MINUTES OF THE MEETING
OF THE
ASSEMBLY COMMITTEE ON GOVERNMENT AFFAIRS

Seventy-Ninth Session
February 24, 2017

The Committee on Government Affairs was called to order by Chairman Edgar Flores at 8:33 a.m. on Friday, February 24, 2017, in Room 4100 of the Legislative Building, 401 South Carson Street, Carson City, Nevada. The meeting was videoconferenced to Room 4406 of the Grant Sawyer State Office Building, 555 East Washington Avenue, Las Vegas, Nevada. Copies of the minutes, including the Agenda (Exhibit A), the Attendance Roster (Exhibit B), and other substantive exhibits, are available and on file in the Research Library of the Legislative Counsel Bureau and on the Nevada Legislature's website at www.leg.state.nv.us/App/NELIS/REL/79th2017.

COMMITTEE MEMBERS PRESENT:

Assemblyman Edgar Flores, Chairman
Assemblywoman Dina Neal, Vice Chairwoman
Assemblywoman Shannon Bilbray-Axelrod
Assemblyman Chris Brooks
Assemblyman Richard Carrillo
Assemblyman Skip Daly
Assemblyman John Ellison
Assemblywoman Amber Joiner
Assemblyman Al Kramer
Assemblyman Jim Marchant
Assemblyman Richard McArthur
Assemblyman William McCurdy II
Assemblywoman Daniele Monroe-Moreno
Assemblywoman Melissa Woodbury

COMMITTEE MEMBERS ABSENT:

None

GUEST LEGISLATORS PRESENT:

None

STAFF MEMBERS PRESENT:

Carol M. Stonefield, Chief Principal Research Analyst
Jered McDonald, Committee Policy Analyst
Jim Penrose, Committee Counsel
Isabel Youngs, Committee Secretary
Cheryl Williams, Committee Assistant

OTHERS PRESENT:

Irma Fernandez, Legislative Aide for Assemblywoman Irene Bustamante Adams, Assembly District No. 42
Bruce H. Breslow, Director, Department of Business and Industry
Rique Robb, Chief of Disability Services, Aging and Disability Services Division, Department of Health and Human Services
Brian McAnallen, Government Affairs Manager, Office of Administrative Services, City of Las Vegas
Mike Cathcart, Business Operations Manager, Finance Department, City of Henderson
James R. Wells, CPA, Director, Office of Finance, Office of the Governor
Ron Knecht, State Controller, Office of the State Controller

Chairman Flores:
[Roll was called. Rules and protocol were explained.] First, I will open the hearing for Assembly Bill 126.

Assembly Bill 126: Abolishes certain committees and commissions. (BDR 38-555)

Irma Fernandez, Legislative Aide for Assemblywoman Irene Bustamante Adams, Assembly District No. 42:
I am here at Assemblywoman Bustamante Adams' request to present Assembly Bill 126. This bill was recommended by the Sunset Subcommittee of the Legislative Commission. Assembly Bill 126 proposes to abolish certain committees and a commission that are obsolete or inactive. This is one of nine bills put forward by the Sunset Subcommittee this session. Assemblywoman Bustamante Adams and Senator Settelmeyer have both been members of the Sunset Subcommittee since it was established by the Legislature in 2011. They have both chaired the Sunset Subcommittee as well. In this session, they have agreed to divide the Subcommittee's bills and introduce some in each house. Assembly Bill 126 is the first of the Sunset Subcommittee bills to be heard in the Assembly.

As you know, the Sunset Subcommittee is a permanent subcommittee of the Legislative Commission. It has six legislative members appointed by leadership, and three nonlegislator members who are nominated by the Governor and appointed by the Chair of the Legislative Commission. The Sunset Subcommittee is authorized to review every board, commission, committee, and similar entity created by statute. In the 2011-2012 Interim when the

Sunset Subcommittee first began its reviews, Nevada had more than 200 boards and commissions. Through the end of the most recent interim, the Sunset Subcommittee has reviewed 91 of these boards and commissions.

Pursuant to *Nevada Revised Statutes* (NRS) Chapter 232B, the Sunset Subcommittee is directed to recommend that a board or commission be continued, modified, consolidated, or terminated. As a result of recommendations from the Sunset Subcommittee, the Legislature has repealed 13 entities. Another six have been recommended for termination in the 79th Session.

Assembly Bill 126 provides for the repeal of three entities that are no longer active. With me is Carol Stonefield, who was the policy analyst for the Sunset Subcommittee in the 2015-2016 Interim. Assemblywoman Bustamante Adams has asked her to review the three entities in A.B. 126.

Carol M. Stonefield, Chief Principal Research Analyst, Research Division, Legislative Counsel Bureau:

I am here at the request of Assemblywoman Bustamante Adams to present the provisions of A.B. 126. The first entity the Sunset Subcommittee has recommended for repeal is the Commission to Review the Compensation of Constitutional Officers, Legislators, Supreme Court Justices, Judges of the Court of Appeals, District Judges and Elected County Officers. This Commission was heard in the Sunset Subcommittee on December 15, 2015.

The Commission to Review Compensation was created by the Legislature in 1993. It has nine members that are appointed by legislative leaders, the Chief Justice of the Supreme Court, and the Governor. The Governor's appointees are picked from the congressional districts and a list of nominations from the Nevada Association of Counties (NACO). The purpose of the Commission to Review Compensation is to review compensation paid to certain elected officials and recommend changes in compensation as approved by the members through a bill draft request (BDR). This Commission has the authority to request a BDR for salary adjustments.

However, existing records indicate that the Commission to Review Compensation last met in the 1990s. It was created by the Legislature in 1993. We have records to indicate that it met in the 1993-1994 Interim, and it made a report to the 68th Session. We have no records to indicate it ever met again after that or even had any members. We checked with the Office of the Governor, and they indicated to us that their office considers the commission inactive. Most of the repealed sections relate to the Commission to Review Compensation.

The repeal of the Advisory Committee on Housing was heard in the Sunset Subcommittee on February 23, 2016. The Advisory Committee on Housing was created by the Legislature in 1987 in response to a housing crisis at that time. It has nine members, including the Director of the Department of Business and Industry and eight representatives of various sectors of the housing industry. Those industries may be mortgage lending, sales and marketing, construction, development, government housing, or affordable housing.

The purpose of the Advisory Committee on Housing is to review and make recommendations concerning investments and issuance of obligations, development or improvement of programs, improvement of policies of the Housing Division of the Department of Business and Industry, administration of the account for low-income housing, and any other matters referred to it by the Director of the Department of Business and Industry or the Administrator of the Housing Division. The Sunset Subcommittee heard testimony during its review that the Advisory Committee on Housing has perhaps outlived its usefulness. The housing market has stabilized and there are other venues for community participation. It was recommended by Sunset Subcommittee for termination.

The third entity in this bill is the Subcommittee on Personal Assistance for Persons With Severe Functional Disabilities of the Nevada Commission on Services for Persons With Disabilities. The termination of this entity was heard in the Sunset Subcommittee on February 23, 2016. The Subcommittee on Personal Assistance was created as an independent advisory committee in 2001 for determining the need and potential for clients for personal assistant services. In 2009, the Legislature established the Nevada Commission on Services for Persons With Disabilities (CSPD). At that time, they pulled various independent entities, including the Subcommittee on Personal Assistance, under CSPD. That was intended to streamline the delivery of services and make the whole operation more efficient.

The Subcommittee on Personal Assistance has not met since 2012. Its members were to represent a broad range of people with disabilities from diverse backgrounds, including people with disabilities, senior citizens, representatives of the Nevada Centers for Independent Living, and providers of personal services to people with disabilities. The staff of the Aging and Disability Services Division, Department of Health and Human Services informed the Sunset Subcommittee that there are other means for the public to participate, comment, and provide input into the discussion of providing services for people with severe functional disabilities. For that reason, this Subcommittee has not met for a number of years. It has no members. That is the reason the Sunset Subcommittee has recommended termination of this subcommittee as well.

