MINUTES

WAYS AND MEANS COMMITTEE

NEVADA STATE LEGISLATURE - 60th SESSION

March 14, 1979

Verbatim Testimony

Chairman Mello called the meeting to order at 8:05 a.m.

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

ALSO PRESENT: Bill Bible, Fiscal Analyst; Judy Matteucci, Deputy Fiscal Analyst; Mike Alastuey, Deputy Budget Director; J. R. Clark, NIC; John Reiser, NIC; Bob Haley, NIC; and Bill DuBois, Mines Inspector.

Chairman Mello brought the meeting to order; declared there was a quorum present after the secretary called roll.

Mr. Mello: You will all turn to page 618. This is what started the whole thing.

Mr. Bible swore in all the individuals who planned to testify this morning.

Mr. Mello: What started this, John, was the fact that we did not get the answers to our questions in regard to the trucks, the equipment. Would you like to explain to us -- I do not have that information here, but we were told that approximately $14,000 has been spent for trucks. That meant that that was around 15 to 16,000 left. And then we are looking at a request for 21.6 for more. So, would you explain that to us?

John Reiser: Yes, I will, Mr. Mello. I asked Bill DuBois to research this matter and the Legislative hearings that transferred the State Mines Inspector to the Nevada Industrial Commission. Bill, would you review what you reviewed with me?

Bill DuBois: Mr. Chairman, I have a copy of the Senate Finance minutes of the meeting for that original appropriation amendment, as well as, for a handout. If it would be appropriate at this time, I would like, along with a copy of the bill introduced by Assemblyman Dini and Mr. Getto, as well as expenditures for my department since we were transferred as a department.

Mr. Mello: Had these all been available -- could you have handed these out when you gave your testimony on the budget?

Bill DuBois: Certainly, the minutes for the previous session were available, yes. The purpose of reviewing the minutes of those two hearings is so that we may, hopefully, determine the intent of the appropriations from the State General Fund to the Office of the Inspector of Mines. That intent specifically at that time -- that amount was for my salary and two deputy inspectors exclusive of the payrolls involved. As I recall, the intent was, as I say, to defray the total operating costs of the department to the extent of my salary and two deputy inspectors. The balance of the necessary funds for the function of the office were to be supplied by the Nevada Industrial Commission. The rationale behind this was further reinforced by the fact that there is some question as to whether all of the funding for the Office of Inspector of Mines should come from NIC, insofar as they provided workmen's compensation insurance and there were some activities that are performed by the department that are not related totally to Mine health and safety. So, that was the rationale. It was intended to be a lump sum appropriation in the form, initially, of $53,760, which in 1975 was my salary and two deputies. That appropriation was reduced in a request to $50,000 in 1977 session and further reduced because of an analysis was made of our transportation costs to about $48,000 and it came back in this session requesting a $50,000 lump sum appropriation to offset the total cost of operating that department.

Mr. Barengo: Mr. Chairman, I don't believe any of these documents relate to the question.

Mr. Mello: Well, that's what I was just getting ready to ask you. Now, let's not go through this again. Because of your lack of knowledge to your budget and that's the only thing I can call it, you could not explain to this Committee the questions that we asked you. Now, let's try it one more time. Answer the question that I asked you. Do you recall what the question was?

Bill DuBois: Where is the balance of the funds for the trucks?

Mr. Mello: Let's just talk about that right now. If you wish to talk about something later, we will see if the Committee wants to hear it. I want to know, and the Committee wants to know, the questions, where is the balance of the $30,000? From the equipment that you purchased, where is the balance?

Bill DuBois: They're still in the administrative budgets of the Nevada Industrial Commission. As I say, I submit a budget request internally as a department.

Mr. Mello: So, then should be subtract that amount from the twenty-one six? John, do you have the answers?

John Reiser: Yes, J. R., Could you help in terms of the accounting on that in the use of that $50,000 for the salaries as a primary payment?

Mr. Clark: As Bill was indicating earlier, and it's also indicated in the handout, we were looking at $50,000, or approximately $50,000, General Fund appropriation as being applied directly to salaries. In the accounting system and also on the budgets we have tracked that as an expenditure. Bill spent just about $200,000, of which the approximate $50,000 was General Fund money. Our records and Bill's records also clearly indicate in excess of the $50,000 expenditure for salaries.

Mr. Barengo: I think that somewhere we are walking around the circle. I think the center of the circle is that we've appropriated $48,450; NIC, whether by gift or appropriation to us or us appropriating from, has appropriated $142,594, and we can't find out where the remainder is. Now, the underlying question is is that a gift or do we appropriate those funds?

Mr. Clark: I'm not sure I understand the statement there.

Mr. Barengo: Everyone here understands it.

Mr. Clark: If the fifty thousand or forty-eight thousand were indicated to be and that's our understanding of that fifty thousand dollars, if that was for salaries, we have very definitely spent in excess of that amount for salaries.

Mr. Mann: Let me see if I can try. We authorized, two years ago, the expenditure of $191,044. Part of that was from State General Fund, the rest was to come from you. You show in the work program that thirty thousand of that was to go for trucks. Now, it didn't go for trucks, so I would assume that the 191,044 would be reduced by $16,000, unless you actually spent over the $191,044. We want to know if it is subtracted by $16,000, what happened to that $16,000?

Mr. Clark: Okay. I think you have this handout (Exhibit "A"). It's the listing of the actual expenditures of the Inspector of Mines budget. Okay, the fiscal '78 year column indicates a total expenditure of $204,000, which was in excess of the one hundred ninety and some-odd thousand dollars that you are referring to. The monies were internally with NIC, reallocated to different areas.

Mr. Mann: Then I think the problem that we have in that is that we're a song and dance about how important trucks are to the Department of Mines. We recognize that in terms of allocating $30,000 and then some bureaucratic machinery decides well, we are not going to spend $30,000 on trucks and we get another request now for $21,600 and told all these trucks have hundreds of thousands of miles on them. I think the thing is that once we say thirty thousand dollars for trucks, I really resent that being changed and we want to know why $30,000 wasn't allowed to be spent on trucks?

Mr. Mello: That was the testimony we were given last session.

John Reiser: Mr. Mann, I think that's the reason that Bill did his research and the intent is, as we have all understood, has been to provide a $50,000 or whatever the appropriation is to help fund the salaries. And the reason, I think, you transferred that State Mine Inspector over to the NIC is so that we would supplement that basic amount.

Mr. Mann: Well, let's get to the question. You are going all around it. I want to know why you didn't buy $30,000 worth of trucks.

John Reiser: Because Bill didn't feel that that was necessary. We use that budget as a plan for operations.

Mr. Mann: Well, that's not what Bill told us.

Mr. Mello: Then you came in here this session and gave us a pitch to expend twenty-one six for more trucks.

John Reiser: I think the misunderstanding is that he is not asking you to appropriate any monies for those trucks.

Mr. Mello: We realize that, but why is this budget presented to us, then?

John Reiser: I believe that there was a request sometime in the past. Bill, maybe you can recall that the total budget be presented even though the bulk of it is funded out of the State Insurance Fund. Bill, is that correct?

Bill DuBois: Yes, that is what I was told by the budget people.

Mr. Mello: Then, what you're really saying is that you've put down some figures and brought it over to us and we're either to accept it or reject it and if we reject it, it means nothing anyway. These figures aren't worth a tinker's damn.

John Reiser: The difference between the line items and this budget, Mr. Mello, and the budget that was submitted internally, as a department, represent about the same total. The difference is that the State system uses different line items than the NIC. So, what we have to do is put forth effort and try to go into the line items that you see in the handout. And put those in the proper perspective and under the property of the right categories for your program statement.

Mr. Mann: There is about a $13,000 difference if we look at the two budgets and you might not think that $13,000 is a lot of money, but I do. And it is $13,000 over what we said we'd authorize for you to spend, whether it's NIC funds or what we gave you.

Mr. Bremner: John, or someone, we are talking about two separate bills here, AB 409 and SB 190. I assume they both made appropriations to your General Fund monies to run this program, is that right?

John Reiser: Bill, can you answer that question, please?

Bill DuBois: AB 409 was the appropriation from State General Fund.

Mr. Bremner: What's SB 190, then?

Bill DuBois: That was a bill which set the salaries for unclassified employees, as I recall, in the '75 session.

Mr. Bremner: All right. In your handout here (Exhibit "B"), which is number 373 at the top, in your rationale on here, part of the wording is: "This office provides safety for mine workers which have the most hazardous and challenging jobs and they need a safe place to work. This justifies the staff and equipment set forth in the bill." Does that tell me we've paid for some equipment, too? Don't tell me we just gave salaries; this is your handout; it says staff and equipment.

John Reiser: In discussing the total budget, most of which is provided by the State Insurance Fund, the appropriation was only the . . . . ..

Mr. Bremner: But, didn't some of our money go for some equipment? That's what it says here. J. R., can you answer that question?

Mr. Clark: Well, the gray area we have here is the fifty thousand dollars was transferred to NIC without clear indication about exactly how it was going to be spent.

Mr. Bremner: So this is inaccurate. Is that right? These are Ways and Means minutes apparently.

Mr. Clark: Well, it doesn't say how much for . . . .

Mr. Bremner: No, it doesn't, but it says equipment and you're talking about only salaries. Trucks are equipment.

Mr. Clark: When we received that $50,000, we assumed that we could expend that either on salaries or equipment. And internally we were tracking that as a salary expenditure.

John Reiser: But, the answer to the question is in the handout that Mr. DuBois has distributed.

Mr. Mello: Would you point it out to us?

John Reiser: Bill, would you read the statement that Howard Barrett made in answer to your question?

Mr. Vergiels: It's the second paragraph under 409, AB 409, that handout (Exhibit "C").

John Reiser: I'll read it, Bill, if you don't have it handy. "Mr. Barrett said this appropriation would cover the salaries, but SB 190 would set the exact amount." In other words, when the bill was originally drafted, as I recall, Bill DuBois was left out of the classified salary in SB 190. We pointed this out to, I believe it was, Senator Lamb. Do you recall, Bill?

Bill DuBois: Yes.

John Reiser: And that amendment was made to add Bill's salary to SB 190. We did at Chairman Mello's request, I believe, clarify that at the time that that approximate $50,000 request was for salaries and that was the intent of asking for an appropriation.

Bill Bible: I might point out to Mr. Bremner that last session when Ways and Means considered this budget and Senate Finance, they discovered apparently that there was some over-budgeting and the category in the reduction was made proportionately from the General Fund.

Mr. Bremner: We reduced it from $17,000 to ten-eight? I know that.

Bill Bible: Correct. And reduction was made proportionately from the General Funds and the NIC funds in the proportion of which the budget was constructed.

Mr. Bremner: Which leads me to believe that . . . .

Bill Bible: That the monies are co-mingled and the General Fund supports a certain percentage of each budget.

Mr. Bremner: That's exactly right. That's the point I'm trying to make.

John Reiser: This would be a change in direction from the original intent, I think that is what J. R. is suggesting, that if that is your intent, that that be made clear and our interpretation has always been that that is a salary figure that is to be used as a primary figure in salary. It always has been spent as the figures show.

Mr. Mello: Do you think when a budget is presented to us, such as the Inspector of Mines, the budget should be correct?

John Reiser: Yes, I do.

Mr. Mello: Do you think this one is? The one that's before us? We've already stated it is not.

John Reiser: I believe that the $50,000 is a point or question that needs to be clarified.

Mr. Mello: Well, anytime a budget is -- someone comes in here to testify upon a budget that we have in our budget books, they had better be prepared to answer the questions. I don't care whether it's out of the General Fund, out of the NIC fund, or what fund it is from. Bill DuBois could not answer the questions. We had to have him even get up and go out to the telephone and call you, to see if he could answer some of the questions. So, perhaps in the future, you'd better have your people better prepared to present their budgets before this Committee.

John Reiser: We will be prepared.

Mr. Mann: Mr. Chairman, may I take us into some other areas that I would like to investigate?

Mr. Webb: There's just one other thing. If we didn't buy the trucks, which is the $16,457 that we didn't spend on trucks, it was spent on travel instead, by the way, and we did go over the budget by $13,337, we overspent almost thirty grand on this budget, it appears to me that the NIC is being used as a means to supplement a budget that was approved in a certain manner by the Legislature. And the way I read this budget, and I am assuming this last time, too, was that the two-thirds or three-quarters of the funds were provided by NIC and I think it behooves us to set them straight that we intend the budget to be followed and the NIC to provide the funds to that department in full and not to be operated as a slush fund to circumvent the legislator's intent. I deeply resent an extra $30,000 overspent here with no authorization to do so.

Mr. Mello: Do you wish to comment on that?

Mr. Clark: Bob, do you have any statement to make on that?

John Reiser: I believe that we should get into the next item in our -- that you invited us over because . . . .

Mr. Mello: Well, we also had questions for you.

John Reiser: I think we will answer those questions when we get into the State Insurance Fund and the operations the NIC carries out under the State Insurance Fund and I think that is a good question that should be addressed as we go through this additional information that you have requested.

Mr. Barengo: All I was going to say was what Doug said. I am unclear and I think Doug is unclear, we are trying to get an interpretation as to whether these funds provided by NIC are, as they say, funds provided by NIC for the operations budget, that's a gift from NIC, this is funds we appropriate to NIC, what is going on with those funds and what are they for and, in fact, if they are funds provided by NIC, they should be operated in a fashion of any budget and the overwhelming question is: why shouldn't NIC be rescinding . . . budgets here?

John Reiser: That is a question that we will address as we go through the statement on the insurance fund and I suggest we go ahead.

Mr. Mello: Well, if we have any more questions in regard to your budget which started this whole thing, I'm going to allow those to be asked before you go into your presentation. Are there any other questions in regard to the Mine Inspector's budget? All right then, you can go ahead.

Bob Haley: J. R., have you distributed the audit reports?

John Reiser: I asked that Bob Haley review the latest audit report with you. That's the quickest way to get a feeling of the State Insurance Program and how it does operate.

Mr. Mello: Okay. You are going to go through and answer the questions that are directed to you in the subpoena, is that correct? Would anyone like to answer that question?

John Reiser: The answers to the questions in the subpoena? We were asked to deliver records.

Mr. Mello: That's right. And we want explanation of those records.

Bob Haley: Yes, that's our intent. The NIC auditor's report with supplementary data, as of June 30, 1978, this is a condensed view of the operation of the commission and an opportunity to explain some of the means by which we do operate and do it now. We are on an accrual accounting system which recognizes the creation of an asset for the creation of a liability at the time of occurrence. This system of accounting is a common system used among businessmen, an accounting system used in insurance. Beginning on page 2 -- incidentally, this report is an audit report prepared by Kafoury, Armstrong and their opinion is expressed in the forwarding letter, dated 11/28/78 (Exhibit "D"). They say: "Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests and analyses of the records as we considered necessary in the circumstances. In our opinion, the aforementioned financial statements present fairly the financial position of the Nevada Industrial Commission at June 30, 1978, and 1977, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied." Page 2, the balance sheet, demonstrates the position of the commission on the day of June 30, 1978, and the corresponding day at the end of 1977. We list the assets of the commission, investment securities, cash, short-term investments. There is a persistent question as to why does a commission have so much money invested. Very basically, the reason is that in the Worker's Compensation Insurance process, the employers pay for the full coverage during the year in which the accidents occur. We collect premiums during the year; we have the full premium collected by the end, normally, by the end of September, and about 99% of it is in our hands with one percent to be collected through audit and collection of delinquent accounts after that time. That premium is collected in that year and is intended to cover the costs of all of the accidents that occurred during that year. We will be paying for those accidents as much as forty years in the future. So, we have the money in hand, we are a fully funded operation which means that should NIC be terminated at any date, each individual against who has had a claim will have that claim settled if it takes forty years to settle. The investment, the particulars of the investment program, will be covered by Mr. Gary Coburn from our investment counsel, Scudder, Stevens and Clark, and I'll jump if no one has any questions beyond that point.

