

**MINUTES OF THE MEETING
OF THE
ASSEMBLY COMMITTEE ON GOVERNMENT AFFAIRS**

**Seventy-Ninth Session
April 27, 2017**

The Committee on Government Affairs was called to order by Chairman Edgar Flores at 8:06 a.m. on Thursday, April 27, 2017, in Room 4100 of the Legislative Building, 401 South Carson Street, Carson City, Nevada. The meeting was videoconferenced to Room 4404B 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 Melissa Woodbury

COMMITTEE MEMBERS ABSENT:

Assemblywoman Daniele Monroe-Moreno (excused)

GUEST LEGISLATORS PRESENT:

Senator Becky Harris, Senate District No. 9



STAFF MEMBERS PRESENT:

Jered McDonald, Committee Policy Analyst
Jim Penrose, Committee Counsel
Lori McCleary, Committee Secretary
Cheryl Williams, Committee Assistant

OTHERS PRESENT:

Jeff Fontaine, Executive Director, Nevada Association of Counties
Lawrence Weekly, Commissioner, Board of County Commissioners, Clark County;
and representing Nevada Association of Counties
Marilyn K. Kirkpatrick, Commissioner, Board of County Commissioners,
Clark County
Wes Henderson, Executive Director, Nevada League of Cities and Municipalities
Gerri Schroder, City Councilwoman, Ward I, City of Henderson; and
Secretary/Treasurer, Nevada League of Cities and Municipalities
Robin L. Cobb, Private Citizen, Las Vegas, Nevada
Grant Hewitt, Chief of Staff, Office of the State Treasurer
Tara R. Hagan, Chief Deputy, Office of the State Treasurer
Sheila Salehian, Deputy Treasurer, Nevada Prepaid Tuition Program, Office of the
State Treasurer
Kent M. Ervin, Legislative Liaison, Nevada Faculty Alliance
Tammi Davis, Treasurer, Washoe County; and representing Association of County
Treasurers of Nevada
Chaunsey Chau-Duong, Public Affairs, Las Vegas Valley Water District, Southern
Nevada Water Authority, and Springs Preserve

Chairman Flores:

[Roll was called. Committee rules and protocol were explained.] I will open the meeting for the presentation for Local Government Day at the Legislature.

Jeff Fontaine, Executive Director, Nevada Association of Counties:

I am very pleased that the Nevada Association of Counties' (NACO) president-elect, Clark County Commissioner Lawrence Weekly, is able to join us today. Before I turn it over to Commissioner Weekly, I would like to note that April is National County Government Month. We are grateful for the opportunity to appear before you on Local Government Day at the Legislature. This is really a day for us to raise awareness of the robust role that counties play in our communities and to highlight some of the innovative and successful programs and services that our counties provide to their citizens. We have submitted the Nevada Counties Matter factsheet ([Exhibit C](#)), which highlights some of the important services our counties provide. I would like to turn it over to Commissioner Weekly, and I would also like to give up my seat to one of our other NACO board members from Clark County, Commissioner Kirkpatrick.

Lawrence Weekly, Commissioner, Board of County Commissioners, Clark County; and representing Nevada Association of Counties:

I am honored to be here with you this morning to be able to share my thoughts on what we consider such an amazing time here in the country and in Nevada. Our NACO president, Kevin Phillips, asked me to represent our association this morning. On behalf of NACO, we thank you for inviting us here. I should also note that our colleague from the Clark County Board of County Commissioners, Marilyn Kirkpatrick, is here. She is no stranger to this building, and we are very happy to have her join us.

During our time at the Legislature, the NACO Board of Directors has learned that despite our differences, our counties have much in common. For someone like me, who represents Clark County District D, I have an urban-type district. We look at things like workforce development and helping to get Nevadans back to work. We look at things like youth outreach, affordable housing, advocating on behalf of seniors, and improving our educational system. These are things counties all across Nevada are enduring.

When I became a County Commissioner, I began my journey as an appointment. I was appointed by Governor Gibbons. One of the things the Governor said to me back then was, Lawrence, when you become a County Commissioner, I hope you will work extremely hard toward the goal of one Nevada. Being a part of NACO, I have met commissioners from all across the state of Nevada. One thing we work extremely hard for and strive for is we all may be on separate ends of the state, but we all share many common goals. That is our goal here today, to share with you that we want to work together and we want to move our state forward.

I would like to acknowledge our friends from Nevada League of Cities and Municipalities who have joined us at the Legislature for Local Government Day. As you all know, county and city governments are the governments closest to the people, and together we work to make positive changes in our community. Thank you for inviting us to be here.

Marilyn K. Kirkpatrick, Commissioner, Board of County Commissioners, Clark County:

This room by itself and my love for government affairs goes way back to before I even came to the Legislature. People remind me all the time at the Board of County Commissioners that I am no longer a legislator, but I still have to defend my legislators. Being a NACO member has been great for me because I can continue to work with the folks I met in this very building. I have gotten to know their issues and what is important to them.

I am also fortunate to sit on the National Association of Counties Board of Directors. I am now building relationships across the country to help Nevada. We are out there lobbying and bringing things back in order to work together collaboratively to make our state great. I believe we have a great state. I will say to the Committee, last night was great because I love playing basketball, but it was great to be invited back to play basketball.

I know we can collaborate and have those open doors in order to do what is best for everyone. Those who know me know I am opinionated and insist on discussion. However, it is good dialogue and we are all working together to make sure we give you the tools, and no matter which part of the state, making sure everyone is prospering. We focus on helping the smaller counties get the tools they need. We have been partnering to do things across county lines. I appreciate the opportunity and I love the institution.

I thank all the legislators for what you do because it is a tough job in a short time. Just know, anything you need from any of our elected officials in the counties, we are here to help you and be part of the process. We will always tell you the truth: the downside and the upside. We may agree to disagree, but at the end of the day, we appreciate all you do and we respect the job you have. Thank you for giving us the opportunity to be here today.

