

**MINUTES OF THE
SENATE COMMITTEE ON FINANCE**

**Seventy-Eighth Session
March 27, 2015**

The Senate Committee on Finance was called to order by Chair Ben Kieckhefer at 8:05 a.m. on Friday, March 27, 2015, 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 in the Research Library of the Legislative Counsel Bureau.

COMMITTEE MEMBERS PRESENT:

Senator Ben Kieckhefer, Chair
Senator Pete Goicoechea
Senator David R. Parks
Senator Joyce Woodhouse

COMMITTEE MEMBERS ABSENT:

Senator Michael Roberson, Vice Chair (Excused)
Senator Mark A. Lipparelli (Excused)
Senator Aaron D. Ford (Excused)

STAFF MEMBERS PRESENT:

Mark Krmpotic, Senate Fiscal Analyst
Alex Haartz, Principal Deputy Fiscal Analyst
Lona Domenici, Committee Manager
Emily Cervi, Committee Assistant
Jason Gortari, Committee Secretary

OTHERS PRESENT:

Jim Wells, C.P.A., Interim Director, Department of Administration
Mike Willden, Chief of Staff, Office of the Governor

Chair Kieckhefer:

I will open the hearing with three bills from the Department of Administration.

Jim Wells, C.P.A. (Interim Director, Department of Administration):

I will discuss three measures that will shore up the fiscal year (FY) 2015 ending fund balance. There are three primary drivers of the FY 2015 shortfall. The first is the underperformance of the net proceeds of minerals tax revenues. Those revenues were about \$69.5 million less in 2014 than projected by the 2013 Economic Forum and are projected to be about \$72 million less in 2015.

The second primary driver of the FY 2015 shortfall is the supplemental appropriation for the Distributive School Account (DSA). The DSA needs about \$77.7 million, as you heard yesterday in the testimony on Senate Bill (S.B.) 429. The DSA supplemental appropriation is driven by a higher enrollment in both years of the biennium compared to the projections approved last Session. This is also due to some significant hold-harmless payments to charter schools and school districts.

SENATE BILL 429: Makes a supplemental appropriation to the State Distributive School Account for a shortfall resulting from an unanticipated increase in K-12 enrollment for the 2013-2014 and 2014-2015 school years. (BDR S-1231)

Approximately \$5.6 million in additional supplemental requests has been processed by our Department for the current fiscal year and of that, about \$4.2 million relates to shortfalls in prison medical costs and Department of Corrections (NDOC) personnel costs.

Modifications are likely to be needed for some of the supplemental requests, which are unlikely to have a significant impact on the overall supplemental amounts. Today, that amount stands around \$83 million. The third driver in the current fiscal year shortfall is the application of some of the tax credit programs. There will be about \$5.8 million in the film production tax credits and potentially \$24 million from Nevada New Markets Job Act tax credits that came out of last Session and might be redeemed in FY 2015. We are currently working with the Department of Business and Industry (B&I) to determine the exact date and the earliest implementation of those tax credits. There is some dispute as to when the tax credits are redeemable.

Nevada Revised Statute (NRS) 353.213 requires that the General Fund balance be prepared with an ending fund reserve of not less than 5 percent and not more than 10 percent of total General Fund proposed appropriations. We are

maintaining a current balance sheet for FY 2015 regarding the status of the 2015 ending fund balance to determine our starting point for this biennium, ensuring that each year of the biennium is maintained at the 5 percent minimum threshold.

Without any of the measures that we will discuss today or any other reductions in agency expenditures, the General Fund would potentially have a negative ending fund balance of approximately \$17.6 million. This is assuming that approximately \$40 million in unrestricted General Fund reversions from the agencies would come back to the General Fund on June 30, 2015. My staff is working with the agencies to determine whether that \$40 million reversion estimate is a reasonable assumption. We are hoping to have that analysis completed in the next week or so.

