

**MINUTES OF THE
SENATE COMMITTEE ON FINANCE**

**Seventy-third Session
May 26, 2005**

The Senate Committee on Finance was called to order by Chair William J. Raggio at 8:08 a.m. on Thursday, May 26, 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

GUEST LEGISLATORS PRESENT:

Assemblyman Bernie Anderson, Washoe County Assembly District No. 31
Assemblywoman Barbara E. Buckley, Clark County Assembly District No. 8
Assemblywoman Chris Giunchigliani, Clark County Assembly District No. 9

STAFF MEMBERS PRESENT:

Gary L. Ghiggeri, Senate Fiscal Analyst
Bob Guernsey, Principal Deputy Fiscal Analyst
Anne Vorderbruggen, Committee Secretary

OTHERS PRESENT:

Lance R. Van Lydegraf
Donna Becker, Nevada Women's Lobby
Susan Hallahan, Chief Deputy District Attorney, Civil Division, Washoe County District Attorney's Office
Frank Siracusa, Chief, Division of Emergency Management, Department of Public Safety
John P. Comeaux, Director, Department of Administration
Kathy Burke, Washoe County Recorder
Madelyn Shipman, Nevada District Attorneys Association
Charles Chinnock, Executive Director, Department of Taxation
Jay L. Parmer, Regional Economic Development Council
Brian K. Krolicki, State Treasurer, Office of the State Treasurer
Scott Frost
Fred Gibson
Berlyn Miller, Vice Chairman, Commission on Economic Development
Douglas C. Thunder, Deputy Superintendent for Administrative and Fiscal Services, Department of Education
Rose E. McKinney-James, Clark County School District
Anne K. Loring, Washoe County School District

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CHAIR RAGGIO:

This morning we have a bill draft request (BDR) for funding for state parks for the Committee's consideration to introduce as a Committee bill.

BILL DRAFT REQUEST S-1473: Makes various changes to provisions providing funding for state parks. (Later introduced as [Senate Bill 517](#).)

SENATOR BEERS MOVED FOR COMMITTEE INTRODUCTION OF BDR S-1473.

SENATOR MATHEWS SECONDED THE MOTION.

THE MOTION CARRIED. (SENATORS COFFIN, RHOADS AND TITUS WERE ABSENT FOR THE VOTE.)

CHAIR RAGGIO:

The Committee also must consider concurrence or nonconcurrence with Assembly Amendment No. 695 to Senate Bill (S.B.) 93.

SENATE BILL 93 (2nd Reprint): Makes supplemental appropriation to Department of Motor Vehicles for unanticipated costs related to electronic payments in Fiscal Year 2004-2005 in administrative services. (BDR S-1196)

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

This legislation provides a supplemental appropriation to the Department of Motor Vehicles for credit card fees for fiscal year (FY) 2005. The Governor's recommended funding was \$1,770,000. The Senate Committee on Finance reduced that funding to \$1,400,000. The Assembly Committee on Ways and Means has further reduced that funding to \$1,300,000 based on more current information which indicates that will be the shortfall this fiscal year.

SENATOR MATHEWS MOVED TO CONCUR WITH ASSEMBLY AMENDMENT NO. 695 TO S.B. 93.

SENATOR RHOADS SECONDED THE MOTION.

THE MOTION CARRIED. (SENATORS TITUS AND COFFIN WERE ABSENT FOR THE VOTE.)

CHAIR RAGGIO:

Since our time is limited this morning, please be concise in your testimony. On bills that have been heard in other committees and referred to this Committee, please testify only on the fiscal impact.

We will open the hearing on Assembly Bill (A.B.) 386.

ASSEMBLY BILL 386 (1st Reprint): Revises provisions regarding obligation of child support and makes appropriation for audit of child support collection

and enforcement by Welfare Division of Department of Human Resources and district attorneys of this State. (BDR 11-1231)

ASSEMBLYWOMAN BARBARA E. BUCKLEY (Clark County Assembly District No. 8):
This bill, A.B. 386, makes sure a child support order follows the child even if the custodial parent changes. It also appropriates \$150,000 to contract with a qualified independent consultant to conduct a performance audit of the enforcement and collection of child support by the Welfare Division. Some of you have already heard this matter in the Senate Committee on Legislative Operations and Elections. I proposed this bill after receiving complaints all across the state from people who are not collecting child support. I was successful in getting Clark County to conduct an audit of the Clark County District Attorney's Family Support Division. A copy of that audit titled "Organizational Assessment of the Clark County, Nevada, District Attorney's Family Support Division, Draft Report, May 16, 2003" ([Exhibit C](#), original is on file at the Research Library) has been distributed to the Committee. The first several pages of the audit are a summary. The audit showed that collections per case, which is the benchmark of efficiency, have not increased since 1996 despite all the new tools we have for collection. According to the audit, we were below average on almost every measure of performance.

Funds are being requested to do a statewide audit. Our Welfare Division is the oversight agency. They use the Nevada Operations Multi-Automated Data System (NOMADS) system for the collection of this data. There are measures we could pass to streamline the process. An independent consultant would review the cases and look for patterns to help improve child support collection in the state.

CHAIR RAGGIO:

As a former district attorney, I am interested in and support what you are trying to do. What are the major changes in procedures proposed in section 1 of A.B. 386?

MS. BUCKLEY:

If a custodial parent, who has a child support order against the non-custodial parent, has to turn the child over to a grandparent, this bill would streamline the process so they would not have to go back to court to amend the child support order. This would make sure that even if the custody changes, the order would follow the child.

CHAIR RAGGIO:

What kind of agency or consultant is available to do this type of performance audit?

MS. BUCKLEY:

There are a number of nationally-recognized child support enforcement consultants. The Policy Studies Inc. group that prepared the audit for Clark County would be a possible contender along with any other qualified firms.

CHAIR RAGGIO:

How was the amount of \$150,000 determined?