Wes Henderson, Executive Director, Nevada League of Cities and Municipalities:

Welcome to Local Government Day. We appreciate your making time for us. Our president this year is Mayor Geno Martini from the City of Sparks. He has been going through some medical issues and could not be here today, but I am proud to introduce our secretary/treasurer, Councilwoman Gerri Schroder from the City of Henderson.

Gerri Schroder, City Councilwoman, Ward I, City of Henderson; and Secretary/Treasurer, Nevada League of Cities and Municipalities:

I have to echo my colleagues from the Clark County Board of County Commissioners about their sentiments of working together and collaborating. We have been doing that for many years, and not just as cities and counties, but also with the legislators. We enjoy that and feel it is the best way to get everything done in a collaborative way. We are all working together for the main purpose, which is what is best for Nevada.

In addition to being a city councilwoman, I also serve as the secretary/treasurer for the Nevada League of Cities and Municipalities. It is a pleasure to appear before you today as we observe Local Government Day at the Legislature. As an elected official, I understand the challenges you face as public servants. We appreciate your dedication to Nevada and its residents as you deliberate and consider important legislation. The decisions made by this Committee and your counterparts in the Senate Committee on Government Affairs have the potential to affect how local governments operate as we strive to deliver the governmental services needed and wanted by citizens, and we value the opportunity to provide input and feedback on the bills that are heard by both committees.

The members of the Nevada League of Cities and Municipalities are the first-line providers of governmental services to over 1.7 million Nevadans, many of whom are our shared constituents. We ask that you carefully consider how they will be impacted by restrictions on the existing authority of local governments that may be contemplated in various pieces of legislation.

As an example, there are many bills regarding marijuana this session. It is vitally important that our cities maintain their ability to license and regulate marijuana businesses. These businesses, once they have received the necessary approvals from local government where they are authorized to operate, will be located in our communities. If issues arise, it will be our police, fire, code enforcement, and other agency personnel that will have the responsibility to respond. When citizens have a complaint about these businesses, in most cases, they will look first to their local, elected officials to take action and address their concerns. I would again ask that you please keep this in mind as you process the various pieces of legislation dealing with medical and recreational marijuana this session.

The City of Henderson, for which I am proud to serve as a member of the City Council, has enacted a moratorium on recreational marijuana establishments. Our ability to license and regulate marijuana businesses will help determine whether or not we lift or extend the moratorium.

In closing, as local governments, we all want to provide the best possible public health, safety, recreational, cultural, and quality of life services to our residents. We are hopeful that decisions made by the Nevada Legislature will further enhance and not diminish our ability to provide these vital services to our shared constituents. I would like to thank you for the opportunity to appear before you today and to again thank all the members of the Committee for their public service. I also hope we see many of you tonight at the reception we are cohosting with our friends from NACO.

Chairman Flores:

Because we are a little bit short on time, the presenters will be here all day and hopefully members can set up some meetings with them. I just want to say thank you. I know, members, we often talk about institutional knowledge. We have a lot of it here today. With term limits, we talk about never forgetting the original intent of legislation. It is important that we always keep that dialogue open and work together. There is a sense that we have to try to do everything ourselves, but that is not how this building works. I appreciate all of you being here. It stays true to the spirit of what we are supposed to be doing in this building.

Assemblyman Ellison:

I cannot believe that my colleague from southern Nevada is opinionated. You have hit it on the head. Local government is closest to the people. You are there in the trenches every day with meetings twice a month. If there is ever anyone out there with the people, it is you. Commissioner Kirkpatrick, I am glad you are on the board of the National Association of Counties. You will love it. I do not know if you spend much time with it, but it was one of the greatest experiences I ever had. Congratulations, and I thank each of you for serving.

Chairman Flores:

I will open the hearing on Senate Bill 242 (1st Reprint) and welcome Senator Harris.

**Senate Bill 242 (1st Reprint): Revises provisions governing college savings plans.
(BDR 31-360)**

Senator Becky Harris, Senate District No. 9:

Senate Bill 242 (1st Reprint) allows families to stretch precious tuition dollars that have been so carefully saved through the Nevada Higher Education Prepaid Tuition Program. As you are aware, tuition is paid over time according to a payment schedule to the Office of the State Treasurer at a guaranteed rate based on an annual actuarial dataset. The Program allows for students to pursue undergraduate studies at a university, state college, or community college that is a member of the Nevada System of Higher Education or a participating out-of-state institution.

Currently, prepaid tuition programs apply only to undergraduate degrees. That means if students qualify for scholarships or grants and do not fully use the funds in their tuition account, they cannot use the remaining funds for additional educational opportunities.

Sections 3 and 4 of this bill expand the use of tuition dollars under a prepaid tuition contract to allow a student to apply any unused prepaid tuition benefits after graduation with an undergraduate degree toward graduate-level studies. Section 7, subsection 1 of this bill requires the Board of Trustees of the College Savings Plans of Nevada to amend the master agreement for the Nevada Higher Education Prepaid Tuition Program to make the expanded authorization for graduate-level studies applicable to existing prepaid tuition contracts. Section 5.5 of this bill expands a list of authorized investments for the fund.

Robin Cobb in Las Vegas is present and would like to testify in support of this bill if it is the Committee's pleasure. The Office of the State Treasurer is also available to answer any technical questions you may have.

Robin L. Cobb, Private Citizen, Las Vegas, Nevada:

When my daughter, Jenna, was born in 2001, I knew more than any other parent that she was going to be a child prodigy and would be absolutely brilliant. I am from Las Vegas, but I am not a gambler, so I knew I needed to hedge my bets and I purchased the Prepaid Tuition Program for her. My daughter has done her part. She was placed in the National Junior Honor Society in middle school and she was invited to join the Coronado High School Advanced Placement Academy [Henderson, Nevada]. I started thinking that my daughter might have opportunities beyond what mere mortals can accomplish.