The liabilities and provisions for contingencies. These are the liabilities for claims that have been filed against the commission or are pending filing; they have occurred during the fiscal year, 1978, and prior. Now, the compensation benefits are made up of four classes of benefits: temporary total disability; permanent partial disability; and survivors' benefits. In this other handout (Exhibit "E"), we have given a breakdown to illustrate the long tale of the liability that we are faced with. This handout, it's labeled NIC records, Ways and Means Committee Hearing. This handout was prepared by our consulting actuary in New York. Let me take the compensation benefits we show in our financial statement. $121,402 is the outstanding obligation. I'm sorry, $121,000,000-$121,402,000. In Exhibit 1 in the handout, you will see that $121,000,000 broken down by the years for which the liabilities have occurred. In 1978, we have in the right-hand column, $42,000,000 outstanding liability for compensation yet to be paid. 1977 claims, $24,000,000; 1976 claims, $16,000,000, and so on back to 1968 and prior. Now, how are those liabilities determined? They are determined by three methods. We have a group of people who are claims evaluators who review every outstanding claim that is one year old or greater and make an estimate as to the future costs of compensation and medical expense on that claim. Following that, we make a statistical breakdown of what we think the compensation benefits should be based on prior usage. Then, we submit the raw data to the actuary who makes another estimate of the value of that liability. That liability is tracked for as long as there are claims open for any fiscal year and the liabilities are refined each year, the prior experience is adjusted so that the liability figures have considerable reliability. They are all based on estimates of future costs on these claims. There is one other point that we should make about the compensation liability. This is expressed as a present value. They are discounted assuming a 4-1/2 percent return on investment during the time that the liablity is unpaid. This is a practice that is followed in the NIC that is not followed in the insurance companies. Insurance companies do not discount these liabilities recognizing the investment income that is coming in on them. Compared to a like insurance company balance sheet this statement of compensation liabilities is considerably understated. The next liability represents the medical benefits outstanding. Of $35,283,000 and on Exhibit 3 of the handout, you see the distribution of those liabilities, as opposed to the claim here in which the cost was incurred. Again, the long tale, you see part of it: you see $23,000,000 on that page and on the following page, you see the other element, the liability for medical payments on the permanent total claims, of $11,977,000. These figures are not discounted because medical expenses are rising at such a rapid rate that a discount would considerably understate the medical liability. Therefore, these are expressed in actual expected dollar payouts without any escalation for future medical increases in cost. The occupational disease benefits are handled in the same manner, and finally there's a claims administration liability of $7,111,000 -- the purpose of that liability would be if the NIC discontinued the carriage of worker's compensation insurance. The actuarial estimate is there would be $7,111,000 available for a staff to continue to administer those claims which have been already filed and required settlement. So, this provides for the full funding of the benefits to the workers who have outstanding claims. The total liabilities for the incurred unpaid losses is then $167,248. The next statement is a self-rate excess reserve. This is a liability: we have three self-raters: Harrah's Club, Harvey's, and St. Mary's Hospital who have deposited with the commission $1,151,000 which is available for the defrayal of costs of excess losses. Should one of these self-raters have a loss in excess of $35,000, it would be charged against the joint reserve in this loss. The monies are a liability; they could be returned to those self-raters once those claims are totally settled. Advance premium deposits and insurance coverage are all that is required is the payment of a premium in advance. You never have a coverage provided by a policy until the insured has paid his premiums in advance. We have $3,997,000 in cash deposits for those advanced premiums. We have another $20,000,000 in bonds or in securities, privately owned securities, which are earning interest for the insured, in place of the cash advance premium deposits. In an insurance company, there is another difference. In private insurance there would be no bond, no security bond, substituted for this cash advance deposit.

There would be $20,000,000 additional in cash derived from the policy holders and in our hands in the interest for us or in the earning interest for the insurance company. Therefore, this $3,997,000 is an extremely small advanced premium deposit. Accounts payable and accrued expenses are the normal business expenses where we have people owing us money that has not yet been paid. The results of an experienced credit dividend payable of $20,000,000, which was declared at the end after seeing the financial statement at the end of the year, making an evaluation of our position and having the actuaries make an opinion as to the required net provision for the contingencies that the commission required or the net worth that we should have. The actuaries recommended between twenty and twenty-five percent of our annual premium income as a requirement for a net provision for contingencies. The difference between that and the amount of money that was available in that fund was twenty million dollars. The commission declared a twenty million dollar experience dividend to be payable based on the experience of 1978 and 1977 and 1976 payable after evaluation of the losses of individual policy holders as of June 30, 1979. That twenty million dollars will be dispersed in September, under present plans. The provision for contingencies before net unrealized loss and marketable securities; this in insurance parlance is often referred to as surplus and in other businesses it is referred to as the net worth. This amount of money is required for a number of reasons: first of all, workmen's compensation insurance is not an exact science. The rate making process is not. We can make errors, we can collect less money than is required in any given year and if that happens, we have to lose the surplus to fund the deficiency. There are other things that come into the play. Economic cycles. We can show evidence that in times of depression that the costs of worker's compensation increases because people do not have jobs to return to and they stay on disability compensation and cause costs to rise over what was anticipated under normal circumstances. There are decisions that are made in the courts and in the hearing process which have not been anticipated. We've recently had a couple of decisions made regarding heart coverage of firemen. These decisions were made at the appeals officer level which has cast a new light on the coverage of heart-diseased firemen. It was also brought to our attention that the statute, as is written right now, provides for coverage which was not intended because out-of-state firemen who have been in continuous employment out-of-state can qualify for heart disease coverage under our statute the way it is presently written. This can or could put a drain on surplus; it certainly will raise costs that were unexpected. There are interpretations of the law which have cast a different light. We had a situation for years up until about 1973 when it was believed that permanent total pensioners were entitled to $50.00 per month medical care period. It was a misreading: it was an interpretation that had been carried forward for years. Since that time it has been realized that that interpretation was incorrect. We have a liability; a liability has been established of $11,977,000 for permanent total pension, for the medical care of permanent total pensioners. Now that money had to come from someplace. It came, a good part of it, came out of the provision for contingencies. We have seen philosophy changes on what a permanent total is; there are presently arguments that permanent total means than an individual cannot return to his own line of work. Now that has not been accepted, but should someone accept that as a definition of what permanent total is, again, there would be a drain on the provision for contingencies. Therefore, the provisions for contingencies is to take care of all of those unforeseen and unplanned conditions which can occur in worker's compensation.

Mr. Mello: Not to interrupt, are you going to be getting into the administrative costs of NIC?

Bob Haley: We can get into them, yes.

Mr. Mello: We'd like for you to move along as quick as you can.

Bob Haley: Okay. The next statement is we will put the administrative costs before you. In our budgeting, when we speak of our budgeting, we are covering both administrative costs and the cost of coverage of the claims which are going to be incurred. We budget during a rate-making session to bring in sufficient premium income to cover the

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cost of claims plus the administrative costs of the commission. The operating statement shows in 1978 we collected premium income of $92,819,000. We had reinsurance premiums for coverage of excessive losses over 500,000, from 500,000 to twenty million, on individual incidents to leave a net premium of 92,492,000. Our compensation benefits, medical benefits, and occupational disease benefits, amounted to 79,127,000. Incidentally, approximately twenty percent of that is represented in disbursements, the other eighty percent at this point in time are outstanding liabilities. Our administrative operations are made up of two elements: claim administration costs, $4,957,000, and general expense other than these, the settlement of claims of $4,393,000, for a total administrative expense of $9,350,000. The total underwriting expense of the commission or the underwriting gain last year was $4,015,000. The income -- the premium over our underwriting expense provided a profit of $4,015,000. The first year in quite some time that that's occurred. Our investment operations brought in $10,986,000, but because we discount our pensions and our compensations, $3,893,000 had been spent or was required as on those actuarial liabilities. Just to give you an example of what that means, if you look at a reserve for a man who is drawing $500 a month at the end of last year, it will show a certain amount and if you will show that during the time that he receives $6,000, $500 a month, that the reduction in reserve only amounted to approximately $1500. The difference was the interest income on that reserve which was paid out to him that year, so he receives principal plus interest. This $3,893,000 is the interest income which was used as a payment to defray the costs of that compensation. We had an investment gain of $7,093,000, and there was a reevaluation of prior year actuarial liabilities which produced a $19,922,000 gain. Now, that came about as a result of revaluing our liabilities from 3-3/4% income to 4-1/2%. That accounted for roughly $7 million. The -- we also recognized the change in permanent partial disability obligations as a result of two changes in the legislation covering the PPD in 1975 and 1977, which amounted to another $4 million. As a result of a disability prevention team management effort that we have put into effect in the last four years, we have managed to reduce the cost of temporary total disability and associated compensation which produced a $6.9 million reversion. And another reversion in the costs of medical-- a direct output from the disability prevention team or disability prevention management system of $1.6 million. And then there were 7/10 in miscellaneous reserve reductions. The net gain of all of those elements, the investment operation, the underwriting gain, and the reevaluation of prior year liabilities, produced a gain in operations for the year of $31,030,000. The experience -- we had $12 million in contingencies at the beginning of the year, there was an experience dividend declared of $20 million, and we have $23,468,000 for provision for contingencies. There is a letter in this handout which will explain the requirement for the provision contingencies from an actuarial standpoint that follows the breakdown of the obligations that we have by fiscal year. Basically, it covers many of the points which I made earlier in my oral statement that's there for your referral.

Mr. Bremner: Did you say you have increased your return on investments from 3-3/4 all the way up to 4-1/2%?

Bob Haley: The assumption to make was changed from 3-3/4 to 4-1/2%.

Mr. Bremner: Is that the actual figure or is that what you assume you're going to make?

Bob Haley: That's an assumption over a long-term basis and it is the recommendation from our actuary.

Mr. Bremner: Are you satisfied with that kind of return on your investment?

Bob Haley: That does not represent the present return. It represents the assumption which is applied . . . .

John Reiser: Mr. Coburn will give you the return . . . .

Mr. Bremner: I'll ask at a later date.

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Mr. Mello: If you have a question that is asked of you and you are going to give it further on in your presentation, would you please state so?

Mrs. Cavnar: In the article that you passed out, on schedule 1, page 1, under salaries . . . . .$125,000 allocated for salaries to the Mine Inspector, I don't see that this corresponds to the $140,000 that was changed from $127,000 -- $117 to $127,000. I'm looking on, first of all, our budget page 618, under Inspector of Mines, under salaries in the 1978-79 work program. And I'm comparing it to your handout of the audit report on page 13. Now, when you first went over the Inspector of Mines budget, we were told that the salaries totalled $117,000 and was not the right total, and that the total was $140,000. Can you explain to me, then, why we have a third figure that's different again, of $127,000?

Bob Haley: Let me ask Jerry. Do you follow that question?

John Reiser: No, I didn't.

Bob Haley: There's a -- in the audit report for Inspector of Mines salaries for 1978 are reflected as $127,000.

Mrs. Cavnar: Comparing that to our sheets in the budget book on page 618 . . .

John Reiser: I don't have a copy of that. What has happened is that was a budgeted figure. NIC has since changed that budgeted figure. The actual expenditures for the Mines Department on the sheet that we passed out, the audited figure does correspond and those are rounded figures. The sheet that Bill passed out says State Inspector of Mines expenditures for fiscal '78 indicates an actual expenditure of $126,955.27. That does coincide with the audit. The only response I can make is that administratively within NIC it was changed.

Mrs. Cavnar: But then we now are dealing with four figures. I understand where the $126,000 was rounded off to $127,000, but in our budget book you told us that the salary figures for 78-79 had been down here as $117,000, but we have a rate figure and we were told that it actually was $140,000 in the work program, and I'm wondering where that additional money came from to make up that $140,000.

John Reiser: In a -- I'm not positive, but an answer would be when Bill submitted his budget, the budgeted figure may well have been $140,000, but because of staff vacancies, turn-overs, the staff positions wouldn't have been filled all year. So this resulted in a budgetary savings there from the actual budgeted figure to the actual expended figure.

Mrs. Cavnar: Thank you. It was explained to me by Mike that this figure on page 13 in your audit report did not include fringe benefits.

John Reiser: That's correct. It is just gross salaries.

Mr. Bremner: Did you say you found $19.5 million in excess reserves that you'd set up? Is that what you said?

Bob Haley: There were $19 million and they were made up of -- there was a $6, nearly $7, million repricing when we went from the 3-3/4 to the 4-1/2% reduced the value by approximately $7 million. There was, in 1973, a permanent partial disability system for payment was established which called for a payout of permanent partial disability over the full lifetime of the individual with no provision for lump sums. In 1975, there was a revision to that provision which established a new formula which represented a reduction in permanent partial disability. We didn't know how much that was, so there was no change in the 1973 evaluations. In 1976, and 1977, there was another change in permanent partial disability provisions for lump sums. Again, we had no means of pricing that out. This year, we had five years of experience on 1974 permanent partial disability. They are approximately 80% paid out. At this point, we felt that we could go in and reprice the permanent partial disabilities considering the effect of the lump sum provisions of 75 and 77. That produced a reduction in the permanent partial obligations of $4.0 million. There was a downward revision in reserves through other compensation claims at $6.9 million. This is a direct result of a program that we put into effect in 1974, on a pilot basis, of working on temporary total disabilities to reduce the duration of temporary total disabilities and with them, the medical costs would reduce the permanent total costs would reduce as well as the permanent partial costs. Now, on the last sheet in this handout will demonstrate the effect of that program and what has been happening in our temporary total disability. If you look at the section of the report that says development of average days loss per claim. We have gone to the 1969 claims after 120 months of experience down at the bottom line on this shows that there was an average of 90 days loss or 90 days of temporary total disability for all the loss time claims filed in 1969. 88.1 is the projection for 1970 claims, 93.2 for 1971 claims, 89.7 for 1972 claims, and in 1973, it jumped to 94.7, and we are beginning to feel the effects of the 1974 recession here, and 1974 the temporary total disability days increased to 103.7 as a direct result. We put this program into effect in 1975. The 1975 figure shows a reduction to 92.6, we are projecting 83.6 on 76 claims, 81.6 on 77, and 80.6 on 78. Now these are projections. The figures above the line are actual developments. At the end of the number of months after the end of the fiscal year that's shown. But in order for a program of this kind to be felt before you can make a move and say our program is effective, it's carrying on, you have to wait to see this development over a period of years. That's 6.9 million. It was felt that we could make this kind of adjustment because in looking back, we had started a trend -- a definite downward trend in this area, and we no longer anticipate the higher average loss time days that we had experienced prior to that time, so that 6.9 was a reduction based on that experience. The revisions in medical claims was a direct relationship to that program. And so, yes, in those two cases, we did make a reduction in prior claims of approximately $7 million for that purpose.

Mr. Mello: Do you have any other comments to make to your administrative costs?

Bob Haley: I think if you would address questions to us, I think we can explain. Let me explain how we arrive at them. The commission, well, first there is one other item that I'd like to have you look at, and that is the first handout. The commission's workload is the settlement of claims, the delivery of benefits to injured workers. On the top sheet, in the middle column, what we have shown is what's happened to claims since June, 1978, where local represents the Carson City office. We have had an 18% increase in Las Vegas, which represents, down at the bottom, it shows a total increase of right now 7,452 claims more have been handled at this point this year than were handled at this point last year. We have a counterpart of that handout two pages back, which is dated 7/7/78, which shows what happened in fiscal year 1978. Again, we show for the local claims, 1978, we had a 33% increase in the number of claims that were handled in Carson City and in Las Vegas there was an 18% increase. It takes, for every 3,000 additional claims that we receive, it takes 5 additional people in the claims section. We have a claims examiner, a rehabilitation counselor, a nurse, and two clerical support people have to be hired for every increase in claims. We try in doing our budgeting, we try to get as close to the beginning of the year as possible, and we have no way to forecast this kind of increase because it's tied to economic activity and a variety of factors that we have no way to predict. However, our budget is put together during the month of May. It is reviewed item by item basis by myself after the submissions by the departments and then by the commission, with each department testifying as to what his plans, why he is asking for what he is asking for. We maintain a workload, a unit workload, claims activity versus claims personnel, policy activity versus employer accounts personnel, so that we know, we look at that trend to see that our personnel are running no faster or increasing no faster than our workloads. These are our budgets, these are the detailed backup, the statement of each 1979, 1978 commissions, if the Committee wishes, we will leave these with you to look at.

