

MINUTES

WAYS AND MEANS COMMITTEE

NEVADA STATE LEGISLATURE - 60th SESSION

February 2, 1979

Chairman Mello called the meeting to order at 7:30 a.m.

PRESENT: Chairman Mello, Vice-Chairman Bremner, Mr. Barengo, Mrs. Cavnar, Mr. Glover, Mr. Hickey, Mr. Mann, Mr. Rhoads, Mr. Vergiels, Mrs. Wagner, and Mr. Webb.

ALSO PRESENT: Bill Bible, Fiscal Analyst; Judy Matteucci, Deputy Fiscal Analyst; Mike Alastuey, Deputy Budget Director; Jim Wadhams; Director of the Commerce Department; Wayne Tetrault, Administrator of the Mobile Home and Travel Trailer Division; Tom Huddleston, State Fire Marshal; and Joe Sevigny, Superintendent of Banks.

COMMERCE DEPARTMENT

Chairman Mello introduced Jim Wadhams, Director of the Commerce Department. Mr. Wadhams listed the divisions of the Department which are: Banking, Consumer Affairs, Credit Union, Fire Marshal, Housing, Insurance, Real Estate, and Savings and Loan. He said that the primary function of the Division is to regulate commercial industries in the State of Nevada. He said that the Director's office serves as a management post for the line divisions. Mr. Wadhams pointed out that the basic differences between the agency requests and the Governor's recommendations are salary differentials, and that his Department does concur with the Governor's recommendations.

Chairman Mello noted that the Assistant to the Director has been changed to an unclassified position since the last Session and asked for an explanation of that change. Mr. Wadhams said that this position is essentially a management and administrative position as well as a coordinating position in the entire Commerce Department in the Carson City area. The Department felt this position should be unclassified. Chairman Mello asked why the position is being recommended for a 20% increase. Mr. Wadhams explained that he had made this request to attract a person with substantial financial management or economic background.

Mr. Bremner asked if the current incumbent had a strong financial background. Mr. Wadhams replied the position was currently underfilled.

Mr. Hickey asked how long the position would be underfilled. Mr. Wadhams stated the current incumbent was a carryover appointee from the previous administration and would be replaced when a person with the right qualifications could be hired.

Chairman Mello questioned the proposed in-state and out-of-state travel. Mr. Wadhams explained that the Commerce Director is required to participate in various functions that preserve the integrity of divisional budgets and he feels he should travel on his own funds rather than utilizing divisional funds as had been done in the past. Mr. Bible asked if the budget office normally allows payment of Director's travel claims out of budgets other than their own. Mr. Alastuey said it was his recommendation that this not be done. Chairman Mello requested a complete explanation of ~~the~~ in-state and out-of-state travel recommendations in the Director's office budget.

Mrs. Wagner asked for an explanation of the difference between the agency's request and the Governor's recommendation on contractual services and dues and registrations. Mr. Wadhams said the basis for the request which had been prepared by his predecessor, was to provide services of a law clerk to assist the various divisions in legal research. He said the dues and registration request was intended to cover the Director's participation in various national organizations. Upon further questioning as to how the Governor's recommended amount was determined, Mr. Alastuey said the amount was computed on the basis of past expenses and was simply expanded to cover inflation.

Chairman Mello asked about the agency's request for other building rent. Mr. Wadhams answered that the request was predicated on a move to new quarters that was not approved. Mr. Alastuey added that the \$8,564 recommended for State owned building rent was based on space occupied in the Nye Building only and did not include space now being occupied in Las Vegas. Mr. Alastuey recommended consideration by the Committee that an additional \$1,770 be added in the first year of the biennium and \$2,167 be added in the second year of the biennium to pay for the Las Vegas rent for the Director.