As provided in NRS, it is the burden of the board, commission, or committee to prove there is a public need for its continued existence. That is a provision in NRS Chapter 232B. For that reason, the Sunset Subcommittee has recommended the termination of these three entities. When the Sunset Subcommittee heard the Commission to Review Compensation, there was no one who came forward to recommend continuation. It has not had members for 20 years as best as we can tell. There are representatives here from the Division of Business and Industry and the Department of Health and Human Services who will be able to comment on the details of these other two committees.

Assemblywoman Joiner:
You said that the housing market has stabilized, which may be a reason that we do not need the Advisory Committee on Housing. It strikes me that housing in my district in Reno is really unaffordable. It is an extreme problem. We are having affordable housing forums to

figure it out. I hear from constituents all the time. Their rent goes up $200 in one month, and then they have to move. I think this is the best time to have discussions about affordable housing. I am curious if that was a part of the conversation during the Sunset Subcommittee hearing. Specifically, it says this entity administers the Account for Low-Income Housing. Does that account exist, and how much money is in it? If the Advisory Committee on Housing is dissolved, how will that money be redistributed?

Bruce Breslow, Director, Department of Business and Industry:
I recommended this action to the Sunset Subcommittee. It really had nothing to do with the stabilization of the housing market. We have a very active Housing Division with many programs. They put 10,000 people in affordable housing in the last two years. We created new programs for recruiting and retaining teachers, veterans, et cetera. We also have a very progressive Real Estate Division in the Department of Business and Industry. The Division of Mortgage Lending in the Department of Business and Industry is very active. We are constantly meeting with industry associations; we have done housing summits; and we have done the Home Means Nevada Home Retention Program, which helped people with their underwater homes and neighborhood stabilization.

The Advisory Committee on Housing had outstanding members in both the north and the south, who represented local government, developers, builders, realtors, et cetera. However, for the past four years nothing has amounted to more than a fun discussion. That was the issue. We would present information through different divisions, but we always asked the group well ahead of time if there was anything they wanted to talk about. Not once in four years did the group submit anything for the agenda. We were constantly presenting information to them. They never created a report or formal recommendations.

It was not that the committee members were not great, because they were wonderful representatives of the industry; however, it served no purpose. We have discussion on a much larger scale with the Southern Nevada Home Builders Association, the Nevada Association of Realtors, mortgage lenders, title companies, et cetera.

In the interest of trying to make government more responsible, I recommended that we move on. I thought that we were not getting anything out of this committee. We will not stop having meetings with all of those people. We will not stop meeting with all the associations.

Assemblywoman Joiner:
If the Advisory Committee on Housing goes away, how will the funds be administered? I suggest that the reason we have these committees, sometimes, is to have a public forum where public comment can happen. To do away with a committee like this will remove the public process. I was looking through the NRS and it says that this committee could do anything it is directed to. I am wondering if it could be a forum to have the public discuss the issues they are facing.

Bruce Breslow:
The Account for Low-Income Housing is administered by the Housing Division. It is part of their budget and regular reporting. They work with the low-income committees. That is what the Housing Division is for. We talked to the Advisory Committee on Housing, we gave them reports, we gave them all the budgets and information, and we publicly noticed the meetings. We did everything we could. It still amounted to a fun discussion between six or ten people.

The funding is still part of the state budget process. The Advisory Committee on Housing is there to make recommendations. We vetted the Home Means Nevada Home Retention Program with the committee. They asked questions, but there were no recommendations. This is not taking an opportunity away from the public in any way. This would allow the folks in the Housing and Real Estate Divisions to have four more days a year to work on their missions. We would probably have more outreach for our events if we had those extra four days.

Assemblyman Kramer:
I noticed the first part of this bill deals with the compensation for constitutional officers, legislators, Supreme Court justices, judges of the Court of Appeals, district judges, and elected county officers. Was the prospect of taking away the Commission to Review Compensation vetted through the County Fiscal Officers Association of Nevada, NACO, or any group that represents county and elected officials?

Carol Stonefield:
The commission was afforded a hearing and placed on the agenda. Anyone who wished to present an opinion was welcome to do so. There was no one who appeared to speak in support of retaining the Commission to Review Compensation.

Assemblyman Kramer:
Speaking as a former member of the organization, I am curious about how the outreach would have been done. It is easy to advertise something, but if you know who the players are, sometimes they are just a phone call away. The pay of local elected officials is set by the legislative body. They go sometimes six to eight years without a pay increase. Only the Commission to Review Compensation can give them a pay increase. Without this Commission, they have to lobby directly or go without a pay increase.

I know when this Commission was set up, it resulted in the first pay increase in around nine or ten years for the elected officials of 1995. I benefited from that. That was my first term in office. Since then, there have been two pay increases. This Commission did not weigh in on either one of them. Maybe that is a good reason for it to go away. It is ineffective because it did not do its job.

However, without this commission, I cannot imagine the Governor, Lieutenant Governor, Controller, and Treasurer all getting together to introduce a bill to raise their pay. Yet they have jobs where their deputies make more than they do. At some point, it ought to be addressed. Who better to address this than a Commission to Review Compensation? However, if you did the outreach to the County Fiscal Officers Association and NACO, and they were happy with it going away, then I guess I have no problem. My concern is that they did not respond because they did not know about it.

Carol Stonefield:
The Commission to Review Compensation has had no members for 20 years. As far as I know, there was no specific outreach to NACO, local government officials, or organizations. There is nothing that would prevent the Legislature from reactivating this Commission. It is existing law. We have no records to indicate why it has not been active for the past 20 years.

Assemblyman Brooks:
Does the Legislative Commission review the subcommittee's recommendations on commissions before they come to us?

Irma Fernandez:
Yes, they are presented and approved for submission. Assemblywoman Bustamante Adams and Senator Settelmeyer both served on the Legislative Commission.

Assemblyman Ellison:
The state employee salaries bill my colleague mentioned was brought forward by the Nevada League of Cities and Municipalities and NACO. I do not remember any committees that went to them other than those groups. I thought it worked quite well. We addressed the issue, but there is a problem in the time gap because they go so long without a raise that they are trying to play catch-up. I like this bill because it streamlines everything. It saves money and staff time, so they do not have to keep up with all the information.

Assemblyman Daly:
Having served on the Sunset Subcommittee in the past, I will explain the process a bit. They go through and pick the boards or committees they want to review. Staff tries to reach out and ask what they have done. The Sunset Subcommittee gets a report on what the activities have been. People come in to say whether they think the board or committee should be kept. There were a few where no one came in to defend them, and somehow we still could not end up sunsetting them. There is a process. It goes back to the Legislative Commission. If someone has not met in 20 years, I would say that we do not really need them anymore. They do not serve a purpose. They have to justify their continuance. I would try not to overturn the Sunset Subcommittee's work unless there is some justification. There is a lot of process and work that goes into this. They have several meetings, and they give everyone an opportunity to be heard before these decisions are made.

Assemblywoman Neal:
According to NRS 319.173 subsection 1, paragraph (a), the Advisory Committee on Housing would also consult on "the investment of money or issuance of obligations by the Division." I know it is advisory, but what were some of those obligations they were engaging in or helping you make decisions about?

Bruce Breslow:
If there was a bond project proposed by a government entity or a developer, there would be a briefing on that and what the program was, whether it was affordable housing, multifamily projects, et cetera. We gave them the report on the Low-Income Housing Tax Credit program, which does between five and seven projects statewide per year. That came through the Advisory Committee on Housing. You are familiar with Frank Hawkins; he was the representative for developers on the Advisory Committee on Housing. George Hatjakes is a member; he has been the president of the Nevada Association of Realtors multiple times.