If all of the measures today are adopted and the \$40 million dollars of reversions come back, we are projecting an ending fund balance of \$135.4 million for FY 2015, which is about 4 percent of the appropriations as compared to the 5 percent threshold. This excludes the new market tax credits which would reduce that amount by another \$24 million. It is about \$34.4 million below what would be required to maintain the 5 percent minimum threshold. The ending fund balance for FY 2015 is creating challenges for us to meet the 5 percent thresholds in FY 2016 and FY 2017.

Senator Goicoechea:

How much of the shortfall from the hole in the mining taxes can we attribute to the prepayment and how much of the shortfall is due to gold prices being so low?

Mr. Wells:

Primarily, the shortfall is attributable to the lower price of gold. The credits for prepayment in FY 2013, as a result of the lower prices in FY 2013, contributed to some of the shortfall.

Senator Goicoechea:

It is the overall net proceeds.

Chair Kieckhefer:

If we take no action, will we end up with a negative ending fund balance of \$17.6 million?

Mr. Wells:

Yes.

Chair Kieckhefer:

If we adopt all the measures before us today, the new markets tax credit is not applicable, and we can effectively revert \$40 million, would we have an ending fund balance just shy of \$135 million?

Mr. Wells:

Yes.

Chair Kieckhefer:

Is that still a threshold of approximately 4 percent?

Mr. Wells:

Yes.

Chair Kieckhefer:

We will close the hearing on S.B. 429 and open the hearing on S.B. 490.

SENATE BILL 490: Revises provisions governing transfers to and from the Account to Stabilize the Operation of the State Government.
(BDR 31-1213)

Mr. Wells:

Senate Bill 490 is the first of the proposed measures to shore up the ending fund balance. There are two different pieces to the bill. Section 1 extends, by 1 year to FY 2017, the transfer of 1 percent of anticipated General Fund revenues as projected by the Economic Forum and adjusted by any legislation affecting revenue for that year to the Account to Stabilize the Operations of State Government, or the Rainy Day Fund. That is pursuant to section 1(b) of NRS 353.288. The request to postpone this transfer by an entire year reflects this lower-than-anticipated recovery of the State's economy. Governor Brian Sandoval's recommended budget includes about \$37.4 million in projected transfers to the Rainy Day Fund in FY 2017.

Section 2 of S.B. 490 transfers \$28,061,106 from the Rainy Day Fund to the General Fund to mitigate the 2015 General Fund shortfall.

Chair Kieckhefer:

In section 2, is that amount the entire balance in the Rainy Day Fund?

Mr. Wells:

Yes. That is the balance of the Rainy Day Fund.

Chair Kieckhefer:

Based on where we started with the ending fund balance shortfalls and the impact that our current shortfalls have on a rolling-forward basis into additional fiscal years, is there a reason we would not want to extend that 1 percent transfer an additional year and capture that \$37 million for use in the upcoming biennium?

Mr. Wells:

There was hope that in FY 2017 the ending fund balance would be in better condition and the transfer would be able to be made. Given where we are today, that is a measure that we would potentially need to adopt to maintain the 5 percent threshold at the end of the second fiscal year.

Chair Kieckhefer:

Was this an attempt to make sure we tuck something into the Rainy Day Fund, but recognize that it may not be possible?

Mr. Wells:

Yes.

Senator Goicoechea:

Are we not adding to the Rainy Day Fund and taking what we had in there?

Mr. Wells:

Yes.

Senator Goicoechea:

Are we looking at about \$65 million through both of those transfers?

Mr. Wells:

There is just over \$65 million in those transfers.

Chair Kieckhefer:

I will close the hearing on S.B. 490 and open the hearing on S.B. 505.

SENATE BILL 505: Provides for the temporary suspension of the collection of certain subsidies to be paid to the Public Employees' Benefits Program. (BDR S-1205)

Mr. Wells:

Senate Bill 505 implements a 2-month assessment holiday for the employer portion of State employee health insurance premiums for State agencies to mitigate the FY 2015 shortfall. Agencies remit a flat dollar amount for each employee to the Active Employee Group Insurance Subsidy (AEGIS) budget account, which funds the individual health insurance subsidies based on the plan and tiers selected by the individual employees. The balance in this account reflects that the FY 2015 rates, set by the Board of the Public Employees' Benefits Program (PEBP), were significantly lower than what was projected last Session.