MOBILE HOME AND TRAVEL FUND

Mr. Wadhams introduced Mr. Wayne Tetrault, Administrator of the Mobile Home and Travel Trailer Division. Mr. Tetrault gave a brief presentation of the duties of the Division which included assisting in the enforcement of the regulations as established by HUD, licensing units, conducting safety inspections, licensing and investigating mobile home dealers and salesmen, examining and approving construction plans for all travel trailers that are shipped into Nevada, and certifying mobile home anchor systems and proper installation of all mobile homes. He said that this budget requests funds to carry out the current programs and represents a 9 1/2% increase each year of the biennium. He said the increase is needed to cover the program of issuing registration certificates to mobile home buyers which is currently being done by the DMV. He said that two additional clerks would be needed to issue certificates and there would also be additional computer costs. Mr. Tetrault explained that DMV has asked to be relieved of this work as they have been losing money by being limited to charging the \$2.00 fee set by statute and the difference is currently being made up out of highway funds. He pointed out that no General Fund money is being requested as this program will be supported by user fees.

Chairman Mello asked when Mr. Tetrault's position had become unclassified. Mr. Tetrault replied that at the time he was hired, it was already unclassified. Upon receiving a copy of a letter from Frank Daykin, Legislative Counsel, (Exhibit "A") Mr. Wadhams explained that these positions were created administratively with the concurrence of the Department of Administration, which, in light of the letter, may not be legal. Chairman Mello stated that if employees are to be made unclassified, it should be done legally regardless of whether Mr. Barrett wants to go along with this change. Mr. Wadhams said he would get back to the Committee with some information on these changes. He added that legislation has been introduced by the Senate Commerce Committee to give legal divisional status to the Mobile Home Agency.

Mrs. Wagner asked what the new registration fee would be for each mobile home buyer. An estimate of \$6 was given by Mr. Tetrault. Mr. Bremner inquired if DMV could cut their staff because of this proposed change. Mr. Tetrault said this job was performed in addition to all other regular duties and again said DMV no longer wanted to issue these certificates. Mr. Webb said that the issuance of these certificates had been a problem for quite some time and that some buyers had waited up to six months to get their certificates.

Chairman Mello asked for an explanation of how the large reserve had accrued and asked if it could be deposited into the General Fund. Mr. Tetrault said that this fund had been started several years ago and that the new registration program would use about half these funds, approximately \$100,000. Mr. Tetrault said that since these funds

were required to be spent only for regulation of mobile homes, legislation would have to be drafted to allow for their deposit into the General Fund. Chairman Mello replied that he thought that could be arranged. Mr. Webb suggested the reserve had accrued when the fee program was first started because appointed dealers had regulated the industry at no cost to the State.

THRIFT COMPANIES

Mr. Wadhams explained the Thrift Company budget. He said this program is fairly recent in origin and was created in 1975 for the supervision of thrift companies by the Department of Commerce. Mr. Wadhams detailed the tremendous growth of thrift companies in Nevada. He said that the thrift company program is self supporting from fees charged to the industry being regulated and there are no positions requested in this budget. Mr. Wadhams explained that any unused funds collected do not revert to the General Fund.

Mr. Bremner inquired about the out-of-state travel in this budget. Mr. Wadhams said that this program was so new that travel to other states is needed to achieve some knowledge of what is being done and the latest developments in the field. Mr. Wadhams explained that the basic difference between a thrift company and other savings and loan institutions is that they have no insurance on the accounts, and therefore carry a greater risk.

Mr. Vergiels asked about the large reserve carried in such a small budget. Mr. Alastuey explained that these figures represent estimates of the amount by which revenues will exceed expenditures.

Mr. Barengo asked if there would be a separate division requested in the future for thrift company regulations since the industry is growing so rapidly. Mr. Wadhams said that this would not be justified at this time.

Mrs. Wagner asked about the travel to other states that have had more experience with Thrift Companies and asked what types of problems had been encountered so far in Nevada. Mr. Wadhams said that almost every problem had been experienced in Nevada. He said the statute setting up these companies was patterned after a California statute and it contains a great many ambiguities. He said the industry will probably submit legislation in an effort to clean up the existing statutes.