The Housing Division would present all the things it was doing. For instance, one year we were working with the Governor to do a set-aside in multifamily housing to help veterans. That was an initiative last year. There was a set-aside proposed this year because of the crisis in northern Nevada due to the development of the Tahoe Reno Industrial Center. There was a small set-aside for a housing project for people who worked in those factories.

It was a great discussion, but there were no recommendations from the Advisory Committee on Housing that were any different from the other meetings we had with the same people in the other forums we would see them in. All of the programs were brought forward as we were supposed to. After a while, it was hard to get a quorum. People already knew about these things, and finding dates for a quorum was like pulling teeth. When we would have the meetings, we had fun talks. However, it did not result in recommendations that changed programs. It is a tough one for me because I like all of the people. I enjoy the talks. But for responsive government, it was not adding value.

Assemblywoman Neal:
Let us say I am a citizen and I have been following those meetings to get information on the multifamily projects happening. If we repeal this Committee, what forum would I go to in order to find the information? Am I going to the Division of Mortgage Lending to look at their agenda?

Bruce Breslow:
No one came to our meetings except the committee members. It was hard to get a quorum to come. But those programs are still vetted through workshops, hearings, et cetera by the Housing Division. If there were other programs that touched the Real Estate Division, they would meet with the Association of Realtors. In fact, our Housing Division does the same thing with the Realtors, title companies, mortgage companies, and lenders. If the Mortgage Lending Division has a new program, they announce those in workshops, meetings, et cetera. They attend meeting of the homebuilders, the general contractors meetings, et cetera.

There is a lot of opportunity, but there is very little of the general public that show up for these things. Often it is just the developer who has some skin in the game and wants to get something they are proposing through. They are there to testify in support or opposition. But it is not generally members of the public that come to these meetings.

Assemblywoman Neal:
The Advisory Committee on Housing would also get updates on the Home Means Nevada program. Where is that program? If I wanted to get information, I know I cannot ask an Advisory Committee on Housing member. Would I contact the Housing Division now?

Bruce Breslow:
Home Means Nevada, Inc. is a nonprofit that we started. It is now administered by the Housing Division. Within it is the Home Retention Program, which is being ended during this fiscal year. We created a revolving loan program rather than a program to hand out money. So $45 million of the $49 million in mortgage settlement money that went to the program has been returned to the state—$10 million was returned to the Office of the Attorney General and $35 million was returned to the State General Fund. Last time we did a report there were four notes left. Now there may be fewer. Those homes have been fixed up by licensed contractors, marketed, and sold to the public. Once those four notes are finished and the final audit is done, hopefully by the end of March, that program comes to an end and what is left in the program that was put in initially will be returned to the State General Fund.

If you had questions about that program, you would call me, the Housing Division, or Home Means Nevada itself. They are in the North Las Vegas City Hall building. I think we are down to one, possibly two employees left in the program. It is being closed out. Thank goodness it was able to achieve its mission, but the program was active for a much shorter period of time than anticipated because we were no longer able to purchase notes at a 20 or 30 percent discount from the U.S. Department of Housing and Urban Development like the program was originally set up for. That would allow us that margin to work with the homebuilder to write off what they owed or fix up the home and sell it. Often they were empty homes.

Assemblywoman Neal:
Who would deal with the Low-Income Housing Tax Credit (LIHTC) program? Where would we go to find information?

Bruce Breslow:
The same as before. This was just an advisory committee that would hear presentations from the Housing Division about what the LIHTC program was doing. The Housing Division is still more active than ever in both the north and south. The Housing Division not only has meetings about those programs, but they also file reports with the Legislature and the Governor. We also do a lot of outreach to the public. We have participated in many events sponsored not just by the state but also events sponsored by Senator Harry Reid in southern Nevada, housing consortium meetings, et cetera.

We are still working with the cities, counties, and public. We are looking to create new affordable housing programs every day. In fact, Nevada just won an award two weeks ago. By volume, we are number one in the United States for the number of affordable loans issued. More loans than California, Florida, and Texas came out of our Housing Division. There is plenty of opportunity to work with them and get questions answered. They are successful because they are everywhere. They go to every meeting. They have been doing a great job with that.

Assemblywoman Neal:
Now when someone looks at this record, they will know where to go—the Housing Division. The Advisory Committee on Housing also dealt with studies. What group will read through and discuss the benefits or drawbacks of any studies produced by the Housing Division? Will it just be you, or will there be a gathering of other directors?

Bruce Breslow:
Nevada Rural Housing Authority (NRHA) is a separate quasi-governmental entity. It is not part of the Nevada government system. It does not have a state budget. Like the housing authority in Las Vegas or Reno, they are the housing authority for rural Nevada—counties with a population of less than 150,000. The NRHA did a study and gave a presentation to the Advisory Committee on Housing. Then NRHA went back to business, working to put people in houses in the rural areas and hopefully develop voucher programs and build multifamily homes in the rural areas.

They have been doing a single-family program similar to the Housing Division's Home is Possible program. They work with the League of Cities, NACO, and everyone else. Their bailiwick is to reach the rural areas. The Housing Division has statewide authority and also does lending and programs in the rural areas. We have built multifamily homes in Elko, Winnemucca, Pahrump, the City of North Las Vegas, et cetera. Now you have two groups you can go to if you want information about what is going on in the rural areas: Nevada Rural Housing Authority or the Housing Division.

Assemblyman Carrillo:
The legislative digest of A.B. 126 mentions the three committees and commissions being dissolved. To me, these are committees that serve a function. These committees were started for a reason. Maybe there was no need if we have not used them for 20 years. However, these issues are not going away. If we abolish them, we would have to come back in two years to put them back. We would have to come back to the witness table and ask these committees to come back.

I am just concerned about abolishing them. People with severe disabilities are not going away. Is there a financial difference between suspending them and abolishing them? Are they costing the state if they are not utilized?

Rique Robb, Chief of Disability Services, Aging and Disability Services Division, Department of Health and Human Services:
The Subcommittee on Personal Assistance for Persons With Severe Functional Disabilities is a subcommittee of the Nevada Commission on Services for Persons With Disabilities (the current state body for all disabilities). You might be abolishing the Subcommittee, but you are not abolishing the Commission that oversees that Subcommittee. It is more of a streamlined approach. We will be able to address any needs that people with severe functional disabilities have. We will be able to address those through CSPD. We have been able to do that in the past five years that the Subcommittee has not been active. The last active meeting of the Subcommittee on Personal Assistance was in 2012. We tried to approach them for membership in 2015 without any response. We feel confident that we will be able to meet any needs through the Aging and Disability Services Division with the current Commission on Services for Persons with Disabilities.

Assemblyman Carrillo:
Is this something we need to abolish? Will there be a need to utilize it again? I want to ensure we do not overstep something. I know the Sunset Subcommittee did a lot of work on this. I just want to ensure we are not abolishing something we may need again someday.

Rique Robb:
We do believe we are meeting that need through CSPD. It is the full body for the state on disability services. I think the word "abolish" seems to be the key word. It seems like a strong word. From my understanding, the Subcommittee on Personal Assistance was developed to ensure specific issues were addressed at the time. However, we feel that we are meeting the need through the current CSPD. Any information that comes to the commission is addressed.

We have a legislative committee that follows any bills that may be specific to certain disabilities. We have subcommittees for communication access services for the deaf and hard of hearing, individuals with speech delays, et cetera. We work closely with the Statewide Independent Living Council and assistive technology groups. All those groups are working collectively to ensure they are meeting the needs of people with severe functional disabilities. Because we do not have the Subcommittee on Personal Assistance, we are doing a better job. We are able to work together as one.