I started thinking about the Prepaid Tuition Program and what was going to happen to those savings if she excelled and was able to attain scholarships. I had a chance to talk to Senator Harris last summer and proposed the idea that perhaps the program could be expanded to graduate school. It started sinking in, it is even more important than that. When Jenna was in fourth grade, her teacher started talking to the kids about deciding if they were going to go to college. For Jenna, it was never a question. Since she was a baby, she knew she was going to go to the University of Nevada, Las Vegas and that I had already

arranged for it. If we are able to expand this Prepaid Tuition Program to address graduate level needs, then it is not an "if she goes to graduate school," it becomes a "when she goes to graduate school" conversation. She will have at least some savings to start that path and there will not be a question of whether it will be a part of her future.

If parents do their part and plan ahead, and if the kids do their part and work hard, they have a chance to reap the most rewards possible for their efforts. I want to take this time to thank you for considering the bill, and we look forward to the advanced opportunities. I think it might expand the enticement of entering into this program for other parents as well. [Written testimony was also submitted ([Exhibit D](#)).]

Chairman Flores:

Thank you for your testimony, and to your daughter, all the success in the world. It sounds like she is working very hard and we are proud of her. Are there any questions from the Committee?

Assemblyman Carrillo:

Does the Prepaid Tuition Program have anything to do with the Nevada College Kick Start Program through the Office of the State Treasurer? Is it along the same lines? I want to make sure I understand that part of it.

Senator Harris:

I do not know all of the individual programs within the Office of the State Treasurer. There is a representative from the Office of the State Treasurer here, and perhaps he can answer that question.

Grant Hewitt, Chief of Staff, Office of the State Treasurer:

The Prepaid Tuition Program is separate from the Nevada College Kick Start Program. This bill is about the Prepaid Tuition Program where families can enter into a contract paying today's tuition rates, and it is guaranteed for college when their children go to college. They are two totally separate programs, and the funds are kept in separate trust accounts. Currently, the Prepaid Tuition Program fund is 130 percent funded and it is administered by the Board of Trustees of the College Savings Plans of Nevada.

Assemblyman Ellison:

Can this money be transferred to another college in another state?

Grant Hewitt:

It is not that it transfers, but it will pay out to an out-of-state school. The Nevada Higher Education Prepaid Tuition Program can be used at an out-of-state school; it just pays at the rate of the Nevada credit hours. The difference would have to be made up by the parents. If their children choose not to go to Nevada universities, it can be used anywhere in the country.

Assemblywoman Joiner:

I really like this idea, and I actually have this program for my children. If the students are not able to go to graduate school, could you explain what happens to the money? My understanding is if the students received other scholarships, such as the Governor Guinn Millennium Scholarship, these funds could still be applied. Which is primary, the scholarship or the prepaid tuition? It is also my understanding that the money is never lost, and can be cashed out for the amount put in with a small penalty. Could you explain how that works now so we can decide whether this is the best way to go?

Grant Hewitt:

Currently, if a student utilizes credits but still has some that have not been utilized, there would be a payback if the amount paid out was less than the amount that was paid in. If the credits used were of greater value than the amount paid out, then there would be no benefit received back. What this bill is allowing, for example, is if a student receives a Millennium Scholarship or other academic scholarships, and has maybe a year of credits leftover because he or she was successful, the parent is not penalized for losing those credit hours, and they can then be used for graduate school. This is keeping the Nevada Higher Education Prepaid Tuition Program in line with other states. There are about 12 other states that have prepaid tuition programs, 7 of which offer a graduate school rollover. This bill is a tool to allow parents to continue to roll that money forward.

Assemblyman Daly:

My first question concerns section 1 where it allows the Board of Trustees of the College Savings Plans of Nevada to delegate to the State Treasurer administrative powers and duties. Can you explain how that is going to happen? What is happening now? The State Treasurer is obviously on the Board, has the accounts, is administering the funds, and I assume writing the checks. It seems to me much of it has already been delegated and this is giving authority to things the State Treasurer is already doing. How would it actually work? Does the Board still have control and can it pull those duties and that power back at any time with a formal document or motion? How do you anticipate that working?

Grant Hewitt:

This is exactly how it operates today. The Board has delegated the authority to the State Treasurer's staff to manage the day-to-day operations of the program. However, every year in July, the Board of Trustees of the College Savings Plans goes through an actuarial report and assessment, and discusses the pricing of the plan for the next year. In terms of pricing, investment reviews, and those types of things, those are all done at the Board level. The only real delegating to staff is the day-to-day operations, such as the cutting of the checks, enrolling students, and those types of things. Section 1 of the bill is the standard operating procedure that we operate under today.

Assemblyman Daly:

Thank you for that. I wanted to get the law change on the record. It is really just giving the State Treasurer the authority to do what they are already doing. I want to make sure the Board still has the control and not one person.

My second question is on the investment side, where investments are being opened up to several different vehicles that we do not have access to now. I am not an expert on bonds and some of the investments. I know there are portfolio limits of 15 percent on one and 10 percent on another, which is at the time of purchase. If that investment goes above that 10 or 15 percent, it would not need to be sold if it were performing well. The way I understand it, that number is reviewed at the time of purchase and how the State Treasurer would then administer it if the number is above that percentage based on the investment. Also, give me the difference between AAA and AA ratings. I noticed on page 6, line 30, that it is "AA" on one of the ratings, but I noticed on several of the others they were of a higher rating. I would like to know what we are trying to get at and why we think this is going to be a better investment vehicle for the return.

Tara R. Hagan, Chief Deputy Treasurer, Office of the State Treasurer:

Senate Bill 76 (1st Reprint), which is the next bill today before the Committee, will codify these different investments. Section 5.5 of S.B. 242 (R1) is to ensure that the Nevada Higher Education Prepaid Tuition Trust Fund has the same investment options available as the other portfolios. It is to make sure that the four portfolios align with one another.

In terms of the statutes and how we ensure that percentage stays the same, it is at the time of purchase. Obviously, asset amounts change in terms of the asset values, but it does not require us to sell in order to bring the value back down. Many times that is done through distributions and changes in the day-to-day market.