Mr. Mann and Mr. Barengo both suggested that perhaps it would be more important for the Department of Commerce to take the leadership role in submitting legislation rather than having the industry do it. Mr. Wadhams said that the department has proposed legislation.

CREDIT UNION DIVISION

Mr. Wadhams stated the purpose of this program is to regulate the organization and operation of credit unions in the State. Mr. Wadhams pointed out there are no direct appropriations from the General Fund and, similarly to the thrift company budget, this account runs upon fees paid by the industry. He stated that the recommended budget provides for a 4.6% increase in fiscal year 1979-80 and that the one position administering the program examines all chartered credit unions.

Chairman Mello asked if this person has any clerical help. Mr. Wadhams said clerical help is borrowed from his staff to help with the credit union work. Chairman Mello suggested taking some of the reserve in this budget and compensating the Director's office for its clerical support. Mr. Wadhams replied that he had no objections to this being done.

Chairman Mello requested an explanation of in-state and out-of-state travel. Mr. Wadhams said it is the responsibility of the Division to examine each credit union on an annual basis, and failing that the State would be open to some legal action. He said the in-state travel provides funds for the annual examinations.

The out-of-state travel is done to coordinate with other states in regard to what they are doing with credit unions in developing adequate examination techniques, and regulatory approaches.

Mr. Barengo stated his concern for some problem areas pertaining to thrift companies and mortgage bankers. Mr. Wadhams said a 75 Session law enabled the Commissioner of Savings and Loans to regulate mortgage companies but it exempts mortgage bankers from control. He said that the Assembly Commerce Committee will be asked to consider some legislation in that area. Mr. Barengo requested a copy of the proposed legislation.

INSURANCE DIVISION

Mr. Wadhams said the Insurance Division is responsible for the regulation of the insurance industry and the collection of taxes and fees. There are 853 insurance companies licensed to transact business in Nevada and about 6000 licensees to market those products. Mr. Wadhams explained that insurance is inter-state commerce, though state regulation is permitted under the McCarran Act. He explained that this budget is an increase of 1.7% over the current year. He pointed out that the Division generates over \$11,000,000 annually for the General Fund, and that premium taxes, fees, fines, retaliatory provisions generate over \$1,000,000.

Chairman Mello asked Mr. Wadhams if he were an actuary. Mr. Wadhams said that he was not. Chairman Mello pointed out that he had filled an actuary position in the Insurance Division. To clarify, Mr. Bible said that in this particular budget the actuary position had been vacant for six out of the last six months and Mr. Wadhams was listed in the Personnel Division report as the last incumbent as of 6-7-78. Mr. Wadhams agreed that he had held that position, that State Personnel guidelines allow someone with the sufficient knowledge and experience to qualify for such a position. Mr. Wadhams said that he had not passed any of the actuary examinations.

When asked by Mr. Barengo why someone from the Insurance Division did not present this budget, Mr. Wadhams answered that he was the person who had prepared this budget, and since Insurance Division is a part of his Department, he would be in a better position to explain the budget. He said the Insurance Commissioner would be in attendance on Monday, February 5, 1979.

Mrs. Wagner inquired as to the nature of the major legal controversy that is anticipated as referenced in the narrative for which \$35,000 is recommended in 79-80 and \$36,000 in 1980-81. Mr. Wadhams said the Division is currently involved in three Federal cases and is also responsible for receiverships and guarantee programs, a system that allows people to get their claims paid even though the company has sold the policy or gone bankrupt. Mr. Wadhams further explained that the figures under legal and court expense are primarily for the full time Deputy Attorney General who is assigned to the Division. Mr. Webb asked about the large increase in the Chief Assistant Health Facility position which has gone from \$18,283 in the work program year to \$24,852. Mr. Wadhams replied that the current incumbent is underfilling the position. He said that recommendation provides that the position be authorized at its actual classified level (grade 41) rather than the underfilled level (grade 39).