The employee share of the premiums was reduced, effective last July, but there is not a mechanism available to reduce the amount for the State agencies. The assessment holiday does not impact the reserves of the PEBP, any use of those reserves by the Board to enhance benefits for the current year or upcoming biennium, nor does it impact the rates that are paid by the employees and retirees in the program. The AEGIS account is projected to have \$28 million at the end of FY 2015. Our current projections predict the AEGIS holiday would raise that balance to between approximately \$31 million and \$35 million.

In this account, any balance available at the end of the year or any deficit at the end of the year is calculated into the assessment for the next first year of the next biennium. If we had a \$28 million surplus at the end of FY 2015, it would be credited against the amount that was needed in FY 2016 and the assessment would be reduced on the per-employee per-month basis.

Without the holiday, the FY 2016 assessment would be about \$595. With the holiday, this FY 2016 assessment would be about \$705. Both of these numbers are subject to revision based on the rates for the next year, which were set by the PEBP Board yesterday. The enactment of the holiday will allow the General Fund portion of the assessment to be used against the 2015 shortfall. We are projecting that it will generate approximately \$17.8 million.

It is against federal law to sweep the funds in this account directly into the General Fund, since the balance is generated by accounts that are supported by a variety of different funding sources including federal grant funds. Sweeping federal funds from the AEGIS account into the General Fund directly would violate federal cost principles and would result in a requirement for the General Fund to repay the federal government for its share of the fund that was swept. As a result, the only way to reduce the AEGIS balance is either to repay the sources that paid into it or reduce the amounts that are going into the budget.

Senate Bill 505 requests that the assessment be suspended for the final 2 months of FY 2015, meaning after the month of April, no additional assessment money would be deposited into AEGIS budget account. The employee subsidies would still be deducted from the account using the existing balance that is there today.

Chair Kieckhefer:

If the State does not pay its assessment for the final 2 months of the fiscal year, there will be an anticipated excess reserve of \$28 million. Will that \$28 million be reduced by \$17.8 million?

Mr. Wells:

The balance in the AEGIS account would be reduced by about \$31 million, only \$17.8 million of which gets credited to the General Fund.

Chair Kieckhefer:

Will it be a \$17.8 million benefit to the General Fund?

Mr. Wells:

Yes.

Chair Kieckhefer:

Were the numbers on the per-member per-month assessments directly related to the State's AEGIS assessment, or was that employee portion?

Mr. Wells:

The per-employee assessments that I referenced for FY 2016 would be the State's share of the premiums paid for the health insurance for employees. That dollar amount is then split, based on the plan and tier selected. The amount that

goes in is a flat dollar amount. The amount that comes out varies based on the plan and tier the employee selects. It is an aggregate average of the amount that the State pays for health insurance for its employees.

Chair Kieckhefer:

Will this holiday amend the amount that the State will have to assess in the upcoming biennium?

Mr. Wells:

Yes. Theoretically, if there were \$28 million sitting there at the end of FY 2015, that would be subtracted from the amount that is required for FY 2016 and reduce the monthly assessment below what the actual monthly assessment would be.

For example, without any ending fund balance, the assessment cost will be \$675 for FY 2016. If we had the \$28 million, that \$675 would be reduced to \$595. Taking the holiday and creating a deficit will increase the amount from \$675 to \$705.

Chair Kieckhefer:

Will that change be put into the budget for the next biennium?

Mr. Wells:

The higher assessment amount has been included in the budget as a part of this proposal.

Chair Kieckhefer:

Has the amount been included in the Executive Budget with that higher figure, assuming that this holiday occurs?

Mr. Wells:

Yes.