Senator Harris:

The point of your question was if we are going to utilize these investments instead of other investments that we already have. It is my understanding these investments are just an expansion of opportunities. We are not advocating that these are the only investments going to be used in the Prepaid Tuition Program. I do want to make that clear. You will be hearing Senate Bill 76 (1st Reprint) next. That bill is at the State Treasurer's request in order to expand their investment portfolio. The provisions in Senate Bill 242 (1st Reprint) are just parallel provisions so should the Committee pass S.B. 76 (R1), there will be the same investment options across all platforms for prepaid tuition programs.

Assemblyman Daly:

I see that section 5.5 of the bill was added in the reprint of the bill, and the two bills do appear to be very similar. I never had any thought that this was going to be the only investment vehicle. These are just additional and opening investment options for other vehicles. In my other duties, we have money managers and people who invest money on behalf of pension plans. We always ask them similar questions: Why are we investing in this vehicle? Is it going to be better for us? What are the pluses and minuses? I do not know if we need to get into that in this Committee, but I wanted a little more information on the expansion of these opportunities if we are going to invest in them. We apparently put limits on them for a reason. I am saying this gives us more opportunity to meet the needs. I understand it is not a guarantee.

Assemblyman McArthur:

I like the idea, but I am curious if there is a time limit to use the money for graduate studies?

Grant Hewitt:

I am going to defer to our in-house expert, Deputy Treasurer Sheila Salehian, who runs the Nevada Higher Education Prepaid Tuition Program.

Sheila Salehian, Deputy Treasurer, Nevada Prepaid Tuition Program, Office of the State Treasurer:

The program allows six years from the post-graduation of high school to use the credit hours. We do not anticipate that changing for this bill, in that a majority of the credit hours are used for undergraduate school. In this case, we would anticipate five to ten credit hours being left over and the individual going right on to graduate school.

Senator Harris:

With the new push at the institutions of higher education for "15 to Finish," I think there is a movement toward helping our students track so they will graduate in four years. For the majority of students, I would anticipate that this will not be a challenge for those who may take the creative approach to higher education, like my daughter. My daughter has still not been in the system for six years and we do not have the Nevada Prepaid Tuition Program. She will be in graduate school before her six years are up, and had we been in the program, she would have been able to utilize those credits. I think we are going to capture the students we need to capture with the time frames that exist.

Assemblyman McArthur:

I am wondering if those students who finish four years of college and decide to go into the military for two years can still use the money. Apparently, they cannot.

Sheila Salehian:

I want to clarify that there is the ability in the program for a break for military service or volunteer service. The students can defer the contract usage to when they return. We do have the ability to make exceptions, and that is in statute for military service as well as volunteer service.

Assemblywoman Neal:

My questions relate to section 5.5 of the bill. You indicated section 5.5 is like S.B. 76 (R1), which means it has the supranational and sovereign bonds. Is that correct?

Tara Hagan:

That is correct.

Assemblywoman Neal:

Can you help me understand? I was reading some U.S. Securities and Exchange Commission documents. Typically, these kinds of bonds have certain risks, and there can be several. There is one I want to talk about first, which is the exchange rate depreciation,

which can occur because developing countries are countercyclical. They depreciate in bad times in developing countries. It is my understanding, when I was reading about the supranational bonds, many of those are built around the gross domestic product (GDP) of that particular country. I want to talk about the exchange rate and how we protect ourselves if things drop out or there is overexposure to the U.S. dollar.

Tara Hagan:

As I mentioned, these questions are pertinent to S.B. 76 (R1). We are requesting a couple of different tools in the toolbox for the investments. One is the sovereign bonds and one is the supranational bonds. There are certain things we are recommending in terms of mitigating the risk on these investments. First and foremost, we can only purchase U.S. dollar-denominated bonds, so there would be no currency risk associated with either one of those investments.

Assemblywoman Neal:

From what I was reading, when they are U.S. dollar-denominated bonds, there was conversation about overexposure. It is my understanding it is a secondary market. Is that correct?

Tara Hagan:

That is correct. If you are talking about the supranational bonds, what we are recommending are called "Washington supras." They are U.S. dollar-denominated, all AAA-rated, and most of them are through the World Bank. These are development banks, the World Bank being the largest. Two are actually underneath or pieces of the World Bank, and one is a subsidiary of the World Bank. The World Bank was started in the 1940s. The development banks started about 10 to 15 years later. Member countries come together, and the World Bank has 189 countries that are shareholders. The top five are the United States, Japan, France, the United Kingdom, and Germany. There is over \$240 billion in capital from the World Bank. Essentially, what we would be doing is purchasing a maximum of a five-year maturity or, for the supranationals, a shorter time period. They could be as short as overnight or 6 to 12 months. They are AAA-rated bonds with essentially no risk. These are U.S. dollar-denominated, maximum five-year terms, and also a maximum of 15 percent of the portfolio. Those are some of the restrictions, if you will, to help mitigate that risk on the portfolios.

Assemblywoman Neal:

I have one more question and will save the rest of my questions for when we hear S.B. 76 (R1). Why do we need this extra effort to operate in secondary markets?

Tara Hagan:

What we purchase today are secondary markets.

Assemblywoman Neal:

No, it is actually slightly different. Make the delineation. To me, you are getting into a market that could be unstable. We can find a history of instability in global markets. We can find a history of instability in the GDP, which sometimes makes up the portfolio in a country that may be a part of the International Monetary Fund or the World Bank. You are saying you are mitigating the risk by having a five-year term and maximum 15 percent within that portfolio. The question is why are we going in that direction now? What is it that we are seeking to gain? What activity are we seeing that is happening in the global space that feels like we are going to benefit from that relationship by that investment choice?

Tara Hagan:

There are a couple of things in terms of why and why now. One thing to remember is the bond market is the largest securities market in the world. It is a \$100 trillion market. The New York Stock Exchange, which we all hear about, pales in comparison to the size of the bond market. There are many different tools in the bond market. Today, we just have a small piece of those tools in the domestic market. We are looking at how we can expand but also diversify the portfolio, which in turn mitigates that risk by reducing that concentration and allowing us into different marketplaces, creating diversification, risk mitigation, and increasing those returns over time.

