base unit?

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GREG SMITH (Administrator, Purchasing Division, Department of Administration):
When I took over the Purchasing Division, we were not aware money was available to us for this purpose. We were spending our in-state and out-of-state travel money on specification inspections. When we were made aware the money was available, we were advised this was the best way to reestablish the funding for specification inspection.

CHAIR BEERS:
What kinds of things are you inspecting?

MR. SMITH:
An example would be if we were to buy a \$300,000 line striper for the Department of Transportation (NDOT). This is a custom vehicle. When the process is about 20- or 30-percent complete, a member of our staff and a member of the NDOT staff would go to the plant and physically inspect the piece of equipment to make sure it is meeting all specifications. If there were any directed changes or change orders, it could be handled at that time rather than wait until it got delivered to the equipment yard in Sparks. This saves time and money and potential litigation caused by any confusion. This budget account gives us a small amount of money to draw from to travel to the various factories to look at what tend to be large onetime purchases.

ASSEMBLYMAN HOGAN:
In your revenue sources, you have "interagency transfer" and "other fund." Other than the state agencies to whom you provide services and advice, do the local government entities provide a revenue stream back to you for your services?

MR. SMITH:
We no longer charge for the services we provide to the local governments. The rural governments use our contracts substantially, but they do not go through us. We put the large contracts together and they can be used by the other governments. They go directly to the vendors.

ASSEMBLYMAN HOGAN:
That is like the U.S. General Services Administration model of setting up an existing schedule from which anyone can make purchases.

MR. SMITH:
It is very similar.

ASSEMBLYMAN HOGAN:
Is there any revenue coming to us from Washoe and Clark Counties for this service?

MR. SMITH:
Washoe and Clark Counties do their own purchasing. There are times when we will look to them to see if they have a contract that would be more advantageous to us. An example would be motorcycles for the Nevada Highway Patrol. There is a lot of cooperation among the different agencies.

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MS. FREED:

The Governor has recommended replacement equipment in enhancement unit E-710 in the amount of \$22,603 in FY 2006 and \$36,080 in FY 2007. That is 7 desktop computers, 1 laptop, 11 printers and a file server, along with associated software. Of the computers being recommended for replacement, one scheduled for FY 2006 replacement and the seven scheduled for FY 2007 replacement were purchased in March 2003. By the end of the biennium, they would not be four years old and ready for replacement under the Department of Information Technology's (DoIT) schedule. Does the Subcommittee wish to modify the Governor's recommendation and decrease the number of computers or approve the Governor's recommendation?

CHAIR BEERS:

Do we have the authority to approve the Governor's recommendation with a provision that the computers not be replaced until March 2007?

SENATOR COFFIN:

What is the generation of computers we are currently working with?

CHAIR BEERS:

The computers are two years old so they are probably Pentium 3s.

The \$5,000 in enhancement unit E-225 would also be included in the motion.

CHAIR MCCLAIN:

Would the motion also include the laptop, printers and file server being moved into 2007?

CHAIR BEERS:

No, it would be only the eight computers.

ASSEMBLYMAN HETTRICK MOVED TO RECOMMEND TO THE FULL COMMITTEE THAT BUDGET ACCOUNT 718-1358 BE CLOSED AS PRESENTED ON PAGES 5 AND 6 OF [EXHIBIT C](#), WITH STAFF TECHNICAL ADJUSTMENTS AND WITH THE PROVISION THE COMPUTERS BE REPLACED WHEN THE NORMAL AGE LIMIT IS REACHED, IN MARCH 2007.

ASSEMBLYMAN HOGAN SECONDED THE MOTION.

THE MOTION CARRIED. (ASSEMBLYMAN ARBERRY WAS ABSENT FOR THE VOTE.)

Commodity Food Program – Budget Page ADMINISTRATION-77 (Volume I)
Budget Account 101-1362

MS. FREED:

The Commodity Food Program administers the distribution of food received from the U.S. Department of Agriculture to needy families, rural Indian reservations and surplus products to food banks. Technical adjustments in this budget

include removal of terminal annual leave pay in accordance with the budget instructions, removal of \$73,456 in building improvements that was a onetime expenditure from the base year, addition of \$1,813 into the General Fund payback category to allow transfer of rent from the Commodity Food Program to the Purchasing Division, an adjustment to the revenue from the Purchasing Division to align the amounts in both budget accounts, increases in vehicle insurance costs and decreases in the administrative services cost allocation.

M-100 Inflation – Page ADMINISTRATION-78

Technical adjustments in enhancement unit M-100 include correcting the insurance amount to reflect the number of vehicles and the correct rate.

E-710 Replacement Equipment –Page ADMINISTRATION-80

In enhancement unit E-710, the technical adjustment is to adjust the price of technology equipment.

The Governor has recommended funding for nine computers, one laptop computer, one server, two printers, a router and associated copies of Microsoft Office as well as one electric pallet jack for the warehouse.

E-250 Working Environment and Wage – Page ADMINISTRATION-79

The Governor has recommended funding from the Commodity Supplemental Food Program grant for a new warehouse driver position in the Las Vegas warehouse. This is to keep up with caseload increases in the Commodity Supplemental Food Program.

ASSEMBLYMAN SEALE MOVED TO RECOMMEND TO THE FULL COMMITTEE THAT BUDGET ACCOUNT 101-1362 BE CLOSED AS PRESENTED ON PAGES 8 AND 9 OF [EXHIBIT C](#), WITH STAFF TECHNICAL ADJUSTMENTS.

