

**MINUTES OF THE
SENATE COMMITTEE ON GOVERNMENT AFFAIRS**

**Eightieth Session
April 29, 2019**

The Senate Committee on Government Affairs was called to order by Chair David R. Parks at 1:04 p.m. on Monday, April 29, 2019, 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 David R. Parks, Chair
Senator Melanie Scheible, Vice Chair
Senator Ben Kieckhefer
Senator Pete Goicoechea

COMMITTEE MEMBERS ABSENT:

Senator James Ohrenschall (Excused)

STAFF MEMBERS PRESENT:

Jennifer Ruedy, Committee Policy Analyst
Heidi Chlarson, Committee Counsel
Suzanne Efford, Committee Secretary

OTHERS PRESENT:

Zach Conine, State Treasurer
Tammi Davis, Treasurer, Washoe County; Association of County Treasurers of Nevada
Steven Walker, Truckee Meadows Water Authority
Connor Cain, Nevada Bankers Association

CHAIR PARKS:

I will open the hearing on Assembly Bill (A.B.) 34.

ASSEMBLY BILL 34 (1st Reprint): Revises provisions governing the investment of money held by the State or certain political subdivisions of the State. (BDR 31-476)

ZACH CONINE (State Treasurer):

Assembly Bill 34 adds new investment options to the State's General Portfolio, Nevada Higher Education Prepaid Tuition Trust Fund and State Permanent School Fund. The bill also increases investment options available to local government entities. This policy will give the State more diverse investment options, increase returns on investment and mitigate risk. The bill aligns Nevada's investment abilities with those of other states, such as California, Arizona, Washington, Oregon, Utah and New Mexico. Assembly Bill 34 allows Nevada to remain competitive on a national level.

Pursuant to *Nevada Revised Statutes* (NRS) 226, the Office of the State Treasurer is responsible for the investment of public money. The Treasurer is limited as to what investments are permitted. Assembly Bill 34 updates Nevada's investment capabilities.

Assembly Bill 34 adds two new allowable investment classes to the State's investment options. Both new allowable classes exceed credit restrictions currently in place for Nevada investments. The first class is sovereign bonds, commonly known as Yankee bonds. Yankee bonds are issued and backed in the United States by a foreign bank, company or other entity. Yankee bonds are denominated in U.S. dollars, traded in the U.S. and rated AA or better by a nationally recognized rating service. The second class of newly available options is supranational bonds. Supranational bonds are issued by an international organization, such as the World Bank. Supranational bonds are issued for the purpose of promoting economic development. Like Yankee bonds, supranational bonds are denominated in U.S. dollars and rated AA or better.

The State Treasurer is allowed to invest 20 percent of the State's General Portfolio in commercial paper, notes, bonds, or other obligations of certain corporations and depository institutions operating in the U.S. Assembly Bill 34 increases the maximum share allowed to be invested from 20 percent to 25 percent. Assembly Bill 34 provides local governments and other agencies the ability to invest in similar securities at an aggregate value of 25 percent. This parity has been requested by our local partners and will increase fluidity of management.

To show how A.B. 34 might impact Nevada, the Office ran a three-day purchase comparison which included the proposed provisions of A.B. 34. Based on that analysis, had the State been able to invest in these options, the State would have made an additional \$62,174 on its investments during those days. In 3 days the General Portfolio would have received an additional \$30,382 and the Permanent School Fund would have received \$31,792. The changes in A.B. 34 have the potential to generate hundreds of thousands of dollars per year in additional returns.

Sanctioning additional types of investments will allow the State's various portfolios to further diversify assets. Increased diversification will help mitigate risk in any single issue or class of assets. The instruments available in A.B. 34 meet or exceed the State's current credit rating safeguards.

I have submitted written comments ([Exhibit C](#)) to summarize my presentation.

SENATOR SCHEIBLE:

Other states allow these investments as well, correct?

STATE TREASURER CONINE:

Yankee bonds, supranational bonds and a corporate cap of 25 percent are common across the Country.

SENATOR KIECKHEFER:

The bill outlines three specific entities that issue supranational bonds. Are the International Bank for Reconstruction and Development, the International Finance Corporation and the Inter-American Development Bank the only three entities which issue supranational bonds? Are we leaving off any other entity which issues these types of bonds?

STATE TREASURER CONINE:

I am not aware of any other entity which issues supranational bonds. The entities listed in the bill are the "Big Three."

CHAIR PARKS:

Do rating services give these bonds a high rating?

STATE TREASURER CONINE:

In putting A.B. 34 together, we wanted to mitigate concerns that investing in these types of issuances might increase the risk in the portfolios. The bill lowers risk by increasing diversification and only allowing issuances at a rating of AA or better. The portfolio allows us to own corporate notes at a lower rating than AA, but we set the bar higher for these specific issuances.

CHAIR PARKS:

Given all the other instruments, a max of 20 percent or 25 percent might be high. Do you anticipate going to 25 percent?

STATE TREASURER CONINE:

The change from the 20 percent to 25 percent is specific as it relates to corporate instruments—our ability to purchase corporate notes, bonds and bills. We use both internal and external investors to make those purchases. The change to 25 percent will allow us to get closer to our goal. Our goal is in the 20 percent to 22 percent range.

SENATOR KIECKHEFER:

Why did you choose to cap the share of the total Trust Fund that may be invested in Yankee and supranational bonds at 10 percent and 15 percent?

STATE TREASURER CONINE:

Those were picked from a liquidity of portfolio standpoint. We do not think we will get close to a 15 percent or 10 percent cap. Those caps give us the flexibility that we need in the portfolio without opening us up to additional risk.