In terms of investment professionals, we are always looking for more tools in the toolbox. In terms of the Office of the State Treasurer, the State Treasurer gets five bill draft requests each session. Sometimes there is an appetite to utilize one of those bill draft requests for *Nevada Revised Statutes* Chapter 355 in order to change those investments, and sometimes there is not. What is important to know is there have not been any changes or new investment options added to these portfolios since 1993. Obviously, the investment market is ever-changing. Nearly 24 years of never having a new asset class is a long period of time.

In terms of what we are purchasing, it is the same as what we purchase today. In terms of the sovereign bonds, we purchase U.S. Treasury bonds today. A sovereign bond would be the same; it would just be a different country, and it would be similar to what we buy today and would need to be AA-rated or better. When you look at it, you want to look at that quality. You look at a third-party rating agency like Standard and Poor's, Moody's, or Fitch Group that are going to determine the risk or quality associated with the debt instrument being purchased. What that means in terms of AAA-rating is there really is zero risk associated with it. In terms of the market, we would still be purchasing on a secondary market like we do today, whether it is discount notes, commercial paper, corporate bonds, or the U.S. Treasury bonds. We are not changing the business we are doing simply by adding these new tools.

Assemblywoman Neal:

When I was reading the composition of supranational and sovereign bonds—and there are several out there—there was a discussion around liquidity. Because these particular types of bonds have to be of a relatively large size, the liquidity is sometimes poor. There are also a number of other factors at play. There are different market participants who are basically

playing in other people's currency issuances. I want to have a little discussion around that issue. The articles I was reading had discussions around the market landscape, such as an offshore versus an onshore. I want to know if that is a relevant conversation and something worth discussing.

Tara Hagan:

Actually, it is not a relevant discussion simply because of the credit rating being AAA, the "Washington supras," and the U.S. dollar-denominated only, so it would not be applicable.

Chairman Flores:

Seeing no further questions, I will open the hearing for those wishing to testify in support of the bill.

Kent M. Ervin, Legislative Liaison, Nevada Faculty Alliance:

The Nevada Faculty Alliance supports S.B. 242 (R1), particularly the idea of increased flexibility for parents and their students to use the credits for graduate school. Because state support for higher education has gone down and student fees have gone up more rapidly, these kinds of programs are especially important.

Chairman Flores:

Is there anyone else wishing to speak in support? [There was no one.] Is there anyone wishing to testify in opposition? [There was no one.] Is there anyone wishing to testify in the neutral position? [There was no one.] Are there any closing remarks? [There were none.]

I will close the hearing on S.B. 242 (R1). This meeting is in recess [at 8:49 a.m.].

[The meeting was reconvened at 9:39 a.m.]

Chairman Flores:

I will open the hearing for Senate Bill 76 (1st Reprint).

Senate Bill 76 (1st Reprint): Revises provisions governing the investment of money held by the State or certain political subdivisions of the State. (BDR 31-431)

Tara R. Hagan, Chief Deputy, Office of the State Treasurer:

I do have a PowerPoint presentation ([Exhibit E](#)), but I will not go through all the slides. As we mentioned during the hearing for Senate Bill 242 (1st Reprint), one of the key responsibilities of the Office of the State Treasurer is to manage various portfolios of money. I would like to walk through the goals of Senate Bill 76 (1st Reprint), the tools we want to use to achieve those goals, why they are needed, why they are needed now, and the expected outcomes. Lastly, I want to touch on the fiduciary oversight of these portfolios.

The first goal [page 2, ([Exhibit E](#))] is to continue to create a more balanced and diversified investment portfolio. What we are talking about with S.B. 76 (R1) is the State's General Portfolio, which as of the end of December 2016, was about \$2 billion; the Local Government Pooled Investment Fund (LGIP), which as of the end of December 2016, was close to \$1 billion; and the State Permanent School Fund. Those are the three portfolios that are encompassed in *Nevada Revised Statutes* (NRS) Chapter 355. With that diversification comes natural risk mitigation, but also the increasing potential rate of return, while also maintaining the safety of principal. That is the number one goal.

The secondary goal that runs through with that increase in the rate of return—because we are talking about bond investments or debt insurance—would be an increase in income. There is a natural increase in income or interest that is being paid from that increased rate of return. That means more interest being returned to the General Portfolio, so more interest for state agencies. In terms of the Nevada Permanent School Fund, interest is required by statute to go to the State Distributive School Account, so that would be more interest to school districts and students. In terms of local governments, there would obviously be more interest for those local governments that participate in the LGIP. In terms of prepaid tuition, it just ensures our ability to meet those future contracts.

I would like to talk specifically about the two tools that we are requesting through S.B. 76 (R1) [page 3, ([Exhibit E](#))]. We touched on them briefly when discussing S.B. 242 (R1). I will go into a little more detail regarding the credit ratings to help answer some of those questions asked in the previous hearing. The first tool is sovereign bonds, which are bonds that are issued and backed by central governments. As you see on the slide, there is a list of current AAA-rated countries. What we are really looking for is diversification in these portfolios to mitigate the risk, and within the asset category, we have some recommendations that will further mitigate the risk associated with sovereign bonds.

When we say rated "AA or better," what does that mean? Maybe it would be easier to go to a lower rung. When I started in investments, there were "junk bonds." Today, they are called "high yield bonds." They are still the same. In the hierarchy, they are B-rated. Once you start at the B level and below, those are considered junk bonds. There are also BB and BBB. The BBB level is considered investment grade. If any of you have a 401(k) or mutual funds and use Barclays Capital US Aggregate Bond Index, that will have a lot of BBB or investment-grade bonds, whether it is sovereign bonds, corporate bonds, or municipal bonds.

Then there are the higher levels or the A-level categories. The AAA, AA, and A are all within the A category. U.S. Treasury bonds are AAA-rated. Obviously, the power of taxation provides a country the ability to have income to repay the debt. In terms of the state and our general obligation bonds, we are AA-rated. That gives you a hierarchy of what we are talking about.