When we have all these subcommittees and then we are reporting back to the commission, it is not as streamlined as we would hope. I have been the Chief of Disability Services for about a year and a half, and one of my goals was to pull those groups together. I believe that as a unit, we have been able to do that. Aging and Disability Services is looking at working collectively so things are not siloed and piecemealed. I believe with the abolishment of the Subcommittee, we are doing that. Hopefully we make better use of our funds and governmental work.

Chairman Flores:
Are there any other questions from the Committee? [There were none.] Is there anyone wishing to testify in favor of the bill? [There was no one.] Is there anyone wishing to testify in opposition to the bill? [There was no one.] Is there anyone wishing to testify as neutral to the bill? [There was no one.] I will close the hearing on Assembly Bill 126. I would like to move on to the work session.

Assembly Bill 2: Revises provisions governing the Patriot Relief Account. (BDR 36-134)

Jered McDonald, Committee Policy Analyst:
Assembly Bill 2 removes the requirement that monetary relief provided through the Patriot Relief Account may be paid for economic hardship only to those members called into active service, thereby expanding eligibility to all members of the Nevada National Guard who experience economic hardship. The bill also limits the payment of benefits from the Patriot Relief Account to the extent money is available in the Account (Exhibit C).

ASSEMBLYMAN DALY MOVED TO DO PASS ASSEMBLY BILL 2.

ASSEMBLYMAN CARRILLO SECONDED THE MOTION.

THE MOTION PASSED UNANIMOUSLY.

Chairman Flores:
Assemblyman Daly will take the floor statement.

Assembly Bill 9: Authorizes the Secretary of State to appoint a Deputy of Securities. (BDR 18-424)

Jered McDonald, Committee Policy Analyst:
Assembly Bill 9 authorizes the Secretary of State to appoint a Deputy of Securities and provides that the Deputy of Securities shall serve as the Administrator of the Securities Division (Exhibit D).

ASSEMBLYMAN ELLISON MOVED TO DO PASS ASSEMBLY BILL 9.

ASSEMBLYMAN KRAMER SECONDED THE MOTION.

THE MOTION PASSED UNANIMOUSLY.

Chairman Flores:
Assemblyman Kramer will take the floor statement.

Assembly Bill 13: Revises provisions governing the annual fee for conducting business in Nevada. (BDR 7-3)

Jered McDonald, Committee Policy Analyst:
Assembly Bill 13 revises provisions governing the annual fee for conducting business in Nevada. Assembly Bill 13 changes the name "state business registration" to "state business license." If you will recall back to the testimony, Senate Bill 59 of the 2015 Session changed the name from "state business license" to "state business registration." Assembly Bill 13 is just undoing that change (Exhibit E).

ASSEMBLYMAN DALY MOVED TO DO PASS ASSEMBLY BILL 13.

ASSEMBLYWOMAN BILBRAY-AXELROD SECONDED THE MOTION.

THE MOTION PASSED UNANIMOUSLY.

Chairman Flores:
Assemblywoman Bilbray-Axelrod will take the floor statement.

Assembly Bill 19: Revises the reporting requirements for certain information relating to veterans. (BDR 37-125)

Jered McDonald, Committee Policy Analyst:
Assembly Bill 19 standardizes the collection and reporting of veteran-related information by occupational and professional licensing boards, commissions, and agencies to the Interagency Council on Veterans Affairs. The bill also requires the Department of Veterans Services to submit certain additional information to the Interagency Council. Finally, the measure reduces the frequency of the report submitted by the Interagency Council from annually to biennially in even-numbered years (Exhibit F).

ASSEMBLYMAN ELLISON MOVED TO DO PASS ASSEMBLY BILL 19.

ASSEMBLYMAN McCURDY SECONDED THE MOTION.

THE MOTION PASSED UNANIMOUSLY.

Chairman Flores:
Assemblyman McCurdy will take the floor statement.

Assembly Bill 70: Revises provisions concerning the use of certain revenues in a redevelopment area. (BDR 22-413)

Jered McDonald, Committee Policy Analyst:
Assembly Bill 70 provides that a portion of the property tax revenue collected in a redevelopment area located within certain counties and cities may be used: (1) to improve existing public educational facilities; (2) support public educational activities and programs; or (3) for both of those purposes if the facilities, activities, or programs are located within the redevelopment area or within one mile of the redevelopment area or serve pupils living within the redevelopment area or within one mile of the redevelopment area (Exhibit G).

We do have a proposed amendment attached to this document. The proposed amendment from the City of Las Vegas and the City of Henderson would delete the requirement that the educational facilities involved be "existing" facilities, and it would authorize work relating to such facilities beyond "improving" them. The proposed amendment expands the definition of "public educational activities and programs" for the purposes of the bill (Exhibit G).

Chairman Flores:
Will the sponsors of the bill please come up? Please discuss the amendments, who the stakeholders are, and let the Committee know of any concerns or opposition.

Brian McAnallen, Government Affairs Manager, Office of Administrative Services, City of Las Vegas:
Certainly this bill is for the City of Las Vegas, but it also encompasses other cities with redevelopment agencies (RDAs). The City of Henderson is in support of this bill. You heard from Clark County School District, who testified that we have a memorandum of understanding to operate the direction for how we would expend the education dollars in RDAs. I am not aware of anyone else testifying in opposition. Other education groups came out in support. We have not heard from any opposition.

The amendment was a compromise with the Legislative Counsel Bureau to get to what we were seeking, which was clarity in the flexibility for the set-aside. We want to not only use the capital expenditures for existing public education facilities, but to improve, increase, and expand facilities and programs.

Anecdotally, we shared that we are currently using the capital dollars from the RDA education set-aside for two prekindergarten entities. Both should come on line in a year or so. One facility is at the old Nevada State Museum at Lorenzi Park. We have had to gut it to the four walls to turn it into a prekindergarten for the students in that area looking for educational opportunities before they enter the kindergarten system. The second location we have is an existing private school for early childhood education at South Martin Luther King Boulevard and Alta Drive, right across from Las Vegas Metropolitan Police Department's headquarters. We are working on building that out to a prekindergarten school as well.

The challenge we have had is that it took a number of years to accumulate enough dollars to really put into those capital expenditures. We are seeking flexibility to have those dollars in addition to the capital expenditures put into programs we think will help our downtown urban core schools. I hope that clarifies what the bill is intended to do. We think the amendment is conforming to that intent.

Assemblywoman Neal:
So we did not go forward with Henderson's amendment of not more than 18 percent?

Brian McAnallen:
I think that was discussed yesterday afternoon, so it did not make it into this draft. We do not have a problem with that language, but it came up in the last 24 hours.

> ASSEMBLYMAN CARRILLO MOVED TO AMEND AND DO PASS ASSEMBLY BILL 70.
>
> ASSEMBLYWOMAN MONROE-MORENO SECONDED THE MOTION.

Assemblyman McArthur:
I do have concerns about this bill. I think it gets away from the original intent. The Legislative Counsel's Digest of A.B. 70 says, "The Community Redevelopment Law grants a redevelopment agency certain powers and duties with regard to the elimination of blight in a redevelopment area in the community." This does not get at that intent.

Assemblywoman Neal:
I had a few concerns with the bill. My first concern was that we were building a program around an individual working for the city, Dr. Lisa Morris Hibbler. I worried about the sustainability of putting this into law. Schools may become dependent on a particular program that could go away if Dr. Hibbler ceases to work with the city. My second concern was with the city building educational structures. My third concern was data. I was seeking information on the four ReInvent Schools. This is the first year Clark County School District created a data agreement to track the progress and achievement of these schools. I am waiting on additional information. I did not receive it yesterday. I will vote "yes," but I will reserve my right to change my vote on the floor.