MS. BUCKLEY:

That was a recommendation from Mr. Michael J. Willden, Director of the Department of Human Resources. We would also be eligible for matching funds from the federal government. Ms. Nancy K. Ford, Administrator of the Welfare Division, is present to answer any questions you may have.

CHAIR RAGGIO:

Why were changes made in section 1 of A.B. 386 from the original bill?

MS. BUCKLEY:

Many child support attorneys reviewed it and made suggestions for change. The intent is the same, but there was a lot of concern about the wording. This is a consensus.

SENATOR BEERS:

Did the audit identify changes that could be made in Clark County? Have improvements been made?

MS. BUCKLEY:

It did, and they are working on it. There are many reasons why it is bad in Clark County. The state transferred 20,000 to 40,000 cases to the county that were not in good shape. They say the problem is staffing. If we do better, we will get more matching funds from the federal government to hire more staff. However, because we are doing poorly, we cannot get the matching funds to hire more staff. I think things are a little better, but we have a long way to go.

LANCE R. VAN LYDEGRAF:

I am an attorney in Reno, Nevada. I have been practicing law for 30 years, and a large portion of my practice is in family law matters. I am here only to object to section 1 of A.B. 386. If A.B. 386 is passed in this form, it will create a virtual "Pandora's Box" of surprises in child custody and child support litigation. It would implicate new parties in divorce cases who are not presently parties to those actions and require our district courts, which are already overburdened with child support and child custody issues, to have to create a framework whereby this new third party, who somehow gets lawful legal custody, becomes a party to the existing court order.

Under our present system, there are two parties to a divorce action, the mother and the father. When a mother or a father asks the state for assistance, the Welfare Division is assigned the right to collect support by the custodial parent. Instead of the bill that is before us, an effective and simple solution to the entire purpose of A.B. 386 would be assignment by the custodial parent. This bill runs counter to the legislative mandate that there be joint legal and physical custody of children because it is in the best interest of a child to have maximized contact with both parents. This bill takes the duty to support a child, which is the obligation of both parents, and places it on only one parent. The parent who has lawful physical custody and transfers it to a third party is not being asked to pay support to the child, although they also have a duty. How will a child be lawfully transferred when there is a legal court order that states the court has awarded joint legal and physical custody to two parents? How does one of those parents lawfully transfer custody to a third party without going back to the divorce court and asking that court to modify the custody order?

The first person who should be asked to have lawful custody of the child is the other parent. This bill presumes that a custodial parent, without concern about the non-custodial parent's rights, can simply transfer the child to a third party. When third parties get involved, the contact with the non-custodial parent is jeopardized. When a third party has custody and is collecting support, where can the noncustodial parent go to be allowed to see the child? They cannot go back to the divorce court because that third party is not a party to the divorce action. Please do not enact this bill. It will create a multitude of unintended problems.

CHAIR RAGGIO:

Mr. Van Lydegraf has made some salient points. The policy issues of this bill have not yet been discussed in the Senate, so we need to have some responses to the points he has raised.

SENATOR MATHEWS:

Did you testify on this bill in the Assembly?

MR. VAN LYDEGRAF:

I did not.

SENATOR MATHEWS:

Is this your first testimony in opposition to A.B. 386?

MR. VAN LYDEGRAF:

Yes, it is.

SUSAN HALLAHAN (Chief Deputy District Attorney, Civil Division, Washoe County District Attorney's Office):

Our intent with this bill is not to allow parents to legally change custody of their child. They would be changing physical custody of their child if they can no longer take care of the child and place the child with a grandparent. At this point, a non-custodial parent can come forward and seek custody of the child through the court system. This bill would not change that. This bill would get the child support to the adult with whom the child is living. It would not circumvent the legal custody a parent might have to gain custody of the child.

This is not a new concept. There are many states that are now focusing their attention on getting the child support to the child, including California, Utah, Montana, Arkansas, Missouri and Washington. This bill has been shown to the four District Court judges in Washoe County, none of whom have an objection to it. We are not proposing to prevent a parent from going to court and seeking legal custody. We are simply trying to get the child support to the adult who has physical custody of the child.

MR. VAN LYDEGRAF:

Assembly Bill 386 contemplates that the person with physical custody can seek modification of the child support obligation owed by the obligor parent. That is a serious implication. It does not seek support from the parent who just handed the child off to a third party. This passage of the child by the parent to a grandparent could be accomplished with a simple assignment.

MS. HALLAHAN:

That is currently addressed in *Nevada Revised Statutes* (NRS) 125B.040(1), which states, "The obligation of support imposed on the parents of a child also creates a cause of action on behalf of the legal representatives of either of them, or on behalf of third persons or public agencies furnishing support or defraying the reasonable expenses thereof."

CHAIR RAGGIO:

Would a court order be needed?

MS. HALLAHAN:

Currently, when a child is turned over to a grandparent, the Welfare Division is required to establish an order against the mother and the father. In the meantime, the child may be getting no financial support.

CHAIR RAGGIO:

Is not the noncustodial parent still required to pay child support to the custodial parent who could transfer the funds to the grandparent?

MS. HALLAHAN:

Yes, if the custodial parent chooses to transfer the funds.

DONNA BECKER (Nevada Women's Lobby):

I am a recent graduate of the University of Nevada, Reno, where I earned my Masters Degree in social work. I am interning as a lobbyist for Nevada Women's Lobby and the National Association of Social Workers, Nevada Chapter. Both organizations urge you to approve and fund A.B. 386. I am a single mother of two and I do not receive my court-ordered child support. I am owed over \$45,000 in back support. I have provided copies of my testimony in support of A.B. 386 ([Exhibit D](#)). I am urging you to support A.B. 386 for the child support audit.

CHAIR RAGGIO:

There being no further testimony, I will close the hearing on A.B. 386.

At this time, I will open the hearing on A.B. 313.