Within the sovereign bonds we are recommending, we recommend that they be AA-rated or better. Within the corporate bonds that we can purchase today, which are similar to sovereign bonds if termed on a risk perspective, we can go down to an A rating. We are recommending a little more security, if you will, on the sovereign bonds.

The other piece we are looking at is the five-year maximum maturity. Why that is important is because of interest rate risks. The longer the loan, the more likely the interest rate could rise and the bond is going to be worth less than the marketplace. The bill caps the maximum maturity that we can purchase at five years, and it also caps the maximum allocation at 10 percent. To give you a sense of what we can purchase today in the General Portfolio, it is 20 percent corporate bonds.

With that, we will move to the second tool we are looking at, and that would be the supranational bonds [page 4, [\(Exhibit E\)](#)]. You may be a little less familiar with the supranationals. Here we are talking about development banks. As noted before, on both the sovereign bonds and the supranational bonds, there is no currency risk whatsoever, and we would limit this to U.S. dollar-denominated bonds only. The other thing with supranationals and what we are looking at is writing into statute three types of supranationals. We call them the "Washington supras" because they are U.S. dollar-denominated. Two are directly under the World Bank and the third is actually associated with the World Bank.

When we talk about the World Bank and the credit rating, we look to the security and safety of what is backing the bond. In other words, the financial health of the institution. In that instance, what is the financial health of the World Bank? The other thing is a debt reserve, or how much money is being set aside for the money being loaned. The World Bank's policy is a one-to-one ratio, so for every \$1 they own, they have a reserve of \$1. We would also look at the revenues coming in. We talked about the World Bank having the top five countries, the largest being the United States as an 18 percent shareholder. There are 189 countries encompassing the World Bank, so you have the revenue associated with those shareholders and the monies they put in. We also need to look at the World Bank's lending practices. They do have certain criteria for the loans, guarantees, or grants that they put out to certain countries.

Those are all the things we look at when we look at recommending AAA-rated agencies under the World Bank for the supranationals. They are the same statutory requirements in terms of five-year maturity with an allocation at a maximum of 15 percent, so a little bit higher because of the AAA rating.

When we talk about additional tools in the toolbox, it is important to know what our asset allocation looks like today [page 5, [\(Exhibit E\)](#)]. The asset allocation for the State General Portfolio, as of December 2016, is a little over \$2 billion in assets, about a 1 percent or 90 basis points on annualized return for that time period. There is also the interest or yield that is earned year to year. With that, you also have the LGIP asset allocation [page 7, [\(Exhibit E\)](#)] that we will not discuss here.

Why is this needed, and why now? The bond market is the largest securities market in the world with \$100 trillion traded in that marketplace [page 9, ([Exhibit E](#))]. By far, the New York Stock Exchange pales in comparison to the size of the bond market. What we are really looking for is to help diversify the portfolio. Any time a portfolio can be diversified, the concentration is reduced in some of the allocations, and it will naturally mitigate the risk and increase the potential rate of return over time.

Why now? I think for a couple of reasons. One is as we look through the statutes, no new asset categories have been added for LGIP or the State General Portfolio since 1993. The investment world, like any other world, is ever-changing, and that is a long time not to have new tools in the toolbox to utilize. Investment professionals and treasury professionals are always looking for new tools, but sometimes the Office of the State Treasurer may or may not have an appetite to utilize a bill draft request for something that might not be quite as sexy and exciting to the State Treasurer.

We did a survey through some of our national organizations in several other states [page 11, ([Exhibit E](#))]. I think what we are seeing is Nevada is getting a little bit behind the curve in what we can invest in and the tools we have at our disposal. Most other states have, and have had for years, the ability to invest in these other bonds, many times at even a lower credit rating.

What is the impact and what is it going to do for the portfolios [page 12, ([Exhibit E](#))]? We utilize certain benchmarks to run our performance against. We specifically peeled out the sovereign and supranational bonds at A or better credit ratings. Over a ten-year period, these two asset categories were responsible for an increased yield of a little over 0.75 percent or, what we call in the business, 76 basis points. What does that mean in terms of dollar amounts? We talked about interest rates coming back to the General Portfolio or the LGIP. On this chart, we used \$100 million. We have talked about the 10 percent and the 15 percent. Obviously, \$100 million would be a lot less than the 10 and 15 percent. We are really looking at a very conservative example in terms of the \$100 million with \$2 billion in the General Portfolio and nearly \$1 billion in the LGIP. If you look at the 0.75 percent, there is \$750,000 over a one-year time period, and \$7.5 million over a ten-year time period.

Lastly, I would like to talk a little bit about the fiduciary oversight of these portfolios [page 13, ([Exhibit E](#))]. The State Board of Finance is chaired by the Governor. The State Treasurer, the State Controller, and two appointees of the Governor also sit on the State Board of Finance. That body is responsible for the fiduciary responsibilities for the oversight and management of the General Portfolio and the LGIP. In terms of the Nevada Higher Education Prepaid Tuition Trust Fund, the Board of Trustees of the College Savings Plans of Nevada is responsible for that fiduciary oversight. As part of that fiduciary oversight, we have what we call investment policy statements for each and every portfolio that we manage. Those investment policy statements are more specific than statute and get

down to the granularity of what we can and cannot invest in. It is also more conservative than statute. That is our day-to-day guideline, and it has to be approved by the State Board of Finance for the General Portfolio, the LGIP, and the Prepaid Tuition Program.

That is the end of my presentation. I would be happy to answer any questions.

Assemblyman Daly:

On that last slide [page 13, ([Exhibit E](#))], is that the investment policy of the State of Nevada or is it part of NRS, where there are things you can do and cannot do? How is the investment policy determined?

Tara Hagan:

The investment policy starts with the Office of the State Treasurer and was put together many years ago. Any changes that we request in the investment policy do have to be approved by the State Board of Finance. We have separate policies for the General Portfolio and separate policies for the LGIP, and changes for both of those need to be approved by the State Board of Finance.

Assemblyman Daly:

Do we have any international exposure now in any of those policies?