Mr. Mello: You most certainly will leave them. You'll leave everything that this subpoena calls for. If we want more, we'll ask you for it and if you choose not to give it to us, we'll subpoena it for the records again.

Mr. Mann: I'd like to get into some detail about your Southern Nevada Rehabilitation Center. How many part-time doctors do you hire out of that facility?

Bob Haley: We have two full-time staff members.

Mr. Mann: Do you hire part-time doctors out of there?

Bob Haley: No.

Mr. Mann: There are no part-time doctors working for that rehabilitation center?

Bob Haley: No.

Mr. Mann: What is the average salary of the two full-time?

Bob Haley: $400 a day.

Mr. Mann: $400 a day?

Bob Haley: That's correct.

Mr. Mann: For the full-time doctors?

Bob Haley: Yes.

Mr. Mann: That's 7 days?

Bob Haley: That's days on which they work.

Mr. Mann: Wait a minute. If they're full-time, I would assume that they're working for you full-time. Five days a week.

Bob Haley: They're not paid for vacations.

Mr. Mann: Well, how many days a year do they work for you?

Bob Haley: That's normally about 200 days a year.

Mr. Mann: At $400 a day?

Bob Haley: That's right.

Mr. Mann: Do you think that's a good, competitive wage?

Bob Haley: That depends upon what you compare it with.

Mr. Mann: Well, I don't want to compare it with anything other than what doctors are getting paid working in other State agencies, for instance.

Bob Haley: They are not -- these doctors are treating patients.

Mr. Mann: Okay. We have doctors treating patients at the prison system, they don't make $80,000 a year. I assume this figure's more because you give them paid vacations when they go?

Bob Haley: No.

Mr. Mann: Okay. At $400 a day, I don't think you need to. Do you know of any other doctor that works for the State of Nevada that makes $400 a day?

Bob Haley: We are paying doctors for treating NIC patients considerably more than that on a day-to-day basis, on a part-time basis.

Mr. Mann: Wait a minute. You've got doctors who are treating on a part-time basis?

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Bob Haley: Well, they're treating patients who have come to them. We paid one doctor over $200,000 last year and he doesn't work for us.

Mr. Mann: In Southern Nevada?

Bob Haley: Yes.

Mr. Mann: Now, if you paid him $200,000, how many patients did he treat for $200,000?

Bob Haley: I can't answer that sitting right here.

Mr. Mann: The problem I have with that now, if you pay a full-time doctor $80,000 a year, why wouldn't you be better off to hire another full-time doctor?

Bob Haley: For what?

Mr. Mann: To treat these guys that are making $200,000 a year.

Bob Haley: These are surgeons.

Mr. Mann: You don't think the $400 a day is over-rated then?

Bob Haley: We're quite sure that it's not. We called for consultation at the time before that salary was arrived at, and received consultation from an accounting firm that works with physicians and is well aware of what their incomes are.

Mr. Mann: Are these doctors that work for you full-time that make $400 a day allowed any private practice?

Bob Haley: Yes. We don't control them beyond the time that they're working for the commission.

Mrs. Wagner: I have a question following up on Mr. Mann's, and I don't know who would be best to respond to this, but my understanding is there was a doctor on board in Las Vegas who was paid an exhorbitant amount of money in terms of what we've been discussing here today, who was later found to have no medical license. Is that correct?

Bob Haley: That was -- he was admitted to practice under the license of another doctor and that was done with knowledge. He was given a -- he was on a probationary period.

Mrs. Wagner: On a probationary period. What exactly does that mean?

Bob Haley: This you'd have to talk to the Board of Medical Examiners. It was approved. His practice was approved by them.

Mrs. Wagner: Would he have been licensed to practice out in the general community?

Bob Haley: He was practicing under the auspices of the Southern Nevada Memorial Hospital.

Mrs. Wagner: But he did not have a normal medical license, he was on a probationary period under the purview of another doctor?

Bob Haley: That's correct.

Mrs. Wagner: My understanding is he was making somewhere in the area of what Mr. Mann has talked about.

Bob Haley: He was being paid on a case-by-case basis, on a treatment basis.

Mrs. Wagner: Do you have any idea what his total annual salary might have been?

Bob Haley: I can't answer that right now. We could provide that information.

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Mrs. Wagner: I would like that information, please.

Mr. Mann: Mr. Chairman, a point of information, if I might. I'd like to clarify something directly related to this.

Mr. Mello: Just wait.

Mrs. Cavnar: I don't know if I should go ahead. I just wanted to point out that in 1974, when your figures were so high and they started going down in 1975, I believe, that the time . . . . .

Bob Haley: The nurses are very effective.

Mr. Barengo: I want to get back to these doctors. You've said they were full-time employees, at $400 a day, and you do not control them during the hours they do not work for you. They work for you 8 hours a day every day?

Bob Haley: Their normal service day is an 8-hour day.

Mr. Barengo: How are they paid? Are they paid regularly out of the NIC fund, do they have an agreement with you as to how much time they will work, what are the parameters?

Bob Haley: They're guaranteed $400 a day. They bill for services rendered.

Mr. Barengo: They are then an independent contractor?

Bob Haley: Yes.

Mr. Barengo: And they don't work full-time for you, contractor times?

Bob Haley: They are contract, yes.

Mr. Mello: Do you have a contract with these doctors? Could you furnish us with a copy of a contract?

John Reiser: Yes, we will. It's a public document that's been approved by the Board of Examiners.

Mr. Barengo: These doctors, they work at the rehab center, is that correct? Do they work with and other people at the rehab center?

Bob Haley: Say that again.

Mr. Barengo: Do they work with any other employees at the rehab center?

Bob Haley: They assign, they prescribe the treatment that is rendered in the rehab center, and they review the administration of that treatment.

Mr. Barengo: And do they tell other NIC employees how to effectuate their treatment?

Bob Haley: They act in the capacity of a treating physician.

Mr. Barengo: How many full-time employees that are employees of the NIC that are not on contract do you have at the rehab center?

Bob Haley: Approximately 97.

Mr. Barengo: Are those doctors? Do they work with those, those, I assume, are counselors, technicians, and physical therapists, and people of that nature. Is that correct?

Bob Haley: Yes.

Mr. Barengo: Now, those doctors tell those people, the other employees, what to do.

Bob Haley: They prescribe the treatment. Now, each of the -- they are physiatrists, these two doctors are specialists in physical medicine. They prescribe the treatment, yes.

Mr. Barengo: They supervise and look out for those patients.

Bob Haley: They visit their patients while they are undergoing treatment and observe them, yes.

Mr. Barengo: Do they go back in and tell X physical therapist to do this and this and this while you're taking care of those?

Bob Haley: They don't tell them how to do it, no.

Mr. Barengo: Do they have any right to tell -- they just go in and look at a patient, they write out a little thing and leave it there, they don't follow up at all?

Bob Haley: They visit the patients in the therapy areas. It's part of their function.

Mr. Mello: You're referring to a treatment order of the -- that's all they do?

John Reiser: Yes, they conduct staffings and check all the patients.

Mr. Mello: They periodically check the patient to see how they're progressing?

Bob Haley: That's right.

Mr. Barengo: What I'm trying to find out is if they perform any administrative power over the employees of the NIC.

Bob Haley: No. They are subject to our administrative direction.

Mr. Barengo: But, I mean the employees under them, the physical therapists and those people. They do not?

Bob Haley: No.

Mr. Barengo: How many patients do you currently have in that center?

Bob Haley: Last Tuesday, there were 126, I believe.

Mrs. Wagner: 97 employees, is that what you said?

Bob Haley: That's correct.

Mr. Barengo: How many part-time doctors?

Bob Haley: Part-time doctors? None.

Mr. Barengo: These two doctors do all the work at the rehab center?

Bob Haley: Yes. In the center they do all the work.

Mr. Vergiels: Do you hire any psychologists or psychiatrists?

Bob Haley: Psychologists.

Mr. Vergiels: What do you pay them?

Bob Haley: We pay them under the State scale, the classified service scale. They're paid on a regular salary.

Mr. Vergiels: You don't contract for any psychologists, those are actually staff people?

Bob Haley: Yes.

Mr. Vergiels: And they're assigned where?

Bob Haley: They're in the facility, in the center.

Mr. Mello: They're included in that 97?

John Reiser: Yes. We will have a handout that describes the policy statement on our disability prevention and the rehab center that will give you the overview on this.

Mr. Hickey: I think the Committee's more interested in details in personnel and what you're paying them. I have some real questions about $80,000, as was mentioned. Here, $50 an hour is not high for attorneys, but I have some real questions about your consultants. It's hard for me and my association that doctors are receiving $80,000 a year. And I'm talking about a hospital association at the Union Pacific, and I'm sure you have the same thing, Chairman Mello. You say that these doctors work 8 hours a day. What's their office hours?

Bob Haley: They are normally 8 til 5.

Mr. Hickey: You can go in at 8 o'clock in the morning and see a doctor.

Bob Haley: If you have an appointment.

Mr. Hickey: My question is are appointments available at 8 o'clock?

Bob Haley: Yes.

Mr. Hickey: And they close down at 5?

Bob Haley: That's correct.

Mr. Hickey: And you can go up to 5 o'clock and get an appointment?

Bob Haley: Yes.

Mr. Hickey: How many physical therapists have you got in that 97?

Bob Haley: In physical therapy right now we have only 3. And that's a bottleneck -- it's a real problem because we are unable to pay a scale that will attract physical therapists.

Mr. Hickey: What are you paying your physical therapists?

Bob Haley: Roughly $18,000 per year.

Mr. Hickey: You have 3 physical therapists. How many nurses do you have?

Bob Haley: We have one nurse presently assigned.

Mr. Hickey: Out of the 97 employees, you have one nurse?

Bob Haley: Yes.

Mr. Hickey: With the doctors, you have two doctors, are any of those similar to the situation that was just mentioned? Is there additional doctors under contract under one who is licensed in the State?

Bob Haley: No.

Mr. Hickey: Do you allow that: You've stopped that since the -- ?

Bob Haley: Yes.

Mr. Mello: Your administrator of the facilities in Clark County. Is that administrator under contract?

John Reiser: Yes.

Mr. Mello: Is that administrator one of the doctors?

John Reiser: No.

Mr. Mello: What salary does the administrator receive a year?

John Reiser: In round numbers, it's $35,000.

Mr. Mello: We would like to see any of the contracts that you have.

Mr. Mann: I have a few questions, I'd like to clarify some things. First of all, that administrator that Mr. Mello brought up, have you paid any of his legal fees since he came in from Canada?

Bob Haley: Legal fees? I'm not aware of any.

Mr. Mann: Would you please research and make sure because I have information that you are providing some legal fees for some problems that he's in in terms of citizenship and so forth. I'd like a clarification on that.

Bob Haley: We will provide you with a contract . . .

Mr. Mann: I would like also, if I can, Mr. Chairman, go into some of the things that have been mentioned. I want to get into the relationship between Southern Memorial and NIC and the individual doctor who I understand paid $25,000 fees to work under the other doctor in Southern Memorial. I want to know what your relationship to that was in terms of he was provided an income in excess of $200,000 a year from NIC patients. Now, if I understand what you've said right, you have 126 patients in that rehab center. Is that correct?

Bob Haley: On that day. Last Tuesday.

Mr. Mann: You said about 126. And if I understand you correctly, we're paying two doctors a total of $160,000 to see those 126 patients and for that same 126 patients, we're contracting out in excess of $200,000 a year to private surgeons and so forth to treat those patients.

Bob Haley: No, not those patients.

Mr. Mann: Well, what patients are they seeing?

Bob Haley: They are seeing patients, any individual who has an orthopedic problem that requires surgical attention.

Mr. Mann: Are these patients referred to the two doctors that are on staff for $160,000?

Bob Haley: It works usually in reverse. The acute care of a -- where you have an orthopedic problem that involves surgery, the surgeons perform that surgery then they -- during the recuperative period, the restoration to normal condition, is where the rehabilitation facility becomes a factor. Someone with a bad knee, someone who's had an operation on a knee, that does not recover properly is sent to the rehabilitation center where physical therapy, remedial therapy, occupational therapy are applied to try to strengthen that knee and put him back into a workable condition.

Mr. Mann: Do you ever check the qualifications of these doctors who are working under other doctor's licenses?

John Reiser: That happened in only one instance.

Mr. Mann: I understand that. Did you check his qualifications?

John Reiser: _I_ didn't.

Mr. Mann: Did anybody on your staff?

John Reiser: I couldn't answer that question. I wasn't involved in that.

Mr. Mann: Would you find out? I'd like to know if anybody was aware that this doctor's license was suspended overseas, and I hear it -- it's a rumor and I'm not going to say it categorically, but I understand that his license was suspended for malpractice overseas and that's the reason he came to the United States. I understand, also, he can't get a license in the United States.

John Reiser: He did not pass the examination which was administered by the State Board of Medical Examiners.

Mr. Mann: Right. The exam that would measure his quality to be a doctor.

Bob Haley: And that's as soon as we found that that had not occurred he was terminated.

Mr. Mann: I also understand that you, at the time that you terminated him, that you had already, you owed him in excess of $130,000 in fees.

Bob Haley: We had paid him a considerable amount.

Mr. Mann: In other words, you paid a doctor over $200,000 that couldn't pass the exam to be a doctor, is that correct?

Bob Haley: That's correct.

Mr. Mann: Thank you.

Mr. Mello: I have a question to get back to your administrator. What's the qualifications of this individual that's the administrator of your Clark County facility? Qualifications, would you say, are better than yours to be the administrator of NIC?

John Reiser: His qualifications to be an administrator of the rehab center are definitely better than any of ours. He was with the Workman's Compensation Board of British Columbia that we went up to see and is outlined in the last legislative study bulletin number 104, the recommendation of this bulletin as well as everyone else who studied the problem was that we try to adopt a program similar to the British Columbia program in which they were returning 75-76% of their people to employment. Mr. Marr was up at the head of the rehabilitation program up there at the time that we saw this program and we'll provide you with the entire history of the thing because he was the most qualified man in really North America that we were able to find to come down and help us get this rehab center started. He's been interviewed by a number of people and we'll supply you with that.

Mr. Mello: The last time I was in that rehab center there -- they had great big large rooms with nothing in them.

John Reiser: You were there, I recall, right after the opening of the center and we are staffing up that center toward full staffing toward the end of this year and I believe if you were to go through it, you would see considerably more patients than you saw last time.

Mr. Mello: The reason he's on contract is obvious. That's so he wouldn't be in violation of the 95% factor. Is that correct?

John Reiser: He's on contract in order for us to pay him a competitive salary and, as a matter of fact, he had to take a cut when he came down to go to work for us.

Mr. Mello: How many other employees do you have, I guess we call them employees, such as this person, and doctors that are on contract?

Bob Haley: Several of our professionals, M.D.s and attorneys, are on contract.

Mr. Mello: I'd like a list of those on contracts.

Mr. Barengo: With regard to your administrator, you pay him a salary. Is he paid a regular salary?

John Reiser: Yes, he is.

Mr. Barengo: Do you withhold any taxes from that salary?

John Reiser: Yes. J. R., would you go through the detail on it.