Mr. Bremner said that the former Insurance Commissioner, at a prior Session, had noted some positions that were unfilled and questioned if there were any current vacancies in the Division. Mr. Wadhams said that the only position currently unfilled is a secretarial position. Chairman Mello said that personnel records indicate that the Actuary position that Mr. Wadhams had formerly filled had been vacant since June 1978 and that an Associate Actuary position had been vacant for the last year. Mr. Wadhams said there apparently is an error in the records, and that the Associate Actuary position is filled. Mr. Wadhams said he would check his personnel records and supply the correct information to the Committee.

Mr. Wadhams said three new positions are being recommended. A Management Assistant II is being recommended to handle complaints and thus free up more highly paid personnel to do their jobs. He said that the Governor's recommendation also includes two positions to pick up the functions of the Fire Marshal's office that is scheduled to be abolished in March 1979. Under questioning, from Chairman Mello, Mr. Wadhams stated that if legislation was passed to continue the Fire Marshal's office, these two positions would not be necessary.

Mr. Mann referred to the Audit Report Summary for the Division and asked if the exceptions were being corrected. Mr. Wadhams replied that, for the most part, the exceptions had already been rectified. In relation to the audit report Mr. Mann requested that a listing of the fees charged for services by the Division be supplied to the Committee.

Mr. Glover inquired as to whether insurance rates are subject to the President's wage and price guidelines. Mr. Wadhams said that they are.

Chairman Mello asked Mr. Wadhams for an explanation of the in-state and out-of-state travel. Mr. Wadhams said that out-of-state was required for investigations but that sometimes costs of travel investigations could be recovered through fines. Chairman Mello questioned the relation of out-of-state travel in this account to the travel in the National Association of Insurance Commissioners' account. Mr. Wadhams explained that the NAIC fund is a limited purpose fund used when the Insurance Commissioner participates in the functions of the NAIC. Upon further questioning as to the location of the Association meetings, Mr. Wadhams assured the Committee all meetings would be held in the contiguous United States. Mr. Wadhams went on to explain that the in-state travel is based primarily on the need to audit the fiduciary and trust funds that insurance companies are required to keep for the protection of their policy holders.

Mrs. Wagner questioned the recommended amount for subscriptions. Mr. Wadhams answered that these subscriptions are for a variety of magazines and periodicals needed due to the complexity of the field. He said he would submit a complete list of all divisional subscription.

Chairman Mello asked about the EDP systems program charge in the amount of \$33,065 and questioned the relationship of this amount to the \$75,000 "one-shot" on Page A17. Mr. Wadhams said that funds were previously appropriated for developing a computerized licensing system but that his predecessor chose not to expend the money. He stated the need for such a data system is even more critical now. Mr. Alastuey added that in the Real Estate Administration budget, there is a line item of \$7,500 in fiscal year 1979-80 and \$35,000 in fiscal year 1980-81 for EDP expenses with which the operating portion of the EDP "one-shot" is to be paid. Mr. Wadhams said that between the Insurance and Real Estate Divisions, there are 12,000 licensees which cannot be handled on a manual basis and that that is the reason the computerized licensing system is needed.

Mr. Bremner suggested that with the added efficiency of these new systems, some positions could be eliminated. Mr. Wadhams said that positions could not be eliminated, however, the burden at renewal time would be considerable lessened. He added that positions will still be needed to process the initial application, however.

Mr. Bremner asked for Mr. Wadham's comments on the proposed legislation to create a committee to oversee the Insurance Commissioner. Mr. Wadhams said that in light of Question 6, he felt perhaps the Commission would not be necessary.

INSURANCE RECOVERY FUND

Mr. Wadhams explained that this fund was established to satisfy claims against licensed brokers, surplus lines brokers, and adjustors. He stated it was originated to replace the bonding requirement of licensees.