Tara Hagan:

We currently cannot invest in any international market, be it equities or fixed income.

Assemblyman Daly:

This legislation would change the NRS to allow at least a small amount of international exposure. We saw the slide on the General Portfolio asset allocations [page 5, ([Exhibit E](#))]. I know a little bit about some of this stuff by being a trustee of my pension plan. When you talked about the rate of return, you said it is going to diversify the portfolios and hopefully provide a balance in the portfolios. I did not see anything about the risks. Diversification is obviously meant to be hedged against the risk in concentrations and allocations and concentrations in sectors. What does this diversification do to the risk analysis of the state?

Tara Hagan:

In terms of safety of principals, it maintains that safety in principals. Different debt instruments are going to move differently in the marketplace. We do not feel this would increase the risk to any of our portfolios. What it does is help us diversify what we can purchase. We also feel comfortable in the allocations that we are recommending, the credit ratings that we are recommending, and the maturity levels that we are recommending in order to not increase the risk associated with these portfolios.

Assemblywoman Neal:

In the bill on page 10, lines 30 through 33, language struck out states, ". . . and if the rating of an obligation is reduced to a level that does not meet the requirements of this paragraph, it must be sold as soon as possible." Why is that struck out?

Tara Hagan:

This came from an amendment we proposed. In statute, all of the things we can purchase were not consistent across the board. There were some things that required securities to be sold immediately, and other instruments did not have that same requirement. In the investment policy today, which has been approved by the State Board of Finance, it does allow staff leeway to hold a security to allow the value to come back up in an effort not to do what we would consider a "fire sale," which could be detrimental to the overall portfolio. It gives us a little bit of leeway in terms of having to keep that security on the books rather than sell it immediately. As I said, the investment policy is clear that anything that falls below the credit rating, specifically corporate bonds, we are required to report it to the State Board of Finance and continue to report on it. It must be liquidated within two years. That strike-out language is an effort to make statute consistent for all the various instruments we can purchase, and also have it align better with the investment policy we have today.

Assemblywoman Neal:

I was wondering because it looks like more of a safeguard if the rating falls. Now that you are adding new investment tools, it seems this would be more of a needed provision than not. When you say leeway, could you give us a real-life example of when this particular strike-out provision applied?

Tara Hagan:

Corporate bonds which are purchased today are required to have an A rating. Recently, we did have a corporate bond fall to an A-. That appears on our radar. With this particular security, we have an outside manager. In consultation with the outside manager, we wanted to know why it had decreased. It decreased because there was an acquisition by the company. We anticipated that the levels would come up quickly and they would get back to the A rating. That is the kind of thing that happens. For the General Portfolio and LGIP, we want to ensure that we are managing it prudently and not having to sell something that would be detrimental to the portfolio when we could just hold it because it will return to a better position.

Assemblywoman Neal:

On page 17, lines 16 and 17 of S.B. 76 (R1), it says, "The securities described in paragraphs (a), (d) and (e)" Can you give me clarity on that? Are we talking about paragraphs (a), (d), and (e) in section 4 on pages 13 and 14?

Chairman Flores:

I believe Mr. Penrose can answer that question.

Jim Penrose, Committee Counsel:

The change on page 17, lines 16 and 17, is simply because what were paragraphs (b) and (c) were renumbered to paragraphs (d) and (e).

Assemblywoman Neal:

When Assemblyman Daly asked about whether we had ever gone into the international market before, you answered, no. What was the public policy reason why we did not?

Tara Hagan:

Unfortunately, I do not know the answer to that question. Obviously, these statutes were established many years ago. The investment world, like any other world, is getting smaller and smaller. In terms of sovereign and cross-border investments, it is a lot more common today than it was 50 years ago. We have not added any new investment options or categories in statute since 1993. When these statutes were established, I am sure domestic bonds were seen as the most safe and secure. Even considering a supranational bond, which started in 1945, or a sovereign bond, was probably not considered a safe investment at that time.

Assemblywoman Neal:

When I was reading about these supranational and sovereign bonds last night, there was a lot of conversation about doing investing globally and paying attention to the regional activity and economic development activity happening in a particular region. I know in the previous bill hearing for Senate Bill 242 (1st Reprint) you mentioned the International Monetary Fund (IMF) and countries that are involved with the World Bank or IMF. Typically, they are involved because there is some kind of debt relationship. This is a new area. With regard to monitoring the regional activity and how it can turn into a negative, who will be paying attention to whether or not the country may or may not find itself in a negative situation where basically its debt increases? It does not mean they are not on the hook to the World Bank, it just means the country is in a position where it has negative cash flow. It might have seemed great at the time because it was a developing country that was burgeoning, but all of a sudden it reverses. What do we do then?

Tara Hagan:

I think it is important to note that the loans or bonds that we would be purchasing would be through the World Bank. We would look to the credit ratings, obviously. The rating agencies are going to look to the health and finances of the World Bank. What is the debt loss reserve that the country has? Is it maintaining a one-to-one ratio? Have there been changes in its revenue or liquidity? The rating agencies will look at what the World Bank is doing in its lending practices. To your point about countries reversing, is the World Bank looking at more emerging market countries? That would be concerning. It is more of the lending practices and financial health of the World Bank that the credit-rating agencies would be looking at, that we in turn would also be looking at.

Assemblyman Ellison:

I thought when we looked outside of the United States on bond ratings, it always had to be a AAA rating and not AA. If you look on page 11 of the bill, lines 32 and 33, it says, "Is rated by a nationally recognized rating organization as 'AA' or its equivalent, or better"

Tara Hagan:

In terms of anything that we purchase today, from a governmental perspective it is generally AAA. However, for corporate bonds and equivalent for our commercial paper, it is actually A that we can purchase currently.

Chairman Flores:

Seeing no further questions from the Committee, I will open the hearing for those wishing to testify in support of S.B. 76 (R1).