Chair Kieckhefer:

I will close the hearing on S.B. 505 and open the hearing on S.B. 506.

SENATE BILL 506: Revises provisions relating to state financial administration.
(BDR S-1207)

Mr. Wells:

I have submitted my prepared notes for this bill entitled "Department of Administration FY 2015 - General Fund Budget Transfer Proposals" ([Exhibit C](#)). Senate Bill 506 is a series of sweeps of reserve accounts that are anticipated to shore up the ending fund balance for 2015.

Section 1 of the bill transfers \$400,000 from the Consumer Advocate budget account (B/A) 330-1038 in the Office of the Attorney General (AG). This money is derived from several sources in the AG's Bureau of Consumer Protection. Some of the fees in this account are regulatory fees. Other fees are regulatory or licensing type fees. Language in the statute says this money can be used for any other purpose. We are proposing to take \$400,000 from this account and transfer it to the General Fund to shore up the General Fund shortfall.

ELECTED OFFICIALS

ELECTED

AG - Consumer Advocate — Budget Page ELECTED-117 (Volume I)
Budget Account 330-1038

Chair Kieckhefer:

There are a variety of funding sources for this account. Are some of the funding sources fungible?

Mr. Wells:

Yes.

Section 2 will transfer \$19,680,774 from the AG's court settlements account. That money is generated from civil penalties and other money collected in actions brought by the AG. We believe that the amounts in that account are eligible to be taken to the General Fund. Most of these funds came from the mortgage fraud settlement agreements.

Chair Kieckhefer:

Are there any restrictions in those settlement agreements over how we use the money?

Mr. Wells:

We have not identified any restrictions that would prohibit us from taking those funds.

Section 3 would transfer \$2,941,926 from the AG to the General Fund. Section 3 is money collected under the Nevada Unfair Trade Practices Act. We believe that money is eligible to be swept into the General Fund.

Chair Kieckhefer:

Are these penalties?

Mr. Wells:

Yes. These are awards, damages and civil penalties collected by the AG.

Section 4 is a transfer of \$410,000 from the Office of the Secretary of State, B/A 101-1050, representing monies received as a result of a securities enforcement action. We believe these funds can be taken into the General Fund without restriction.

SOS - Secretary of State — Budget Page ELECTED-159 (Volume I)
Budget Account 101-1050

Section 5 is a transfer of \$25,000 from the notary public training account that is created pursuant to NRS 240.018. A statute provides that these fees can be used for other purposes and we believe that the \$25,000 in this account can be reverted to the General Fund for use in shoring up the General Fund shortfall.

Chair Kieckhefer:

Please point to that statute.

Mr. Wells:

The statute is NRS 240.018.

Chair Kieckhefer:

In Section 5, are the revenues generated from fees paid by notaries and trainings?

Mr. Wells:

The money that is put into the fund is from fees paid by persons enrolling in courses of study for notary publics. There is language in the statute that says there is an ability to use fees collected in that fund for alternate purposes.

Section 6 of S.B. 506 will transfer \$7 million from the Nevada Catalyst Fund, B/A 101-1529, created pursuant to NRS 231.1573 to the General Fund to shore up the ending fund shortfall. That \$7 million would then be reappropriated back to the Catalyst Fund in FY 2016.

COMMERCE AND INDUSTRY

GOVERNOR'S OFFICE OF ECONOMIC DEVELOPMENT

GOED - Nevada Catalyst Fund — Budget Page ECONOMIC DEVELOPMENT-27
(Volume II)
Budget Account 101-1529

Chair Kieckhefer:

Are any of those funds committed?

Mr. Wells:

I believe some of those funds are committed, but not until 2016.

Chair Kieckhefer:

If we were to sweep it and then not reappropriate the money, would we experience problems?

Mr. Wells:

Yes.

Chair Kieckhefer:

Would the same be true in Section 7 with the Nevada Knowledge Fund, B/A 101-1533?

