STATEMENT OF MR. EVO A. GRANATA, MEMBER OF PUBLIC SERVICE COMMISSION BEFORE COMMITTEE ON GOVERNMENT AFFAIRS, MARCH 28, 1969 RE: AB 510

Exhibit I is calculated to show the difference between costs of regulation of public utilities and transportation under the two-commission concept as proposed in AB 510, vis-a-vis the costs of regulation under the Public Service Commission as presently organized and administered. This exhibit restates our current work program under a two commission concept.

I shall emphasize that the $62,254 shown under Transportation reflects only the additional costs of the specific positions provided for the Transportation Commission in AB 510. It does not reflect any additional costs under the other four budget categories.

I have also assumed that the amount programmed under Transportation would also have prevailed this fiscal year.

Because of the necessity under AB 510 of maintaining another separate commission and a senior staff for it, costs of regulation of public utilities also would have increased by $26,356 or 10.7%. At the risk of being too repititious, I must again emphasize that these amounts are attributable to only the senior positions spelled out in AB 510.

The story is the same for 69-70 as for 68-69. The increased costs would be smaller on a relative basis but considerably higher in total dollars.

There is a complete study now underway at the request of the Budget Director and Legislative Analyst.

EXHIBIT I

Pro-Forma Cost of Regulation of Transportation and Public Utilities Under Two-Commission Concept

Fiscal Year 1968-69

	PUBLIC UTILITIES		TRANSPORTATION		TOTAL	
	Amount	Percent	Amount	Percent	Amount	Percent
Work Program, 1968-69	$ 245,929	100.0	$ 123,935	100.0	$ 369,864	100.0
Additional Costs 1/						
Salaries & Payroll Costs	$ 26,356		$ 62,254		$ 88,610	
Operating			1,174		1,174	
Total Additional Costs 1/	$ 26,356	10.7	$ 63,428#	51.2	$ 89,784	24.3
TOTAL COST	$ 272,285	110.7	$ 187,363	151.2	$ 459,648	124.3

1/ EXHIBIT Ia - Additional Costs Under AB-510

\# Equals 54.2% of 1967 Appropriation

Analysis of Additional Salaries & Payroll

Costs To Be Required Under Two-Commission Concept

Present Distribution of PSC Salaries:

Position:	Public Utilities	Transportation	TOTAL
Chairman	$ 12,908	$ 4,303	$ 17,211
Commissioner	11,625	3,875	15,500
Commissioner	11,625	3,875	15,500
Commission Secretary	11,224	1,981	13,205
Assistant Secretary	1,727	7,648	9,375
Branch Manager	8,788	2,479	11,267
Legal Counsel	4,357	2,195	6,552
Total	$ 62,254	$ 26,356	$ 88,610
Additional Amounts Required To Satisfy Requirements of AB-510	26,356	62,254	88,610
Total Authorized Salaries & Payroll Costs For Each Commission	$ 88,610	$ 88,610	
Additional Requirements To Cover Membership Dues, Subscriptions, Conferences, Seminars, Etc.		$ 1,174	

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Regulatto

EXHIBIT II

27 present
12 new position
Gas Pipe Line
Utilities
Taxi Cab Haul

Estimated Cost of Regulation of Transportation and Public Utilities Under Two-Commission Concept 1/

Fiscal Year 1969-70

	PUBLIC UTILITIES		TRANSPORTATION		TOTAL	
	Amount	Percent	Amount	Percent	Amount	Percent
Governor Recommends	$ 333,054	100.0	$ 189,547	100.0	$ 522,601	100.0
Additional Cost 1/	30,561	9.2	70,601	37.2	101,162	19.4
Total Cost 1/	$ 363,615	109.2	$ 260,148	137.2	$ 623,763	119.4
FUNDING:						
Estimated Receipts (@2.75 Mills) 3½ mills.	$ 327,250					
Less Airlines & Railroads	(6,579)		$ 6,579			
Net Receipts	$ 320,671		$ 6,579			
Defficiency	$ 42,944 2/		$ 253,569 3/		$ 296,513	

1/ AB-510
2/ Can partially be made up through availability of unspent balance at 6/30/69, estimated to be $36,800
3/ To be made up through Legislative appropriation