INSURANCE EDUCATION AND RESEARCH

Mr. Wadhams explained that at the end of each fiscal year, any balance over \$40,000 in the Insurance Recovery fund is transferred into the Insurance Education and Research account and is set aside for use by the Insurance Commissioner for insurance education and research.

Mrs. Wagner asked for examples of the education and research projects. Mr. Wadhams said that one possibility would be scholarships at UNR or UNLV for pursuing an insurance education.

UNCLAIMED LIFE INSURANCE FUNDS

Mr. Wadhams stated that the purpose of this fund is to hold unclaimed life insurance proceeds of deceased persons whose last known address is in Nevada. He stated that three-fourths of the unclaimed proceeds are deposited into the General Fund and that one quarter of the proceeds remain in this fund for seven years. After that time period this remaining amount is also transferred to the General Fund, he said.

INSURANCE EXAMINERS REVOLVING FUND

Mr. Wadhams said that this account reflects the reimbursements from insurance companies for expenses incurred by examiners of the Insurance Division or other examiners contracted by them while conducting examinations of insurance companies. He stated there are currently thirteen examiners available.

PREPAID FUNERAL AND CEMETERY FUND

Mr. Wadhams explained that the Commissioner of Insurance is charged with the regulation of the cemetery business in Nevada. He stated that this account reflects revenue received from, and expenses paid out in support of the regulation of the industry.

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Mr. Wadhams explained that this fund is used to defray general expenses of the NAIC and the travel and related expenses incurred by the Insurance Commissioner and his staff in attending NAIC functions.

Mr. Bremner asked the portion of this budget being used for travel purposes. Mr. Wadhams said the NAIC is composed of four major committees and fifteen subcommittees and that the meetings are held in a variety of states but that none would be held out of the country. He said that the dues are charged on a pro rata proportion of premium generated in the State, and added that almost all was being used for travel.

FIRE MARSHAL

Mr. Wadhams introduced Tom Huddleston, the State Fire Marshal. Mr. Huddleston said that the budget recommended the abolishment of the State Fire Marshal's Office in March and the transfer of its duties to the Insurance Division.

Chairman Mello asked if Mr. Huddleston would recommend legislation to continue the Fire Marshal's function. Mr. Huddleston said yes, and then proceeded to state some reasons why he thought this office should be continued. He said that code enforcement and code development, arson investigation, and other functions are very important to the rural communities where they cannot afford to support a full-time staff due to the low incidence level of arson. He said he had rewritten existing fire regulations in a more realistic manner. He also said he had spent a great deal of time in code development that is used throughout the Western States.

Mr. Glover asked if the budget division would present a revised recommendation upon approval of new enabling legislation for the Fire Marshal. Mr. Alastuey said a new budget would be prepared if the legislation is passed.

Mr. Mann questioned the discrepancy in costs between the Fire Marshal's budget and those recommended by the Governor. Mr. Alastuey said a large amount of this budget was included in the Insurance Commission's budget which was designed to pick up the Fire Marshal's function. Mr. Wadham added the only thing provided on the Fire Marshal's function in the Insurance Division budget was the salaries of the two positions. He said no operating costs had been contemplated.

Chairman Mello questioned the effectiveness of the two positions recommended in the Insurance Division's budget for the Fire Marshal's functions. He predicted to the Committee that the next time the budget is presented to the Committee for funding (81-83 biennium) the budget would be greatly increased due to the two positions.

