

**MINUTES OF THE
SENATE COMMITTEE ON EDUCATION**

**Seventy-ninth Session
February 14, 2017**

The Senate Committee on Education was called to order by Chair Moises Denis at 3:34 p.m. on Tuesday, February 14, 2017, in Room 2149 of the Legislative Building, Carson City, Nevada. The meeting was videoconferenced to Room 4412 of the Grant Sawyer State Office Building, 555 East Washington Avenue, Las Vegas, Nevada. [Exhibit A](#) is the Agenda. [Exhibit B](#) is the Attendance Roster. All exhibits are available and on file in the Research Library of the Legislative Counsel Bureau.

COMMITTEE MEMBERS PRESENT:

Senator Moises Denis, Chair
Senator Joyce Woodhouse, Vice Chair
Senator Tick Segerblom
Senator Pat Spearman
Senator Don Gustavson
Senator Scott Hammond
Senator Becky Harris

GUEST LEGISLATORS PRESENT:

Assemblyman Al Kramer, Assembly District No. 40

STAFF MEMBERS PRESENT:

Michael Stewart, Policy Analyst
Asher Killian, Counsel
Shelley Kyle, Committee Secretary

OTHERS PRESENT:

Jeffrey M. Kintop, Administrator, Division of State Library, Archives and Public
Records, Department of Administration
Tara R. Hagan, Chief Deputy Treasurer, Office of the State Treasurer
Tammi Davis, Association of County Treasurers of Nevada

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CHAIR DENIS:

We will begin the hearing with Senate Bill (S.B.) 38.

SENATE BILL 38: Revises provisions governing the State's Central Mailing Room. (BDR 33-129)

JEFFREY M. KINTOP (Administrator, Division of State Library, Archives and Public Records, Department of Administration):

One of my programs is State Mail Services. We have a State mail room that handles all State government agencies' mail needs. I have submitted written testimony ([Exhibit C](#)).

Senate Bill 38 would amend the statute to allow local governments or other governmental agencies the opportunity to use the State mail room services and pay the same fees the State agencies pay.

Over the past couple of years, we have had questions from school districts and city and county offices that do a lot of mail distribution asking if we could provide services to them.

The State Mail Services in Carson City operates the largest mail room of any business in the State. We have machines that fold and stuff mail, do large-scale mailings and have permits to allow for reduced postage. By doing this, we help save the State money.

Other local governments do not have mail rooms and must go to commercial companies for these services. When asked if we can provide these services to them, we must tell them the statutes do not allow us to perform these services. We can only perform the work for State agencies.

With a change to the statute to allow us to do this type of business, we could determine if local governments would be interested in using the State Mail Services.

We would reduce the cost of their mailings at no real increased cost to the State because we bill agencies for our services, which is mostly postage. We retain a percentage of the postage savings, and that is how we fund our operation.

If we increase our amount of business, we could probably increase our revenues. We hope to open up the Las Vegas Mail Room as a full- scale mail room operation.

It is currently located in the Grant Sawyer State Office Building, and it handles mostly State agencies. We have had Clark County and southern Nevada local governments inquire about using the Las Vegas facility. We thought we would venture to change the law to allow them to use our services.

CHAIR DENIS:

Would the Las Vegas Mail Room need to be relocated? It is not a big room.

MR. KINTOP:

If we expanded to a full-scale mail room, we would have to relocate to a larger space. Most of the bulk mailings happen in our Carson City facility. Mail can be shipped from Las Vegas to Carson City overnight and can be assembled in our plant here.

CHAIR DENIS:

Would you use the truck to go back and forth?

MR. KINTOP:

Yes. Our contract calls for the mail to go back and forth. In Las Vegas, we drive the truck to the airplane, load the airplane and transport the mail overnight. Upon the plane's arrival at the Reno Airport, a truck is loaded and the mail is brought to Carson City.

CHAIR DENIS:

Section 1, subsection 1, paragraph (a) has additional language "and local governments and other governmental entities." Section 2, subsection 2 has the additional language "or local government or other governmental entity" and "or local government or governmental entity." Section 2, subsection 3 has additional wording "and local governments." What are the definitions of local governments, other governmental entities and governmental entity?

MR. KINTOP:

Any special district in the State qualifies as a governmental entity. It usually has a governing body and a revenue source. There are a lot of these districts; for

instance, swimming pool districts qualify. We might extend it to tribal governments as well.

