

**MINUTES OF THE
SENATE COMMITTEE ON FINANCE**

**Seventy-sixth Session
February 21, 2011**

The Senate Committee on Finance was called to order by Chair Steven A. Horsford at 8:12 a.m. on Monday, February 21, 2011, in Room 2134 of the Legislative Building, Carson City, Nevada. The meeting was videoconferenced to the Grant Sawyer State Office Building, Room 4412, 555 East Washington Avenue, Las Vegas, Nevada. [Exhibit A](#) is the Agenda. [Exhibit B](#) is the Attendance Roster. All exhibits are available and on file in the Research Library of the Legislative Counsel Bureau.

COMMITTEE MEMBERS PRESENT:

Senator Steven A. Horsford, Chair
Senator Sheila Leslie, Vice Chair
Senator David R. Parks
Senator Moises (Mo) Denis
Senator Dean A. Rhoads
Senator Barbara K. Cegavske
Senator Ben Kieckhefer

STAFF MEMBERS PRESENT:

Rex Goodman, Principal Deputy Fiscal Analyst
Mark Krmpotic, Senate Fiscal Analyst
Patricia O'Flinn, Committee Secretary

OTHERS PRESENT:

Kate Marshall, State Treasurer, Office of the State Treasurer
Andrew Clinger, Director, Department of Administration
Steve G. George, Chief of Staff, Office of the State Treasurer

CHAIR HORSFORD:

We will open the hearing with the State Treasurer's Office.

KATE MARSHALL (State Treasurer, Office of the State Treasurer):

The State Treasurer's Office has nine budgets including investments, debts, cash, the Millennium Scholarship Fund, College Savings and Unclaimed

Property. I will refer to the “Expanded Program Narrative” ([Exhibit C](#)) in my remarks. The first budget account I will discuss today is budget account (B/A) 101-1080.

ELECTED OFFICIALS

Treasurer – State Treasurer — Budget Page ELECTED-139 (Volume I) Budget Account 101-1080

Within this budget, we are requesting funding through decision unit E-250 to purchase a credit rating subscription service that will enhance our ability to purchase corporate securities.

E-250 Economic Working Environment — Page ELECTED-141

The cost of this service is \$40,000 over the biennium. However, use of this service will increase our ability to purchase high quality corporate notes and will increase our investment earnings by a minimum of \$750,000 each year. The current budget projections do not include those additional earnings.

In decision units E-600, E-601 and E-602, the Treasurer has offered to leave vacant a management analyst II position and to reduce to part-time two accounting assistant positions.

E-600 Budget Reductions — Page ELECTED-142

E-601 Budget Reductions — Page ELECTED-143

E-602 Budget Reductions — Page ELECTED-143

We request these positions be held vacant rather than eliminated or permanently reduced to part time as the lack of staffing created by these reductions increases stress on the remaining staff and delays our response time. These three decision units save personnel costs of approximately \$180,000 over the biennium.

Staff changes over the past two years in the Cash Management section have allowed the Treasurer’s Office to revise our salary cost allocation plan for the 2011-2013 biennium. This generates a savings to the General Fund of

approximately \$1.1 million. Further cuts to B/A 101-1080 include a 10 percent cut to travel, 88 percent cut to training and the addition of an additional year over the Department of Information and Technology (DoIT) best practices for computer equipment replacement.

Decision unit E-901 transfers management of the State's e-Payment program to the Treasurer's Office.

E-901 Trans from Dept of Admin to Treasurer's Office — Page ELECTED-146

The Treasurer's Office believes this transfer can be accomplished without additional staffing. This assessment is based on information received from the Department of Administration.

CHAIR HORSFORD:

Funding for this program is \$100,000, \$75,000 of which is General Fund appropriations and \$25,000 is Highway Fund appropriations, correct?

MS. MARSHALL:

To our office, the cost is \$57,350 over the biennium. There may be other costs incurred by other agencies, including costs for a request for proposal (RFP).

CHAIR HORSFORD:

Mr. Clinger, can you outline the proposal for the Committee?