ER, 3/25/69

Conner $2.50 as compared to $3.50

Analysis of Additional Salaries & Payroll Costs To Be Required Under Two-Commission Concept

(Fiscal Year 1969-70)

	Public Utilities	Transportation	TOTAL
Salaried Positions, 1968-69	$ 57,897	$ 24,161	$ 82,058
Legal Counsel	8,714	4,390	13,104
Legal Secretary	3,990	2,010	6,000
Distribution Under Present PSC Salary Allocations	$ 70,601	$30,561	$101,162
Duplication Necessary Under AB-510	30,561	70,601	101,162
Totals - Each Commission	$101,162	$101,162	

STATEMENT OF REESE H. TAYLOR, JR.
CHAIRMAN, PUBLIC SERVICE COMMISSION

OUTLINE OF COMMENTS RE: AB-510
(Hilbrecht Bill to divide the Commission)

I. Opening Comment -

AB-510 is the legislation which has become more popularly referred to in our agency as the "abolishment and division" bill. The most important single comment we can make with regard to this legislation is that what we need, in lieu of division, is additional funds, people and laws to do our job. At the present time, we have twenty-seven (27) people, including the three (3) commissioners, and despite our limited number, (primarily because of the tremendous dedication of our staff) the Commission has managed to meet the challenge of the substantially greater workload brought about by the spiraling growth of Nevada's population. However, we cannot call upon our over-worked staff to work six and seven day weeks indefinitely consequently, the suggestion that the Commission be divided, rather than being given the additional staff support we so desperately need, is, to our way of thinking, a wholly unrealistic proposal, particularly when it is predicated upon allegations that we are spread too thin and our responsibilities are too broad. Granted we have a tremendously broad spectrum of jurisdiction, but given the money, people and laws to meet our responsibilities, we can adequately discharge them.

II. Perhaps the most important single criticism of AB-510, at least in the form it has been presented, is the simple fact that Nevada cannot afford the luxury of a Public Utility Commission and a Public Transportation Commission! In this regard, based upon revenues received for the current fiscal year and expenditures necessitated by present staff positions at present salary levels, we have developed certain information which clearly establishes the fact a Public Transportation Commission cannot be supported financially in the manner suggested by AB-510, except at an exorbitant cost.

(Then go through financial data developed by Regalado)

Point up the fact that the Public Transportation Commission is supposed to comprise a chairman, two commissioners, a secretary, an assistant secretary and a branch manager, all before any consideration is given to departmental staff employees. Just these people alone, in terms of present salaries, require a total of $76,595, developed as follows:

1 Chairman	$16,000)	
2 Commissioners	28,800)	And payroll
1 Secretary	12,735)	charges not
1 Asst. Sec.	8,620)	included in
1 Branch Mgr.	10,440)	these figures

III. Even assuming AB-510 was a satisfactory solution to our problems in furtherance of the public interest, and even assuming further that the State of Nevada was in a financial position to afford the luxury of two commissions, no division such as has been suggested by AB-510 can be consumated in a bill which simply attempts to rearrange the order of our statutes and alter references to the Public Service Commission in other laws. The study that was conducted prior to taking the Department of Motor Vehicles out from under the Public Service Commission took a period of four years, and it would seem definitely appropriate that any effort to divide the Commission into utility and transportation activities should also be given the same careful study and thought prior to the adoption of any such drastic legislation. 315

There are many areas in AB-510 which serve as an illustration of the fact you can't simply to through 704 and 706 and attempt to segregate these chapters into transportation and utility activities and come up with a complete piece of legislation. We have carefully analyzed every provision of AB-510, and I will be happy to go through the bill section by section showing the reference to Chapter 704, 706, and other Nevada laws, if the Committee is anxious for us to do so. However, there are at least two glaring examples which demonstrate the impracticality of the division proposed by AB-510:

1. One of the Commission's most important areas of responsibility is granting a certificate of public convenience and necessity. The statutory provisions governing the issuance of a certificate of public convenience and necessity to a utility are provided for in NRS 704.330 and also NRS 704.370. In the case of motor carriers, however, the statute governing the issuance of certificates of public convenience and necessity is NRS 706.400. The requirements in each instance are not the same, and yet AB-510 purports to adopt (see pages 14 and 15, section 66) NRS 704.330, 350 and 370 in their entirety, and also NRS 706.400 (see pages 40 and 41, section 138).