Assemblyman Ellison:
I was hoping the sponsor of the bill could address Assemblyman McArthur's concerns?

Brian McAnallen:
We have talked to Assemblyman McArthur about this issue, and we understand where he is coming from. The language in the education set-aside was established by the Legislature. A portion of the new money in the RDA would be allocated. We also received legislative direction that a portion of the set-aside would go to housing. That still happens today. A portion of those new revenues received in the RDA go to education and public housing. A lot of the other cities do not have that public housing set-aside. We have allocated most of

those dollars for trying to address veterans housing issues downtown and homelessness in the corridor around the Grant Sawyer State Office Building. We continue to make investments with our nonprofit partners to offer affordable and low-income housing. That set-aside for affordable housing is still in the bill. We will continue to make those investments in our community.

Assemblywoman Monroe-Moreno:
As we discussed in my office yesterday, the 18 percent language was going to change to "not more than 18 percent." I want to ensure that will happen as an amendment to this. I love the fact that cities are trying to help with blight. A part of that blight is in the education system. I truly appreciate you helping us with this, but I want to ensure that the language will change to "not more than 18 percent."

Mike Cathcart, Business Operations Manager, Finance Department, City of Henderson:
We discussed that language last night and also spoke with Assemblyman McArthur. We shared those discussions with the Committee. I believe that would be up to the Chairman and the Committee if those changes were to be incorporated into an amendment.

Chairman Flores:
Instead of saying "shall not exceed" or "shall not go below" 18 percent, the bill will now read "is at" 18 percent. There are different sections where that 18 percent is referenced. That 18 percent throughout the bill will be set at 18, and not just in one particular section.

ASSEMBLYMAN CARRILLO MOVED TO AMEND AND DO PASS AS AMENDED ASSEMBLY BILL 70.

ASSEMBLYWOMAN MONROE-MORENO SECONDED THE MOTION.

THE MOTION PASSED. (ASSEMBLYMAN KRAMER VOTED NO.)

Chairman Flores:
Assemblyman Carrillo will take the floor statement.

Assembly Bill 51: Revises provisions regarding the collection of debts owed to state agencies. (BDR 31-231)

James R. Wells, CPA, Director, Office of Finance, Office of the Governor:
We are here this morning to present Assembly Bill 51. I would like to get into the history before we get into the contents of the bill, which are fairly straightforward. In June 2016, the Division of Internal Audits, Office of Finance, Office of the Governor released an audit to the Executive Branch Audit Committee on the Office of the State Controller's debt collection activities (Exhibit H). The audit highlighted the challenges the state has faced with its ability to collect debts. Those problems have existed for more than 20 years.

In 1997, the Legislative Counsel Bureau (LCB) Audit Division released an audit of the management and collection of the state's accounts receivable. That audit concluded that the state lacked a comprehensive system to effectively manage accounts receivable and maximize collections. They found a lack of central state oversight and no effective processes to ensure the state does not make payments to the businesses that owe the state money. They also reported that accounts receivable overstated $50 million dollars that was no longer collectible and should have been written off. That audit also claimed that some agencies lack the authority for aggressive collection actions. The audit emphasized the significance of lacking effective collection efforts, noting that when agencies fail to collect taxes and other debts, the state must reduce its services or increase the tax burden on taxpayers.

As a reaction to that audit, Senate Bill 500 of the 70th Session was passed by the Legislature. That bill provided agencies with the authorization for additional collection remedies, such as leans, judgments, contracting with collecting agencies, and the ability to enter into installment-basis payment agreements. Additionally, the bill authorized state agencies to request approval from the State Board of Examiners to write off debts deemed impossible or impractical to collect. The bill authorized the State Controller to offset any amounts due to the state from a debtor against any amount owed to the debtor by the state.

In 2001, the Legislature passed Assembly Bill 314 of the 71st Session, allowing state agencies to voluntarily turn their debts over to the State Controller to maximize collection and revenues and minimize further losses. In 2009, State Controller Kim Wallin noted that the collections were still not working. Assembly Bill 87 of the 75th Session was passed, requiring the Controller to act as the collections agent for the state agencies, and required agencies to assign debt to the Office of the State Controller no later than 60 days after the debt was past due unless an alternative time frame was agreed to between the state agency and the Controller. Agencies that were authorized by specific statutes to collect a debt on behalf or in trust of a person or entity were exempt from those requirements, and the Controller could grant waivers to those nonexempt entities that had sufficient resources to collect their own debt. The Division of Internal Audits noted that the 1997 LCB audit's conclusion, that the state lacked a comprehensive system to effectively manage accounts receivable and maximize collections, still existed [page 6, (Exhibit H)]. The current process for ensuring the state does not make payments to businesses that owe state money is relatively ineffective. Businesses continue to receive payments from the state, which are not offset by the amount of debts they owe. Accounts receivable contained voluminous amounts of debts that should be written off.

The audit contained six recommendations to improve the collection processes: automating the debt assignment process, automating the debt offset process, automating the licensee review process, requiring agencies to request waivers to collect their debts, resolving legal issues to allow for the collection of certain debts from the wages overpaid to state employees, and writing off uncollectible debts [pages 11-16, (Exhibit H)]. All of these were agreed to by the State Controller. The audit considered whether the state collection agent responsibilities should be transferred to the Office of Finance, Office of the Governor. Their audit concluded that this transfer would improve the effectiveness of the state's debt collection efforts, as the

Governor appoints most of the state agency directors and approves their budget requests. This gives the Governor greater authority to enforce collection statutes. The Office of the Governor also has the Division of Internal Audits, which can perform reviews to determine the extent of agency compliance with the debt collection statutes.

The Office of the State Controller expressed concerns with their ability to require agencies to comply with the debt collection statutes. A Deputy Attorney General noted that there are no penalties if agencies do not comply with the various debt collection statutes, which impacted the State Controller's ability to require agencies to assign the debts and require licensing agencies to submit licensee lists. The Executive Branch Audit Committee concurred with this seventh recommendation to submit a bill draft request (BDR) to transfer the state's collection responsibilities to the Office of Finance. That BDR resulted in A.B. 51, which was submitted by the Governor and supported by the State Controller. The Office of the State Controller has made progress on several of the procedural recommendations included in the audit. They brought a large number of old, uncollectible debts to the Board of Examiners for write-off in late 2016. This was the first such request since 2012. After a few setbacks, the debt collection system went live earlier this week and will hopefully automate some processes identified in the audit. Work continues on the implementation of other recommendations in the audit.

There are 49 sections in A.B. 51. Sections 1 through 37 replace the State Controller or the Office of the State Controller with the Director of Finance or the Office of Finance as appropriate in the various sections of *Nevada Revised Statutes* (NRS) Chapter 353C. It will effectuate the transfer of debt collection activities to the Governor's Finance Office. Sections 38 to 45 make conforming changes to various chapters of the NRS. Sections 46 and 47 ensure continuity of regulations, contracts, actions, and the assets and liabilities of the debt collection efforts after the transfer. Section 48 allows the Legislative Counsel to substitute the appropriate names in the other statutes or regulations not identified in A.B. 51. This bill would be effective on July 1, 2017.

Assemblyman Kramer:
This bill does no more than transfer this from the Office of the State Controller to the Office of Finance? It does not expand or contract duties in any way?

Jim Wells:
That is correct. There is no change in the duties or collection efforts allowed by agencies today. It simply transfers four people, the system, and the duties to the Governor's Office of Finance.

Assemblyman McCurdy:
What does the Office of Finance plan to do that is not already being done? Will this cost our state more money?

Jim Wells:
The intent is to collect more debts owed to the state. The debt collection system that went live on February 21, 2017, will hopefully automate some of these processes and the state will increase collections. We have a complex process of transferring debts from the state agencies to the Office of the State Controller. As a result of that complexity, there has been a lack of transferring debts to the various state agencies to the Office of the State Controller. By the time the Office of the State Controller gets the debts, they are old. By the time they get them to collection agencies, they are even older.