ANDREW CLINGER (Director, Department of Administration):

The Treasurer's budget includes the transfer of the ongoing costs of this program. A one-shot appropriation, partially funded with State General Fund and part Highway Fund dollars, is for a contract with an expert in the credit card and banking industry to assist the Treasurer's Office with the next RFP for this service. Currently, the State has a contract with First Data. It has been several years since this contract has been bid.

CHAIR HORSFORD:

Is the contract for consulting for development of an RFP?

MR. CLINGER:

It is both for development of an RFP and development of interfaces and other considerations once the RFP is awarded.

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CHAIR HORSFORD:

Is First Data the company that previously provided the merchant services?

MR. CLINGER:

Yes. They are currently under contract to perform the merchant services for the State. We are anticipating an RFP will be required in the next biennium.

CHAIR HORSFORD:

Is First Data consulting in the development of the RFP?

MR. CLINGER:

No, it is not First Data that would consult for the development of the RFP. It would be a different vendor.

CHAIR HORSFORD:

Has that vendor been identified?

MR. CLINGER:

The State has a relationship with RZA and Associates for this type of consulting. The Treasurer's Office will decide whether to continue that relationship or to choose a different vendor.

CHAIR HORSFORD:

Does this have to go through the Interim Finance Committee (IFC) Contingency Fund?

MR. CLINGER:

Our recommendation is to put the \$100,000 into the IFC Contingency Fund for the Treasurer's Office to access as the process develops.

MS. MARSHALL:

The next budget is Prepaid Tuition, B/A 603-1081.

Treasurer - Higher Education Tuition Admin — Budget Page ELECTED-148
(Volume I)

Budget Account 603-1081

Prepaid tuition is currently 100 percent funded and still has open enrollment. I have distributed copies of a *Wall Street Journal* article, "Prepaid College-Savings

Plans Take Another Hit" ([Exhibit D](#)). This article discusses the problems other states are having with their prepaid tuition programs. Many have closed or have fallen into insolvency. The Nevada Prepaid Tuition Program is not experiencing these problems.

The Nevada Prepaid Tuition Program is not backed by the full faith and credit of the State. It is backed by the endowment fund of the college savings plan. The State receives fees from the program managers who handle the Nevada College Savings Program. At the start of this financial crisis, when plans around the country became insolvent and closed, Nevada moved \$5 million from the college endowment fund to the Prepaid Tuition fund. This is the funding structure set up by the statutes creating the endowment prepaid tuition funds. It has worked well.

An actuary analyzes the fund annually to determine its soundness. The actuary makes some critical assumptions. Currently, the cost of tuition is assumed to increase by 6 percent annually. Based on this assumption, the actuary has suggested the funded ratio of the prepaid tuition plan be increased to 120 percent. At the time of the crisis, the Prepaid Tuition plan was funded at 110 percent. The funding dropped to 95 percent and \$5 million was moved into the plan. To bring the fund to a ratio of 120 percent over the next ten years, the actuary recommended moving a minimum of \$1.3 million annually from the College Savings endowment fund to the Prepaid Tuition fund. If the assumptions change, the funding ratios need to be reexamined.

CHAIR HORSFORD:

How does the College Savings Board coordinate with the Nevada System of Higher Education (NSHE) Board of Regents regarding fee increases and the pricing of the prepaid tuition contracts?

MS. MARSHALL:

The Regents meet annually to set the credit unit cost. The prepaid tuition contract allows parents to purchase credit units at the current cost as set by the Regents. When NSHE and the Regents set those costs, they become part of our analysis. However, they do not set those costs for the next ten years; we have to make certain assumptions to ensure the program is funded in the future.

CHAIR HORSFORD:

How does the projected tuition increase of 12 percent or more affect the previous actuarial projections? Does a gap exist between the price paid by the contract holders and the cost to the tuition fund for credit units?

MS. MARSHALL:

Absolutely, this gap is the reason we are building more of a reserve than the actuary recommends. In the last fiscal crisis, the \$5 million was available because we were building reserves. We are building the reserves in that fund specifically to ensure prepaid tuition will be funded. If the State wants to put full faith and credit behind the Prepaid Tuition fund, it will change the equation. That is not the current structure of this program.