GOED - Nevada Knowledge Fund — Budget Page ECONOMIC
DEVELOPMENT-34 (Volume II)
Budget Account 101-1533

Mr. Wells:

I do not believe there is any outlined commitment of the amounts in section 7, regarding the Nevada Knowledge Fund account. Those funds are not currently committed.

Chair Kieckhefer:

Was it a General Fund appropriation that put funds in this account originally?

Mr. Wells:

Yes.

Section 7 is a transfer of \$4 million from the Nevada Knowledge Fund, representing appropriated money that is not currently committed for other purposes.

Section 8 is the transfer of \$2 million from the disaster relief account created by NRS 353.2735 to shore up the ending fund balance. These funds are Legislative appropriations that we believe can be swept out of that reserve.

Section 9 is the request to transfer \$1,662,010 from the Commission on Tourism's Tourism Development Fund, B/A 225-1522. This fund was created pursuant to NRS 231.360 for the promotion of tourism and is derived from taxes on the gross receipts of the rental of transient lodging. We believe that this also can be swept into the General Fund as a tax that has already been levied.

TOURISM AND CULTURAL AFFAIRS

Tourism - Tourism Development Fund — Budget Page TOURISM-14 (Volume II) Budget Account 225-1522

Section 10 will transfer \$426,231 from the Department of Education's (NDE) School Remediation Trust Fund, B/A 101-2615. This is money set aside for public school and public education and comes primarily from legislative appropriations. We believe it can be swept into the General Fund.

EDUCATION

K-12 EDUCATION

NDE - School Remediation Trust Fund — Budget Page K-12 EDUCATION-32
(Volume I)
Budget Account 101-2615

Chair Kieckhefer:

There are various purposes and items that we fund within the Remediation Trust Fund. Is there a specific line item that the exact \$426,231 is coming from that was not utilized?

Mr. Wells:

I do not know exactly which line item within that budget is being deauthorized, but I can find that information and provide it to the Committee.

Section 11 requests the Office of the State Controller to transfer \$3 million from the NDE's Incentives for Licensed Educational Personnel account, B/A 101-2616, back to the General Fund. This money is used as incentives for licensed teachers, school psychologists, librarians, counselors and administrators at the school level and is derived from legislative appropriations. The \$3 million in this account is in excess to the demand for educators seeking incentives for licensing in FY 2015 and can be reverted to the General Fund.

NDE - Incentives For Licensed Education Personnel — Budget Page K-12
EDUCATION-44 (Volume I)
Budget Account 101-2616

Chair Kieckhefer:

Is this primarily due to the one-fifth retirement credit being underutilized?

Mr. Wells:

I do not know which of the two programs was overprojected in last Session. I do know that the one-fifth retirement credit numbers were decreasing as people had maxed out on those credits and were no longer eligible to receive them. The one-fifth retirement credits were then being replaced by the subsequent incentive program. I believe this is an aggregate issue between the two different programs.

Chair Kieckhefer:

Please get clarity on that.

Mr. Wells:

Section 12 will transfer \$400,000 from the Public Charter School Loan Program, B/A 101-2708, to the General Fund. This money is used to make loans at or below market rates to charter schools for the cost incurred in preparing a charter school to commence in its first year of operation or to improve a charter school that already exists. None of the \$400,000 is obligated by the charter school authority and can be reverted to the General Fund.

STATE PUBLIC CHARTER SCHOOL AUTHORITY

Public Charter School Loan Program — Budget Page CHARTER SCHOOL-13
(Volume I)
Budget Account 101-2708

Section 13 will revert \$216,260 from the Department of Health and Human Services (DHHS) Problem Gambling account, B/A 101-3200. The money in this revolving account is derived from certain license fees on slot machines. The fees collected are then deposited into this revolving account to support the programs for the prevention and treatment of problem gambling created by NRS 458A.090. We believe that this amount, as a tax, can be swept into the General Fund to meet the shortfall.