ASSEMBLY BILL 313 (1st Reprint): Makes various changes relating to expenditures required by disasters or financial emergencies. (BDR 31-1145)

ASSEMBLYMAN BERNIE ANDERSON (Washoe County Assembly District No. 31):

This legislation was introduced to accommodate the problems of natural disasters that may hit a community. The Disaster Relief Account would make available low interest loans at or below the market rate to persons who own and occupy homes that are damaged by a disaster. The Division of Emergency Management would set the standards for eligibility for the loans and requirements for repayment.

CHAIR RAGGIO:

Would A.B. 313 change the designation of the current Fund to Stabilize the Operation of the State Government to the rainy day fund?

MR. ANDERSON:
Yes, it would.

CHAIR RAGGIO:
Would the Disaster Relief Account be used to make low-interest loans?

MR. ANDERSON:
Yes, low-interest loans would be available to individuals. Communities faced with disasters that cannot be met by their budgets would also have access to the Disaster Relief Account through the Interim Finance Committee.

FRANK SIRACUSA (Chief, Division of Emergency Management, Department of Public Safety):

Over the last several years, the Division of Emergency Management has worked with local governments in recovering from emergencies and disasters. We have two funds, the Disaster Relief Account and a subaccount within the Disaster Relief Account called the Emergency Assistance Account. They provide financial assistance in the form of grants to county and local governments if a major emergency or disaster occurs. We have found that if we do not get a Presidential declaration which provides assistance to individuals and the Small Business Administration cannot provide assistance, there is no mechanism within the state system to provide either grants or low-interest loans to private home owners who have had their homes damaged. This bill allows up to 25 percent of the balance in the Disaster Relief Account to be used to provide low-interest loans to private home owners.

CHAIR RAGGIO:
Would this take money from the rainy day fund?

MR. SIRACUSA:
The statutes provide that a percentage of the interest earned on the rainy day fund goes to the Disaster Relief Account.

CHAIR RAGGIO:
Does the Governor support this proposal?

JOHN P. COMEAUX (Director, Department of Administration):
As far as I can determine, the Governor does not have a position on this. He has not indicated to me that he supports this bill.

CHAIR RAGGIO:
What does A.B. 313 change in the rainy day fund?

MR. COMEAUX:
The Disaster Relief Account is part of the rainy day fund. The last sentence of section 1 of subsection 2 of A.B. 313 states, "The Interim Finance Committee shall not approve a transfer of money to the revolving account that would result in a balance in the revolving account that is more than 25 percent of the balance of the Disaster Relief Account." This would not directly affect the rainy day fund, it would affect the Disaster Relief Account portion of the fund.

SENATOR BEERS:
The best parallel I can come up with for this program is the Western Interstate Commission for Higher Education (WICHE) which makes loans to people and

then tries to get them paid back. The WICHE program had a blistering audit from the Legislative Auditor within the last year. Making and collecting loans is outside the current functions of the state. There is a lot of paperwork. Would we put a limit on how much of the fund we can spend to administer the program?

MR. ANDERSON:

A better analogy would be the Federal Emergency Management Agency (FEMA). When a disaster is declared by the Governor and the President, there is an opportunity to make these kinds of funds available. This bill would put the Governor and the Interim Finance Committee into a similar position without the federal involvement. The process would be under the control of the Interim Finance Committee.

CHAIR RAGGIO:

Thank you for clarifying this. It is my understanding that the \$2 million a year that goes into the Disaster Relief Account is not available for these types of loans, and this bill would make funds available.

MR. SIRACUSA:

The Division of Emergency Management did not place a fiscal note with this bill because this is new ground to us. If this bill were to go through, we would propose that the Division work with the Interim Finance Committee to develop regulations and criteria for how these loans would be allocated. We would also recommend that the Division contract with a private lending institution to process the loan applications.

CHAIR RAGGIO:

Did you make that suggestion to the Assembly Committee on Ways and Means?

MR. SIRACUSA:

No, I did not. We did not have the opportunity to testify before the Assembly Committee on Ways and Means.

CHAIR RAGGIO:

Was a hearing not scheduled on this bill?

MR. SIRACUSA:

The hearing was scheduled, but we were not aware of the hearing date.

ASSEMBLYWOMAN CHRIS GIUNCHIGLIANI (Clark County Assembly District No. 9):

We have no problem with the suggestion to contract with a private lending institution. It would not make sense to hire an employee for what would not be an ongoing or consistent application, and the idea of contracting with a lending service might be a better alternative.

CHAIR RAGGIO:

The Interim Finance Committee does not develop regulations. That would not be the function of the Interim Finance Committee. There being no further testimony, we will close the hearing on A.B. 313.

At this time, we will open the hearing on S.B. 390.

SENATE BILL 390 (1st Reprint): Makes various changes regarding applicability and administration of certain taxes on transfers of real property. (BDR 32-760)

KATHY BURKE (Washoe County Recorder):

This bill is primarily technical. It helps with the administration of the real property transfer tax. The major fiscal impact of S.B. 390 was amended in the Senate Committee on Taxation by reinserting two of the exemptions. Section 1 of S.B. 390 helps the county recorders answer questions regarding the real property transfer tax, with help from opinions by the district attorney and the Attorney General, so that all the county recorders administer the real property transfer tax the same. My understanding is that Senator Terry Care questioned this on the Senate Floor, and the Nevada District Attorneys Association has an amendment that the county recorders have reviewed and approved.

CHAIR RAGGIO:

Ms. Madelyn Shipman has distributed to the Committee a document titled "Proposed Amendment to SB 390" ([Exhibit E](#)). What else does this bill do? It has been heard in the Senate Committee on Taxation and re-referred to our Committee, so we need to have an understanding of what the bill does and the fiscal impact. What are the exemptions?

Ms. BURKE:

Section 2 of S.B. 390 is basically a reword. The phrase, "A distribution of the separate property of a decedent pursuant to chapter 134 of NRS," has been added to line 28. That means when a court order would come in through the laws of succession, it would be exempt.

CHAIR RAGGIO:

Do the added items include an easement and a last will and testament?