2. Similarly, another very important area concerns transfers of authority, and AB-510 adopts in its entirety the transfer provision of NRS 704.410 for the Public Transportation Commission (see page 16, section 74), and at the same time it adopts the entire transfer provision contained in NRS 706.650 (see pages 40 and 41, section 138). Yet these two provisions are not the same.

In other areas, the proposed legislation simply hasn't done a complete job. Reference is made to the Public Utility Commission being responsible for the sanitary sewer activities of general improvement districts (see page 30, section 107), but this section makes no correction with respect to the water activities of general improvement districts provided for in NRS.318.144.

Still another area of confusion is found between section 28 of AB-510, pages 4 and 5, and section 139, page 41. It would appear from subparagraph 2 of section 28 at the top of page 5 that the Public Transportation Commission would have authority over companies engaged in the common carrier transmission of natural gas, but section 139, at the top of page 41, appears to give the Commission's present jurisdiction over oil pipelines to the proposed Public Utility Commission. It seems difficult to understand why the Public Transportation Commission should be given authority over companies engaged in the common carrier transmission of natural gas, while the Public Utility Commission is vested with jurisdiction over the transmission of oil by pipelines. 316

Other examples could be given, but I would assume time limitations preclude a section by section analysis of AB-510.

IV. Again, assuming AB-510 would actually enhance our efforts in the public interest, and also assuming such legislation was within the realm of financial possibility, we believe that one of the shortcomings is that as proposed, AB-510 fails to include any of the extensive legislative amendments the Commission has suggested.

Our extensive package of bills are all things that are desperately needed by the Commission in order to better discharge our responsibilities. We would have liked the sponsors of AB-510 to have sought a conference with the Commission prior to their introduction of the legislation now under consideration, although we do feel the sponsors should be complimented for their sincere effort to alleviate some of our burdens. Nevertheless, the fact remains AB-510 simply rearranges our existing statutes without any attempt at refinement or amendment in some of the areas where serious problems do exist, and a mere rearrangement, without regard to important changes, doesn't provide the solutions we definitely need.

V. Closing Statement

In essence, what we are telling this Committee, and what we have said to the Assembly Ways and Means Committee at our hearing conducted yesterday is that if the legislature will give us the people, the money and the laws to do the job that the rate payers of this state are entitled to, the Commission can perform very adequately under its present structure. It is these additional resources, which the legislature alone can supply, that we must have in order to be equal to the task of meeting our regulatory responsibilities. Furthermore, such resources, except in the case of the proposed taxicab legislation, do not impose any additional burden on the General Fund, because the Commission is presently supported by taxes imposed upon those we regulate.

In fact, if all of our requests were granted, the additional cost would be a great deal less than distribution of new funds and personnel between two agencies pursuant to the divisions suggested by AB-510. Such divisions , as already pointed out, call for a whole new commission, including three commissioners, a secretary, an assistant secretary and a branch manager, even before any departmental personnel is hired; and therefore, AB-510, if taken together with requests we have made, would cost a substantial amount more than just granting our requests to the Public Service Commission as now constituted.

Actually, AB-510 represents an expensive proposal in view of the size of this state and all the additional help that the Commission needs at the staff level. If there is only a limited amount of money available to strengthen the Commission, then we should certainly maintain it in tact, rather than dividing it and winding up with two extremely weak agencies, both of which are barely able to function. Certainly the two commissions suggested (with the requirement of duplicating commissioners, secretaries, assistant secretaries, and branch managers) would probably siphon off all the additional funds so desperately needed for new staff personnel, and without this staff personnel, the biggest losers, by far, are the rate payers of the State of Nevada. 317

Accordingly, we view AB-510 as simply an attempt to add another agency that is not needed; that Nevada can't afford; and that is clearly not in the public interest to the extent rate payers are deprived of expanded staff assistance our Commission (or the two new commissions proposed by AB-510) both require. If I can paraphrase one of our most famous and time-honored national slogans--United we will be prepared, with the additional help requested of the legislature, to stand and do our job; but divided, we are predestined to failure and our efforts can only fall below the level of efficiency the public is entitled to.

