

MINUTES OF MEETING ASSEMBLY COMMITTEE ON GOVERNMENT AFFAIRS, 55TH
LEGISLATIVE SESSION, MARCH 6, 1969:

205

Present: Smith, Hilbrecht, Getto, Wood, Lingenfelter, Branch,
Dini, Getto

Absent: Mello

Appearing before the committee for consideration of AB 94, AB 235,
AB 422, and AB 596 all having to do with the investment of public
moneys were:

Mr. Paul Laiolo, President, Nevada Bankers' Association, Pioneer
Citizens Bank, Reno, Nevada
F. R. Breen, Attorney, Reno, Nevada
Robert Sullivan, President, Valley Bank of Nevada, Reno, Nevada
Herb Stout, President, Bank of Las Vegas, Las Vegas, Nevada
Harley E. Harmon, President, Nevada State Bank, Las Vegas, Nevada
Art M. Smith, Chairman, First National Bank of Nevada, Reno, Nevada
Mitchel A. Cobeaga, Nevada State Bank, Las Vegas, Nevada
Mike Mirabelli, Nevada State Treasurer, Carson City, Nevada
Wilson McGowan, Nevada State Controller, Carson City, Nevada

Also appearing for consideration of AB 51 were:

E. H. Fitz, Nevada State Planning Board, Reno, Nevada
William E. Hancock, Secretary-Manager, Nevada State Planning Board

Chairman Hal Smith acknowledged the attendance of those present
and called the committee's attention to the MEMORANDUM covering
this meeting and said that he would like those present to also
consider AB 596 which did not appear on this memo. A copy of
the MEMORANDUM is appended to this minutes for the record.

First introduced was Mr. Robert Sullivan who was present to comment
upon the pledge and rate interest picture involved in the proposed
bills.

Mr. Sullivan started his comments by stating that he wished to
present a banker's view of how investments of state money are
presently made today. He said that the State Treasurer with
the approval of the State Board of Finance approaches a bank
and it is the present practice for the bank to ask a 110%
pledge from the state for security back-up. This pledge consists
of either U.S. Government Bonds or of County or Municipal Bonds
from within the state. He expressed the bankers' concern with
these bills and to suggest that the state should continue to
deposit money with State of Nevada banking institutions.

Mr. Sullivan continued by suggesting that the banks would be
willing to offer the state several alternatives to the present
investment procedure for consideration. The first proposal is
one in which the banks would be in favor of reducing the pledge
requirement to 100% under which proposal the interest rate
would be established at 75 basis points, less than the treasury
bill average price for the preceding two weeks (the bill rate)
prevailing on the market. He said that this would still allow
the state adequate security. Mr. Sullivan said that the bankers
feel they are entitled to pay the state a lower rate because they

in turn have to reinvest the state money and as a business should have recompense for the service rendered.

Another proposal suggested for consideration was one in which the pledge would be reduced to 75% and the interest rate would be 50 basis points less than the treasury bill average price for the preceding two weeks (the bill rate) prevailing on the market. He said that the attendant risk to the state under this proposal should be seriously considered and the bankers do not feel that this proposal offers adequate security to the state.

Mr. Sullivan said that to conform with federal regulations the maximum rate that can be offered is 6-1/4%. The State of Nevada is one of the largest depositors. He said that the lowest deposit the state has presently is for \$800,000 and that if a bank went under under the 75% pledging proposal the state could lose. The amount would be minimal but in actual dollars it would be large.

In the next 2 years a study is to be made of preference loan procedures where the state could be considered legally as a preferential depositor. Two states have been successful in adopting this formula but it is too early yet to know the full picture. However it may be possible under this procedure to offer even more advantageous investment practices to the state than either of the above pledge proposals would offer.

Mr. Sullivan was thanked for the comments he made and the committee was given an opportunity to question him.

Mr. Art Smith was next introduced and explained the process of segregated collateral. He said this process has been used in the State of Connecticut and allows the banks greater flexibility. He outlined to the committee how the factor of maturity dates on the term of state, government and municipal bonds presents a continual reinvestment process to provide the necessary back-up required. Under the segregated collateral proposal the burden of reinvestment would be lessened by permitting the substitution of collateral within the pledge by the bank itself. The bankers would benefit if this practice were instituted. The value to the state would not be in rate decrease but in efficiency of operation.

Mr. Paul Laiolo introduced himself to the committee as President of the Nevada Bankers Association and stated that he was assigned to discuss the financial advisory commission as outlined in AB 94.