Ms. BURKE:

An easement and a last will and testament were already exempted. A conveyance of an interest in gas, oil or minerals has been added. This is already exempt, but it was not included in the statute.

Section 3 is amended to provide that all counties may withhold 1 percent of the taxes collected for the cost of collecting the tax. The reason for the change in section 4 is to ensure that all 17 counties administer the declaration of value in the same manner. We have asked that the effective date of section 4 be January 1, 2006.

CHAIR RAGGIO:

Does section 5 add another exempt conveyance?

Ms. BURKE:

Section 5 rewords a current exemption. It is changed to read "... within the first degree of lineal consanguinity or affinity," so you could deed to a daughter and son-in-law, for example, without paying a transfer tax. This also includes spouses.

CHAIR RAGGIO:

Section 7 of S.B. 390 states that the district attorney is not required to give a legal opinion on a question if an opinion is requested from the Attorney General.

Ms. Shipman, would you please address the amendments you have proposed in [Exhibit E](#)?

MADELYN SHIPMAN (Nevada District Attorneys Association):

This bill originally had language relating to the county recorders being able to ask directly for an opinion from the Office of the Attorney General. The Nevada District Attorneys Association felt that since the district attorneys are already authorized under NRS 228.150 to request an Attorney General opinion, it should be brought through the district attorney's offices.

There is already a process in NRS 375 for how a taxpayer would appeal a determination of a county recorder. The proposed amendment to paragraph 3 of section 1 of S.B. 390 references the existing procedures in NRS 375.280.

CHAIR RAGGIO:

Are there any other proposed changes in this bill?

Ms. SHIPMAN :

No.

CHAIR RAGGIO:

A fiscal note was attached to the first bill. Apparently, there was a reduction in revenue. Is that correct?

CHARLES CHINNOCK (Executive Director, Department of Taxation):

After the first reprint of S.B. 390, there would be a minimal fiscal impact. There were some fees being charged by Clark County that would no longer be permitted. There has been an increase in the amount that can be charged in counties with populations of 100,000 or more. Overall, there would probably be very little fiscal impact.

CHAIR RAGGIO:

There being no further testimony, I will close the hearing on S.B. 390.

SENATOR MATHEWS MOVED TO AMEND AND DO PASS AS AMENDED
S.B. 390.

SENATOR COFFIN SECONDED THE MOTION.

THE MOTION CARRIED UNANIMOUSLY.

CHAIR RAGGIO:

Senate Bill 414 is before this Committee only for the fiscal impact. It was heard previously in another committee.

SENATE BILL 414 (1st Reprint): Creates Nevada Economic Resource Investment Fund. (BDR 18-1062)

JAY L. PARMER (Regional Economic Development Council):

With me are Ms. Gingee Prince of Enhanced Capital Partners and Mr. Scott Frost who is an entrepreneur and Vice President of his own company. He is also a founder and former Chairman of the Technology Business Alliance

of Nevada, and cofounder of the Vegas Valley Angels. We have given you a handout titled "Nevada Economic Resource Investment Fund, SB 414" ([Exhibit F](#)). The first section of [Exhibit F](#) is an environmental assessment of Nevada by the Federal Reserve Bank of San Francisco. This study makes some interesting assessments of where Nevada is in this area and justifies why we believe this program has validity.

The second portion of [Exhibit F](#) is a one-page explanation of how the Nevada Economic Resource Investment Fund (NERIF) would work. The NERIF would make \$30 million of at-risk capital available to Nevada-based small businesses and entrepreneurs. Investments from this fund would help close the capital gap that currently exists for small businesses seeking start-up, early stage and expansion capital. Under the program, a state-directed, privately-managed investment fund would be created to raise capital from private investors. The state would decide the economic development policy initiatives for the fund, and a private fund manager, chosen by the board through a rigorous request for proposals process, would raise the capital to create the fund. The investment fund is targeted to address the existing lack of early-stage capital within the state by making equity and debt investments in businesses located in the State of Nevada. The program is funded by tax credits at a rate of \$5 million each year, which are delayed for three years and then spread out over five years while investments are being made from the fund beginning in 2005. The fund does not require a direct appropriation out of the General Fund. Instead, it reduces the amount of premium tax revenue that flows into the General Fund beginning in 2008 at a rate of \$5 million each year for five years.

CHAIR RAGGIO:
Why is it delayed to 2008?

MR. PARMER:
The fund would be established immediately. The tax credits are granted but cannot be taken until FY 2008. That allows the fund to start up, the \$30 million to be raised and the money to be put to work in the state investing in businesses before the state has to start paying back the tax credit. It gives us a two-year head start on making the investments and generating the economic stimulus activity before the state has to repay the credit.

SENATOR MATHEWS:
How does this conflict with the responsibilities of the Office of the State Treasurer? We already have an elected official in that position.

MR. PARMER:
Page 4 of [Exhibit F](#) contains a chart showing the estimated annual premium tax revenue. The insurance premium tax revenue has been growing at a rate greater than anticipated. Hence, we identified an underestimate in the annual premium tax that comes into the General Fund. We would not be using General Fund appropriation money. We would be taking a portion of the over-collection of the premium tax revenue and applying it to the funding mechanism.

SENATOR MATHEWS:
That did not answer my question. Are you saying there would be no conflict with the Treasurer's responsibilities?

BRIAN K. KROLICKI (State Treasurer, Office of the State Treasurer):
This does not affect us in any way. We support this bill.

MR. PARMER:

The final page of [Exhibit F](#) is a cost/benefit analysis. We were asked by the Senate Committee on Government Affairs to assess the economic impact of this program. Professor Tom Harris of the Department of Resource Economics at the University of Nevada, Reno, prepared a conservative cost/benefit analysis on this program. The cost/benefit analysis estimates there would be a cumulative total of 1,371 jobs stimulated from this program. That estimate includes an attrition rate. The state and local tax impacts from that job creation would be \$36.3 million. The cost of the tax credits over the five years is \$25 million. We estimate there would be a net economic impact to the state of about \$11.3 million.