COATES, HERFURTH & ENGLAND
CONSULTING ACTUARIES
320 CALIFORNIA STREET
SAN FRANCISCO 94104

OFFICES IN
SAN FRANCISCO
DENVER
PASADENA

TELEPHONE
(415) 433-4440

March 10, 1969

Mr. Kenneth Buck, Executive Secretary
Public Employees' Retirement System
State of Nevada
P. O. Box 637
Carson City, Nevada

Dear Mr. Buck:

Based on the personnel data furnished us by your office and the Statement of Resources and Liabilities reflecting the conditions of the Retirement Fund as of July 1, 1968, we have completed the investigation and valuation of the Nevada State Retirement System as of July 1, 1968.

It will be our recommendation to the State Legislature that no increases in benefits be considered at this time unless sufficient contributions are provided to fully fund the additional benefits.

We have taken the position that increased benefits must be offset by contributions sufficient to fully fund the benefits, not as an attempt to move in the direction of a fully funded plan, but rather to point out that we must review the existing funding method of the basic Plan as it now stands before creating greater deficits by the addition of unfunded benefits at this time.

It is our understanding that the State of Nevada never intended to become a funded System, but rather to exist as a "Modified Funded" System.

Recognizing that it is not your intent to become fully funded, we must ask whether it is your intent to allow the State to accrue an ever-increasing liability without consideration as to how the liability may be limited.

This "ever-increasing" liability is created by a failure to meet the interest expense on the unfunded liability. We must consider interest of this nature a requirement of the fund, because it is needed to provide for present Plan benefits.

The current unfunded liability as of July 1, 1968, under the present Plan is $117,052,000. Were this amount contributed as a lump-sum, then it is apparent that in the future interest would be earned on it and such interest would help offset the cost of present Plan benefits. It is also evident that were a lump sum in the amount of the unfunded contributed, this would completely liquidate the unfunded liability.

We believe that it follows that were only the interest attributable to the unfunded contributed, then this unfunded would not increase (we have limited it) and would always remain at a constant level, assuming our actuarial assumptions were exact.

Since we observe that the unfunded liability under this method is never liquidated, while at the same time it is neither increased nor decreased, we can now conclude that the System is still not fully funded. Rather we are merely keeping the potentiality of the State liabilities from increasing, ad infinitum.

In view of the above, it is our opinion that contribution levels must be raised to meet the interest requirement on the unfunded liability of the present System, prior to any consideration of increased benefits. Or, as discussed previously, if benefits are to be increased, then they must be fully funded. Only in this manner can you prevent the existing liability from increasing.

We deem the current year a critical one for legislative decision. Indicated below are the results of our valuation as of July 1, 1968. The rates of contribution shown are percentages of compensation.

Method #1 - Equal Rates

By Employee and Employer

	Present Rate	Fully Funded Rate	Interest Only Rate
Employee	6.00%	11.86%	8.19%
Employer	6.00	11.86	8.19

We have said this is a critical year for legislative decision. Why?

In our letter of February 28, 1967, we stated that based on the July 1, 1964, valuation the required contribution under the interest only "method," was 7.75% from each, the employer and the employee. Since that last valuation, the contribution rate has been increased 1/4 of 1% from the employer and employee. This should decrease unfunded costs. The current year's valuation as of July 1, 1968, was based on the assumption that future earnings of the fund would average 4½% as compared with 4% assumed July 1, 1964. This should decrease unfunded costs.

Notwithstanding the steps described above, we find that your contributions of 5-3/4% and then 6.00% in lieu of the suggested 7.75% rate, have in fact been deficient and have resulted in increasing the unfunded to $117,052,000. This amount of unfunded liability requires an "interest only" rate of contribution of 8.19% from each, the employee and employer.

We as your actuaries would of course prefer to see a rate of contribution between the "fully funded" rate of 11.86% and the "interest only" rate of 8.19%.

However, in lieu of our preferences, we must strongly recommend that you move at least to the "interest only" rate.