CHAIR HORSFORD:

Will there be significant fee increases to parents who have purchased the prepaid tuition program? If I enroll next year, will the price of the program increase?

MS. MARSHALL:

Prices need to be a fair and just estimate of what is purchased today. We try to ensure the prices are reasonable. But, if tuition prices go up significantly, the contract prices will also be raised.

CHAIR HORSFORD:

It is a hidden cost of the projected tuition increases. In the future, parents will pay more for the program than they currently pay. When will we know how those actuarial costs will be projected? If we decide to reduce NSHE funding and the Regents increase tuition, when will the prepaid tuition program have to adjust the cost of the contracts?

MS. MARSHALL:

Open enrollment runs from December to February annually. The actuary reviews the entire program in August and September and makes projections. The Board chooses among several scenarios, taking into account other variables such as the rate of return in the market. I do not know if our contract allows an earlier review date for the actuary.

CHAIR HORSFORD:

What are the allowable uses of the program fee revenues in the endowment account?

MS. MARSHALL:

The next budgets are the Nevada College Savings Trust budgets, B/A 101-1092 and B/A 101-1094.

Treasurer – Nevada College Savings Trust — Budget Page ELECTED-172
(Volume I)
Budget Account 101-1092

Treasurer – Endowment Account — Budget Page ELECTED-183 (Volume I)
Budget Account 101-1094

One of the activities associated with this budget account is the marketing of college savings.

STEVE G. GEORGE (Chief of Staff, Office of the State Treasurer):

The Nevada College Savings Plan is administered by the Board of Trustees of the College Savings Plan of Nevada. Members of the Board include the Director of the Department of Administration, a representative from NSHE, two appointed by the Governor and the State Treasurer. The Board is tasked with two primary goals: grow the number of participants in the Nevada College Savings Plan, and ensure the solvency of the Nevada Prepaid Tuition Program. The College Savings Program does not receive General Fund appropriations. It is funded by the fees received by the various program managers. The Board has made a concerted effort over the past biennium to improve the contract positions and revenue derived from these program managers. The contract with Upromise has been revised, resulting in gains to the State and the program managers. Increased marketing has resulted in a greater number of new contracts, both in-state and nationally, resulting in increased assets within the Plan. Since the onset of the increased marketing plan, participation by Nevada families has doubled and the total number of new Nevada College Savings Plan program accounts has risen by 42 percent. As detailed on page 7 of [Exhibit C](#), additional revenues of \$157,000 in FY 2011-2012 and \$165,000 in FY 2012-2013 are projected by the program manager as a result of obtaining a \$750 million asset threshold, which triggered a two-basis-point enhancement.

The Board proposes an even more ambitious marketing plan in the next biennium. This plan includes \$250,000 each year to market the program directly to Nevada families and \$175,000 each year to create and maintain an in-state financial fitness program. All five college savings plans will be marketed using visual media, social media, consumer marketing materials, employer packets and other avenues. The last page of the handout titled "College Savings Plans of Nevada" ([Exhibit E](#)) shows the wrapped car that is available through the State Motor Pool in the Las Vegas area.

The Nevada Financial Fitness program is part of a national effort by the National Association of State Treasurers (NAST) to increase the financial knowledge of families across the states, including understanding and preparing for the cost of college. The Nevada program includes partnerships with educators, parents, financial institutions and community groups to provide financial fitness education and college savings opportunities directly to Nevada families. Direct outreach will include a specifically designed financial fitness Website patterned after similar Websites in other states, community presentations partnering with the Nevada Department of Education, individual school districts and groups such as the Nevada Parent Teacher Association.

CHAIR HORSFORD:

Do you have research about how people find out about the college savings programs and how they make decisions about enrolling?