We have provided a handout titled, "Proposed Amendment to SB 414" ([Exhibit G](#)). The reason we are proposing this amendment is simply because the bill, as currently written, does not indicate the tax credits are not taken until FY 2008. We wanted to make it clear that the tax credits would not be taken from General Fund contribution estimates until FY 2008.

SENATOR BEERS:

If the state wanted to engage in some high-risk and presumably high-return investments, why would we not just have our Treasurer do it? That is why these venture capital funds are created. They are high risk, and usually only a small portion of the wealth of the person is invested in exchange for an occasional high return.

MR. KROLICKI:

The ability for the State to invest its money in a private enterprise is prohibited by the Nevada Constitution. These monies would never get to the General Fund to reach the constitutional prohibition.

SENATOR BEERS:

Why do you think that constitutional prohibition is there?

MR. KROLICKI:

I believe it goes back to the state's origin.

SENATOR BEERS:

I think it is there to avoid losing the State's investments. A less-skilled Treasurer may make investments of this nature and lose the State's money.

MR. KROLICKI:

I appreciate your comments. The Treasurer's job does not involve long-term money. The average duration of the portfolios under my care is one year or less. The Public Employees' Retirement System could make investments like this because they do not have a similar prohibition.

SENATOR BEERS:

I am having trouble distinguishing this proposal from the worst-case scenario that I believe motivated the constitutional prohibition. As I understand this bill, we would turn \$5 million a year into instant capital loss for the State.

MR. PARMER:

There are certainly risks associated with this fund. It is intended to address the funding gap in this state between seed or angel investors and traditional financing.

SENATOR BEERS:

I would interpret that as between very high-risk and conservative investment models or philosophies.

SCOTT FROST:

I am a native Nevadan, who has founded, funded and built several technology-related start-ups in Nevada. There is a thriving, but small, technology community in Nevada. We have active angel investors and private equity funds that provide seed capital for these ventures. Once those companies begin to grow and need growth capital but do not qualify for traditional bank financing, they seek venture capital. Because Nevada does not have a venture fund, they go where the venture funds reside which may be Utah, Arizona or California. One of the prerequisites of a venture fund that makes an investment in a start-up company is to sit on that start-up company's board and, more often than not, they will export that company to the state where the venture fund resides. As an investor and someone who has built these companies, I have watched this happen on several occasions where our best and brightest start-up companies have moved to California because they are following the funding.

SENATOR BEERS:

Switch Communications Group in Las Vegas is a company that found start-up and expansion capital in Las Vegas, still resides in Las Vegas and is definitely a high-technology company.

MR. FROST:

That is one example. They were fortunate to find deep-pocketed angel investors. They had something very few start-ups have, which is cash flow from the beginning. Mr. Rob Roy has done an excellent job with Switch Communications Group. He also benefited from market timing. He was literally the last man standing, so he inherited many accounts from other people.

Heart Track was a promising diagnostic technology company that was trying to find a home in Nevada. They got angel financing and left when the company was funded by a biotechnology fund from San Diego. Another example is Louis Castle's Westwood Studios, a thriving graphics design firm with 200 employees. When they were bought by Electronic Arts, we had an opportunity to keep the company in Nevada if we had performed a land swap and provided money to construct a building on a campus to house the company. Mr. Louis Castle, the founder of that company, was frustrated because Nevada had no funds he could access to accomplish this. Therefore, 200 high-technology jobs were exported to southern California because Los Angeles was willing to provide a building and had the funds.

CHAIR RAGGIO:

We have an active Sierra Angels group that accepts many applications.

MR. FROST:

Nevada has two active angel investment groups that make investments of \$250,000 to \$500,000. It is the next round of \$1 million to \$2 million about which we are concerned. Those venture funds do not currently exist in Nevada.

SENATOR BEERS:

I am still trying to get around the fiscal impact of the instant \$5 million annual capital loss the state would be forced to undertake. Over five years, this would total \$25 million. That would put a lot of teachers to work or any of the other uses of our tax money. This would essentially be giving the money away without retaining any of the possible cash from the success of the companies that would be funded.

MR. PARMER:

Senator Beers and I have had several discussions regarding this, and I do not believe I will be able to change his mind. I would point out again the cost/benefit analysis in [Exhibit F](#). We think it would be a neutral-to-positive situation and would stimulate economic diversity by keeping companies in the state that would otherwise leave.

SENATOR MATHEWS:

What are the Economic Development Authority of Western Nevada and the other economic development agencies doing to help in this area?

MR. PARMER:

The regional economic development authorities market and do the outreach to companies that want to move here. Their job is to recruit and retain businesses coming to Nevada.

SENATOR MATHEWS:

Would this just take the investment part?

MR. PARMER:

This would become a tool for the regional economic development authorities working through the Commission on Economic Development. Should a business be interested in staying in or moving to Nevada, they could apply to that fund for money for capital construction, equipment acquisition or an equity investment. This could keep the company from moving their technology elsewhere to get funding.

CHAIR RAGGIO:

The bottom line is the State would be contributing \$5 million a year in revenue that would otherwise come to the General Fund. The State is not going to benefit directly as a result of the investment, other than the indirect benefits you indicated in the cost/benefit analysis.

MR. PARMER:

I think that is a fair assessment.

SENATOR COFFIN:

In the 1990s, we had a proposal before us that would allow investments in corporations. It was probably not as sophisticated as this proposal, but we put it before the voters, and the voters rejected it. This proposal would constitute

an investment by the State, whether directly or indirectly, that accomplishes the same thing that was put on the ballot and rejected.

MR. PARMER:

Your recollection of that is better than mine. Section 9 of Article 8 of the Nevada Constitution states that gifts or loans of public money to certain corporations is prohibited. This funding mechanism is a public/private partnership where the State would forego tax credits not coming from the General Fund. It would not be a General Fund appropriation, and the tax credits would be issued against the insurance premium tax collections. In this manner, it would not violate that provision of the Nevada Constitution. We have a legal opinion that supports this.