The intent of the system is to automate some of those processes and improve the ability to get these collections. The Office of the State Controller noted and has agreed that part of the reason behind the lack of having agencies transfer money from the agencies to the Office of the State Controller is that their office lacks any enforcement capability. The Governor, as the appointing authority for the directors of the various departments, has the authority to direct them to do so. We have the Division of Internal Audits as well. They can go out and ensure those agencies are complying with the directives of the Executive Branch. The Office of the State Controller does not have the audit authority that the Office of the Governor has through its Division of Internal Audits. That is one of the benefits of doing this. It becomes part of the compliance reviews done on a regular basis for state agencies.

Assemblyman McCurdy:
Is there an anticipated amount you expect to collect under the move? What is that dollar amount? And will this cost our state extra money?

Jim Wells:
There is absolutely no cost associated with this bill to transfer the debt collection activities from the State Controller to the Office of Finance. I am not going to guarantee I have a magic bullet to fix a problem that has been in the making for more than 20 years. We will make every attempt to improve the collection efforts, get some of the bad debts on the books collected and, if appropriate, written off. I do not want to make a promise I cannot live up to. This has been a problem since the 1990s when it was first identified by the Legislative Counsel Bureau's Audit Division.

Assemblyman McCurdy:
If this has been an ongoing problem, why are we looking to make changes in the 79th Session?

Jim Wells:
As I mentioned in my testimony, debt collection processes have been changed many times since the first statutes were passed in 1999. The last big effort was made in 2013. Part of that was the requirement for the 60-day turnover. Frankly, we have not had the improvements in debt collection that we would like to see. The Office of the Governor is committed to improving the collections and believes they can do this through the Governor's Finance Office.

Ron Knecht, State Controller, Office of the State Controller:
The audit that was performed in 2015 and 2016 and brought forth with this recommendation was an audit that was requested by me from the Executive Branch Audit operation. I did this in my first week to assess what problems we faced, what opportunities we had to do better, et cetera.

I think Mr. Wells pointed out that the crux here is that the Office of the State Controller does not have any real power to compel the agencies and departments to move the debt to us in a timely fashion as they are required legally to do. Because they are not doing that the way they should, those debts age. As debts age, they become much less collectible. The upshot is that we did not want to turf this and say it is our operation. We took the recommendation of the auditors. It made sense to us.

Mr. Wells has been a good partner to work with in getting the system for debt collection implemented. I cannot give you a particular number. I would not try. However, I think it will be an improvement in terms of effective debt collection. It is essentially a costless improvement. We have a very good staff and operation, and we hate to lose them. However, if this serves the public interest, we will not turf this.

Assemblyman McCurdy:
Is it correct that the debts reach your office because they are probably uncollectible anyway?

Ron Knecht:
If the debts reach our office, presumably the agencies have already spent 60 days or more trying to collect them. That is the time when they are most collectible. The opportunity is the best, the information is the most current, and people have probably not left the state. If they reach our office, they are problematic. The probability of collecting a dollar is pretty low. The important thing is to get it to the debt collection operation as soon as possible, pursue it, and, if we cannot collect it, to write it off.

Assemblyman McCurdy:
I am concerned because we have a lot of agencies coming to us and talking about transferring more power to the Office of the Governor. I want to know if that is going to be more effective and how much more effective you think it will be.

Ron Knecht:
That is a very serious problem and a thought for concern. It is one that I share. We did not go into this lightly. The auditors were convincing in making the point that this is one time when transferring some powers, authorities, and operations to the Office of the Governor will make state government work more effectively. That is why we supported it.

Assemblyman Ellison:
Every report I have read out of the Office of the State Controller has said that collections were way up and we are doing a great job. Why are we moving collections from the State Controller to the Governor when I thought we were doing a great job?

Ron Knecht:
To answer the question, the debt collection operation is a good team. However, with the contract we inherited from the previous administration to automate this process and with the various problems it had, we have not been able to collect debt the way we would like to. Until recently, we have not been able to write it off the way we would like to. We have had to focus on getting that debt collection system operational. We have done that now. I think they do a fine job, but I think this whole operation will work better under the terms of A.B. 51 with the debt collection operation being moved to the Governor's Finance Office. That is all this is about.

Assemblyman Ellison:
I agree. I think finance and auditing should be together. It did seem like we took a step forward and now we are taking a step back. I can understand what you are trying to do. I am just wondering, if this had not been done for 25 years, why are we doing this now?

Jim Wells:
As Controller Knecht mentioned, the Division of Internal Audits opened an audit on debt collection activities at his request. That was in 2015. This was the internal auditors' opinion, which was discussed with the State Controller and with the Office of the Governor before the recommendation was finalized and put into the audit in June 2016. This was a result of the audit request by the State Controller and performed by the Division of Internal Audits. I will say that part of it was the recognition that there had been some progress between 2010 and 2012. It peaked in 2013 and dropped off significantly as the former State Controller started the process of implementing the new automation system. We went from averaging about $1.3 million a year in debt collection to less than $500,000 in the last three years.

Assemblyman Brooks:
You talked about staff leaving the Office of the State Controller, but then you said there will be no increase in cost or staff at the Office of Finance. That does not add up to me. Additionally, was there a particular incident that prompted this recommendation? Did the auditors discover something they felt uncomfortable with that prompted this move?

Jim Wells:
The reason we say there is no cost is because those state employees already exist. We are simply changing who they report to. There are four positions currently paid by the Office of the State Controller. They will move into the Governor's Finance Office.

Assemblyman Brooks:
Will they have to be let go and reapply under a different classification?

Jim Wells:
No. We will take the four existing employees in their current classifications as a group and just change who they report to. To answer your question as to whether there was a specific incident, I am not sure. As the auditors walked through and saw how things worked or did not work and how they might work better under a different structure, they informed us.

Ron Knecht:
There was one specific incident. In my first week as Controller, Mr. Weinberger came to me and said, "The Governor has instructed us to make available to all the new constitutional officers the full services of our office to do an audit of any part of your operation that you want." I was a bit slow and took about two seconds to say, "My, what an opportunity. He will review our operations and tell us the problems and opportunities." In four years I will not be able to say, "We did not discover that until it was too late." At that point, I agreed to the audit.

The other half of the coin is that this is a problem that has developed over 25 years. We have sought various solutions. The professional auditors looked at it and said the crux of the issue is the power of the Controller versus the Governor to compel the agencies and departments to turn over these debts in a timely fashion so that we can pursue it. It was just the next step in the history and execution, and the fruits from the execution, of good day-to-day auditing operations. Once they said that, we thought about it critically. We thought they were right. We hate to lose this operation; these are great people. But we are sure that Mr. Wells will take good care of them.

Assemblywoman Monroe-Moreno:
You have mentioned that you had to get a new system for collecting debts. How much did that system cost us?

Ron Knecht:
To date, we have not paid a penny for that system. Let me quickly give you the history. Three years ago, when this idea was conceived, the Office of the State Controller did not have the money upfront for a new system like this. My predecessor recognized an opportunity with CGI Group Inc. to build and implement this system on a backend, benefit-sharing basis with no upfront money to the state. It was a unique opportunity to get something done that we probably could not have done if we had to put the money up front. The idea was great. The implementation of the contract left something to be desired. When we came into office in 2015, we inherited some problems with that contract. It was running behind.