Mr. Clark: That is provided for in his contract.

Mr. Barengo: I'm asking some questions. I don't want to have J. R. I want to ask you some questions.

John Reiser: All right.

Mr. Barengo: Does he have administrative powers over other employees at the rehab center?

John Reiser: Yes.

Mr. Barengo: Do you have the right to fire him if he doesn't perform?

John Reiser: Yes.

Mr. Barengo: Then I suggest, Mr. Chairman, that he is not an independent contractor under State law.

John Reiser: He is not. He's an employee.

Mr. Barengo: He's an employee?

John Reiser: Yes.

Mr. Barengo: Then he should be classified.

Mr. Mello: Then he's in violation of the 95% factor.

John Reiser: No, we have a provision that allows us to hire people like Mr. Marr. We'll again refer to that and give you that citation.

Mr. Barengo: You said you have some full-time other professional employees that are on contract.

John Reiser: Yes.

Mr. Barengo: How many attorneys do you have that are on staff and on contract?

John Reiser: Right now we have four full-time attorneys and we have one part-time attorney. She's not an attorney, she's an assistant.

Mr. Barengo: How many on contract?

John Reiser: I believe they're all on contract.

Mr. Barengo: All of your attorneys are on contract?

John Reiser: That's right.

Mr. Barengo: With regard to a specific contract that we've had some discussion about in the past year, particularly doing the subrogation rights, looking at page number 7 of the handout, the audit report, it says potential subrogation, June 30, 1977, is estimated by the commission total $5,397,000 and $5,280,000, respectively. With regards to that contract which I recall provides like 10% of the first half-million dollars and 25% thereafter. Don't you think that's a little excessive payment for an attorney? You've got $5 million and somebody's going to get 10% of that, you could hire him in-house and save a considerable amount of money in the fund.

Mr. Mello: If you don't understand the questions, could you please ask that they be restated? If you do understand them, answer them.

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John Reiser: I'm not sure I do understand them.

Mr. Barengo: The contract you have with an attorney is to collect those subrogations, those third party subrogations. Your contract provides that he will get 10% of the first $450,000, as I recall, and some 25% thereafter, up to a million dollars a year, collected, plus travel expenses off the top. Now, looking at what you estimate to be your subrogation rights, do you now think that's a little excessive to pay an attorney when you could have hired him in-house and saved that kind of money for the State?

Bob Haley: Mr. Barengo, we'll provide you with the contract and the comparison between what has been recovered and what was recovered when we did have a full-time in-house attorney.

Mr. Barengo: Now, wait a minute. Now what has been recovered. You guys never tried to recover before.

John Reiser: Yes, we did.

Mr. Barengo: You did not! You did nothing about it.

John Reiser: We had an attorney that was handling subrogation that was on . . .

Mr. Barengo: Oh, on a part-time basis if he got around to it.

John Reiser: He was one of our five attorneys. We'll be glad to provide you with that information and to justify . . .

Mr. Mann: I'd like the answer to Mr. Barengo's question.

Mr. Mello: Restate that question one more time. And then I am going to ask that you have an answer for it.

Mr. Barengo: My question is looking at what these total possible subrogation rights are, given the contract comparable a . . . . situation under the contract, it seems to me to be a bit excessive to pay a contract attorney that when we could have got a staff attorney and saved that much more money for the fund.

Mr. Mello: Now, I'm going to break until the hour of 9:50, and when we come back, I want that question answered.

Mr. Reiser:
Bob Haley, take the figures that Mr. Barengo referred to and explain how the subrogation potential is used from the figures that he read.

Mr. Haley:
Of the figures that appear in this report, there is a possibility of a 50% recovery. These figures are made up of two things: they are made up of expenditures which have been paid out by NIC on a claim plus the outstanding liability on a claim. If there is a claim that is a potential permanent total, we could have a reserve of $150,000 on the claim and the expenditures on that claim would amount to $10,000. At the time of recovery, the only participation of our attorney in the recovery, or the only thing that is considered in determining his fees, is the recovery of expenditures to date. So that the numbers that appear in this report have very little bearing on the potential recovery in this case. The other thing is that we're paying 10% in attorney fees as opposed to anywhere from 25-33% which we were paying when we were paying it to the claimant's attorney as representing NIC. There are actually cases, if you are interested, that the claimant didn't want to go to an attorney, and so our attorney represented him and did recover an amount which benefited both the injured employee and the worker when there never would have been any litigation if we hadn't asked the claimant to participate with us in taking action against a negligent third party. If you are interested in that, we have plenty of cases that I think would be of interest to you.

Mr. Barengo:
I still don't see why, and you still didn't give me total amount of monies paid out under this system, but I don't see why you have to go to an independent when you have four full-time attorneys.

Mr. Reiser:
It it our judgment that this means of handling subrogation, and there are some other states that have also experimented, is the method that is going to obtain the best recovery. I think that will be borne out by the results more so than an opinion by any one of us.

Mr. Barengo:
What it comes down to is that you are failing to do with your in-house counsel, so you decided to hire somebody else to do it.

Mr. Reiser:
We were collecting under subrogation. The same thing applies, really.

Mr. Barengo:
I want to see how much was collected when you had in-house counsel and how much was collected when you had out-house counsel and let's see how much time was actually spent and let's see how much you could have saved if you had hired staff and let's see how much the claimants actually got out of these two systems.

Mr. Reiser:
We will prepare the amounts that were recovered prior to the current contract. The same thing applies with the disability prevention program that Bob referred to back in '74. At the time we implemented that, there was no experience with that type of system. We are seeing multi-million dollar benefits from that program that was piloted and then fully implemented later on. It's been fantastic, the results, and a lot of other states are looking at our experience now.

Mr. Barengo:
I think that what I hear is that there are some functions that you cannot perform.

Mr. Reiser:
We can perform them and we are looking at the best method of performing them, and we think we have it.

Mr. Barengo:
I am in no way trying to shoot any particular class of people involved in this, be it doctors, attorneys, or what have you. I just want to look at what is best for the claimant and what is most--the best utilization of our dollars.

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Mr. Reiser:
We all have the same objective, then.

Chairman Mello:
Are you deducting group insurance in your contractual service people.

Mr. Reiser:
In the employee contract, yes. In the independent contract, the answer, I believe, is no. Like the psychiatrists contracts that we take no benefits from, that is just a straight payment. If it's an employment type contract, such as the attorneys and several of the in-house doctors, we do take benefits from it.

Chairman Mello:
Is that in concurrence with the law?

Mr. Reiser:
Yes, it is. We will provide you that citation.

Mr. Barengo:
Run that by again. Are there two kinds of contracts.

Mr. Reiser:
There are independent contracts and employee contracts, yes.

Mr. Barengo:
The employee contracts are not classified employees?

Mr. Haley:
Yes, and we will provide you with the citation as requested.

Chairman Mello:
If the employee contract is not the same thing as a classified employee or an unclassified employee, but they do have the group insurance taken from their checks? And that is also in compliance with the law? You better have everything prepared on that because our legal staff is going to look at it.

Mr. Reiser:
You will have that, all the contracts that you requested, and the citation.

Mr. Webb:
You mentioned earlier that you had $20 million return planned for September of this year. Is that going to be returned equally to all participants, all employers in the State?

Mr. Reiser:
No, it will be returned on the basis of the percentage of losses, comparing their premium payments to their losses, and it will be returned on the basis of the lower the loss, or the greater the differential between the payment and the loss to the employers that had the best experience, will receive the most dividend.

Mr. Reiser:
No.

Mr. Webb:
Is there a bottom limit on it.

Mr. Reiser:
There is a bottom limit, yes. At the present time, it is $75 if they paid less than $75 for three years of premiums. That is a minimum premium required to cover just the costs of carrying their policy for that period.

Mr. Webb:
What is wrong with returning that prorated exactly as they pay premiums.

Mr. Reiser:
Because it is an incentive dividend and is to recognize that some employers have been successful in holding down accidents and holding down disability

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periods, and in recognition of that, their costs are lower, therefore, they should receive the most recognition and refund. Mr. Reiser: This is a form of experience modification in addition to experience modification that is in place right now which is designed to reward those employers that have really worked with our safety and rehabilitation programs and have been responsible for this.

Mr. Webb:
I agree with that concept providing that there is no bottom limit, and providing that experience modification extends all the way to the bottom. I'm talking primarily about the samll businesses in this town, in this State, which are the big contributors as far as I'm concerned, in numbers of people. I don't want them left out.

Mrs. Wagner:
I have a number of kinds of questions and I'm trying to group them together in general categories. I'd like to get back, and I was reading your book here, about your market value of investments and so on. Could you tell me what rate of interest you receive on your investments?

Mr. Gary Coburn (Scudder-Stevens, Clark):
The current interest rate is 8 1/2%.

Mrs. Wagner:
Where is this money invested, is it invested mainly in this State, or is it invested in other states, and who invests that money for you?

Mr. Coburn:
It's primarily invested out-of-state in marketable corporate and government bonds and U. S. common stocks. 24%, roughly, is common stocks now and 76% in fixed income obligations.

Mr. Wagner:
And you are the person that invests the money? You represent NIC?

Mr. Coburn:
That's correct.

Mrs. Wagner:
Are you here in Reno?

Mr. Coburn:
San Francisco.

Mrs. Wagner:
So you came over today specifically for this hearing?

Mr. Coburn:
Yes.

Mrs. Wagner:
Is this on your own money or is this paid by NIC?

Mr. Coburn:
It is our firm's money.

Mrs. Wagner:
We talked a little bit about the Las Vegas Rehabilitation Center and specifically asked for some figures in terms of administrators, and so on. Could you tell me what the total administrative costs of the Las Vegas Rehab Center are? While you are looking it up, I will ask another question. Where do you have your meetings of your Las Vegas Rehab staff?

Mr. Reiser:
We have conference rooms.

Mrs. Wagner:
Do they ever meet in Carson City?

Mr. Reiser:
Yes, we have staff meetings.

Mrs. Wagner:
How often do they occur? How many people are involved?

Mr. Reiser:
I think if you're talking about the staff, they all take place down in the Rehab Center itself. We go down there whenever there's a need for a staff meeting, I would say about once or twice a month.

Mr. Wagner:
Those people from the Rehab Center come to Carson City once or twice a month?

Mr. Reiser:
Or we go down there to meet them.

Mrs. Wagner:
How many people would be coming from the Rehab Center to Carson City for these meetings?

Mr. Reiser:
Generally, one or two will come up.

Mrs. Wagner:
You had mentioned British Columbia as an example of a system and referred to that bulletin. Did you, yourself, go to British Columbia and examine the system? Did other people travel with you?

Mr. Reiser:
Yes.

Mr. Wagner:
How many people went on that trip?

Mr. Reiser:
I don't recall.

Mrs. Wagner:
Would you get the information?

Mr. Reiser:
Yes.

Mrs. Wagner:
I would also like to know, does NIC own any land in the state of Nevada.

Mr. Reiser:
Yes.

Mrs. Wagner:
How much?

Mr. Reiser:
We have Carson City land and buildings totalling $893,517 as a purchase price. And we have Las Vegas land and buildings totalling $8,522,236.70. The total is $9,415,753.70.

Mrs. Wagner: I understand there is a study or report that is not currently available, done by Stanford Research Institute?

Mr. Reiser:
Yes, that report is due at the end of this week.

Mrs. Wagner:
I think it would be appropriate for each member of the Committee to have that. Also, has NIC produced their own film to show what the NIC system is all about?

Mr. Reiser:
We have a slide presentation that we have made to the Chamber of Commerce and others that have requested to see that.

Mrs. Wagner:
How much did that slide presentation cost to produce initially?

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Mr. Reiser:
I don't have that figure. We can get it to you.

Mrs. Wagner:
That is used for community groups, people that request using your slide presentation on the NIC system?

Mr. Reiser:
Yes.

Mrs. Wagner:
Is there any kind of a film that you also have showing and demonstrating what NIC is all about that you show to patients in your clinics or do you send them out-of-state?

Mr. Reiser:
We have numerous films that are used in patient orientation, patient education, with use of the proper treatment in the back so that they can become oriented as to how--

Mrs. Wagner:
Is this shown to patients prior to their treatment?

Mr. Reiser:
Some of them are. We have just received a new one yesterday that we'd be glad to have you take a look at.

Mrs. Wagner:
I would like to see it. I would also like to know how much all these films, slide shows, and media presentations cost. Did you get the figure?

Mr. Reiser:
Yes, it's $1,860,509 in the budget for Fiscal '79.

Mrs. Wagner:
That is for the Las Vegas Rehab Center?

Mr. Reiser:
Yes, for just the facility, including staff.

Mr. Bremner:
I'd like some documentation on the 8-1/2% earnings figure in the portfolio and because it's my understanding that another State agency used to use the same firm and no longer uses the firm because the return was not sufficient.

Mr. Reiser:
Gary, go ahead with your presentation. (see <u>EXHIBIT "F"</u>)

Mr. Coburn:
The specific question that you asked, Chairman Mello, in the subpoena, dealt with procedures with regard to the investments of the NIC. We'll get right to that point. Number one, the working document that we used that governs all of the investments of the NIC portfolio is a policy procedure statement that we developed three or four years ago. There are a number of areas that are covered in that and begins by stating what the environment of the NIC portfolio is, what the nature of responsibilities are, what the cash flow is. It goes on from there to discuss specific guidelines with regard to the common stocks. For example, the statutes limit the quality guidelines in there with regard to the dividend requirements. These common stocks that we are allowed to purchase have to pay a cash dividend in each of the last five years to eliminate any kind of speculative common stock. It also has specific guidelines with regard to fixed income securities and quality constraints there as well. Basically, it is restricted to anything greater than Single A by the major rating services. The material that J. R. Clark has just passed out, if you'll look at page 1, we have given you just a summary of the commission's portfolio as of the end of March, 1979. You'll notice that the total market value, down at the bottom, is about $212 million, of that, as I mentioned earlier, 24% of the portfolio is invested in common stocks, with a breakdown by the various areas, consumer and financial, and the annual rate of income generated by those equity investments. The predominance of the portfolio

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is invested in high-grade fixed income obligations as required both by the statute and the investment policy statement. You can see a breakdown there with regard to the short, medium, and long-term bond positions, and, again, the amount of income generated. The 8-1/2% that Mr. Bremner referred to is shown at the lower right-hand column, which is just the total annual rate of income divided by the current market value, which is the 8-1/2%. Again, the policy in the statutes require very high quality investments in the portfolio and this is exactly how the fund is structured. To give you a little more background information, as far as the composition of the fund regarding specific securities, the second page of that handout shows the bond quality distribution, which again is 76% of the fund. You can see that we have in the top rating categories, which are the triple-A rated and the U.S. Governments, you can see the very high percentage of the portfolio that is invested in that triple-A or higher category. 85% of the fund in total is invested in that category. Also, the double-A rated category, which is also very high quality, we have 10%, and then a very small percentage in anything less than double-A. Similarily, as far as the common stock names here in the fund and we have indicated what the Standard & Poor's rating is, which is merely a rating based on the consistency and quality of earnings and dividend growth over the last ten years. As you go through those three pages, you will see that most of them are rated in "A" to "A+" category. So within those guidelines we are given in operating obviously within the statute, it is our responsibility to invest that portfolio in order to meet the objectives. In order to do that, obviously, we have a great deal of research capability, which I won't go into now, but would be glad to answer any specific questions about how we operate internally. I think for your purposes it might be in your best interests to take a look at the exhibits that we used at the quarterly meetings that we attend with the Commissioners. This again is a report where typically the auditors, the actuary and the Commissioners and ourselves sit down to review what transactions in the portfolio have been, what the current composition is, and what our future strategy is over the next three month period of time.