HUMAN SERVICES

DHHS DIRECTOR'S OFFICE

HHS-DO - Problem Gambling — Budget Page DHHS-DIRECTOR-32 (Volume II)
Budget Account 101-3200

Section 14 requests the State Controller to transfer \$178,284 from the supplemental account for indigents in the DHHS to the General Fund for assistance in meeting the shortfall in FY 2015. The money in the Indigent Hospital Care account, B/A 628-3244 is primarily derived from State property taxes collected by the counties on behalf of the State under NRS 428.285. As a tax, these funds are eligible to be reverted to the General Fund.

HHS-DO - Indigent Hospital Care — Budget Page DHHS-DIRECTOR-41
(Volume II)
Budget Account 628-3244

Senator: Goicoechea:

Is any portion of this money a part of the counties' indigent funds that are repaid?

Mr. Wells:

I do not know, but will provide that information to the Committee.

Section 15 is the first of two sections that we want to amend. Section 15 currently requests that \$750,000 be reverted from the Division of Public and Behavioral Health's (DPBH) Radiation Control account, B/A 101-3101. The money in this account is derived from different sources. Some is licensing/regulatory fees. Others are administrative penalties that can be swept in to the General Fund. We are looking at about \$250,000 in revenue generated from the penalties, which are eligible to be swept. About \$500,000 of the funds are associated with fees. We would submit an amendment to change the amount requested from \$750,000 to \$250,000.

PUBLIC AND BEHAVIORAL HEALTH

HHS-DPBH - Radiation Control — Budget Page DHHS - PUBLIC HEALTH-20
(Volume II)

Budget Account 101-3101

Section 16 takes \$500,000 from the Low-Level Radioactive Waste Fund, B/A 251-3152 in the DPBH. The money in this account is derived from NRS 459.0083 which has language about a State surcharge per cubic foot of radioactive active waste received at Nevada's regional facility in Beatty. Any money collected in the account pursuant to this section, which is not otherwise distributed, must be deposited with the Office of the State Treasurer. That money is then used to fund the care of sites for disposal of radioactive waste, created pursuant to NRS 459.231. This is a general State tax that can be reverted to the General Fund for the purposes of shoring up the ending fund balance.

HHS-DPBH - Low-Level Radioactive Waste Fund — Budget Page DHHS - PUBLIC
HEALTH-33 (Volume II)

Budget Account 251-3152

Section 17 will transfer \$45,000 from the DPBH's Behavioral Health Prevention and Treatment account, B/A 101-3170. This account has some General Fund appropriations in it and the amount is eligible for reversion into the General Fund.

HHS-DPBH - Behavioral Health Prev & Treatment — Budget Page
DHHS-PUBLIC HEALTH-171 (Volume II)
Budget Account 101-3170

Chair Kieckhefer:

Is the \$45,000 the General Fund portion of what is available in that account? Also, is this the fund for the Substance Abuse Prevention and Treatment Agency?

Mr. Wells:

Yes.

Chair Kieckhefer:

Are there several sources of funding and federal money in this account?

Mr. Wells:

Yes, there are several sources of revenue coming into this account.

Section 18 is the second amendment we are requesting to S.B. 506. We wish to strike the entire section. The licensing/regulatory fees generating funds to the Health Facility Hospital Licensing account, B/A 101-3216, should not be swept to the General Fund.

HHS-DPBH - Health Facilities Hospital Licensing — Budget Page DHHS - PUBLIC
HEALTH-69 (Volume II)
Budget Account 101-3216

Senator Parks:

Are we deleting that section?

Mr. Wells:

Yes. Section 19 is a request to transfer \$100,000 from the Health Facilities Administrative Penalty account, B/A 101-3217, to the General Fund. These are

fees for administrative penalties and should be available for transfer to the General Fund.

HHS-DPBH - Health Facilities-Admin Penalty — Budget Page DHHS - PUBLIC
HEALTH-80 (Volume II)
Budget Account 101-3217

Chair Kieckhefer:

Is this money used for the DPBH's Bureau of Health Care Quality and Compliance for enforcement?