Mr. Laiolo said that under AB 94 the State Board of Finance would be reduced from its present five-member composition to a 3-man board. The financial advisory board would be created consisting of five members. He said the bankers suggested that a 7-man board of finance be created consisting of the three elected officials, Governor, Treasurer, and Comptroller and two bankers and two other lay members; perhaps one from labor and one from agriculture. It is suggested that the two banking members be recommended to the Governor by the the board.

State Treasurer Mirabelli asked Mr. Laiolo why it was felt a 7-man board would be better than a 5-man board and also why it was felt

the lay members should be from labor or agriculture. Mr. Laiola stated the intent was for broad representation and that the suggested lay membership was only a suggested one; agriculture because we are an agricultural state and, he said, the bankers are concerned because if the advisory commission is faced with fiscal problems concerning the banks, that a banking member should be available who understands the fiscal problems and language. This would make it possible to confer on a more efficient basis.

It was developed that the bankers would not object to a 5-man board provided that there is a banker member at all times. To the suggestion that one member be a legislator, Comptroller McGowan advised that the constitution provides for the three elected officials which could not be altered without constitutional amendment and it was also developed that there might be a "conflict of interest" in having bankers represented on the advisory board.

Treasurer Mirabelli advised the committee that in the eight years of his administration he had never had trouble with the banks in securing higher rates of interest and that in that period the rate has increased from 1-1/2% to 5-1/4%.

Mr. Sullivan said that if all of the powers affecting banks were taken away from the state board of finance there would be no need for a banker to be represented. But if the advisory board is to be concerned with the powers affecting banks, then the association saw a need for banking representation.

Assemblyman Hilbrecht stated that Mr. McGowan is recognized as an expert in the field of public finance and questioned the provisions for employment of a financial secretary and investment counselor by the proposed advisory board. Mr. McGowan said that the intent is to provide the commission with the highly technical assistance that is necessary. He referred to the large amounts of funds in the Nevada Industrial Commission and Public Retirement Board funds and suggested that the best investment of those funds required the best technical assistance available.

Mr. Robert E. Bruce, State Fiscal Analyst told the committee of the difficulty that exists in getting a true picture of the cash flow for reporting. He stated that the reports call for actual value estimates of state and municipal securities which can only be estimated. He said that if they could use the par value it would facilitate and make more concrete the reporting process. Mr. Bruce further stated that he was opposed to the segregated collateral suggestion inasmuch as it would require the auditor to travel to each bank for actual count demands. He suggested that it would not be practicable under the present structure.

Mr. Sullivan advised the committee on the difference between the securities vested in a bank's trust department and the outer depositors. Under the segregated collateral plan the trust departments would stand behind the investments with the added security of the trust department receipt.

Mr. Harley Harmon was introduced to speak about the employment

of a cash flow analyst and a secretary or investment counselor. Mr. Harmon said that he recognized the trend away from 3-man boards that the legislature has shown by the creation of 5-man boards in many areas. He said that this was probably historically supported by the incidents where one powerful member has been known to dominate and control 3-member boards. He alluded to a state scandal arising out of this situation where through collusion between the Treasurer and the Controller state funds were misappropriated.

Mr. Harmon stated that as a result of this the 5-man State Board of Finance was created. He said that he felt a 5-man board was preferable. He said, however, that he was violently opposed to empiric creations whereby these boards are empowered to employ others. AB 94 provides that the state board of finance may employ a financial secretary and "such other persons as may be proper". He suggested to the committee that the bankers of the state have been willing to offer whatever assistance possible to the state. It is contemplated that in two years the expensive computer outlay will be made to cash flow analysis and reporting. He suggested that in the interim most certainly the state bankers could be relied upon to provide the consultation needed without the employment of these other persons. He said that the present make-up of the State Board of Finance is as good as you can get. He said that the state bankers are ready to advise the government at any time. On the past performance of the state bankers, he said, the suggestion of "conflict of interest" is unwarranted.

Chairman Hal Smith then asked if Mr. Laiolo wished an opportunity for summation of the comments.

Mr. Laiolo presented the committee with copies of a theoretical situation resulting in reduction of derivative deposits. A copy is appended to and made a part of this record. He outlined the report to the committee and answered the questions put to him. It was developed that a removal of investments in state banks to other investment areas could have a disastrous effect upon the state economy. He summed up the presentations of Mr. Sullivan, Mr. Art Smith and Mr. Harley Harmon and urged the committee's consideration. He emphasized the bankers' position to avail to the state any information possible to improve the understanding of the cash flow.