SENATOR RHOADS SECONDED THE MOTION.

THE MOTION CARRIED. (ASSEMBLYMAN ARBERRY WAS ABSENT FOR THE VOTE.)

Mail Services – Budget Page ADMINISTRATION-93 (Volume I)
Budget Account 713-1346

MS. FREED:

There is only one technical adjustment in this budget account. That is the decrease in the administrative services cost allocation. There are no major closing issues.

E-710 Replacement Equipment – Page ADMINISTRATION-95

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Enhancement unit E-710 is for maintenance contracts on the equipment requested in the mail services equipment purchase budget.

E-805 Classified Position Reclassifications – Page ADMINISTRATION-96

Enhancement unit E-805 is a recommendation to increase a part-time student position to a full-time mail service clerk II. This position would be funded from reserve. Student workers under the age of 18 cannot be assigned to a state vehicle. The person in this position has to use a vehicle to be assigned to a mail route. The Division asserts that this position would help with reducing the overtime they have experienced. Does the Subcommittee wish to approve the Governor's recommendation, modify the position upgrade to a 0.51 FTE mail services clerk II or eliminate the position entirely?

E-900 Transfer to B/A 1385 – DOIT Computing – Page ADMINISTRATION-97

Enhancement unit E-900 is the transfer of one position out of this budget account and into the DoIT computer facility. This position is used exclusively to carry reports back and forth from DoIT.

CHAIR BEERS:

What is the title of this position?

MS. FREED:

This is a mail services clerk.

CHAIR MCCLAIN:

It amazes me there is so much paper produced it needs one person to deliver it all day long. Could we use electronic transfer of reports?

CHAIR BEERS:

Staff is working on getting an answer to that question. With regard to the part-time position in enhancement unit E-805, most of the overtime in this budget account has been incurred by one position and that person has retired.

MS. FREED:

In staff's review of the overtime and compensatory time payouts, during FY 2004 there were 142.25 overtime hours. The total payout for overtime and compensatory time was \$19,677. The average cost of overtime and compensatory time payout for FY 2002 through FY 2004 is \$16,128. If this position were upgraded, but remained at a 0.51 full-time equivalent position, it would cost approximately \$19,000 in FY 2006 and \$20,000 in FY 2007. It would not seem there is a great savings in adding this position in terms of reducing or eliminating the overtime and compensatory time payout.

CHAIR BEERS:

Has this position been vacant for three years?

MS. FREED:

It has been vacant since May 2002.

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CHAIR McCLAIN:

Given all those facts, I do not see much need to upgrade it and make it a full-time position.

CHAIR BEERS:

Is this position included in the vacancy savings expense reduction? Would we impact anything by eliminating this position?

MR. ABBA:

I do not believe this account has vacancy savings built into it. It is not a General Fund account. You could put vacancy savings of this position in here and keep the authority for the agency to hire if you like that as an option.

SENATOR RHOADS MOVED TO RECOMMEND TO THE FULL COMMITTEE TO CLOSE BUDGET ACCOUNT 713-1346 AS PRESENTED ON PAGES 10 AND 11 OF [EXHIBIT C](#), WITH STAFF TECHNICAL ADJUSTMENTS, WITH THE ELIMINATION OF ENHANCEMENT UNIT E-805 AND THE ELIMINATION OF THE PART-TIME STUDENT POSITION FROM THE BASE BUDGET.

ASSEMBLYMAN HOGAN SECONDED THE MOTION.

THE MOTION CARRIED. (ASSEMBLYMAN ARBERRY WAS ABSENT FOR THE VOTE.)

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Mail Services – Equipment Purchase – Budget Page ADMINISTRATION-99
(Volume I)

Budget Account 713-1347

MS. FREED:

The only technical adjustment in this budget account is the adjustment of prices for replacement computer equipment. There are no major closing issues and staff's recommendation is that this account be closed as adjusted.

E-710 Replacement Equipment – Page ADMINISTRATION-100

The expenditures in enhancement unit E-710 are to replace major components in the Mail Services' mail sorter and camera reader. This equipment applies the bar code which helps the state reduce its postage costs. They have asked to upgrade all of their postage accounting terminals in order to comply with U.S. Postal Service regulations.

ASSEMBLYMAN HETTRICK MOVED TO RECOMMEND TO THE FULL COMMITTEE TO CLOSE BUDGET ACCOUNT 713-1347 WITH STAFF TECHNICAL ADJUSTMENTS AS PRESENTED ON PAGES 12 AND 13 OF [EXHIBIT C](#).

ASSEMBLYWOMAN McCLAIN SECONDED THE MOTION.

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ASSEMBLYMAN SEALE:
Why is this budget not in with purchases rather than a separate account?

MS. KEATING:
In accordance with Office of Management and Budget Circular A-87, which are the federal cost rules, each type of service needs to have its own cost center. This is a different service than purchasing. It is mail service or communications. It is a separate fund and owns its own assets.

THE MOTION CARRIED. (ASSEMBLYMAN ARBERRY WAS ABSENT FOR THE VOTE.)

CHAIR BEERS:
There being no further business to discuss at this time, the meeting is adjourned at 8:45 a.m.

RESPECTFULLY SUBMITTED:

Anne Vorderbruggen,
Committee Secretary

APPROVED BY:

Senator Bob Beers, Chair

DATE: _____

Assemblywoman Kathy A. McClain, Chair

DATE: _____