MS. MARSHALL:

The NAST has begun to discuss the need for financial literacy education. A number of states require the treasurer's office to provide school programs, course material and curricula. We propose working in partnerships with banks and public groups to reach out to schools and parents to educate them regarding their options for college savings. One of the college savings programs requires only \$25 a month. Parents and families on a limited income can put aside money for college. They can reduce the future debt load. It is critical we get the children of Nevada to college. Part of that process is educating parents about the possibilities. It is not necessary to save \$30,000 to make an impact. Saving \$5,000 will help considerably. Basic financial education can help. When you sit down with your checkbook, do not consider remodeling your kitchen, think about buying college textbooks for your child.

CHAIR HORSFORD:

The Utah state program is the one that mirrors the family financial fitness. I see more value in that approach than in the wrapped cars. It is a more direct program. It helps families understand the need to budget and the impact of saving even a small amount over time.

SENATOR CEGAVSKE:

Are the payments into the college savings plans limited to the schedule of payments? Can you put in extra funds at any time? And, if a parent pays for credit units in the university system, can they be transferred to a community college or vice versa?

MS. MARSHALL:

Regarding the prepaid tuition plans, the purchaser buys credit units at a particular price. If you purchase two years of community college credit units, there are several options for using those credits. If your child ends up going to Harvard University, we will send that money to Harvard. If your child wants to go to culinary school, we will send that money to culinary school. If your child wants to be a rock star, we will give your money back minus a \$100 deduction for administrative costs. If your child wants to go to the University of Nevada, Las Vegas (UNLV) instead of community college, we will send the amount of money the community college costs at the time they are paid out to UNLV. You may also transfer the credit units to another child.

MR. GEORGE:

Two tenets of marketing are that repetition and variety of media are required to get attention. The marketing efforts over the last two years have been quite successful. I was surprised how many people, including teachers and school administrators, did not know about the Nevada Prepaid Tuition Program.

CHAIR HORSFORD:

How did you arrive at the amount of \$2.6 million over the biennium to address the reserves? Tuition is going up. If this Legislature does not find an alternative to the *Executive Budget* plan, tuition will go up a lot. If we do not put all the revenues into the reserve, how will we meet that gap in the future?

MS. MARSHALL:

The Prepaid Tuition Program not only requires a reserve, but future contracts must be sold. If future contracts are not sold, the program does not work. When

I first came into the office, fewer than 300 contracts were being sold annually. Currently, 500 contracts are being sold annually. People must know the program exists for contracts to be sold. Upromise spends \$450,000 to market one college savings program in the State. We are asking for \$250,000 to market five programs in the State. The various marketing ploys promoting the Prepaid Tuition plan, such as the wrapped car, have increased participation amongst Nevadans by 9 percent since I came into office. That is compared to less than 1 percent of Nevadans when I came into office.

CHAIR HORSFORD:

I am not arguing against the need for marketing. Middle-class parents understand their children are being priced out of college. I am asking about the priority. Where will you find the money to close the shortfall between revenues and future costs of tuition?

MR. GEORGE:

The Board has decided to transfer a minimum of \$1.32 million each year to keep the prepaid program at a solvency rate of at least 100 percent. Perhaps we should keep that money in a pool and see what happens with the prepaid program, rather than do as much marketing. If prepaid tuition increases precipitously, we would have to come back after Session and reevaluate our options with the IFC.

CHAIR HORSFORD:

Can you get an actuarial report based on the Governor's recommended budget and a 12 percent increase in tuition?

MS. MARSHALL:

There is currently \$1.2 million that is not spent.

CHAIR HORSFORD:

It is available now, but it may not be in the future. I am trying to think ahead.

SENATOR CEGAVSKE:

Please provide historical information about the program to the Committee.

MS. MARSHALL:

I do not know if the contract with the actuary will allow for an analysis outside of the regular cycle. I will get that information and report back to you.

SENATOR KIECKHEFER:

Where does the funding for B/A 101-1094 come from? Does the State receive part of the fees charged by the fund managers, or do we charge an additional fee?

MS. MARSHALL:

The State's fees are not additional. The fund managers charge every account holder for managing the accounts. There may be underlying investment costs, similar to any other investment you may make. We get a portion of those fees. One of the programs pays the State a flat amount that is not connected to the fees they charge.