At present the differential between that now contributed and our recommendation is 2.19% (8.19% - 6.00%) from each, the employee and employer. We feel that unless you immediately move to 8.19%, the differential will certainly increase to such a point where eventually it will become "impossible" to make the change. The differential of 2.19% or actually 4.38% (employee and employer) must become 5, 6 or 7% or greater if the current practice is continued.

Shown below is a comparison of the unfunded liabilities of the System depending on the date the "interest only" rate is adopted. We have also indicated the combined additional employee and employer contributions required annually to change to the "interest only" rate as of the same date.

Estimated Unfunded Liability
July 1, 1968 to July 1, 1976

		Immediate Change to "Interest Only" Rate	Continuation of Present Contribution Rate
A-1	7-1-68	$ 117,052,000	$ 117,052,000
B-1	7-1-72	117,052,000	139,600,000
C-1	7-1-76	117,052,000	166,500,000

A-2 Estimated additional combined employee and employer contribution required to immediately change to "interest only" rate as of July 1, 1968:

$ 6,800,000

B-2 If 12% (6% employee and 6% employer) rate is continued, then the estimated additional combined employee and employer contribution required to change to "interest only" rate as of July 1, 1972:

$ 9,000,000

C-2 If 12% rate of contribution is continued, then the estimated combined additional employee and employer contribution required to change to "interest only" rate as of July 1, 1976:

$ 11,600,000

We ask that you eliminate this "problem" now, while still within your grasp. We ask that you consider increasing contributions while maintaining the present level of benefits. In addition, if benefits are to be increased, then their costs must be fully funded.

It may present a problem to the State to increase employee contributions without increasing benefits. With this in mind, we have determined what we shall refer to as "Method #2 - Unequal Rates." Under this method, the employee's rate of contribution remains at 6.00% of compensation, while the employer's rate provides the balance of costs.

Method #2 - Unequal Rates

	Present Rate	Fully Funded Rate	Interest Only Rate
Employee	6.00%	6.00%	6.00%
Employer	6.00	16.66	9.98

The reason the total "interest only" rate under Method #2 of 15.98% is less than the comparable Method #1 rate of 16.38% is because on termination of the employee the employer's monies remain in the fund to offset other benefit costs.

Each of the "interest only" methods of contribution is acceptable to us. Both methods will be described to the legislature with a strong recommendation that one or the other be adopted.

In addition to the above, we were asked to comment specifically on four proposed amendments. Three of these are contained in this memorandum, while the fourth, pertaining to vesting, will be discussed in a separate memorandum. In keeping with our above expressed position, we have indicated below the estimated percentage of contributions required from the employee and the employer under Method #1 and Method #2. Those estimated rates of contribution shown below will fully fund the proposed amendments.

I. S. B. 124 - Removal of 30-year limitation and the granting of a 1.5% of average 3-year compensation for all years in excess of 20 years.

	Method #1	Method #2
Employee	.67%	0%
Employer	.67	1.22

II. S. B. 266 - Increasing post-retirement benefits from 1.5% to 3.0%.

	Method #1	Method #2
Employee	1.80%	0%
Employer	1.80	3.28

The above is based on the present law which provides a fixed dollar increase each year. Compounding annually as provided in S. B. 266 would require that the above rates be multiplied by an approximate factor of 1.04. We therefore note that the major impact is in moving to the 3% level as opposed to the effect of compounding.

III. A. B. 560 - Reduce retirement ages by 5 years.

	Method #1	Method #2
Employee	2.05%	0%
Employer	2.05	3.72

We trust that this memorandum clearly states our position, and the position we will take before the legislative session on March 18. Should you have any questions or wish to discuss any matters described herein, by all means let us hear from you.

Respectfully submitted,

COATES, HERFURTH & ENGLAND
Consulting Actuaries

By Sanford M. Jacobson
Sanford M. Jacobson

SMJ/sap

M E M O R A N D U M

March 10, 1969

To: Mr. Kenneth Buck, Executive Director
Nevada Public Employees Retirement System

From: Coates, Herfurth & England

Liberalizing the Vesting Requirements

(a) 100% vesting after 15 years of service
(b) 100% vesting after 20 years of service

At your request, we have prepared this memorandum to give you our thoughts on the subject of liberalizing vesting as it pertains to the Nevada Public Employees Retirement System.