DIVISION OF SAVINGS AND LOAN

Mr. Wadhams introduced Les Goddard, the Commissioner of Savings & Loan, who presented this budget. Mr. Goddard said that the Savings and Loan Division is authorized to examine the books and records of state-chartered savings and loan associations and that each association is examined every twelve to fifteen months jointly with personnel from the Federal Home Loan Bank Board. He stated that the Commissioner also has supervisory authority over mortgage companies and that there has been tremendous growth in the number of associations under the Division's control. Chairman Mello asked if this growth is the basis for the new position requested. Mr. Goddard said that this position had been needed for quite some time. However, due to growth, another position is now needed. Mr. Wadhams added that, although the Division concurs with the Governor's recommendation that this Division is facing an ever growing regulatory responsibility and their resources will be stretched very thin. Mr. Alastuey interjected that the Budget Division was not aware of the need for the second examiner and pointed out the sole request for an examiner had been recommended. Mr. Goddard said that by statute he is required to attend certain out-of-state meetings but in the recommended budget there is not sufficient money for out-of-state travel. He explained that this travel expense was minimal in fiscal year 1977-1978 because one large convention was in Las Vegas and the other in Phoenix. Chairman Mello suggested that this statute could be amended. Mr. Goddard said that he really did not like to travel extensively but that he felt he did learn a great deal from the people in other states discussing their common problems.

DIVISION OF BANKING

Mr. Wadhams introduced Mr. Joe Sevigny, Superintendent of Banks. Mr. Sevigny said the Banking Division regulated 45 banks with 44 branches, 15 small loan companies with 66 offices, 16 collection agencies, 2 debt adjusters, and 9 money order companies with 239 agents. The goals of this agency, he said, are to ensure a safe and sound banking system, fostering a competitive, efficient, and innovative banking industry, encouraging a socially responsible banking system, and maintaining an efficient, responsive and equitable regulatory system. Mr. Sevigny said that several new banks are currently being established and that establishment of new finance companies, collection agencies, and one trust company is pending. He pointed out that loans had increased 27% in five years, and finance companies for the same period increased 19%.

Mr. Sevigny said despite the increase in regulation activities that a modest increase is requested in the Banking Division's budget due partially to the elimination of the position of the Assistant Superintendent of the Banks. Mr. Sevigny stated that he requests two bank examiners to help in keeping up with the increased work load.

Mr. Glover asked if Mr. Sevigny examines State banks or the Federally chartered banks. Mr. Sevigny said that the Banking Division only regulates State banks.

Mr. Sevigny pointed out that he could do with less out-of-state travel money and suggested that those funds be placed in his training category.

Mr. Mann questioned the elimination of one position and addition of two more positions. Mr. Sevigny said that in the past, trust departments of banks had not been examined and he intends to use these positions to examine them. Mr. Sevigny stated he has been working on a new fee schedule to bring in an additional \$129,000. He stated that the banks have agreed to the increase which will be based on a percentage of the assets in each bank. He said that small loan companies have agreed in principal to the increase and he felt that collection agencies, debt adjustors, and the money order companies would also agree.

Mr. Wadhams added that if proposed legislation is approved that will reduce the required number of investigations, that the workload may decrease somewhat. Mr. Mann inquired about the number of lawsuits filed against the Banking Division in the last four years. Mr. Sevigny pointed out a \$25,000,000 suit where the Division had lost at least defense costs and said that he would get a more specific answer for the Committee.

Mr. Mello said that the President's Day holiday will allow some of the subcommittees to have hearings. The Chairman asked Mr. Glover if his committee had made plans for those dates. Mr. Glover had made a schedule for Capital Improvements Subcommittee. Chairman Mello also assigned the Parks Improvement projects to Mr. Glover's subcommittee. Mr. Vergiels said Human Resources Subcommittee would plan to meet also.

Chairman Mello directed the Committee's attention to the Minutes of January 29. Motion to adopt by Mr. Bremner; seconded by Mr. Rhoads. Motion carried unanimously.

The meeting was adjourned at 10:10 a.m.

Library Note:

During the examination of this set of minutes, Exhibit A was found to be missing. It also appears to have been missing at the time this set of minutes was hand numbered, as the numbering does not have a gap where these pages should be. The pages are also missing from the microfiche.

Research Library
February 2011