We have had two amendments to the contract, which have raised the total that the contractor may ultimately recover to $2.5 million. However, that is on a shared-benefits basis. As the contractor gets that money, the state will also be getting money that it otherwise would not have gotten. The Office of the Governor has been very helpful in this transition working with the contractor. Frankly, the last time we were before the Executive Branch Audit Committee, upon which I sit, we were anticipating the contract would fail. With everyone's good faith and hardworking efforts, we actually got it to completion. What the contract will ultimately reap, we do not know. What we do know is that for every dollar the contractor gets out of this, the state will also be gaining monies it would not have gotten.

Jim Wells:
The original contract in the first amendment contained a complete benefits-shared model. The second amendment brings the total of the contract to a little over $3.2 million. That amendment does have some costs included in the budget to be paid directly to the vendor. Those costs were included in the original contract signed in 2014 but not recognized in the contract maximum. I do not know how best to explain why that happened; I was not in the position at the time. Somehow there was about $600,000 worth of system maintenance payments intended to be paid directly from the state to the vendor that were not included in the contract maximum. It was included in the second amendment, and those are built into the budget going forward. There is a small amount, I think less than $200,000, that we will pay them in fiscal year 2018 for finishing up post-implementation activities.

Assemblywoman Monroe-Moreno:
Even after going live with the system, it is still not what we need to cover the gathering of all the debts? You still need to transfer this to the Governor's Office of Finance?

Jim Wells:
The system was only one part of the recommendations made by the Internal Audits Division. The system is intended to assist in automating certain processes from the Office of the State Controller or the Governor's Finance Office. It is designed to help the outside contractors, assist with the levy process, et cetera, between the collecting agent and the collecting activities. The backend side of getting the information from the agencies to the State Controller is what this bill is intended to help improve.

Assemblywoman Monroe-Moreno:
Does this new system allow the state the ability to locate accounts maintained by our debtors that are located in banks or other financial institutions?

Jim Wells:
Yes. That is part of the system. It has a few other features that we will not turn on right away. We still have some work to do with an internal department to get information. There is a provision for getting banking information. There is also the ability to get liens. The process will be streamlined through the system to do that. The last step that has not yet been implemented is an attempt to work with the Department of Employment, Training and Rehabilitation (DETR) to see if we can get employer data to garnish wages.

Assemblywoman Monroe-Moreno:
How long will that step with the internal department take?

Jim Wells:
I cannot answer that right this minute. There are still negotiations between either our office or the Office of the State Controller and DETR about collecting that particular information.

Assemblyman Kramer:
When this bill was passed in 2013, it came to my attention that local governments could also ask the state to help them collect debts. As I recall at the time, it was a slow start on that. There was no outreach to local governments because there was just too much to do. It was not as productive as they thought it would be. Once you get this new computer system in place and start having some successes, will you do an outreach to the local governments of Nevada to see if there are debts they are having trouble collecting that perhaps this organization could help collect?

Ron Knecht:
The reason there was no outreach at the beginning was the various problems we were having with implementing the contract with the contractor who was building and implementing the system. We had to focus on that to the diminution of some of our own ongoing collection actions, let alone reaching out to local governments, which we want to do. If the debt collection operation were to stay with the Office of the State Controller, we would indeed reach out to the local governments. I am sure that is the case if it migrates to the Office of Finance, as we anticipate it will.

Jim Wells:
I would concur with Controller Knecht. We would certainly reach out to local governments. Certainly one of the benefits of the automated system we are hoping to get on line is to improve the debt offset. That has been a hit or miss proposition over the years. If you look at how much we have collected, it is skewed by a large payment in a single fiscal year. Outside of that, it has been under $100,000 per fiscal year that we have done through the debt-offset process. If we can get that part up and running, that would be a big benefit to local governments.

Assemblyman Daly:
You currently collect state debt or get it transferred to you to collect. Is it just state agencies or all government debt? Or is that what Assemblyman Kramer was talking about?

Ron Knecht:
Right now, it is available to state agencies, departments, et cetera. It does not extend to local government yet.

Assemblyman Daly:
How many agencies are we talking about? If someone has a fee or license they have not paid, how many agencies are we talking about?

Ron Knecht:
I wish I knew. It is a lot of them. The whole idea of the debt-collection residual operation being transferred or created in the Office of the State Controller was that it is difficult for that many agencies to coordinate and tell agency A to tell department B that this person owes us something and not to pay them. That is why we have a residual debt-collection operation somewhere.

Assemblyman Daly:
Are all of those agencies supposed to report back or transfer the debt within a certain period? Is there a statute or rule that they are supposed to be following and they are not?

Ron Knecht:
Yes. That is exactly the point. They are all supposed to, and we have various terms they can work on depending on the effectiveness of their own debt-collection program. However, the essence is that the Office of the State Controller does not have the "spank" to require them to do it in a timely fashion. In a number of cases, we do not get those debts in a timely fashion. We think the Governor's Office of Finance will have more power that way.

Assemblyman Daly:
The problem theoretically is that you do not have the ability to force them to do what they are being told to by a law passed by the Legislature. The Executive Branch has the duty to enforce those laws. I understand the efficiency of having a debt collection agency and having the debt turned over, and subject matter experts can try to collect the debt through a variety of methods, whether you contract out or not. I am not sure that I am buying that the Office of the Governor will be able to tell his agencies, agencies that he is directly over, to follow the law that they are already not following. It seems if you asked him, he would be able to do that now.

The fix might be to give you the authority you need to go to these agencies and make them follow the law. I am sure you have read the *Nevada Constitution* the same as I have, but Article 5, Section 22 states, "The Secretary of State, State Treasurer, State Controller, Attorney General, and Superintendent of public instruction shall perform such other duties as may be prescribed by law." This body can give you that authority. Why is that not an idea?

Ron Knecht:
That would be an alternative. I think it might be a bit more complex. If I were an empire-builder, I might have reached for that alternative to begin with, but I think it is more streamlined, effective, and efficient to move the operation to the Office of the Governor. Then the Governor can essentially pick up the phone and make a call and tell them to get it done.

Assemblyman Daly:
Is the Office of the Governor going to have to reinvent things you have already done, or are they up to speed on other alternative collection methods that have been built from your previous controller? I do not know that the Office of the Governor is prepared to cover this. They may be able to handle state debt, but are they prepared to reach out to local governments with similar issues? I just shake my head. I know you are both within the Executive Branch. I do not think it is a separation-of-powers issue. However, there is delegation of various things because there are separations that take place. I do not think we should move the Office of the Attorney General, the Secretary of State, or the Treasurer to the Office of the Governor. We have those separations for a reason. I am reluctant to say it sounds good today when all we have to do is give you the authority to do your job.

Ron Knecht:
The whole operation will be moved from the Office of the State Controller to the Governor's Finance Office. The people, the powers, the operations, the debt collection information system that will facilitate this, et cetera, will be moved. It really will be a pretty seamless transfer. I agree that we need to maintain the current separation of powers. However, I heard Mr. Wells express that when we get beyond the current problems we have had, we will reach out to local governments and make it more effective. At the end of the day, ever since June 2016, we have been working in anticipation with Director Wells and his office. They have been a really good transition partner. I have great faith in them.

Jim Wells:
There are about 30 major agencies and somewhere around 100 when you look at the smaller players in state government. One problem that I do not know that the transfer will fix is that there are certain departments that have significantly more authority to collect debt and significantly more restrictions on the ability to transfer it than others. The Department of Taxation has a prescribed process it needs to go through before it can transfer those debts to the Office of the State Controller, up to and including the blessing of the Nevada Tax Commission, Department of Taxation. Once they turn it over, there are requirements about collecting all of it instead of just parts it. There are some other issues that are out there that complicate matters as to the collection of debts and transferring information from the agencies to the Office of the State Controller.

Assemblyman Daly:
But we are not changing any of that by transferring debt collection to the Office of the Governor. Whatever barriers there are, they still exist. I do not know that we are getting to the root of the problem by giving it over to another office.