ASHER KILLIAN (Legal Counsel):

To the extent there are any of these utility districts or those kinds of smaller organizations that would not normally be classified as a local government, they would fall within this definition. To the extent there are any professional boards or other agencies or organs of the State that would not traditionally fall within the definition of State officer, department or agency, they, too, might qualify.

Other governmental entity is broad enough and could include tribal governments or potentially the federal Government or one of its agencies; this language is broad enough to include any of those kinds of governmental bodies.

CHAIR DENIS:

Do you anticipate a fiscal note?

MR. KINTOP:

We have had some inquiries on this matter. In order to open the door for this kind of business, we have to change the statute. We do not have anything to base it on. At this time, we have no estimates.

We will need to come up with a marketing plan for the services and make interested entities aware these services are available.

We are responding to inquiries and are not capable of fulfilling any of the needs because we are limited to State government.

SENATOR GUSTAVSON:

Would it need to be a fairly large volume of mail to make it worthwhile for the State to do this?

MR. KINTOP:

We are not talking about individual mailings. We are talking about services we can provide. An example would be folding and stuffing mass mailings and putting them into envelopes, then presorting them into zip code districts. Presorted mail goes out under a cheaper rate than regular mail. Entities could handle their regular mailings.

For example, if a city or county public works department wants to do a request for bid and wants to advertise, we probably could save them money. Or if a county welfare department wants to do a mass mailing to its county, we could probably save it money using the machines we have to handle the mail. These are the kinds of savings I am referring to.

SENATOR HARRIS:

How automated is your operation? Will you require additional employees and help?

If this idea were successful and a lot of people wanted to utilize your services, what are we really talking about? I am not familiar enough with the way the mail room works.

MR. KINTOP:

We are a fully automated mail service. We have conveyor belts that sort incoming mail and scanners read the scan codes and sort the mail into bins for separate delivery.

For example, we get mailings for the State Welfare Office that come straight from the printer. The printer gives us instruction as to the paper needs and foldup and envelope size. The machine can be programmed to sort the papers, fold them, stuff them in the envelopes and send them out according to zip codes for the presort rate, which is the cheaper rate.

The machines are fully automated and can handle more work than is being done. The machines are currently leased, and we do not anticipate needing additional staff.

CHAIR DENIS:

Is there testimony in favor of S.B. 38?

ASSEMBLYMAN AL KRAMER (Assembly District No. 40):

I was the Carson City Treasurer for 20 years. During that time, there were many times Carson City used the State Mail Services for mailings for business license bills, utility bills and letters to taxpayers who were delinquent.

It was a convenient place to get our work completed and the rates were reasonable. A few years ago, the rules were reviewed and it was decided the services could no longer be done for our office.

This caused a hardship on my department. We would then have mail stuffing days when everyone would stand for three hours and stuff envelopes to be mailed. We were not able to take advantage of the cheaper postal rates.

I think it would be a welcome addition to do this again for local governments.

CHAIR DENIS:

Is there further testimony in support of S.B. 38? Any opposition to S.B. 38? Anyone in a neutral position? Any closing comments?

I will close the hearing on S.B. 38 and open the hearing on S.B. 76.

SENATE BILL 76: 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 Treasurer, Office of the State Treasurer):

I am here to present S.B. 76 and have provided a copy of my presentation ([Exhibit D](#)).

Senate Bill 76 affects four different portfolios that are managed and overseen by the State Treasurer's Office. Those include the State's General Portfolio, the Local Government Investment Pool (LGIP), the Permanent School Fund (PSF) and the Prepaid Tuition Trust Fund. Today, we will concentrate on the PSF and the Nevada Prepaid Tuition Trust Fund.

Two of the main goals of S.B. 76 are to increase the overall rate of return while also maintaining the safety of principal in all the portfolios and helping to diversify those assets in which we can invest.

Those returns will translate into increased interest distributed to State agencies, local governments, K-12 schools and students and ensures current and future commitments to Prepaid Tuition Trust Fund participants.

We are proposing two new fixed income or bond instruments, ensuring the investments we have to manage within these portfolios keep up with the global investment environment that is ever-changing.

Page 3 of [Exhibit D](#) shows the first category, which is sovereign bonds. These are bonds issued and backed by central governments. In S.B. 76, there are four main points we are recommending in this category.