SENATOR KIECKHEFER:

Other categories and lists of items in which you can invest do not have caps, so I became curious as to the reason for the caps on the Yankee and supranational bonds.

TAMMI DAVIS (Treasurer, Washoe County; Association of County Treasurers of Nevada):

The Association of County Treasurers of Nevada supports A.B. 34. The investment portfolios of local government agencies are included in A.B. 34 and will benefit in many of the ways discussed by Treasurer Conine.

STEVE WALKER (Truckee Meadows Water Authority):

Truckee Meadows Water Authority is a joint powers authority organized under NRS 277.110. Section 5 of the bill increases the flexibility allowed for our investment portfolio. Truckee Meadows Water Authority supports A.B. 34.

CHAIR PARKS:

I will close the hearing on A.B. 34 and open the hearing on A.B. 39.

ASSEMBLY BILL 39: Revises provisions relating to governmental financial administration. (BDR 31-477)

STATE TREASURER CONINE:

The State Treasurer is responsible for monitoring the collection of public funds. Under NRS 356.350, the Treasurer is required to "establish a program for the monitoring of collateral maintained by depositories." The collateral pool program established through A.B. No. 13 of the 20th Special Session offers State and local government agencies an effective, cost-efficient and safe alternative for securing public funds. The primary objective of the program is to reduce risk while decreasing the overall collateral requirements for depositories.

Local government agencies and depositories recognize cost savings in operational support and collateral efficiency by participating in the collateral pool program. Administration and reporting functions for the program are centralized through the Investment Division of the Treasurer's Office. Each financial institution is required to maintain acceptable securities with a fair market value that is at least 102 percent of the amount of the aggregate uninsured ledger balances of the public money held by the depository. Every day, participating financial institutions must report the total amount of deposits held and the value of the corresponding pledged collateral. Any undercollateralization must be rectified by the financial institution by the close of business on the day it is reported.

At the end of fiscal year 2018, 307 public entities were participating in the collateral pool program. Deposits were held in 14 financial institutions with a balance of \$1.38 billion and pledged collateral of almost \$1.86 billion. Since its inception in 2003, the collateral pool program has provided safeguards against fraud and abuse while also giving local governments the flexibility to shift the burden of managing and processing pledged collateral to the State. All 50 states have some version of a collateral program. The Treasurer's Office is committed

to making sure that Nevada has the necessary tools to strengthen and preserve the program.

Assembly Bill 39 proposes minor changes to the collateral pool program. These changes will help to increase overall compliance among the State's financial partners. The changes will enable the Treasurer's Office to work more efficiently with public depositories and provide additional custodial options to depositories. Additional custodial options allowed in A.B. 39 include brokerage firms registered with the U.S. Securities and Exchange Commission (SEC). The bill provides the State with enhanced regulatory oversight to ensure that any collateral in the program is protected and available to participants in the unlikely event of bank insolvency.

Statute requires all public money to be deposited in State or national banks, insured credit unions, insured savings and loan associations, or insured savings banks. Section 1 and section 3 of the bill clarify that public money must be deposited in an "insured" State or national bank.

A trust company, the trust department of a state, or a national or federal reserve district bank is eligible to serve as a third-party depository in the collateral pool program. Sections 2, 4 and 5 of the bill standardize the language on third-party depositories in various sections of NRS. These sections also amend NRS 356 to allow public depositories to choose brokerage firms registered by the SEC to operate as their custodian. This change was requested by Nevada Bank and Trust in Caliente.

Sections 6, 7 and 8 of the bill help to clarify the depositories to which the collateral pool program applies. Section 7 provides the Treasurer's Office the ability to independently verify the collateral directly with the third-party depositor. Section 7 also requires these depositories to submit a monthly report of the securities they hold. Our Office will be able to compare agency lists with depository lists to ensure all accounts are collateralized. This provision of the bill is critical to ensure that public money is preserved and protected if Nevada experiences another Great Recession.

At Chair Parks' request, the Office reached out to the various credit rating agencies to ensure they were amenable to the changes set forth in A.B. 39. Representatives from the Office spoke to Fitch Ratings, Moody's Investors

Service and S&P Global Ratings. The ratings agencies did not have any concerns related to the impact of A.B. 39 on the State's ratings.

I have submitted written comments ([Exhibit D](#)) to summarize my presentation.

SENATOR KIECKHEFER:

Nothing in the bill changes the percentage of the uninsured debt against which collateral must be held. Is that correct?

STATE TREASURER CONINE:

That is correct.

SENATOR KIECKHEFER:

Do we maintain our same coverage levels?

STATE TREASURER CONINE:

Yes.

CONNOR CAIN (Nevada Bankers Association):

The Nevada Bankers Association supports A.B. 39. In addition to the protections referenced by Treasurer Conine, A.B. 39 would give some of our local, State-chartered banks more options to hold certain securities as collateral. These banks hold public money deposited by local government entities, such as counties. This practice will be particularly helpful for banks that are too small to offer residential lending, are not members of the Federal Home Loan Bank and cannot pledge a line of credit.

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CHAIR PARKS:

I will close the hearing on A.B. 39. The meeting is adjourned at 1:25 p.m.

RESPECTFULLY SUBMITTED:

Steven Jamieson,
Committee Secretary

APPROVED BY:

Senator David R. Parks, Chair

DATE: _____

EXHIBIT SUMMARY				
Bill	Exhibit / # of pages		Witness / Entity	Description
	A	1		Agenda
	B	1		Attendance Roster
A.B. 34	C	1	State Treasurer Zach Conine	Written Comments
A.B. 39	D	1	State Treasurer Zach Conine	Written Comments