The committee members asked questions relative to the various pledge proposals and their effect. Mr. Art Smith explained the reasons why the banks cannot return to the state the bill rate of interest. The bankers were thanked for their presentation and excused from the meeting.

After a brief recess, the committee reconvened to hear the presentation of Mr. Hancock and Mr. Fitch with regard to AB 51. This bill would extend the power of eminent domain to the state planning board.

Mr. Fitch explained to the committee that this bill was related to AB 50 and pointed out the difficulty that had arisen when the board tried to acquire property for the capitol complex and were advised by the court that they could not secure one

of the necessary parcels. Mr. Fitch said that the planning board did not wish the power of eminent domain without restrictions now existent. Normally the board has had few difficulties in acquiring desired properties.

Mr. Hancock outlined the effect the power would have in facilitating future acquisitions and also demonstrated that the board operates in the open and its projects are under public scrutiny with the result that the money available is known in advance which precludes misuse of the power. The property owner knows the amount of money available. They have a minimal amount to work with. The restrictions on the use of this power by the board lie in the fact that the action is first legislated, the amount of money is publicly known, and the property to be acquired is designated by metes and bounds.

Mr. Hancock and Mr. Fitch were thanked and excused.

Getto moved Do Pass AB 51.

Branch seconded.

Motion unanimously passed.

Meeting adjourned.

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M E M O R A N D U M

Re: Hearing on A.B. 94, A.B. 235 and A.B. 422, 3:00 P.M. March 6, 1969

1. Pledge and rate of interest. Speaker - Robert Sullivan, Valley Bank, Reno, Nevada.
 - (a) 100% Pledging. Interest rate 75 basis points less than the treasury bill average price for the preceding 2 weeks.
 - (b) 75% Pledging. Interest rate 50 basis points less than the treasury bill average price for the preceding 2 weeks. Attendant risk.
 - (c) In the next 2 years a study is to be made of a preference which, if legal, might be more advantageous than either of the above.
2. Segregated collateral, as used in the State of Connecticut. Speaker - Art Smith, First National Bank of Nevada.
3. Seven man Board of Finance. Speaker - Paul Laiolo, Pioneer Citizens Bank.
 - (a) The Association opposes reducing the State Board of Finance to three.
 - (b) The Association approves increasing the State Board of Finance to seven - four appointed by the Governor - two from the banking industry, one from agriculture and one from labor.
4. Employment of cash flow analyst, secretary or investment counselor - A.B. 94 opposition to. Speaker - Harley Harmon, Nevada State Bank.
5. Summary. Speaker - Paul Laiolo, Pioneer Citizens Bank.
 - (a) Pledging and rate.
 - (b) Segregated collateral.
 - (c) Seven man Board of Finance.
 - (d) A.B. 94 - Cash flow analyst and investment counselor.
 - (e) Effect of removing 40 million dollars in inactive deposits from the State Banking system.

(Submission of financial sheet).

REDUCTION IN PRIMARY DEPOSITS
RESULTING IN
REDUCTION OF DERIVATIVE DEPOSITS

Assuming Loan and Deposit Ratio of 60% (1968 ratio 58.24)

Assuming Nevada Banking System Reasonably Self Contained
(Loan and Deposit Figures Approximate)

^{grab}
Removal \$40,000,000 from Nevada's Economy would be
subjected to removal of approximately \$100,000,000 in
available funds.

	(000 omitted)		
	<u>DEPOSITS</u>	<u>LOANS</u>	<u>L/D RATIO</u>
	\$868,000	\$520,800	60
Reduction in Deposits	40,000		
	<u>\$828,000</u>	520,800	63.25
To retain L/D ratio of 60% loans must be reduced by		<u>24,000</u>	
		496,800	
This can only be done by a reduction in deposits	<u>24,000</u>		
	<u>804,000</u>	496,800	61.29
To retain L/D ratio of 60% loans must again be reduced this time by		<u>14,400</u>	
		482,400	
Again reduction in deposits	<u>14,400</u>		
	<u>789,600</u>	482,400	61.09
This process is repeated in reducing amounts until deposits have been depleted by \$100,000,000 and loans by \$60,000,000 truly a hard blow to Nevada's economy			
	768,000	460,800	60