SENATOR COFFIN:

Is the legal opinion based on the fact you are going to intercept the insurance premium tax payments before they get into our General Fund, so, therefore, they are not in the General Fund?

MR. PARMER:

The funding mechanism would utilize insurance premium tax credits issued against the collection of insurance premium taxes. It would occur before the contribution to the General Fund. Because the Budget Division estimate for insurance premium taxes is about \$200 million a year and considerably more than that amount is being collected and that amount is expected to increase, a portion of the increase that is not already anticipated in the General Fund would be used and set aside to cover the tax credits.

SENATOR COFFIN:

I would be concerned about the idea that the money is not in the General Fund.

CHAIR RAGGIO:

Money that would otherwise go to the General Fund would be utilized for this purpose.

There being no further testimony, I will close the hearing on S.B. 414.

At this time, I will open the hearing on S.B. 463.

[SENATE BILL 463 \(1st Reprint\)](#): Makes various changes concerning use of revenues from disposition of unclaimed property. (BDR 30-578)

MR. KROLICKI:

Senate Bill 463 would allow economic development to be done in a way that has never been accomplished in Nevada. We would be taking monies that come through the unclaimed property program and using it to finance bonds that could be sold for economic development purposes. We envision that there would be about \$4 million to start this program. These are monies that would eventually flow to the General Fund, but we would hold them in this reserve.

CHAIR RAGGIO:

Is this also being considered as a funding source for the Millennium Scholarship program?

MR. KROLICKI:

Yes. Section 8 of S.B. 463 contains wording that would transfer the first \$8 million of revenue to the Millennium Scholarship Trust Fund.

No one in this country has financed bonds with unclaimed property monies, but we believe we have a model that works. We can generate approximately \$50 million to pursue models for research and development, such as the Georgia Research Alliance. These bonds would not constitute a debt of the State of Nevada and they would not count against the State limit. The bonds would be backed only by revenues of unclaimed property. We believe the way we have structured it and the parameters outlined in the bill would provide an investment-grade security.

CHAIR RAGGIO:

What would S.B. 463 fund?

MR. KROLICKI:

It would fund the mechanism to issue bonds backed by unclaimed property for economic development purposes. It also allows \$8 million to be taken off the top of the unclaimed property revenues to be put into the Millennium Scholarship Trust Fund.

CHAIR RAGGIO:

How much would be used for the investment?

MR. KROLICKI:

The amount of \$4 million would be slated to be held in reserve to back bonds. We believe \$4 million will allow about \$50 million of bond proceeds.

CHAIR RAGGIO:

Where is that stated in S.B. 463?

MR. KROLICKI:

Section 9, paragraph 1(b) states, "To the Unclaimed Property Pledged Revenues Fund created by section 7 of this act, the sum of \$4,000,000." In total, \$32 million was generated from unclaimed property in the last biennium. That was about \$16 million more than the Economic Forum had forecast.

CHAIR RAGGIO:

What fund would be created for this program and in what amount?

MR. KROLICKI:

The Unclaimed Property Pledged Revenues Fund would be created to back the bonds that would be issued. The process would go through the State Board of Finance, the Governor, Treasurer, Controller and two qualified people appointed by the Governor. We envision that a corporation would be established to implement the daily activities of this process.

CHAIR RAGGIO:

Would this be done at the end of each fiscal year?

MR. KROLICKI:

That is a way to start the fund. The parameters would be that only certain amounts for coverage ratio and investment grade purposes would be there. Any

profits and revenues generated from these activities would go back into the fund.

CHAIR RAGGIO:

Before we ask any questions, I want to make sure we understand this. On page 4 of the bill, starting at line 31, it reads as follows:

5. At the end of each fiscal year, the amount of the balance in the Abandoned Property Trust Fund in excess of \$100,500 must be transferred as follows:

(a) First, to the Millennium Scholarship Trust Fund created by NRS 396.926, the sum of \$8,000,000;

(b) Second, to the Unclaimed Property Pledged Revenues Fund ... an amount that in the opinion of the Administrator is sufficient to make all payments and deposits in connection with any bonds or other securities issued by the State Board of Finance pursuant to section 6 of this act for the immediately following fiscal year; ...

What is the amount referred to in section 6?

MR. KROLICKI:

The maximum amount in the first year could not be more than \$4 million. Part of the investment grading of the security is to have the year's debt service in hand prior to the beginning of the year.

CHAIR RAGGIO:

What happens in the succeeding fiscal years?

MR. KROLICKI:

We would review it with the Legislature. You would need to have revenues to cover 125 percent of the debt service of the existing bonds. That is capped at \$4 million at this point.

CHAIR RAGGIO:

Is the proposed cap \$4 million a year?

MR. KROLICKI:

For this biennium, it is \$4 million. After that, the program could be reviewed.

CHAIR RAGGIO:

Once the program is established, are you committed other than for the bonds?

MR. KROLICKI:

That would be up to future Legislatures. If bonds have been issued, that would be an obligation.

SENATOR BEERS:

My understanding is that the first step would be to take the \$4 million in proceeds from the sale of unclaimed property and show that as the first year's debt service for the bonds.

MR. KROLICKI:

The maximum amount this program could begin with to do the research and development envisioned under this model would be \$4 million. We estimate this would leverage about \$50 million in bonds.

SENATOR BEERS:

With the \$4 million pledged for this program in S.B. 463, would we have approximately \$50 million in notes at the end of the 2005-2007 biennium?

MR. KROLICKI:

Yes, that would be the maximum amount.

SENATOR BEERS:

What would be the length of those notes?

MR. KROLICKI:

That would have to be structured with the rating agencies. I envision 20 years, but it could be 10 years. This is a way to jump-start these activities as opposed to funding \$10 million every biennium. We suspect we could issue additional bonds and still have investment-grade securities.

SENATOR BEERS:

As I understand it, we would have a \$4 million obligation every year for 20 years because we have to pay that set of bonds.