That second exhibit that J. R. Clark handed out that has our heading on it dated February 12, 1979 meeting, I would just very quickly would like to go through that with you to give you a flavor for what the process is in terms of reviewing the portfolio with the Commissioners. On page 1, first of all what we do is send out a 3 or 4 page economic letter that sets forth what our forecast is with regard to the economy of the stock market and the interest rate. I'll send that out two weeks ahead of time so that everyone can have a better idea of the basis of which you are going to be talking about the portfolio. So on page 1, it is just kind of a summary of that economic outlook and why we think the economy is going to decline in 1979. Second page shows just some of the key political and economic developments that have occurred since our last meeting, again just to kind of give a broad perspective as to the environment that we were operating in. Page 3 is merely a recognition that the U.S. dollar in terms of its impact on the portfolio and the stock and bond markets was very important. I wanted to discuss what the implications are and the forecast there. On page 4, review of the selected yields, the short, medium, and long term areas, so that they can get an idea of what kind of environment 76% of the portfolio was working in for the past several years and also coupled with that a forecast of what our interest rate picture has been. On page 5 we move into the stock market side, taking a look at the overall market, what the current valuation is. Are common stocks attractive relative to bonds or are they not. A look there and some historical perspective. On page 6, again another look in a little different framework, of what the stock market looks like on book value and replacement value basis. On page 7 again kind of the trends in the market place and the pattern of movements of stock price in short term interest rates, again addressing this question of stock valuation. Then on page 8 we move into the composition of the portfolio, taking a look at the various ways we dissect the portfolio through the economic sectors, through the sensitivity to the business cycle of the various common stocks and look at it over the last two year period of time so that they can see the changes that have taken place in the portfolio and again at that point in time a projection of what our future strategy is. On page 9, we had been emphasing the growth stock, so this was an exhibit we used to indicate why we felt that the growth stocks were still very very attractive. The next three pages, starting on page 10

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was just a summary of the purchases that took place since our last meeting and some statistics with regard to the purchases that were made. That is shown on page 10, page 11, and page 12. This happened to be a 6 month period of time in which we were fairly active in the market place. On page 13 again the same kind of situation with regard to the sales that took place in the portfolio and the realized gains of $358,00 that had taken place. On page 14, again taking a look at the stock portfolio as if it were just one stock, and what we are trying to do here is determine whether or not the NIC portfolio has superior characteristics in terms of dividend growth, in terms of earnings growth, in terms of the income statement, and balance sheets of the underlying companies and what price we are paying for those individual companies. So these are the kinds of things that we go through with regard to the NIC portfolio on a quarterly basis bringing them up to date with regard to the portfolio. So that in a nutshell, Chairman Mello, is how we operate and I would be glad to go back and answer any questions that you have.

Mr. Barengo:
I don't think anybody has any qualms that you do your job in the best way you can. We are not sure that that return is a proper return but I don't want to get back in the specifics as I have some other questions that I want to get into. In October, approximately October 12, 1977, you sent a reply, John, to the Interim Committee on NIC chaired by Mr. Dini, where we asked for some expenditures of out-of-state monies and costs of medical treatment out-of-state. After reviewing that at that time we didn't get a chance to ask you back but it seems to me that we admitted Dr. Triano's costs, the hospital's costs there, the transportation costs for all out of state things and the UC Med Center costs, plus a number of other costs. We only cost up to 1976 in the memorandum, you did not fully cover up to the time of 77 and it was totally Dr. Triano whom I understand was on the board a that time. I want to know, Number 1, why you admitted those things, and 2, would you please furnish us with those costs now.

Mr. Reiser:
Would you please repeat that question?

Mr. Barengo:
The question is that I want to know why did you omit Dr. Triano, who is on board I understand, at that time of the memo, why did you omit his costs? And the other costs were there and would you please provide us with an updated memorandum, with all out of state medical costs including hospital fees, not just doctor fees, transportation is there, meals and lodgings, whom they go to and where they are.

Mr. Reiser:
Bob, do you recall that?

Mr. Haley:
No, I think we will have to go back and check figures that were on that memo and the question that was asked.

Mr. Barengo:
It was a memorandum from you to Harmon, he quit since then. It was dated October 12, 1977.

Mr. Reiser:
We'll go back and check that as I say I don't recall. We supplied an awful lot of material to both Mr. Dini's committee and also to the Insurance Committee that had requested information. There were many different types of questions in terms of different angles so we would be glad to provide you with that.

Mr. Barengo:
I also have another question. In any of your contracts do you provide dues or professional licensing fees to any of your employees?

Mr. Reiser:
There is a provision in SAM, as I recall, that provides for dues, if it is required to do your job. And that would be the case of medical doctors and so on.

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Mr. Barengo:
Are you familiar with the State Administrative Manual and I have it here somewhere, where is says specifically in there that professional association dues for individual state employees are not allowable at state expense.

Mrs. Wagner:
You pay not only the doctor fees. Do you pay doctor and attorney fees, professional membership dues?

Mr. Reiser:
Yes we do, and we do have a legal opinion on that. I think that is an incomplete statement of the manual's.

Mr. Barengo:
The rest of the manual says that State funds may be used to pay dues is State employee is eligible by virtue of the unique State position that he holds, which no other state attorney is paid for his membership. His membership is institutional, which is not true. There are demonstrative benefits accruing to the State rather than an individual, that is not true.

Mr. Reiser:
This is State industrial fund payment and we do have a legal opinion that touches

Mr. Barengo:
Then are you saying then in addition to being exempted from the budgetary requirements of the State you are also exempted from the State Administrative Manual?

Mr. Reiser:
No, I am saying that we do have a legal opinion that we can and should pay those AMA dues and the dues that are required.

Mr. Barengo:
I certainly would like to see that opinion, please.

Mr. Reiser:
Yes, I certainly will provide that.

Mr. Bremner:
You know if your investment income being is 8-1/2%, why are you crediting your people that are paying that with only 4-1/2% recent increase and 3-3/4%? If the reason that the 8.5 is high and traditionally over the last few years earnings have been far less than that?

Mr. Reiser:
Bob, I think that you answered that in part and would you like to finish it?

Mr. Haley:
It it first, the 4-1/2% is a long range conservative estimate.

Mr. Bremner:
Why don't you pay more than that then, because you haven't been earning more than that?

Mr. Reiser:
No, because we rely on the opinions of our actuary, our consulting actuary, as to what is reasonable and what can be done safely, without endangering the integrity of the fund. Their opinion was that 4-1/2% was reasonable, based on historic performance.

Mr. Bremner:
Based on historic performance?

Mr. Reiser:
This is not just for NIC, but for nationwide.

Mr. Bremner:
But historic performance is that you have been earning far less that 8-1/2% isn't that true?

Mr. Reiser:
Certainly.

Mr. Bremner:
8-1/2% is a high point. Would you supply us with what you earned over the last 7 or 8 years, please. Each year break down on the investment income. I don't think it has been 8-1/2% or any where close to it as an average over those years.

Mr. Reiser:
They are dealing not in 7 or 8 years, they are dealing in 20 or 40 years.

Mr. Bremner:
That would be fine.

Mrs. Wagner:
I have wanted to cover some of the topics that have already been raised. I would like to make sure that, first of all, let me ask a question. Since the witnesses were sworn in this morning, I assume that the answer submitted to us in writing are also under the same guidelines, is that correct?

Chairman Mello:
I would think it would be correct, yes.

Mrs. Wagner:
In the question that Mr. Barengo asked about the total amount of monies spent out of state to individual doctors, staff, and hospitals, I want to make sure that you include all costs out of state in case we didn't specifically mention some, I hope that you would include them. I'd like to ask how many patients attended either one of the clinics in San Francisco or UC Medical Center last year.

Mr. Reiser:
Are you asking a question? I have that supplied.

Mrs. Wagner:
I am asking whoever can supply that.

Mr. Reiser:
We will have to provide documentation, I couldn't tell you what that answer is sitting here.

Mr. Reiser:
Would you repeat that? How many patients

Mrs. Wagner:
How many patients were sent out of state to either the San Francisco or USC Medical Center or any other place you may send patients out of state, which I am unaware of. I also would like to know the percentage of those people, the percentage of reports that came back from any outside medical evaluation that suggested that there was nothing wrong with the patient, in other words that there would be no further procedure under the NIC system. In addition, I thought it might be interesting if very briefly you would describe the process of a claimant, how does a claimant get into one of these clinics out of state and what happens to them once they are there. Could someone briefly describe that? I have asked a lot of questions this morning and I am a very patient person, but it seems like every question I have asked you have to give me the information in the form of a memo.

Mr. Reiser:
We do have a write up on what the patient receives at any of these rehab centers and I will provide you with that today so that you can have a complete answer to that.

Mrs. Wagner:
Okay, but I have asked you now how many people travel to British Columbia and you can't remember and I

Mr. Reiser:
This was back in the 1972 area and it was at the request, if I recall, of the study committee that at that time was headed by Senator Dodge. I will give you that history, I can't recall every detail at this point.

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Mrs. Wagner:
But you do not know right now how many patients you had, I am just asking for last year.

Mr. Reiser:
We have about 70,000 paitents per year, we know that about 14,000 of those are going to be lost time patients. Our objective is to have early comprehensive medical care on the 3,000 that are left at the end of this process. We are managing by exception, we are taking the 70,000 and most of those are treated by the current system very well, 90% go back to work within a 30 day period. Of the 10 remaining there are about 4 that will be off work for more than 100 days. Those are the group that cost us about $50,000,000 a year and that is the group that we are seeking every possible medical benefit for and as early in the treatment period as possible. That includes rehab centers, clinics that are being established in the northern part of the State. Dr. Trainor is up at Washoe Medical Center, as most of you know, as physiatrist in that center. We're hoping that together with the Bureau of Vocational Rehabilitation and other State agencies that Washoe Medical Center can get up and moving so that we won't have any more, or at least not as many, of these out of state treatments. Right now, we can't get physiatrists. There have been a lot of questions about physiatrists income and all and that is the big problem, there aren't enough physiatrists specialists in rehabilitation medicine to go around in the country. We need them and we need them badly and we hope that we can get that type of person in Washoe Medical Center programs and also in the rehabilitation centers down in Las Vegas. We are actively recruiting two more physiatrists for the rehabilitation center and we hoped that we will have those people on board. We have written hundreds of letters, they are all looking at this and very few of them really want to move from where they are. It is very difficult to attract them.

Mrs. Wagner:
John, let me ask you, how do you determine what figures you are using to determine there are 70,000 claims a year.

Mr. Reiser:
We are using estimates for the coming fiscal year that we are in right now.

Mrs. Wagner:
Is that missing a certain number of days of work, or how do you determine that

Mr. Reiser:
That is the total claims that we expect to be submitted to the NIC this fiscal year. It is an estimate.

Mrs. Wagner:
How many days of work would you have to miss to get into the NIC system in terms of the entire process.

Mr. Reiser:
All you would have to do is step on a nail on the job to get into that 70,000 figure. If you are going to get into the 14,000 figure, which is lost time, you would have to be off work 5 days or more.

Chairman Mello:
I have a question that I would like to ask of legal counsel. Do we have the authority to ask the NIC to give us a line item budget for the next two years?

Mr. Daykin:
Yes sir, you do. That opinion rests upon NRS 383.210 of which I will read you the relevant words "that all departments, institutions and other agencies of the executive department receiving State funds, fees, or other monies under the authority of the State, including those operated on funds designated for specific purposes by the constitution or otherwise."

Chairman Mello:
So that includes contracts?

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Mr. Daykin:
Yes, of course the NIC operates on State insurance fund which is designated by the constitution and is within the language used here.

Chairman Mello:
While we have legal counsel here does anyone have a question of him?

Mrs. Cavnar:
Mr. Daykin, would that hold true for the University of Nevada system also?

Mr. Daykin:
Yes, of course.

Chairman Mello:
The reason I asked that question is that we have asked you for much information today and it is going to take you a while, I am sure, to compile it and while you are doing that we want a line item budget for the next two years; just like any other budget that is presented to us from any other agency, excluding the one on mines inspector. We are going to call you back and I will entertain more questions, we still have some time, and when we have time to study the documents that you send to us, we're going to call you back and have more questions and at that time we will review your line item budget.

Mr. Mann:
I have three areas that I would like to get into briefly, one of them being investments also. In talking with you, Mr. Reiser, during the break, you indicated to me very briefly that there were some other incentives that were involved in getting the administrator from Canada down here. One you talked about some questionable activities in terms of getting his citizenship papers and I assume by that you meant that you were involved in supporting him with the legal fees. Were there any other bonuses that you paid him such as moving expenses or anything that you can recall in that nature of any kind of bonus outside of his salary that you gave him to come down here.

Mr. Reiser:
I believe that there was some moving expense allowance provided and we will itemize that.

Mr. Mann:
But you actually paid for his moving from Canada to here.

Mr. Reiser:
That, to the best of my memory, is right.

Mr. Mann:
And you picked up 100% of that expense.

Mr. Reiser:
I would have to go back and check that.

Mr. Mann;
I would like that information. Also, were you able to make the phone calls that I requested?

Mr. Reiser:
The phone calls have been made and that information will be obtained.

Mr. Mann:
Okay, I will take that privately. Now I have a question for the investment person. I would like to know and I want you to remember that you swore yourself to tell the truth when you got in here this morning. This is going to be kind of an inflammatory question. I don't mean to cast any aspersions on your integrity, but I want to know, in your relationship with NIC have, your company, or anyone involved in your company, ever paid a bonus, provided meals, housing or any other kind of stipend to anyone working for the State of Nevada?

Mr. Coburn:
The only payment we have made is in conjunction with the quarterly meetings typically we start at 10 and go through the lunch hour and we have lunch with the NIC. We have typically paid for that, but answer is no to the bonus or the housing question part.

Mr. Mann:
Or no trips?

Mr. Coburn:
No trips, to the best of my knowledge.

Mr. Mann:
No airline tickets.

Mr. Coburn:
No, sir.

Mr. Mann:
Okay, thank you, I'll pursue that later, Mr. Chairman.

Chairman Mello:
If you find that you did not answer that correctly, I wish that you would bring it to our attention as soon as possible.

Mr. Bremner:
On another committee we were told that there was going to be a rather extensive, expensive Stanford review of NIC and that is due in a very few hours. Are we going to have this tomorrow, when it is due?

Mr. Reiser:
You will have it as soon as we have it.

Mr. Bremner:
We were told March 15. That is tomorrow and are we going to have it tomorrow.

Mr. Hickey:
I want to get back to the Las Vegas center. What is the percentage of return to employment now in the Las Vegas center? You said that you would to achieve 75% to 76%. What is your present percentage of return to employment?

Mr. Reiser:
I'll provide you with the latest report up through December of 1978.

Mr. Hickey:
What was it when you brought this administrator on board?

Mr. Reiser:
We didn't have a center when we brought him on board. He has been hired to help develop that center.

Mr. Hickey:
I would like that figure please.

Mr. Barengo:
I would like to return to two areas, specifically the SRI report. It is my recollection and if I am wrong, please correct me, that when we were forming the interim committee to review the policies and procedures of the NIC in the last session, it was thought by most people that there should be a comprehensive report compiled. That would be in the neighborhood of $100,000 report. It was pretty generally agreed that the interim committee could not perform some of the functions that were needed to be. It was asked why should not the NIC contribute some money to fund that report as it should properly be done and the answer was that they didn't have the money and did not want to do it. My question is, if that is true, why all of a sudden do we have this SRI report?

Mr. Reiser:
The SRI report was requested by the Governor's Labor and Management Advisory Board after receiving your interim committee report because there was a considerable change of direction in terms of the two way, three way exclusive fund issue and this SRI report is to give that Labor and Management Board constructive suggestions as to what improvements in the NIC are necessary.

Mr. Barengo:
Don't you think that it would have been better to have done the whole thing at one time?

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Mr. Reiser:
It is aimed at a different objective I would say that what your study

Mr. Barengo:
Has there been any preliminary releasing of that report to you?