First, because they are U.S. dollar denominated, there would be no currency risk associated with these bonds. Second, they will be AA-rated or better by nationally recognized rating agencies. The third point is the maximum maturity would be five years. The longer the maturity on a bond, the more susceptible it is to interest rate risk. Finally, we would be capping the percentage at 10 percent total of the portfolio.

The restrictions we are recommending in S.B. 76 for the sovereign bonds are more restrictive than what we have in terms of our corporate bonds associated with the General Portfolio. Those bonds are A-rated or better.

SENATOR HAMMOND:

How much more restrictive is this in comparison to what you currently deal with?

Ms. HAGAN:

Within our ability to purchase corporate notes, they are A-rated or better with a 5-year maximum maturity and comprise 20 percent of the portfolio.

SENATOR GUSTAVSON:

Why has this not been done in the past?

Ms. HAGAN:

I do not know. When we researched this in terms of any additional fixed income investments in the General Portfolio, PSF and LGIP, there has not been an additional fixed income investment or bond investment since 1993.

In terms of the Prepaid Tuition Trust Fund, there have not been any new investments since 1999. We are trying to modernize and be similar to the other states around us.

SENATOR GUSTAVSON:

We want the State to make the best investments it can and also be cautious.

MS. HAGAN:

The next proposed investment additions are supranational bonds shown on page 4 of [Exhibit D](#). I want to talk about some of the protections in the *Nevada Revised Statutes* similar to what is in sovereign bonds.

First and foremost, they are only U.S. dollar denominated, so there is no currency risk. They are also AA-rated or better with a 5-year maturity and there would be a maximum 15 percent cap rather than 10 percent.

The two supranational bonds we have written into statute are issued by World Bank and the European Investment Bank. I want to better explain those and what backs them.

In terms of the European Investment Bank, they are owned by European Union member states and there are 28 countries associated.

The World Bank consists of 189 member countries that are shareholders within the World Bank. Those countries essentially backstop these loans that are meant for projects in more developing countries.

Currently, there are over 13,000 projects representing 173 countries' infrastructure. For example, water, medical and other such projects. The six largest countries that back the World Bank are, in order, the United States, Japan, China, Germany, France and the United Kingdom.

There is a lot of financial backstop. The World Bank has existed since 1944 and has substantial liquidity, excellent consistent performance and has never had a loan written off. Hence, the AAA rating. We consider them surrogate sovereigns. This explains supranationals.

Page 5, [Exhibit D](#) shows two examples of asset allocation or portfolios as of September 2016. Shown are the PSF and the Prepaid Tuition Trust Fund. There is a substantial difference in their diversity and their asset allocation.

The PSF is the most restrictive, limiting our investments to only governmental fixed income. The value in the PSF was approximately \$317 million as of

September 2016. We would like to increase the income and our rate of return of 0.76 percent.

The Prepaid Tuition Trust Fund can invest in stocks or equities in U.S. domiciled corporations which has helped their annual rate of return at 11.7 percent. The value of the Prepaid Tuition Trust Fund was \$232 million as of September 2016.

We would like the new investment options to be able to increase the rate of return, which will translate into interest. Page 6 of [Exhibit D](#) shows the interest that has been returned to the PSF.

We cannot spend the core of the PSF, pursuant to the Nevada Constitution. Also, pursuant to the Nevada Constitution, any interest we earn on investments is transferred directly to the Distributive School Account (DSA).

If we could increase these rates of returns while minimizing risk and diversifying the portfolio, we could in turn return more income to the DSA through the PSF.

We are talking about the four different portfolios. There are some differences in terms of the investment philosophy for these portfolios.

The General Portfolio and the LGIP have similar goals. We have a level of risk on return that is commensurate with the level of risk while also ensuring liquidity and cash flow.

Obviously, these are meant to be what we would consider more operating portfolios and would have different investments than the PSF since we cannot spend the core, and the interest is returned to the DSA.

The Prepaid Tuition Trust Fund is different. I am happy to report that within the Prepaid Tuition Trust Fund, we are over 130 percent funded. This means if every contract from an infant to an 18-year-old came to us today, we could pay out the contracts and have monies left over.

We are in a different investment philosophy in the Prepaid Tuition Trust Fund. We are not looking for growth of those assets; we are looking to mitigate the risk and diversify the portfolio.

Within these, we look to statute and the Investment Policy Statement. This will be later discussed in fiduciary oversight on page 12. Within the investment world, we look to the Investment Policy Statement. It has more description and is more restrictive than statute.