MR. KROLICKI:

We would have to have 125 percent of the debt service payment to cover the next year's debt service. That would be approximately \$4 million.

SENATOR BEERS:

In a previous Legislative Session, did we not pass a bill reducing the amount of time we wait before taking unclaimed property?

MR. KROLICKI:

Yes. Some of the holding periods related primarily to financial institutions. The holding period before unclaimed property was transferred to the state was shifted from the five- to seven-year horizon to three years. There was a spurt two biennia ago because the holders of unclaimed property have the obligation to move it more quickly to the unclaimed property fund.

SENATOR BEERS:

Is the \$16 million reduced from the previous two year's proceeds?

MR. KROLICKI:

No, it is not. These revenues are continuing to come in at a pace we had not anticipated. The Legislature approved an additional audit position for us to educate and find the holders of unclaimed property who need to make these transfers. It is a bigger business and the team has done a phenomenal job in locating unclaimed property.

SENATOR BEERS:

What were we taking in on unclaimed property four years ago?

MR. KROLICKI:

We were taking in between \$7 million and \$9 million. For this biennium, the Economic Forum projected about \$16 million in revenue. We will be reverting approximately \$32 million in the current biennium.

SENATOR BEERS:

Do you not think the recent growth is due to a timing difference caused by a reduction in the waiting period before the unclaimed property is turned over to the State which will eventually catch up with us?

MR. KROLICKI:

No, I do not think it is a unique onetime occurrence. The Economic Forum for this next biennium sustains the level of revenue at \$28 million to \$30 million for the biennium.

CHAIR RAGGIO:

It should be pointed out that S.B. 463 provides, on page 5, that if there is insufficient money, the State Board of Examiners may authorize a temporary transfer from the General Fund.

FRED GIBSON:

The only additional information we have not shared with you is the recent report by the Pelican Institute which ranks states according to their ability to do technology and those kinds of things. They use 75 indicators. Nevada ranks 45th overall in the United States. In all 75 indicators, Nevada is below the median. If Nevada is going to be part of the new technology, now is the time to act.

BERLYN MILLER (Vice Chairman, Commission on Economic Development):

The Commission on Economic Development supports S.B. 463. The Georgia Research Alliance has been in effect in Georgia for 15 years. During that time, they have recruited 51 world-class scientists and placed them in 6 universities in Georgia. They have started 120 new high-technology companies in the state of Georgia and assisted another 150 companies. They have attracted \$2 billion in investment, and there is an annual economic impact of \$1 billion to the state of Georgia.

CHAIR RAGGIO:

There being no further testimony, we will close the hearing on S.B. 463 and open the hearing on A.B. 93.

ASSEMBLY BILL 93 (1st Reprint): Makes supplemental appropriation to State Distributive School Account for unanticipated expenses for Fiscal Year 2004-2005 for providing health care subsidies to retired school district employees. (BDR S-1187)

DOUGLAS C. THUNDER (Deputy Superintendent for Administrative and Fiscal Services, Department of Education):

Assembly Bill 93 responds to a request included in the *Executive Budget* to provide funding for the current year for retired employees' subsidies. Initially, the request was in excess of \$9 million. We have been able to reduce that to \$7.9 million after receiving the billings from the Public Employees' Benefits System (PEBS) for the past year.

CHAIR RAGGIO:

Has staff looked at the wording of the reversion provision on page 2?

MR. THUNDER:

There was a slight change in when the money would be reverted to the General Fund. This provides a more definite time period. The funding to be provided is indicated in section 2, at the bottom of page 2.

CHAIR RAGGIO:

Is the amount \$7.9 million?

MR. THUNDER:

That is correct.

CHAIR RAGGIO:

Has staff reviewed this bill?

MR. GHIGGERI:

The amendment was suggested by the Assembly Committee on Ways and Means. It has been reviewed by staff.

ROSE E. MCKINNEY-JAMES (Clark County School District):

I am here to offer our support for this measure, as amended. Our projection is that our costs in this regard are approximately \$6 million and this appropriation will cover our costs.

CHAIR RAGGIO:

This is included in the *Executive Budget*, but it needed to be adjusted.

MR. THUNDER:

That is correct.

SENATOR BEERS:

The state funds the subsidy with an assessment for each employee. Does this supplemental funding end up in any way being included in the dollars we spend for each student?

MR. THUNDER:

It would be included in the number reported to the federal government of overall expenditures. It is not currently part of the Distributive School Account.

SENATOR BEERS:

How is the subsidy determined?

MR. THUNDER:

The subsidy is determined by PEBS. We do not have access to the exact number and how it is calculated.

SENATOR BEERS:

Did the 2001 Legislature mandate that the counties that have employees who participate in PEBS subsidize the premium?

MR. THUNDER:

I believe it was the 2003 Legislative Session.

SENATOR BEERS:

Is the subsidy the same as it is for other retirees of PEBS?

MR. THUNDER:

Yes.

SENATOR BEERS:

Is a longevity formula applied in the same way it is to our retirees?

MR. THUNDER:

That information would have to be provided by PEBS.

CHAIR RAGGIO:

Would staff please obtain that information for the Committee?

There being no further testimony. I will close the hearing on A.B. 93 and open the hearing on A.B. 101.

ASSEMBLY BILL 101: Makes appropriation to Department of Administration for allocation to Nevada Commission for National and Community Service. (BDR S-1213)

Is the appropriation in A.B. 101 in the *Executive Budget*?

MR. COMEAUX:

That is correct. Assembly Bill 101 would provide an appropriation to the Department of Administration in the amount of \$365,000 for allocation to the Nevada Commission for National and Community Service. An appropriation was also made to this organization in the current biennium. In exchange for the appropriation, the Commission would agree to prepare and send a report to the Interim Finance Committee on or before December 15, 2006, describing the expenditures made from the money appropriated. They would also provide any books or records requested by the Legislative Auditor. Any remaining amount from this appropriation, not expended by June 30, 2007, would have to revert by September 21, 2007. The Commission submitted a brief report to the Governor in December when they requested this appropriation, indicating that they had used the appropriation in this current biennium to leverage federal dollars. They indicated that with the \$182,500 the state of Nevada had provided them in this fiscal year, they had brought into the State over \$1,680,000 in federal dollars for their volunteer programs.