The budget accounts for municipal bond bank revenue and debt service are used to hold revenues and pay principal, interest and redemption premiums due in connection with State securities issued to purchase municipal bonds. There are no decision units in these accounts.

Treasurer – Municipal Bond Bank Revenue — Budget Page ELECTED-161
(Volume I)
Budget Account 745-1086

Treasurer – Municipal Bond Bank Debt Service — Budget Page ELECTED-163
(Volume I)
Budget Account 395-1087

The Millennium Scholarship Fund Administration account is the next budget.

Treasurer – Millennium Scholarship Administration — Budget Page
ELECTED-165 (Volume I)
Budget Account 261-1088

The *Executive Budget* recommends appropriations of \$10 million during the current biennium. There was a transfer of \$5 million from B/A 261-1085 during the 26th Special Session. The combination results in a net gain to the fund of \$5 million. The Governor recommends the transfer of \$7.6 million during FY 2012-2013 from unclaimed property to the Millennium Fund. In addition to these revenue assumptions, there are other assumptions that factor into the Millennium Fund equation: the number of eligible students and projections about the amount of Tobacco Funds, less 10 percent. If these assumptions are

correct, the Millennium Fund has a cash flow problem, but not a funding problem. The program is solvent through 2017.

CHAIR HORSFORD:
Does this project tuition costs at current prices?

MS. MARSHALL:
No, the Millennium Fund pays a flat rate. If costs are higher, the scholarship covers less. It is a maximum payment of \$10,000.

CHAIR HORSFORD:
The students have the burden of covering the difference.

MS. MARSHALL:
The students get the same amount of money and the costs go up.

CHAIR HORSFORD:
So, the Millennium Scholarship is worth less.

MS. MARSHALL:
The Millennium Scholarship does not cover as much as it once did. Currently, it covers approximately 50 percent of tuition costs.

SENATOR LESLIE:
What happens to your projections if parents see tuitions rising and the quality of the Nevada universities going down? If students choose a better university system out-of-state at the same cost, these funds cannot be used.

MS. MARSHALL:
The Millennium Scholarship Trust Fund was created for two reasons: to keep the best and brightest in Nevada, and to assist children who would not otherwise go to college. If the value of program is not as high as it was originally because costs increased, perhaps those students and their parents will make different calculations.

The Millennium Fund program had a banner year this year in terms of children who signed up for the program.

SENATOR LESLIE:

Do you track the number of children who are eligible for the program versus the number who enroll in Nevada schools?

MS. MARSHALL:

The number of eligible students versus the percentage who have utilized the program has decreased significantly since its inception. In 2000, 76 percent of eligible students used the Millennium Fund program. In 2010, 54 percent of eligible students utilized the scholarship.

SENATOR LESLIE:

What percentage of utilization was used as the basis of your projections?

MS. MARSHALL:

Our projections of utilization are based on a model, but it is a little higher than 54 percent.

CHAIR HORSFORD:

For comparison, can you provide the Committee with what the projections would be without the \$10 million one-shot appropriation?

MS. MARSHALL:

Without the \$10 million one-shot appropriation and the \$7.6 million transfer, the program does not remain solvent after the end of this year.

CHAIR HORSFORD:

How can the cash flow problem be addressed on an annual basis going forward? Have you conferred with NSHE about the spring cash flow problem?

MS. MARSHALL:

The agreement made among the Legislature, NSHE and the Treasurer's Office is that NSHE would get an advance and we would pay them. The cash flow issue remains through 2017.

CHAIR HORSFORD:

Confer with NSHE to come up with a solution.

MS. MARSHALL:

Yes, we can keep talking.

SENATOR KIECKHEFER:

Is the amount of money transferred from unclaimed property set by statute? Is there flexibility within the unclaimed property account to transfer more money to offset some of the General Fund needs?

MS. MARSHALL:

Currently, the \$7.6 million transfer to the Millennium Fund is in statute. That is a balance issue. The initial mandate for unclaimed property is to get that money to the people of Nevada. The remainder is moved to the General Fund. If the money is used for other programs or agencies, there is less money in the General Fund.