There is a need for a diversified portfolio to help us maximize returns and minimize the risk of all the portfolios. We want to ensure our investments are keeping up with the global economy and the world investments.

It is important to note the bond market is the largest securities market in the world. The stock market pales in comparison to its size.

We reached out and talked directly to several states and received their investment policy statements and statutes. The list is shown on page 9, [Exhibit D](#).

Many of these states have been investing in both the sovereigns and supranationals for many years including in their operating portfolios.

We have not seen any new bond or fixed income investments for these portfolios since 1993 and 1999.

Page 10 gives a visual in terms of diversification. This chart shows what we look for in maximizing returns, minimizing the risk and ensuring we are diversifying our investments. We look for investments that have lower risk-to-return correlations.

Basically, there is little to no correlation between the stock market and the bond market. When the stock market goes up, the bond market goes down and vice versa.

Even within this broad category of bonds and fixed income, you also can achieve a lower correlation. This is what the chart on page 10 is showing.

Each column represents a calendar year. The darkest green represents the best performing fixed income class and the darkest red represents the poorest performing within that calendar year. There is not a lot of consistency. This is what we look at to diversify the portfolio and create an asset allocation we stick to.

In 2015, the Barclays Pan-European Aggregate Index was the highest performing class with 2.21 percent which would include some of the Australian, the sovereign and the other investments we are proposing in S.B. 76.

What we invest in today is shown second from the top and is Barclays U.S. Government Index. Its return is a little less than 1 percent at 0.86 percent.

Your eye may be drawn to the red box in the column that shows an almost 17 percent loss. This is emerging markets. Through S.B. 76, we would not be allowed to invest in emerging markets.

What will be the impact to our portfolios?

We utilize a benchmark for the State's General Portfolio. We took the benchmark over a ten-year historic time period and looked at the different broad asset categories in the benchmark.

We were able to pull out the sovereigns and the supranationals and put them in one category. Historically, they returned an excess return of 0.75 percent over the 10-year period.

Page 11 of [Exhibit D](#) shows a hypothetical investment of \$50 million at 0.75 percent yields annual earnings of \$375,000 or \$3.75 million over 10 years. This is based on ten-year historical returns. This would mean the PSF has the potential to have additional earnings and have the additional interest transferred to the DSA.

Lastly, page 12 gives a brief overview of the fiduciary oversight associated with these portfolios. We abide by the Investment Policy Statements and they are more stringent and more detailed than our statutory requirements.

The State Board of Finance approves the Investment Policy Statements for both the General Portfolio and the LGIP. The fiduciary responsibility for the Prepaid Tuition Trust Fund is the duty of the Board of Trustees of the College Savings Plans of Nevada.

SENATOR HARRIS:

In terms of investment opportunities other states invest in to fund projects at the state level, how many other states invest in this way?

MS. HAGAN:

There is a list of other states that utilize both the sovereigns and the supranationals on page 9.

Many of the western states have permanent funds. In terms of permanent funds, they are much more aggressive than Nevada. We do find ourselves out of step with other states.

CHAIR DENIS:

How does the amount of money we have in the PSF compare to other states?

MS. HAGAN:

It pales in comparison. Most states are three, four or five times larger than ours. I could get you the information.

CHAIR DENIS:

Is the money to the PSF from lands other states have that we no longer have because we sold our lands? Am I thinking of the right thing, that we took our money up front and others waited?

MS. HAGAN:

You are right. The money that comes in to Nevada's PSF is simply court fees and other diminutive fees as compared to Wyoming's which come from minerals.

CHAIR DENIS:

I will now take testimony in favor of S.B. 76.

TAMMI DAVIS (Association of County Treasurers of Nevada):

We are in support of S.B. 76. Included, in section 4, subsection 1 are the provisions that apply to counties for this advantage. We are always looking to better diversify our portfolios. We would like to thank Treasurer Schwartz and his staff for this bill.

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CHAIR DENIS:

We will close the hearing on S.B. 76. Having no further business on the agenda, the meeting is adjourned at 4:14 p.m.

RESPECTFULLY SUBMITTED:

Shelley Kyle,
Committee Secretary

APPROVED BY:

Senator Moises Denis, Chair

DATE: _____

EXHIBIT SUMMARY				
Bill	Exhibit / # of pages		Witness / Entity	Description
	A	1		Agenda
	B	3		Attendance Roster
S.B. 38	C	1	Jeffrey M. Kintop	Written Testimony
S.B. 76	D	12	Tara Hagen	Presentation