Mike Willden (Chief of Staff, Office of the Governor):

These fees are penalties that are charged when we take an enforcement action against a facility. The facility is expected to pay those penalties. This is a penalty-paid fee and not a regulatory fee.

Mr. Wells:

Section 20 would transfer \$35,000 from the DPBH's Emergency Medical Services account, B/A 101-3235. The amount in this account also has a variety of funding sources including a General Fund appropriation of about \$647,000. The \$35,000 can be swept from this account as a reduction in the program.

HHS-DPBH - Emergency Medical Services — Budget Page DHHS - PUBLIC
HEALTH-138 (Volume II)
Budget Account 101-3235

Section 21 would transfer \$500,000 from the DPBH's Marijuana Health Registry account, B/A 101-4547, to the General Fund. The money in this account is primarily received from legislative appropriations. The money also comes from gifts, grants, and donations. We believe this amount can be reverted to the General Fund.

HHS-DPBH - Marijuana Health Registry — Budget Page DHHS - PUBLIC
HEALTH-144 (Volume II)
Budget Account 101-4547

Chair Kieckhefer:

Is this implementation of the regulatory structure for dispensaries and cannabis growth, or is it for medical marijuana cards?

Mr. Willden:

This revenue source is from the medical marijuana cardholder. We will double-check to ensure that is correct.

Chair Kieckhefer:

I was under the impression that those were fees paid by the people who got the cards. I did not know that there was General Fund money associated with that account.

In terms of the regulatory structure, did we authorize a General Fund advance last Session?

Mr. Willden:

We will check that and provide information to the Committee.

Mr. Wells:

Section 22 would transfer \$253,000 from the NDOC's prisons industry Capital Improvement Program (CIP) accounts to the General Fund. The money in this account is derived from deductions pursuant to NRS 209.463. This money can be swept into the General Fund to restore the ending fund balance.

Senator Parks:

Will any of these funds have to be reimbursed to fund a program at a subsequent or future time, or will they be swept?

I know that this fund had been swept once before and a few of the programs it supports could not proceed forward.

Mr. Wells:

Except for the \$7 million for the Catalyst Fund, there is no request to restore any of the other balances that are being swept in the next biennium.

Senator Parks:

Upon the conclusion of the review of this bill, please provide a one-page summary of what all this adds up to and what these individually look like.

Mr. Wells:

[Exhibit C](#) summarizes most of these accounts.

Senator Goicoechea:

I would think we would sweep the prison industry CIP accounts, because there are budget requests in the next biennium to fund some of these same projects. In taking the money from their accounts now, we must realize that some of the new construction items are requests for the next budget cycle. Are we taking money out of one pocket now and spending it after July 1?

Mr. Wells:

I do not believe there is an appropriation back to the prison industries CIP accounts.

Senator Goicoechea:

It would be a new item in the next budget cycle. Will there be a request to fund some of this new construction?

Mr. Wells:

Yes, eventually these projects will be requested for completion.

Senator Parks:

It is the money generated from the prisons industry operation which sits in a reserve and is used for capital construction projects. The reserves were swept once before from the prison industry's project accounts and the funding to construct a new license plate plant had to come from Department of Motor Vehicles reserves.

Chair Kieckhefer:

Have all of these accounts been evaluated in terms of leaving appropriate reserve levels if a need arises?

Mr. Wells:

Yes. Part of the request to the agencies was to only identify funds that are above any necessary account reserves.

Section 23 requests transfer of \$1.5 million from the Department of Conservation and Natural Resources Air Quality Management account. This account has multiple sources of revenues. Based upon our review, the \$1.5 million is an allowable reversion.

Chair Kieckhefer:

Is a General Fund appropriation one of those sources of revenue?

Mr. Wells:

I will check that and provide that information to you.

Chair Kieckhefer:

Generally, do you know what some of the other sources of revenue are?