We feel it is not possible to determine the cost to the System of liberalizing the vesting benefits because until the more liberal provisions are actually in effect, the extent to which they will be used will not be known. However, as a measure of cost, we have used specific examples to illustrate the cost to the System if an employee terminates from the present Plan and also if he were to terminate under the proposed vesting provisions.

At the end of this memorandum, we have included a schedule which shows the employer costs required to provide the benefits under the vesting provisions of the present Plan and also if 100% vesting is allowed after 15 years or 20 years of service, respectively. Under each of these cases, we have assumed that the benefit to be received is payable from age 60 if the member is then alive. If he dies before age 60, his contributions will be returned to his beneficiary.

We show below a table illustrating the actual monthly benefit at age 60 if 100% vesting is allowed:

Years of Service	Percentage of Salary Under 100% Vesting	Monthly Benefit at age 60*
15	37.5%	$ 187.50
16	40.0	200.00
17	42.5	212.50
18	45.0	225.00
19	47.5	237.50
20	50.0	250.00
21	51.5	257.50
22	53.0	265.00
23	54.5	272.50
24	56.0	280.00
25	57.5	287.50

*Assumes a final salary of $500 per month.

On the following page are illustrations of the cost which will fall upon the employer each time an employee terminates with a sufficient number of years of service to meet the vesting requirement. The illustrations are shown for males only. Under the present Plan, when terminations occur with less than 20 years of service, there is no cost to the System. Any releases of employer contributions might be considered as "savings" to the System. These "savings" are currently being used to help pay the cost of benefits under the present System. To the extent that the vesting requirement is liberalized and as a result, more of the employer contributions must then be retained to pay for these new vested benefits, this would result in a cost to the System.

If you have any questions concerning the above information, or the illustrated examples, would you please let us know.

Respectfully submitted,

COATES, HERFURTH & ENGLAND
Consulting Actuaries

By Sanford M. Jacobson
Sanford M. Jacobson

SMJ/sap
Enclosure

NEVADA PUBLIC EMPLOYEES

VESTED INTEREST ILLUSTRATIONS (COST TO EMPLOYER)

Age Employed	Years Served	Attained Age	Employee Contribution	Cost to Employer at Date of Termination: Present Plan	100% Vesting After: 20 Years	15 Years
20	15	35	$ 4,500	$ 0	$ 0	$ 3,548
25	15	40	4,500	0	0	5,422
30	15	45	4,500	0	0	7,821
35	15	50	4,500	0	0	10,974
40	15	55	4,500	0	0	15,276
20	20	40	6,000	4,739	7,230	7,230
25	20	45	6,000	7,283	10,427	10,427
30	20	50	6,000	10,622	14,632	14,632
35	20	55	6,000	20,369	20,369	20,369
20	22	42	6,600	5,810	8,705	8,705
25	22	47	6,600	8,803	12,470	12,470
30	22	52	6,600	12,782	17,488	17,488
35	22	57	6,600	24,430	24,430	24,430
20	24	44	7,200	7,104	10,462	10,462
25	24	49	7,200	10,627	14,900	14,900
30	24	54	7,200	15,383	20,904	20,904
35	24	59	7,200	29,336	29,336	29,336
20	25	45	7,500	11,462	11,462	11,462
25	25	50	7,500	16,285	16,285	16,285
30	25	55	7,500	22,860	22,860	22,860
20	25	45	7,500	13,646	13,646	13,646
25	25	50	7,500	18,462	18,462	18,462
30	25	55	7,500	24,909	24,909	24,909

AB 678

SECURITY FOR SPECIAL ASSESSMENT DISTRICT BONDS

California does not have the recourse to tax rate at the 3rd step as we have. Not common to other states. Apparently our provisions relatively unique.

The effect on sale and price of bonds in the event such a third step provisior were removed would be substantial. In all probability there would be little interest in their purchase especially by those who have been purchasing them. If a purchasser could be found, the price would be higher.

Source of information: California Legislative Council Office - J. Gould.

Ken Sullivan - Bank of Las V

Elmer Longwell -
Boettcher & Company
Denver, Colorado