CHAIR HORSFORD:

There are a number of proposals regarding the Millennium Fund program. The policy committees need to confer with the Treasurer's Office and present a review of possible fiscal impacts to the Senate Committee on Finance and the Assembly Committee on Ways and Means.

MS. MARSHALL:

The Treasurer's Office will provide financial information for these proposals.

The final budget account today is Unclaimed Property, B/A 101-3815.

Treasurer – Unclaimed Property — Budget Page ELECTED-191 (Volume I)
Budget Account 101-3815

Decision unit E-251 reimburses the Treasurer's Office for cell phone usage by auditors travelling in the field.

E-251 Working Environment and Wage — Page ELECTED-193

Nevada participates in the National Association of Unclaimed Property Administrators Website, missingmoney.com. Last year, nearly 500,000 searches were completed by Nevadans, resulting in about 32,000 claims. The owners of the Website have decided to charge the states \$5,300 annually for inclusion on their site. This expense is in decision unit E-252.

E-252 Working Environment and Wage — Page ELECTED-194

We are requesting funding for training and attendance at the annual NAST meeting. These activities ensure we remain in compliance with national standards and remain current regarding the various lawsuits regarding unclaimed property.

Decision unit E-250 is a request for a management analyst III in the unclaimed property division. Details about this request are highlighted in the document titled "State Treasurer's Office 2011 Budget Request, NPD-19" ([Exhibit F](#)).

E-250 Working Environment and Wage — Page ELECTED-193

The Treasurer's Office has been running a voluntary disclosure agreement (VDA) program as a pilot program. Many businesses are unaware they are required to submit unclaimed property to the State. This program allows the Treasurer's Office to provide materials to businesses for an internal audit. The audit materials are then reviewed by the Treasurer and any penalties and interest are waived, and the State receives the unclaimed property funds. If the self-audit is incomplete or substantially deficient, an external audit is performed. The VDA pilot program has resulted in a significant amount of money brought into the Unclaimed Property Division. We believe that, with a full-time staff person, the VDA program would increase the amount of unclaimed property annually by a minimum of \$1 million.

Unclaimed property claims for less than \$2,500 can be processed online using the Fast Track system. There has been about a 40 percent increase in claims and requirements on staff. We have not had to request increased staffing because the electronic system reduces the time needed to process these requests.

SENATOR KIECKHEFER:

If this position was approved, can the projected revenue increases be incorporated into the current budget?

MARK KRMPOTIC (Senate Fiscal Analyst, Fiscal Analysis Division, Legislative Counsel Bureau):

Unclaimed property is not projected by the Economic Forum. It is based on a consensus estimate by staff at the Budget Office and Fiscal Division staff. It can be a factor considered in reviewing unclaimed property projections. From a process standpoint, the Committee cannot just add General Fund revenues.

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MS. MARSHALL:

The Treasurer's Office provides its projections to the Economic Forum in May; they have always accepted our projections. If the Committee approved this position, we would revise our projections accordingly.

Last year, we transferred more than \$66 million, the largest amount transferred to the General Fund in the State's history.

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CHAIR HORSFORD:

As there is no further testimony, this meeting is adjourned at 9:21 a.m.

RESPECTFULLY SUBMITTED:

Patricia O'Flinn,
Committee Secretary

APPROVED BY:

Senator Steven A. Horsford, Chair

DATE: _____

EXHIBITS

Committee Name: Committee on Finance

Date: February 21, 2011

Time of Meeting: 8:12 a.m.

Bill	Exhibit	Witness / Agency	Description
	A		Agenda
	B		Attendance Roster
	C	Kate Marshall, State Treasurer	Expanded Program Narrative
	D	Kate Marshall, State Treasurer	WSJ "Prepaid College-Savings Plans . . . "
	E	Steve G. George	College Savings Plans of Nevada
	F	Kate Marshall, State Treasurer	State Treasurer's Office Bud. Req. 2011 NPD-19