Mr. Reiser:
I have received two sections and I haven't read them yet and they are being copied at the office now.

Mr. Barengo:
Could we have those?

Mr. Reiser:
You certainly may.

Mr. Barengo:
Has there been any attempts to or have you received either reduced to writing or indications from the SRI what they are going to do other than what we talked about.

Mr. Reiser:
They have reviewed the areas that they have covered and the people who have interviewed with the Labor and Management Board.

Mr. Barengo:
Do you have a general indication of what was going to be in that report?

Mr. Reiser:
Yes, I would say that the conclusions. . .

Mr. Barengo:
Have there been any attempts to go back and renegotiate with what their report is going to say so that it comes out differently?

Mr. Reiser:
I wouldn't say renegotiate. They have asked for additional information that they didn't have to start with.

Mr. Barengo:
May we have your best recollection of what those things were before the report comes in. Before the report is finalized in writing.

Mr. Reiser:
Yes.

Mr. Barengo:
I want to get back to this $20,000,000. Would you send to us a letter of intent as to how that is going to be, $20,000,000, returned and the little man who has one employee all the way up to the top person will receive a share of it and secondly, would you provide to us how you arrived at the $20,000,000. I have been here for four sessions and I have heard that we have been broke every session and now all of a sudden we have a $20,000,000 rebate.

Mr. Reiser:
Where did you hear that we were broke?

Mr. Barengo:
Every time we talk about raising the rate or doing something different: "Oh, my God, no we can't, we'll endanger the fund; we're on bankruptcy now; we can't do that."

Mr. Reiser:
No, we have never made that statement that we are broke.

Mr. Barengo:
So, all of a sudden we are coming up with twenty million dollars. Well, how many people in this room have heard that statement? Anybody else, in the audience. Yeah, well there are several of us here.

Mr. Reiser:
I think what you are referring to are the fiscal notes that if those bills had been passed we would have been technically insolvent. Those bills were not passed. The Senate did not take the action that was discussed, that you are referring to. We have never made a statement that the fund is currently broke or anything of the like.

Mr. Barengo:
Would you also tell me, you indicated that it is a rebate because of experienced performance. Is that correct, or something to that nature, that people work well to hold down?

Mr. Reiser:
It is a dividend which is in the form of experience modification.

Mr. Barengo:
All right. Would you document why that is true.

Mr. Reiser:
Why what is true?

Mr. Barengo:
What you just said; that it is a dividend as opposed to all this overcharging.

Mr. Reiser:
Yes. That was what Bob went through in that handout that shows what the disability . . .

Mr. Barengo:
I'm not so sure that it's not the latter -- overcharging and the fact that you changed some of your reserve requirements and some other things and you've got to get up against a statutory requirements as opposed to having too much money there.

Mr. Reiser:
We'd be very happy to go over that in detail with you.

Chairman Mello:
Assemblyman Banner, I see you raised your hand. You handled most of the bills related to NIC. You raised your hand in question that Mr. Barengo raised. Have you heard in the past that the fund has been short of funds or liable to be short of funds?

Mr. Banner:
Yes. Every move that I've ever tried to make is always . . . . to make the fund insolvent . . . . million dollar . . . .

Chairman Mello:
Mr. Bremner

Mr. Bremner:
Mr. Banner, the report you are referring to is the one that we are going to have tomorrow -- the SRI report. One other question: Are there any further rehabilitation centers currently under construction anywhere else in the State?

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Mr. Reiser:
I believe there are a number of private clinics and hospitals that . . .

Mr. Bremner:
Are you going to build anymore rehabilitation centers in this State?

Mr. Reiser:
We have no plans for that at the present time.

Mr. Bremner:
You are not going to build one in Carson?

Mr. Reiser:
We do not have a plan for that; we will probably do a feasibility study after we've evaluated this first center.

Mr. Bremner:
Because when we went through the rehabilitation center in Las Vegas one of the big selling points was -- Hey, we've got this great facility; we can bring people from other parts of the State and bring them in here and rehabilitate them.

Mr. Reiser:
And that's being done.

Mr. Bremner:
But you do not plan to build anymore anywhere else, right?

Mr. Reiser:
We don't have any plans, as I say, on the books, right now.

Mrs. Wagner:
I would like to get back to something that both Mr. Bremner and Mr. Barengo referred to as the SRI study and evidently, from Mr. Barengo's discussion that representatives of NIC said in the Interim Committee that we could not afford to look into this study. Let me quickly ask you, has NIC undertaken any other studies on their own in the past say four or five years?

Mr. Reiser:
We do studies, cost benefit analyses . . .

Mrs. Wagner:
A study similar to the one that was requested of the Interim Subcommittee.

Mr. Reiser:
We have, as I've told you, we have evaluated the alternative system at the request of the Chamber of Commerce and other community groups in the past, yes.

Mrs. Wagner:
How many studies would you say in the last five years?

Mr. Reiser:
If you are referring to the evaluation of the alternative systems, I would say we did one back before the last legislative session and we are updating that study at the current time.

Mrs. Cavnar:
Mr. Reiser, in your twenty million dollar rebate from employers, are you also going to include at least a percentage of that to those people who hire people who are presently NIC claimants and being rehabilitated? They would have a lower rate, I would imagine?

Mr. Reiser:
The experience that they have generated will determine the dividend as Bob explained, and the ones that have done the best job in controlling their workmen's comp costs are the ones that will receive the dividend.

Mrs. Cavnar:
But you have included . . . any percentage for those people who hire so many people who are presently being . . in other words,

I have people in my district who hire NIC claimants in their rehabilitation period. . . . . . would these people be just as apt to get a portion of the rebate as somebody who does not hire anybody whose ever been on NIC or in the rehab program?

Mr. Reiser:
That's really a generality and it's tough to answer. What we can say is that some of those people who are hiring NIC patients are receiving some help in training those people and getting them started on the job. We have a rehabilitation program for everyone of those individuals and many of these employers are helping us to get them back to work in a shorter period of time so we are helping in the training to justify, in fact, converting the disability dollars to the productive work dollars and those employers are benefitting.

Mrs. Cavnar:
Do they also have workers under them who are not on NIC . . . rehab in the higher percentage of those people who are on NIC rehab their status in performing?

Mr. Reiser:
Yes, if they return their injured worker to work, in fact, have an effective rehabilitation program that will cut down the cost that go into that . . .

Mr. Hickey:
Just one question, that I do not have clear in my head, you actually have two SRI reports: the preliminary report, the one that was sent to you for your perusal?

Mr. Reiser:
What SRI is doing is sending us a copy of what goes to the editor so that you will have the whole thing tomorrow so . . .

Mr. Hickey:
So you can properly edit it?

Mr. Reiser:
No, we won't have any change in the thing. What we have is the final .

Mr. Hickey:
Was there a preliminary report that you could look at?

Mr. Reiser:
There was no preliminary report. There was, as I said, a report to the Labor Management group of what areas were covered, what the major recommendations are and so on.

Mr. Hickey:
Are we getting that report; is that understood we are going to receive that report also?

Mr. Reiser:
Yes, we will.

Mr. Hickey:
All right. Thank you.

Mr. Vergiels:
Yes, I want to say, I want to make sure that you don't confuse the SRI report tomorrow; that you're receiving . . . . compared with the preliminary drafts that Mr. Barengo asked for. Because I'd like to check it over to see how much influence you had on the preliminary draft and the final draft . . . .

Mr. Reiser:
It wasn't a preliminary draft. What it was was a set of recommendations and . . . .

Mr. Vergiels:
Your response and what you thought of it . . .

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Mr. Reiser:
Mr. Vergiels, I think, maybe we've gotten the wrong impression, what was done was that there was a Labor & Management meeting that reviewed the major recommendations. These major recommendations were shown to the Labor & Management, were discussed with them and I don't believe there were any changes. We will provide you with a copy of those slides or those overhead projector things that were discussed with the Labor & Management Board so that you can . . . what was there.

Mr. Vergiels:
Who made the decision to go with the SRI report?

Mr. Reiser:
This was made by . . . bids, going through the Board of Examiner process.

Mr. Vergiels:
Who made the decision? Was it the commission or was it Labor & Management?

Mr. Reiser:
It was the commission with the advise and consent of the Labor and Management Advisory Board.

Mr. Vergiels:
Was that decision made in reaction to the interim study report because you didn't like it?

Mr. Reiser:
No, it was made to . . . .

Mr. Vergiels:
Was it made after the interim study? What was the danger, actually you made that decision to some contract . . . .

Mr. Reiser:
I believe that contract was approved November, 1978 following the October, 1978 production of the . . .

Mr. Vergiels:
When did the first thought about having a study conducted come about, was that in October of last year?

Mr. Reiser:
No, it was earlier than that. I would have to check those dates for you, if you'd like to have them.

Mr. Vergiels:
Was it during the interim study, while that was going on?

Mr. Reiser:
Yes.

Chairman Mello:
You've been asked to provide this Committee with a lot of information; some of it as early as, I take it, tomorrow. The other information, other than that, that was asked to be provided to this Committee by tomorrow, I will give you two weeks from today, that would be March 28, Wednesday, no later than 5:00 p.m. We would like all the information presented to us. And that includes the line item budgets for the next two years for NIC.

Mr. Mann:
I would just like to clarify that we have had some difficulty in the past when people have tried to bring line item budgets. I'd like to see by position, as we required the University people to go back and do and I hope that they understand that. You know, that we want a detailed line item.

Chairman Mello:
Well, is that the wishes of the Committee, do you choose to have a budget as presented to us by any other agency?

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Committee:
Any other agency. That's right, etc.

Chairman Mello:
If you have any problem with that, you can contact Mr. Bible and he will lay the outline of it for you.

Thank you gentlemen.

We're adjourned until 8:00 a.m. tomorrow morning.

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STATE INSPECTOR OF MINES DEPARTMENT

EXPENDITURES

Account No.	Description	Jan/Jun 1975	FY 1976	FY 1977	FY 1978	Jul/Dec 1978
431	Hotel	$ 1,092.00	$ 4,651.00	$ 6,023.61	$ 7,609.58	$ 2,852.50
432	Meals	1,444.80	4,880.50	5,411.00	7,696.00	2,880.50
433	Air Fare	212.27	1,333.88	1,274.53	574.38	786.92
434	Personal Vehicle	1,801.10	1,144.11	3,348.99	3,403.00	-0-
435	Other Travel	.75	59.73	208.79	162.69	40.21
436	NIC Auto Maintenance	1,171.04	7,913.91	5,781.64	7,646.86	3,569.00
437	NIC Auto Repairs	138.08	290.64	71.00	531.43	309.09
438	NIC Auto Tires	72.57	891.08	801.01	798.64	142.23
439	Travel Advance	-0-	-0-	445.00	139.22	442.72
444	Training Course	-0-	10.24	-0-	-0-	-0-
445	Contractual Services	-0-	(.60)	-0-	-0-	-0-
448	Boards	-0-	120.00	-0-	-0-	-0-
451	Printing Forms	307.66	4,727.63	1,778.05	1,664.02	588.95
452	Printing PI	542.61	5,001.75	979.26	2,382.95	1,629.07
453	Office Supplies	366.66	798.68	1,552.33	2,041.44	883.38
454	Equipment Maintenance	-0-	82.58	37.02	93.60	142.60
455	Postage & Express	24.78	244.85	110.81	274.68	47.72
456	Telephone & Telegraph	474.24	2,124.88	3,431.90	4,165.11	1,491.26
457	Building Maintenance	-0-	-0-	-0-	556.30	250.70
459	Building Utilities	7.02	-0-	-0-	-0-	-0-
461	Rent	180.00	400.80	396.00	1,812.00	3,007.34
464	Duplicating Equipment	-0-	484.15	-0-	11.28	3.30
471	Industrial Insurance	794.90	1,906.10	1,390.49	1,691.40	761.57
472	Employees Retirement	3,660.33	7,934.38	8,185.75	9,757.40	4,221.77
473	Personnel Assessment	366.03	886.23	914.33	1,142.60	437.13
474	Group Insurance	354.60	2,120.56	2,208.00	2,907.20	1,862.08
475	General Expenses	362.09	2,291.35	1,165.53	514.57	145.44
476	Other Expense	-0-	265.00	56.41	95.00	70.00
477	General Insurance	-0-	1,203.00	971.00	714.00	1,120.44
481	Office Furniture	-0-	334.66	-0-	2,406.45	579.32
482	Office & Field Equipment	340.93	3,453.84	6,842.12	3,090.61	4,527.80
484	Automobiles	23,708.50	-0-	-0-	13,543.77	-0-
	Subtotal	$ 37,464.96	$ 55,554.93	$ 53,384.57	$ 77,426.18	$ 32,793.04
428	Salaries	45,754.18	98,470.23	101,591.55	126,955.27	$ 58,742.21
	TOTAL	$ 83,219.14	$154,025.16	$154,976.12	$204,381.45	$ 91,535.25

EXHIBIT "A"

Assembly Ways & Means Committee
58th Session
April 3, 1975

Federal Grant, last session the General Fund provided some money and now they are requesting that this be funded as a General Fund agency. Mr. Wittenberg stated he could not see the feasibility of continuing this and making it an on-going program.

Mr. Weise made a motion to recommend an "Indefinite Postponement." Mr. Howard seconded. Motion passed.

AB 409 "Makes appropriation from state General Fund to office of Inspector of Mines." BDR S-1015. Mr. John Reiser explained that the intent of this bill is to provide funding for the state Mine Inspector that was transferred to the jurisdiction of the Nevada Industrial Commission. The budget was prepared on the basis of requirements under the approved state plan. SB 190 will be amended to include the salary of the Mine Inspector. Mr. Bill DuBois, State Inspector of Mines, stated that the mine industry provides $260 million in revenue to the state. This office provides safety for mine workers which have the most hazardous and challenging jobs and they need a safe place to work. This justifies the staff and equipment set forth in the bill. There is a shortage of mine workers, particularly underground, and accidents and injuries are always occurring. A strong and effective program of Health and Safety in the mine industry is imperative. This would provide for six field personnel and the technical equipment in the field, and lab equipment for health studies, one secretary and travel expenses for the inspectors with some out of state travel. Mr. Bible stated that this was not included in the Administrative budget because it came after the budget was prepared and the Governor is not supporting it. Chairman Mello stated that there has been some confusion on this because they thought it would be funded by the Nevada Industrial Commission. He asked Mr. Bible to talk to Mr. Reiser and find out why this bill is needed. Although there is a need for some sort of Legislation it is not clear as to why it will be funded with General Funds.

EXHIBIT "B"

over

AB 409

Senator Lamb said that it is a dangerous operation to reactivate mines, and he would like the mine inspector to be unclassified. Mr. Bill Debois said they would also like to request that the deputies be unclassified too.

Mr. Barrett said this appropriation would cover the salaries, but SB 190 would set the exact amount. Mr. Barrett said that it was felt that the expenditure of general funds could be justified because there are some non-health and non-safety items involved in the Mining Safety Office.

Senator Gibson asked about the current status of the Nevada Industrial Commission with OSHA. Mr. John Reiser said that during a three-year developmental program, the State hopes to import Federal officers to monitor their own program. Senator Young asked how many people have taken the training. Mr. Reiser said that twelve people have been sent back for the OSHA course, and there will be twenty in the next couple of months.

SB 516 (See Attached bill)

Senator Young - Do Pass
Senator Raggio - 2nd
Motion Carried.

SB 470 (See Attached bill)

Senator Brown said this should be done by the counties on a five-year basis. Senator Gibson said this expenditure is for a computerized program and this could be accomplished in two and one-half years instead of five.

Senator Brown and Raggio felt this should be available for the entire State.