Jim Wells:
Certainly there are things that need to be addressed. I would believe that the ability for us to reach out and work with the agencies—we already have a close working relationship with all of the finance officers statewide because of the role we play. The communication between the Governor's office and outside agencies' offices is more aligned than the communication between the State Controller's office and those agencies' offices.

Assemblywoman Neal:
In section 25, subsection 1, what was the purpose of the permissive language, "The Director may notify the State Controller"? You are taking them out of the equation, right?

Jim Wells:
Section 25 deals with the debt offset provisions. The State Controller will still write checks to vendors, and if we identify a debt where the offset process can be used, we would still have to notify the State Controller not to write a check to that particular vendor. The provision allows the Office of the Governor to notify the State Controller of a debtor. They would take the next check that goes to that particular vendor and offset the amount and send it back to the agency where the debt is owed.

Assemblywoman Neal:
According to the Division of Internal Audits audit report, the debt offset provision has been rarely used since 2013. Are we saying we want to keep that language just in case we want to use it?

Jim Wells:
We absolutely want to use it. The fact that it has not been utilized to the extent that it could have been is part of the system's automation process. I personally think that is a very good method for collecting bad debts. You do not want to write a check to someone who owes you money. We think that is imperative.

Assemblywoman Neal:
One of the recommendations in the audit was automation of the system. However, it said agencies are using spreadsheets and they do not have error checks such as field validation. If all these agencies are using spreadsheets and we are going to automation, what is the cost? Technically you are changing the method in which they do something. But I heard there was no cost. There is no cost to shift them from spreadsheets with serious errors to an automated system?

Ron Knecht:
Right now, we have been using spreadsheets in the Office of the State Controller. The automation process will help make that more efficient, effective, and accurate. I think there are two different issues here. There is no cost and an improvement to shifting the operation from the Office of the State Controller to the Office of the Governor. There is a cost to automation. That is what we were talking about earlier in answer to Assemblywoman Monroe-Moreno's questions. Depending on how you draw the boundary lines, it is either a $2.6 million contract or a $3.2 million contract. We are incurring that cost, and it will help make this more efficient, effective, and accurate. Separately from that, we can shift the operation to the Office of the Governor at no cost. It will be more effective in getting the agencies to turn over the debt.

Assemblywoman Neal:
You said that your office uses the spreadsheet, but when I was reading the sentence, it said that, "Agencies must dedicate significant resources to the process, which has deterred them from assigning debts to the office" [page 10, (Exhibit H)]. The way I interpreted the sentence, we have agencies that are not sending debts to you because of the spreadsheet issue. Is that wrong?

Ron Knecht:
You did not interpret it incorrectly. My point was that when we have the new debt-collection information system, that will be less problematic for the agencies and the Office of the State Controller. I can ask my Chief Deputy Controller, Mr. Smack, who is more conversant with the day-to-day details of that to supplement the answer. We are trying to make that process better with the debt-collection system. It does have a cost. At the same time, we are trying to make the debt-collection turnover process better via A.B. 51.

Assemblywoman Neal:
The private collection agencies and the timeliness: what remedy will you apply that was not available to the Office of the State Controller that is now available to the Office of the Governor? Or is the remedy all coming from the automation of the system? It said there was a slow ability to assign to private collection agencies, which is a help. What are you going to do better?

Jim Wells:
The automation from the central collection agent of the submission of the bad debts to the collection agencies is a big part of what this new system is attempting to do. That system has the ability to transfer batches of debts to a collection agent hired by the state to collect debts owed to the state. They take a percentage of the amounts they collect off the top. That process is to be automated through the system. There may be some cost to the agencies in turning over the bad debts. They will tell you that turning over those debts is very time-consuming and costly process. The intent of the system was to minimize the time and effort those agencies are taking. There is always some cost. There will be some efforts by the agencies, but we believe those will be reduced as a result of the system put in place.

Assemblywoman Neal:
The audit said there was at least $89 million owed to agencies. It also said the Department of Taxation has the majority of debts owed to the state. Further in the report it said the Department of Taxation did not feel the need to assign because of the slow rate or inability to collect the debt.

Jim Wells:
The Department of Taxation has certain processes they need to go through on their side before they have legal authority to transfer the debt to the State Controller. Once they get to that step, which essentially results in the Tax Commission making a recommendation, the debt is fairly old. The time and effort it took to transmit the remaining debts that the Tax Commission had basically written off, as well as the collectability of the amount they were transferring, was not worth it. One of the things we will be looking at is working with the Department of Taxation to transfer or transmit some of that information earlier to attempt to use the alternative collection efforts available to us.

Assemblywoman Neal:
What are the new strategies we can expect to see by your office? The audit also stated that $268 million was over 120 days old. What are your new strategies to get that money? Or will this be part of the write-off remedies that were discussed?

Jim Wells:
We need to recognize there is some debt that it is impossible or impractical to collect and needs to be submitted to the Board of Examiners for write-off. They have done a $25 million write-off and another $1.8 million write-off late in calendar year 2016. Part of the ability of the new system will be to identify old debts that are past the statute of limitation or that the likelihood of collection is so negligible it is not worth the time. The current process in the

Office of the State Controller uses a lot of spreadsheets. That does not allow for a quick breeze-through of those agencies from which we might easily obtain a check from. When the first write-off was brought to the Board of Examiners in October, my staff noticed that in a ream and a half of paper there were probably a dozen companies that the state does business with every day that we should have collected at some point in time. It is that kind of automation and oversight that the new system hopefully will do. If this office is transferred to my jurisdiction, I will make an effort to improve that.

Assemblyman Carrillo:
How many jobs do you expect to eliminate in the Office of the State Controller and how many jobs do you expect to create in the Governor's Finance Office?

Ron Knecht:
Four jobs will be eliminated in the Office of the State Controller and the same four jobs will transfer to the Governor's Finance Office.

Chairman Flores:
Are there any other questions from the Committee? [There were none.] Is there anyone wishing to testify in favor of the bill? [There was no one.] Is there anyone wishing to testify in opposition to the bill? [There was no one.] Is there anyone wishing to testify as neutral to the bill? [There was no one.] Thank you for the presentation. I will close the hearing on A.B. 51. Is there any public comment? [There was none.] This meeting is adjourned [at 10:56 a.m.].

RESPECTFULLY SUBMITTED:

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Isabel Youngs
Committee Secretary

APPROVED BY:

____
Assemblyman Edgar Flores, Chairman

DATE: ____________________________________

EXHIBITS

Exhibit A is the Agenda.

Exhibit B is the Attendance Roster.

Exhibit C is the Work Session Document for Assembly Bill 2, dated February 24, 2017, presented by Jered McDonald, Committee Policy Analyst, Research Division, Legislative Counsel Bureau.

Exhibit D is the Work Session Document for Assembly Bill 9, dated February 24, 2017, presented by Jered McDonald, Committee Policy Analyst, Research Division, Legislative Counsel Bureau.

Exhibit E is the Work Session Document for Assembly Bill 13, dated February 24, 2017, presented by Jered McDonald, Committee Policy Analyst, Research Division, Legislative Counsel Bureau.

Exhibit F is the Work Session Document for Assembly Bill 19, dated February 24, 2017, presented by Jered McDonald, Committee Policy Analyst, Research Division, Legislative Counsel Bureau.

Exhibit G is the Work Session Document for Assembly Bill 70, dated February 24, 2017, presented by Jered McDonald, Committee Policy Analyst, Research Division, Legislative Counsel Bureau.

Exhibit H is a document titled "Audit Report: Office of the State Controller State Debt Collection," dated June 2016, by the Division of Internal Audits, Office of Finance, Office of the Governor, presented by James R. Wells, CPA, Director, Office of Finance, Office of the Governor, regarding Assembly Bill 51.