Mr. Wells:

Other funding sources for this account include the sale of emission credits and fees that are collected by the environmental commissions for the issuance, renewal, modification, revocation and suspension of operating permits. There are a few additional funding sources in that account as well.

Senator Parks:

Does any of this revenue come from vehicle emission inspections?

Mr. Wells:

I do not believe so.

Section 24 is a transfer of \$8.6 million from money held in the bond reserve fund, at the B&I's Housing Division, to the General Fund. This transfer will be used to offset the General Fund ending balance shortfall.

The Housing Division issues bonds which are used to purchase mortgages. The principal and interest payments on those mortgages are then used to pay the interest and the bonds that were used to finance them. The intent is that the principal and interest payments on those mortgages are aligned to the interest and bond redemption schedule for the issuance.

Most programs in the Housing Division operate at a profit. More principal and interest on the mortgages are received than necessary to pay off the bonds and the interest on the loans. At the end of an issuance, the mortgages will still exist, even though the bonds have been paid off. The balances of those mortgages are then moved to the General Reserve Trust. The remaining principal and interest payments from the mortgages associated with bonds that have been paid off go to this General Reserve Trust. The requested transfer of \$8.6 million from the General Reserve Trust would be above and beyond any of

the reserve requirements required under the bond covenant for existing issuances for this account.

Chair Kieckhefer:

Are we collecting revenue from mortgages above what is necessary? Are you charging too much? I understand a contract was entered into, but the purpose of this was to make housing affordable for people.

Mr. Wells:

These are low-interest loans for first-time home buyers. The interest rates were always intended to be only enough to cover the bonds and the related interest. However, determining the rate is always a guessing game. Occasionally, prepayments are made by people who sold their homes and then paid off their loan early. Some of the issuances had higher interest rates as the interest rate cycles in the late 1970s and early 1980s increased.

People refinanced their homes and paid off their mortgages early. That resulted in prepayment of the bonds and a reduction in interest costs. There are a variety of reasons why the principal and the interest do not exactly tie to the bonds and the interest payments.

Section 25 transfers \$9.4 million from the B&I's Home Retention Program. Proceeds of sales remaining from this program are to be returned the General Fund after the obligations are paid. It is my understanding that the \$9.4 million is in excess of the obligations for this particular program.

Chair Kieckhefer:

Was this originally funded out of settlement dollars as well?

Mr. Wells:

Yes.

Sections 26 through 35 make certain concurring changes to specific statutes to sweep the different funding sources.

Senator Goicoechea:

Are these sections what makes it legal to sweep the first 26 accounts?

Senate Committee on Finance
March 27, 2015
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Mr. Wells:

Yes.

Chair Kieckhefer:

Is section 29 the loan program for charter schools?

Mr. Wells:

Yes.

Chair Kieckhefer:

Has it been balanced against the outstanding loans?

Mr. Wells:

Yes.

Chair Kieckhefer:

Does section 32 relate to the hospital licensing fee?

Mr. Wells:

No. Section 32 is a reference for the section 20 sweep. That is the amount from the Emergency Medical Services account in the DPBH.

Chair Kieckhefer:

Do we still need it?

Mr. Wells:

Yes.

Chair Kieckhefer:

Do the two amendments you suggested require any changes to these subsequent sections?

Mr. Wells:

I do not believe that there is any language change associated with those two. I will double check Section 18 and get back to you. No changes are necessary for the amendment in Section 15.

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Chair Kieckhefer:

I will close the hearing on S.B. 506. Seeing no further business before this Committee, this meeting is adjourned at 9:02 a.m.

RESPECTFULLY SUBMITTED:

Jason Gortari,
Committee Secretary

APPROVED BY:

Senator Ben Kieckhefer, Chair

DATE: _____

EXHIBIT SUMMARY				
Bill	Exhibit		Witness or Agency	Description
	A	1		Agenda
	B	2		Attendance Roster
S.B. 506	C	5	Jim Wells	Department of Administration FY 2015 - General Fund Budget Transfer Proposals