CHAIR RAGGIO:

There being no further testimony, we will close the hearing on A.B. 101.

At this time, we will open the hearing on A.B. 526.

ASSEMBLY BILL 526 (1st Reprint): Revises provisions governing class-size reduction program and National School Lunch Program. (BDR 34-377)

MR. THUNDER:

Assembly Bill 526 addresses two issues. The first one has to do with class-size reduction. If a school district does not meet any one of three criteria, they would have to ask for a waiver from the State Board. Previously, school districts had to ask for a waiver if they did not meet the class sizes indicated in

statute. If funding is not provided to meet the criteria, the school district would have to meet the level for which the funding was provided. If the school district does not do that and does not have an alternative plan, they would have to request a waiver.

The other issue has to do with the National School Lunch Program.

CHAIR RAGGIO:

How was the bill amended? The original bill had a fiscal note.

MR. THUNDER:

The fiscal note only pertains to the school lunch program. In the amendment, the language was cleaned up. The intent is the same.

CHAIR RAGGIO:

Why was the bill introduced dealing with the National School Lunch Program? Is that not covered otherwise in the budget?

MR. THUNDER:

Yes, it is. This is a technical matter. The U.S. Department of Agriculture requires that we be able to demonstrate, in state accounting records, a certain amount of funding that flows to school districts that is used for match. In the past, we were able to demonstrate this by showing what the school districts actually did expend. Based upon the fact that 90 percent of the funding for schools comes from the State, school districts were meeting far more than the \$588,000 that was required. This changes the law so we can demonstrate that to the federal government.

CHAIR RAGGIO:

Does the amount change?

MR. THUNDER:

No. The \$588,000 that will be required is part of the basic support. This is taking that amount from the basic support and designating it slightly differently.

CHAIR RAGGIO:

What has been added in the first reprint of this bill?

MR. THUNDER:

The wording was changed to conform to the statutory language.

ANNE K. LORING (Washoe County School District):

Section 4 was added by Assemblywoman Chris Giunchigliani. It states legislative intent to eliminate team teaching by the 2011-2012 school year, and it encourages school districts to accomplish that goal by going out for school bond issues and telling their constituents that is the purpose. An amendment has been proposed by the Washoe County School District titled, "Proposed Friendly Amendment, Assembly Bill 526" ([Exhibit H](#)), which would amend section 4. Ms. Giunchigliani approves of this amendment. Washoe County School District is in a rather unique situation in that we have an increasing student population and an increasing number of older schools. We are operating under a rollover bond issue passed by our voters in 2002, but its ability to provide funding for new schools has been seriously eroded in the last year or

two by rapidly escalating construction costs. We believe the tax relief bill will also have an impact on the rollover bond.

Ideally, we would go out for new bond issues. That is the mechanism addressed in this bill, but in the city of Reno, we are within one penny of the \$3.64 cap. That is not an option available to us, and Washoe County is the only district that has no funding mechanism other than property tax revenue for school construction. That is why we are asking for this amendment which adds wording about financial resources being available.

CHAIR RAGGIO:

This would send a strong message from the Legislature to assist districts like yours when they need to go out and ask for public support to build the classrooms that are going to be necessary. I would also add that allowing Clark and Washoe Counties some flexibility in class size will be of assistance.

There being no further testimony, we will close the hearing on A.B. 526.

SENATOR CEGAVSKE:

The amendment proposed by the Washoe County School District states that providing classroom space for enrollment growth and school renovation may take precedence over providing classroom space for elimination of team teaching if necessary. Would this bind the Legislature into providing more space?

CHAIR RAGGIO:

My opinion is that, when you add the words, "unless a district does not have sufficient financial resources to provide the required classroom space," we are indicating that team teaching should be eliminated by 2012 unless the district does not have sufficient financial resources to provide the required classroom space. We cannot bind future Legislatures, but it certainly expresses the intent of this Legislature.

SENATOR MATHEWS MOVED TO AMEND AND DO PASS A.B. 526.

SENATOR COFFIN SECONDED THE MOTION.

THE MOTION CARRIED UNANIMOUSLY.

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CHAIR RAGGIO:

At this point, I will hold A.B. 313. I need a better understanding of what we would be doing with the rainy day fund.

We heard Mr. Comeaux's testimony on A.B. 101. There were no objections to the bill, and the appropriation is in the *Executive Budget*.

SENATOR BEERS MOVED TO DO PASS A.B. 101.

SENATOR MATHEWS SECONDED THE MOTION.

THE MOTION CARRIED UNANIMOUSLY.

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CHAIR RAGGIO:

The Committee heard A.B. 93 this morning. Is there a motion regarding this bill?

SENATOR TITUS MOVED TO DO PASS A.B. 93.

SENATOR COFFIN SECONDED THE MOTION.

THE MOTION CARRIED UNANIMOUSLY.

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CHAIR RAGGIO:

Senate Bill 463 is the utilization of the unclaimed property funding. The Committee had questions regarding this and I have been requested to hold this bill. The Committee also had questions on S.B. 414.

SENATOR BEERS MOVED TO INDEFINITELY POSTPONE S.B. 414.

SENATOR CEGAVSKE SECONDED THE MOTION.

THE MOTION CARRIED UNANIMOUSLY.

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CHAIR RAGGIO:

I will hold A.B. 386 at this time. There are a number of questions that need to be clarified.

There being nothing further to come before the Committee at this time, the meeting is adjourned at 9:46 a.m.

RESPECTFULLY SUBMITTED:

Anne Vorderbruggen,
Committee Secretary

APPROVED BY:

Senator William J. Raggio, Chair

DATE: _____