Tammi Davis, Treasurer, Washoe County; and representing Association of County Treasurers of Nevada:

I am here today on behalf of the Association of County Treasurers of Nevada. We are in support of S.B. 76 (R1). We would like to thank the State Treasurer and his staff for recognizing that the investment environment is changing and seeking appropriate new options to be considered. As an opportunity to diversify, I believe Ms. Hagan covered well the reasons why this is an important change to be made.

Chaunsey Chau-Duong, Public Affairs, Las Vegas Valley Water District, Southern Nevada Water Authority, and Springs Preserve:

We are here in support of S.B. 76 (R1) with our proposed amendment ([Exhibit F](#)). Our amendment addresses section 5 of the bill and allows our organization to invest in the same type of securities and investment options that many of the counties, cities, and school districts are allowed to invest in. Simply put, that is what we are trying to do. We certainly appreciate the Office of the State Treasurer working with us on this bill, and we certainly hope the Committee can support it.

Chairman Flores:

Is there anything particular you see this bill opening the door for, or is it a resource that will be at the table that can be used should it ever become necessary?

Chaunsey Chau-Duong:

Currently, our investment options are limited to U.S. Treasury notes, municipal bonds, and certificates of deposit. We see this amendment as allowing us to open our investment options using alternative investment vehicles. We think that will be beneficial to our organization and ultimately to our ratepayers.

Assemblywoman Bilbray-Axelrod:

In section 5, subsection 1 of the amendment ([Exhibit F](#)), it adds language to the bill that says "or a political subdivision." Other than the water authorities, what does that encompass? That may be a question for Mr. Penrose.

Jim Penrose:

I do not believe "local government" is defined for the purposes of political subdivision. In terms of its general usage, I believe it would encompass any kind of local government throughout Nevada, including general improvement districts and school districts. Under existing law, it includes cities and counties. That is my understanding of the term.

Assemblywoman Neal:

If you get this ability, what is it you are trying to do? You said it would benefit the ratepayers. Help me understand exactly what you will get the ability to do that you could not do before, by having an investment that means you may get more return to do some activity.

Chaunsey Chau-Duong:

The amendment would allow us to develop in other types of securities, such as notes and bonds issued by corporations. That is the primary reason we like the bill. It will also collateralize mortgage obligations and asset-backed securities that we are currently unable to invest in now.

Assemblywoman Neal:

The question is, what are you trying to do? When you invest, you are seeking a higher return on money to have more money to play with. I do not understand why you need it. What is it that Southern Nevada Water Authority is facing or dealing with that requires these increased investments? I need the actual concrete objective. Why do you want to invest? What are you seeking to get or gain?

Chaunsey Chau-Duong:

We are trying to get a higher return on investment for our investment portfolios. As I mentioned, some of our investment portfolios are limited to municipal bonds, certificates of deposit, and U.S. Treasury notes, which have low returns on investment. We are just trying to get a higher return on our investment.

Chairman Flores:

I do not want to put words in your mouth, but my understanding is, should this move forward, you do not have plan A, B, and C ready to go. You just like the idea that you can start playing around with the money once it is in your pocket. Is that correct?

Chaunsey Chau-Duong:

Yes. This would be permissive, so it would be a tool to utilize in the future if we wished to do so.

Assemblyman McCurdy:

I understand what you are talking about, Mr. Chau-Duong, in having the ability to possibly receive a higher return on investment. You did mention there could possibly be a larger benefit for the ratepayers. What are you anticipating that will look like in the future if that were to be the case?

Chaunsey Chau-Duong:

It is really to offset any costs we may incur. A higher return on investment allows us to use those investments to pay down costs instead of having to burden our ratepayers.

Chairman Flores:

We all asked the same question four different ways, and I appreciate you answering it four different ways.

Assemblyman Daly:

I would like to follow up on Assemblywoman Bilbray-Axelrod's question. Section 5, subsection 3, paragraph (a), subparagraph (4) of the amendment says, "A political subdivision with invested funds of less than \$100,000,000." Is there another political subdivision with investments over \$100 million? Political subdivisions that have over \$100 million would not be able to engage in these investments. Is there any other political subdivision, other than the water authorities, that this amendment would apply to?

Chaunsey Chau-Duong:

Without knowing the investment portfolio of some of the other political subdivisions, I cannot answer that question. I know we put the amount cap in the amendment so our organization could be included in these types of investment options.

Chairman Flores:

Are there any further questions from the Committee? [There were none.] Is there anyone else wishing to testify in support 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 in the neutral position? [There was no one.] Ms. Hagan, could you please address whether or not this amendment ([Exhibit F](#)) is a friendly amendment?

Tara Hagan:

We fully support the amendment from the Southern Nevada Water Authority. I would like to thank the Committee for their time. The three main positives we foresee with this bill are diversifying the portfolios for the state, mitigating risk, and increasing the return.

Chairman Flores:

Thank you for your presentation. I will close the hearing on S.B. 76 (R1). Is there anyone here for public comment? [There was no one.] Having no further business, this meeting is adjourned [at 10:15 a.m.].

RESPECTFULLY SUBMITTED:

Lori McCleary
Committee Secretary

APPROVED BY:

Assemblyman Edgar Flores, Chairman

DATE: _____

EXHIBITS

[Exhibit A](#) is the Agenda.

[Exhibit B](#) is the Attendance Roster.

[Exhibit C](#) is a document titled "Nevada Counties Matter," presented by Jeff Fontaine, Executive Director, Nevada Association of Counties.

[Exhibit D](#) is written testimony in support of Senate Bill 242 (1st Reprint), submitted by Robin L. Cobb, Private Citizen, Las Vegas, Nevada.

[Exhibit E](#) is a copy of a PowerPoint presentation titled "SB76," presented by Tara R. Hagan, Chief Deputy, Office of the State Treasurer, regarding Senate Bill 76 (1st Reprint).

[Exhibit F](#) is a proposed amendment to Senate Bill 76 (1st Reprint) submitted by Southern Nevada Water Authority and presented by Chaunsey Chau-Duong, Public Affairs, Las Vegas Valley Water District, Southern Nevada Water Authority, and Springs Preserve.