Senator Monroe - Do Pass with the recommendation that the Tax Commission bring in the Washoe County School District.
Senator Gibson - Amend the Motion, and Do Pass to the amount of money up to whatever portion the State receives from each county for property tax.
Senator Raggio - 2nd
Motion Carried.

Senator Lamb said a letter intent would be sent to the Tax Commission defining this apportionment, (see attached).

SB 202 (See Attached bill)

Senator Monroe - Do Pass

EXHIBIT "C"

Assembly Bill No. 409—Assemblymen Dini and Getto

CHAPTER............

AN ACT making appropriations from the state general fund to the office of the inspector of mines; and providing other matters properly relating thereto.

The People of the State of Nevada, represented in Senate and Assembly, do enact as follows:

SECTION 1. 1. There is hereby appropriated from the state general fund to the office of the inspector of mines the following sums:

(a) For the fiscal year ending June 30, 1975........................ $26,880.

(b) For the fiscal year ending June 30, 1976........................ $53,760.

(c) For the fiscal year ending June 30, 1977........................ $53,760.

2. The amounts appropriated by paragraphs (a), (b) and (c) of subsection 1 shall be expended for the operation of the office of the inspector of mines.

3. After June 30, 1975, any unexpended balance of the appropriation made by paragraph (a) of subsection 1 for the fiscal year 1974–1975 shall be transferred to and added to the amount appropriated by paragraph (b) of subsection 1 and may be expended during fiscal year 1975–1976, subject to the provisions of subsection 2.

4. After June 30, 1976, any unexpended balance of the appropriation made by paragraph (b) of subsection 1 for the fiscal year 1975–1976 together with any amounts transferred pursuant to subsection 3 shall be transferred to and added to the amount appropriated by paragraph (c) of subsection 1 and may be expended during fiscal year 1976–1977, subject to the provisions of subsection 2.

5. After June 30, 1977, any unexpended balance of the appropriation made by paragraph (c) of subsection 1 for the fiscal year 1976–1977 together with any amount transferred pursuant to subsection 4 shall not be encumbered or committed for expenditure and shall revert to the state general fund.

SEC. 2. This act shall become effective upon passage and approval.

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EXHIBIT "C"

NEVADA INDUSTRIAL COMMISSION

Audit Report
with
Supplementary Data

June 30, 1978

KAFOURY, ARMSTRONG, TURNER & CO.
A PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS

EXHIBIT "D"

NEVADA INDUSTRIAL COMMISSION
JUNE 30, 1978

TABLE OF CONTENTS

KAFOURY, ARMSTRONG, TURNER & CO.
A PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS

To the Commissioners of the
Nevada Industrial Commission

We have examined the balance sheet of the Nevada Industrial Commission as of June 30, 1978 and 1977, and the related statements of operations and changes in provision for contingencies and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests and analyses of the records as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of the Nevada Industrial Commission at June 30, 1978 and 1977 and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied.

Kafoury, Armstrong, Turner & Co.

Reno, Nevada
November 28, 1978

EXHIBIT D — 373

NEVADA INDUSTRIAL COMMISSION
BALANCE SHEET
JUNE 30, 1978 AND 1977

	Thousands of Dollars	
	1978	1977
ASSETS		
Investment securities:		
Bonds and mortgage notes	$110,317	$103,734
Marketable equity securities	38,129	33,187
	148,446	136,921
Cash	1,740	1,053
Short-term investments	32,173	5,150
Premiums receivable	19,164	13,453
Investment income receivable	2,384	2,068
Land, buildings and equipment, net of accumulated depreciation	8,980	5,717
Other assets	240	188
	$213,127	$164,550
LIABILITIES AND PROVISION FOR CONTINGENCIES		
Compensation benefits	$121,402	$109,663
Medical benefits	35,283	29,489
Occupational disease benefits	3,452	3,099
Claim administration	7,111	6,280
Total Liability For Incurred But Unpaid Losses	167,248	148,531
Self rater excess loss reserve	1,151	684
Advance premium deposits	3,997	3,265
Accounts payable and accrued expenses	172	666
Experience credit dividend payable	20,000	-
Total Liabilities	192,568	153,146
Provision for contingencies before net unrealized loss on marketable securities	23,468	12,438
Net unrealized loss on marketable equity securities	(2,909)	(1,034)
Net Provision For Contingencies	20,559	11,404
	$213,127	$164,550

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

EXHIBIT D 974

NEVADA INDUSTRIAL COMMISSION
STATEMENT OF OPERATIONS AND CHANGES IN PROVISION FOR CONTINGENCIES
FOR THE YEARS ENDED JUNE 30, 1978 AND 1977

	Thousands of Dollars 1978	1977
UNDERWRITING OPERATIONS		
Premium income	$ 92,819	$72,752
Less: Re-insurance premiums	(327)	(283)
	92,492	72,469
Incurred claims:		
Compensation benefits	52,294	42,220
Medical benefits	25,689	21,019
Occupational diseases	1,144	708
Total Incurred Claims	79,127	63,947
Administrative operations:		
Claim administration costs	4,957	3,785
General expenses	4,393	3,850
Total Administrative Expenses	9,350	7,635
Total Underwriting Expenses	88,477	71,582
Underwriting Gain	4,015	887
INVESTMENT OPERATIONS		
Investment income	10,986	8,213
Less: Interest required on actuarial liabilities	(3,893)	(3,117)
Investment Gain	7,093	5,096
REEVALUATION OF PRIOR YEARS' ACTUARIAL LIABILITIES	19,922	(5,401)
Net Gain	31,030	582
PROVISION FOR CONTINGENCIES, Beginning of Year	12,438	11,856
Less: Experience credit dividend declared	(20,000)	-
PROVISION FOR CONTINGENCIES, End of Year	$ 23,468	$12,438

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

EXHIBIT D

NEVADA INDUSTRIAL COMMISSION
STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEARS ENDED JUNE 30, 1978 AND 1977

	Thousands of Dollars	
	1978	1977
FINANCIAL RESOURCES WERE PROVIDED BY		
Net gain	$31,030	$ 582
Noncash adjustments to operations:		
Increase in estimated actuarial liabilities	18,717	36,762
Depreciation	199	189
Net (gain) loss on disposition of investments	112	381
Net (gain) loss on disposition of property and equipment	2	(2)
Total from Operations	50,060	37,912
Proceeds from sale and redemption of investment securities	27,390	49,462
Proceeds from sale of property and equipment	-	2
Increase in:		
Advance deposits	732	467
Self rater excess loss reserve	467	263
Decrease in:		
Investment income receivable	-	955
	78,649	89,061
FINANCIAL RESOURCES WERE USED FOR		
Purchase of investment securities	40,908	77,634
Purchase of property and equipment	3,453	2,376
Net amortization of investment premium and discount	5	1
Increase in:		
Premiums receivable	5,711	3,792
Investment income receivable	316	-
Other assets	52	88
Decrease in:		
Other liabilities	494	4
	50,939	83,895
Increase in Cash and Short-Term Investments	$27,710	$ 5,166

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

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EXHIBIT D

NEVADA INDUSTRIAL COMMISSION
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1978 AND 1977

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

History and Purpose of Organization:

The Nevada Industrial Commission (NIC) is an agency of the State of Nevada established by legislation (NRS 512, 616, 617 and 618) to provide employer funded workers' compensation insurance coverage to workers who are injured or who contract an occupational disease in the course of their employment. The Nevada Industrial Commission is the exclusive carrier of workers' compensation insurance in Nevada.

Investment Securities:

Bonds and government guaranteed mortgage notes are carried at original cost, adjusted where appropriate for bond premium or discount. Premiums or discounts are amortized over the life of the issue on the straight-line method. The Commission's policy is to hold bonds to maturity, unless an exchange of bonds can be arranged whereby the replacement bond will provide higher yields to maturity while preserving similar quality and maturity dates. The Commission follows the deferral and amortization method in accounting for bond exchanges. On exchange, the amortized cost of the original bond plus or minus any cash premium or discount on the transaction becomes the basis being amortized to maturity.

Marketable equity securities, preferred and common stocks, (as described in Note 2) are carried at the lower of cost or market. Net unrealized losses on marketable equity securities are shown as a reduction of the provision for contingencies.

EXHIBIT D

NEVADA INDUSTRIAL COMMISSION
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1978 AND 1977

Market Valuation of Investments:

The market valuation of the Commission's investment portfolio is computed using the last bid price for U. S. Government securities, first mortgages, and over-the-counter industrial bonds and stocks. The NYSE or ASE close price is used in valuing industrial bonds, common stocks and convertibles. State of Nevada and other municipal bonds are valued at amortized cost.

Short-Term Investments:

Short-term investments consist of commercial paper and are carried at cost (which approximates market).

Premium Receivable:

Industrial insurance premiums receivable at year end include unreported premiums estimated on a basis consistent with that of the prior years, together with premiums reported but unpaid at year end. Any collection losses that might be sustained would not be material; therefore, a reserve for uncollectible premiums is not considered necessary. See Note 4 on advance premium deposits.

Land, Buildings and Equipment:

Land, buildings and equipment are recorded at cost. Depreciation is computed by the straight-line method based on the estimated useful lives of the related assets.

Liability For Incurred But Unpaid Losses:

The liability for incurred but unpaid losses include estimates of reserves required (based on the NIC's past experience) for claims

NEVADA INDUSTRIAL COMMISSION
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1978 AND 1977

reported during current year, for prior year cases of continuing duration, for the cost of claims incurred, but not reported as of the date of the financial statements, for the cost of future claim reopenings and for the expenses for administering claims.

The actuarial items, determined in accordance with generally accepted actuarial standards, consistently applied, are described in the actuarial report of Peat, Marwick, Mitchell & Co.

Subrogation Rights:

The Commission's right to recover costs incurred resulting from injuries induced by third parties (subrogations) is not recorded as an asset until actually realized. Legal fees in connection with subrogations are charged to current administrative expenses in the year paid. Potential subrogations at June 30, 1978 and 1977, as estimated by the Commission, totaled $5,397,000 and $5,280,000, respectively.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - Bonds and Mortgage Notes:

	1978		1977	
	Amortized Cost	Estimated Market	Amortized Cost	Estimated Market
Bonds	$108,739,000	$101,068,000	$101,973,000	$101,929,000
Guaranteed first mortgages	1,578,000	1,262,000	1,761,000	1,506,000
	$110,317,000	$102,330,000	$103,734,000	$103,435,000

EXHIBIT D

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NEVADA INDUSTRIAL COMMISSION
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1978 AND 1977

NOTE 2 - Marketable Equity Securities:

	1978	1977
Cost	$41,038,000	$34,221,000
Market	38,129,000	33,187,000
Net Unrealized Loss	$ 2,909,000	$ 1,034,000

NOTE 3 - Land, Buildings and Equipment:

The major classes of property and equipment are as follows:

	1978	1977
Land	$ 1,793,000	$1,545,000
Buildings	7,087,000	1,696,000
Equipment	1,361,000	1,077,000
Construction in progress - Note 8	-	2,462,000
	10,241,000	6,780,000
Less: Accumulated depreciation and amortization	1,261,000	1,063,000
	$ 8,980,000	$5,717,000

Depreciation expense was $199,000 in 1978 and $189,000 in 1977.

NOTE 4 - Advance Premium Deposits:

In addition to employers' advance cash deposits, surety bonds in the amount of $13,252,000 in 1978 and $11,428,000 in 1977 had been posted and securitities of $996,000 in 1978 and $887,000 in 1977 had been pledged to the Commission in lieu of the usual cash advance premiums required to assure payment of premiums. Records of surety bonds and pledged securities held are maintained in memorandum form and are not reflected in the financial statements of the Commission. Interest earned on securities pledged is the property of the employer.

NEVADA INDUSTRIAL COMMISSION
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1978 AND 1977

NOTE 5 - Reinsurance Program:

The Commission has a reinsurance agreement with the General Reinsurance Corporation and others to a maximum amount of $10,000,000 for multiple claims originating out of any one accident or occurrence, or series of accidents or occurrences arising out of one event. The Commission is liable for the first $500,000 of benefits on multiple claims of each accident or occurrence.

NOTE 6 - Reevaluation of Prior Years' Actuarial Liabilities:

The total liabilities for incurred but unpaid losses for claims prior to fiscal year 1978 have been revised downward by $19,922,000. This revision is basically the result of the following major factors:

- Recognition of the increased rate of income from investment of funds set aside to cover future liabilities.
- Repricing of the cost of permanent partial disability compensation. The statute covering PPD was rewritten in 1973 and was revised in 1975 and 1977. Sufficient experience has now been developed to refine this liability.
- Reduction in the length of temporary disability period resulting in decreases in both disability compensation and medical expense.

NOTE 7 - Change in Actuarial Estimates:

During 1978, changes in the values assigned to certain factors used in the actuarial calculations reduced expenses by approximately $1,813,000 as follows:

- Change in interest assumptions from 3 3/4% to 4 1/2% produced a $6,753,000 downward revision of reserves. This change reflects a more favorable rate of return on investments.
- Evaluation of reopened claim liabilities using a table of expected number of reopenings by fiscal year and an average cost per reopened claim at current benefit levels of $11,000

EXHIBIT D

NEVADA INDUSTRIAL COMMISSION
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1978 AND 1977

as compared to $8,600. This resulted in an increase of $2,882,000 in reserves.

- Reserves for medical costs incurred on fiscal 1978 claims were developed by assuming that the ultimate incurred average cost per report would equal the 1977 estimated ultimate incurred average cost per report. The resulting reserve is $2,058,000 larger than would have resulted from applying the previous factor to the amount paid in 1978.

NOTE 8 - Rehabilitation Center:

In August 1978, the Rehabilitation Center in Las Vegas, Nevada was dedicated. Total cost of this center at year end was:

Land	$1,744,000
Building	5,380,000
Furniture and equipment	168,000
	$7,292,000

The Commission incurred costs for staffing and operating the facility, particularly during the later stages of construction. These costs, $491,000, are included in the Commission's statement of operations for the year ended June 30, 1978.

NOTE 9 - Employee Benefit Plan:

Pension benefits for NIC employees are provided under a contributory retirement plan established for all public employees by the Nevada State Legislature and administered by the Nevada State Public Employees' Retirement System. The Commission's contributions to the retirement plan were $411,000 in 1978 and $369,000 in 1977. The Commission has no liability for unfunded liabilities of the System, if any.

EXHIBIT D

NEVADA INDUSTRIAL COMMISSION
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1978 AND 1977

NOTE 10 - Experience Credit Dividend Payable:

The Commission, on November 28, 1978, declared a dividend of $20,000,000 to be distributed in September 1979 to individual employers based upon their accident experience record.

KAFOURY, ARMSTRONG, TURNER & CO.
A PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS

To the Commissioners of the
Nevada Industrial Commission

The accompanying supplemental schedules are not necessary for a fair presentation of the financial statements, but are presented as additional analytical data. This information has been subjected to the tests and other auditing procedures applied in the examination of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

Kafoury, Armstrong, Turner & Co.

Reno, Nevada
November 28, 1978

EXHIBIT D

NEVADA INDUSTRIAL COMMISSION
SCHEDULE OF ADMINISTRATIVE OPERATIONS
FOR THE YEARS ENDED JUNE 30, 1978 AND 1977

	Thousands of Dollars	
	1978	1977
SALARIES		
Commissioners	$ 121	$ 110
Coordinator's office	163	136
Attorneys and physicians	413	272
Field audit	382	331
Claims	1,260	1,137
Safety	210	169
Employer accounts	583	555
Data processing	363	356
Rehabilitation	568	499
D.O.S.H.	413	387
Special projects	41	188
Fiscal and office services	186	157
Mine inspector	127	102
Hearing officers and state industrial attorneys	139	-
All other	271	139
	5,240	4,538
OFFICE EXPENSES		
Office rental	67	53
Building operations	200	186
Postage and express	128	105
Telephone and telegraph	124	121
Printing and stationery	164	155
Supplies and other expenses	84	96
Equipment rentals	496	324
	1,263	1,040
PERSONNEL COSTS		
State personnel assessment	47	41
Public employees' retirement	386	363
Industrial insurance	72	66
Employee group insurance	153	124
Unemployment insurance	27	-
	685	594
REHABILITATION CENTER		
Salaries	264	-
Building operations	40	-
Postage and express	1	-
Telephone and telegraph	13	-
Printing and stationery	11	-
Supplies and other expenses	10	-
Equipment rental	3	-

NEVADA INDUSTRIAL COMMISSION
SCHEDULE OF ADMINISTRATIVE OPERATIONS
FOR THE YEARS ENDED JUNE 30, 1978 AND 1977

	Thousands of Dollars 1978	1977
State personnel assessment	$ 2	$ -
Public employees' retirement	19	-
Industrial insurance	4	-
Employee group insurance	4	-
General insurance	1	-
Other general expenses	36	-
Transportation	16	-
Lodging and meals	2	-
Consulting	65	-
	491	-
GENERAL EXPENSES		
Actuarial fees	38	32
Accounting fees	49	42
Legal fees, subrogations	110	103
Rejected claim costs	37	58
General insurance	30	26
Other general expenses	194	165
Uncollectible premiums	114	53
Uninsured employer expense	19	40
Transportation	147	128
Lodging and meals	81	70
Depreciation	199	189
	1,018	906
Total Administrative Expenses	8,697	7,078
LESS MISCELLANEOUS ADMINISTRATIVE INCOME		
Delinquency penalties	224	147
Miscellaneous administrative reimbursements	86	75
Federal grant reimbursements	403	348
State general fund reimbursement - Inspector of Mines	48	53
Total Miscellaneous Administrative Income	761	623
Net Administrative Expenses before Claim Administrative Costs	7,936	6,455
ADJUSTMENT FOR CLAIM ADMINISTRATIVE COSTS		
Deduct: Estimated cost of administering prior years' claims paid during year	1,276	938
Add: Estimated future cost of administering incurred claims	2,690	2,118
Net Administrative Expenses	$9,350	$7,635

988

EXHIBIT D

NEVADA INDUSTRIAL COMMISSION
SCHEDULE OF INVESTMENT INCOME
FOR THE YEARS ENDED JUNE 30, 1978 AND 1977

	Thousands of Dollars	
	1978	1977
INVESTMENT INCOME		
Interest	$ 9,558	$ 7,575
Add: Net amortized premium and discount	(5)	(1)
Net Interest	9,553	7,574
Dividends	1,712	1,194
Net gain (loss) on sale of investments	(112)	(381)
Gross Investment Income	11,153	8,387
Less:		
Custodian Fees	34	63
Investment Counsel Fees	111	93
Investment Evaluation Fees	22	18
Total Investment Cost	167	174
Investment Income	10,986	8,213
Less: Interest Required for Actuarial Liabilities	(3,893)	(3,117)
Investment Income Available for Current Operations	$ 7,093	$ 5,096

EXHIBIT D

THE FUND

The Nevada Workmen's Compensation Act, Chapter III, Statutes of 1913, was passed and approved on March 15, 1913. The act was elective to every employer in Nevada, including state, county, municipal corporations, school districts and city governments. Any employer who rejected the provisions of the act was deprived of the common law defenses. Workers' compensation became compulsory in Nevada in 1947.

The Nevada Industrial Commission is an exclusive state fund directed by three commissioners, each appointed for a term of four years. The commissioners are responsible for the administration of the Nevada Industrial Insurance Act (NRS 616), the Nevada Occupational Diseases Act (NRS 617) passed in 1947, the Nevada Occupational Safety and Health Act (NRS 618) passed in 1973, which supersedes the Nevada Safety Act of 1955, and the State Mine Inspector's Act (NRS 512).

In addition to directing the operation of the agency, the commissioners are responsible for investment of NIC funds, establishment of premium rates, supervision of the adjudication of claims, and functioning as the appellate board at the first level of appeal beyond the claims department. Two appeals officers, provided for by Section 616.542 of the Nevada Industrial Insurance Act, serve as the claimants' final appeal under the Nevada Administrative Procedures Act. Judicial review is limited to evidence presented to the appeals officer.

THE OPERATING INFORMATION

Premium income for the fiscal year through June 30, 1978 totalled $92,492,000. There are at present over 23,639 employers that are insured by the Nevada Industrial Commission.

NEVADA INDUSTRIAL COMMISSION

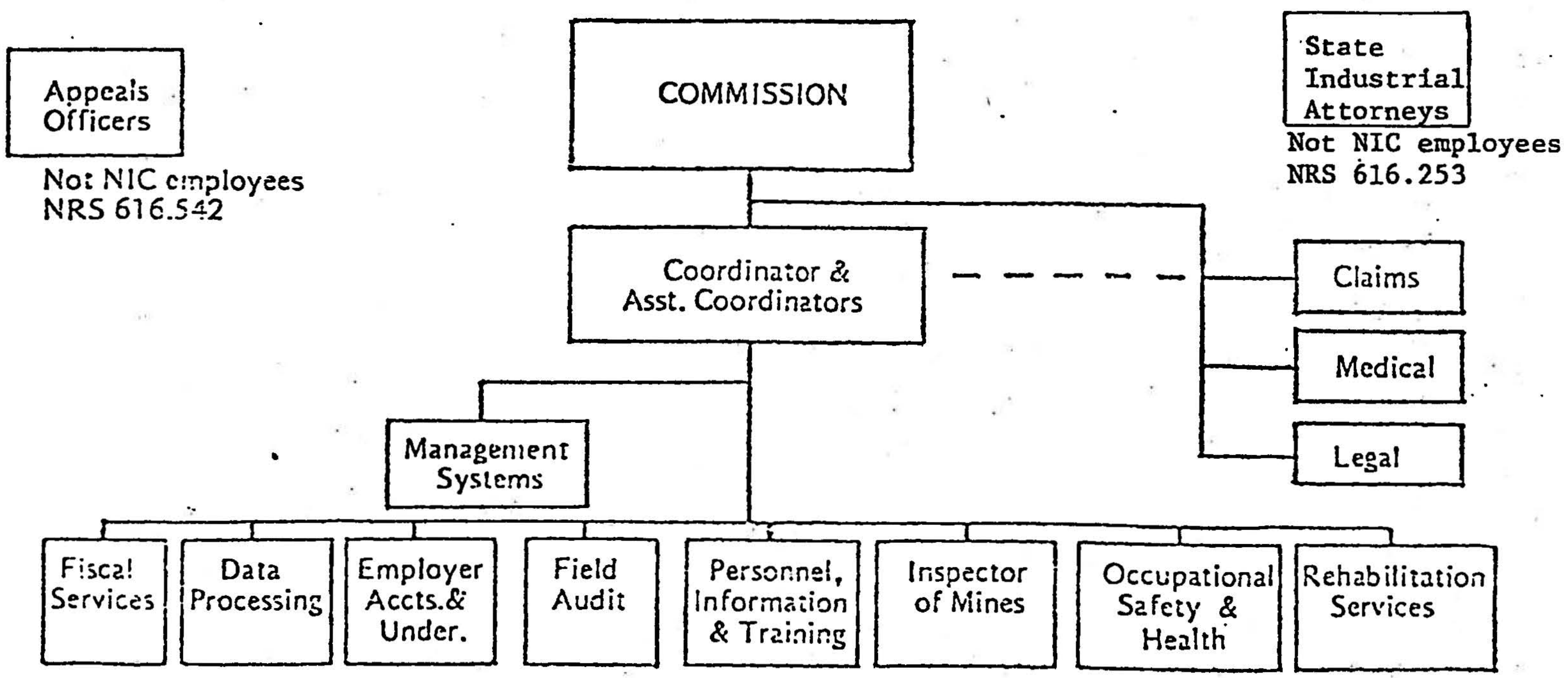


EXHIBIT "E"

was organized within the Nevada Industrial Commission effective July 1, 1973 and is operating statewide with administrative personnel in the division located in the Commission offices in Carson City and fully operable rehabilitation units in Reno and Las Vegas offices of the Nevada Industrial Commission.

A Rehabilitation Center has been constructed in Las Vegas. A rehabilitation clinic also became operable in Washoe Medical Center in Reno in 1976.

The Jean Hanna Clark Rehabilitation Center in Las Vegas is a new service of the workers of Nevada, initiated and operated by the Nevada Industrial Commission as a part of its insurance program.

The new center is designed to provide medical and therapeutic programs developed to reduce the physical and psychological effects of disabling occupational injuries, and to provide workers having occupational handicaps with new adaptive vocational skills that can provide meaningful employment and economic security. The center is in full operation.

MEDICAL-LEGAL

The Nevada Industrial Commission employs a Chief Medical Advisor and five Medical Advisors who act as medical consultants to the Commission and Claims Department. The medical advisors assess residual disability for all awards.

Legal work for the Nevada Industrial Commission is executed by five attorneys employed by the Commission.

NIC GROWTH

Growth within the Nevada Industrial Commission has been steady. There are more than 23,600 policyholders at the present time. Underwriting and industry classification are responsibilities of the Employer Accounts Department. The Field Audit Department audited approximately 40 percent of the insured employers in the past fiscal year. The NIC Data Processing Department is now in a major system overhaul incuding data base management that will implement teleprocessing in each NIC department.

The Commission now has 53[illegible] employees. A Personnel Officer was employed in 1975. His department, which absorbed the Information and Training Department, is now responsible for personnel, public relations and training services.

Exhib

NEVADA INDUSTRIAL COMMISSION

ACCIDENT COMPENSATION CLAIMS

Fiscal Year	Discounted Paid to Date	Estimated Liability at 6/30/78
1968 and prior	--	$ 6,427,588
1969	$ 5,757,797	1,496,416
1970	6,627,250	1,703,410
1971	7,813,929	2,147,163
1972	9,787,821	3,213,794
1973	11,975,948	3,849,662
1974	12,773,548	8,943,631
1975	12,543,597	10,079,398
1976	16,140,930	16,020,262
1977	15,421,737	24,814,096
1978	9,587,040	42,706,556
Total		$121,401,948

RECEIVED
FEB 26 1979
NEVADA INDUSTRIAL COMMISSION

EXHIBIT E

Exh 2

NEVADA INDUSTRIAL COMMISSION

OCCUPATIONAL DISEASE COMPENSATION CLAIMS

Fiscal Year	Discounted Paid to Date	Estimated Liability at 6/30/78
1968 and prior		$ 178,160
1969	$ 4,168	38,981
1970	5,307	54,203
1971	10,068	48,235
1972	15,158	115,468
1973	55,601	12,500
1974	207,806	361,178
1975	209,482	576,903
1976	231,162	617,558
1977	199,147	420,042
1978	115,349	1,028,935
Total		$3,452,163

RECEIVED

NEVADA INDUSTRIAL COMMISSION

EXHIBIT E — 331

Exhibit 3

NEVADA INDUSTRIAL COMMISSION

REGULAR MEDICAL CLAIMS

Fiscal Year	Paid to Date	Estimated Liability at 6/30/78
1968 and prior	--	$ 109,130
1969	$ 5,016,791	50,160
1970	6,129,836	91,948
1971	6,680,389	146,969
1972	7,526,987	233,337
1973	9,260,784	555,647
1974	10,563,349	887,321
1975	10,650,961	1,310,068
1976	12,126,992	2,364,763
1977	13,923,880	4,372,098
1978	9,890,854	12,937,545
Total		$23,058,994

332

EXHIBIT E

Exhibit 4

NEVADA INDUSTRIAL COMMISSION

PENSION MEDICAL CLAIMS (INCLUDING OD)

Fiscal Year	Paid to Date	Estimated 6/30/78 Liability
1968 and prior		$ 333,865
1969	$ 305,811	447,783
1970	262,702	496,862
1971	119,892	633,111
1972	128,662	693,947
1973	253,662	814,398
1974	124,436	1,137,913
1975	40,556	1,278,294
1976	15,857	1,644,568
1977	282,794	1,642,956
1978	5,359	2,569,271
Total		$11,977,510

EXHIBIT E

NEVADA INDUSTRIAL COMMISSION

OCCUPATIONAL DISEASE MEDICAL CLAIMS

Fiscal Year	Paid to Date	Estimated 6/30/78 Liability
1972	$ 65,236	--
1973	52,479	$ 802
1974	116,115	--
1975	117,680	15,354
1976	152,166	6,105
1977	202,291	50,573
1978	127,289	173,431
Total		$246,265

EXHIBIT E

PEAT, MARWICK, MITCHELL & CO.
345 PARK AVENUE
NEW YORK, NEW YORK 10022

January 2, 1979

Mr. John Reiser
Chairman
Nevada Industrial Commission
515 East Musser Street
Carson City, Nevada 89714

Dear Mr. Reiser:

Nevada Industrial Commission Provision for Contingencies

As you requested, this letter summarizes some major considerations in developing a targat value for the Nevada Industrial Commission (NIC) provision for contingencies. There is no actuarial method for uniquely determining a target value for such a provision. Therefore, this letter will discuss commonly accepted guidelines and will present a plausible scenario indicating the need for the provision for contingencies developed from such guidelines.

BACKGROUND

When events develop as anticipated, the NIC premium income will be adequate to provide for current operating costs and for payments to workers injured in the current year, the liability for unpaid claims will be sufficient to provide for payments to workers injured in prior years, and the assets corresponding to the unpaid claim liability will be converted to cash as needed without loss of principle.

Events will not always develop in that manner. In years when the results are worse than anticipated, the provision for contingencies must be large enough to absorb the deviations. Otherwise, liabilities will exceed assets and the NIC's responsibility to make payments to injured workers and their dependents will not be fully guaranteed by its assets.

In responding to the current needs of Nevada workers, the risks discussed above may be increased. The new rehabilitation center and benefit level increases are two examples of increased risk. The rehabilitation facility is expected to reduce the human and monetary cost of job related injuries. However, until the facility is in full operation for several years it is not possible to know whether costs will actually increase or decrease and premiums may therefore not properly match actual costs. Similarly, changes in workers' compensation benefits requires a corresponding adjustment to the premiums. Any such adjustment must be estimated and the possibility of inadequate premiums is increased when significant benefit level adjustments are made. Without a sufficient provision for contingencies, accepting these additional risks implies some impairment in its existing obligations to injured workers and their dependents.

STANDARDS FOR THE PROVISION FOR CONTINGENCIES

For a property and casualty insurance company, surplus serves much the same purpose as the NIC provision for contingencies. Traditionally, surplus equal to one-half of its premium was considered appropriate. More recently, a smaller surplus margin, one-third of premium, has been accepted as reasonable.

In applying these guidelines to the NIC two factors must be considered. First, the NIC provides only workers' compensation insurance. The average casualty insurance company provides many lines of insurance, some more risky than workers' compensation insurance and some less risky. Second, a typical casualty insurance company does not have a captive market for its products. The NIC is an exclusive state fund. Barring changes in legislation, the NIC cannot lose its customers. If conditions demanded it, NIC could increase current premiums to recover past losses. From the standpoint of equity this may be undesirable. Accepting this risk, however, allows the NIC to operate with a smaller provision for contingencies.

Considering these differences between NIC and the average casualty insurance company a provision for contingencies equal to one-third of its premium might be considered too conservative. By accepting some risk of requiring employers in the future to offset old deficits, the NIC could reduce the provision for contingencies to 20% or 25% of premium. For fiscal year ending June 30, 1979, the NIC premium could easily be $110,000,000. 20% to 25% of this premium would be $22 to $27.5 million compared to the June 30, 1978 provision for contingencies of $23.5 million.

Another way to evaluate the needed provision for contingencies is to consider a scenario of unanticipated but not impossible events. Unpaid claim reserves might prove to be too low by an amount equal to the excess of investment income over the amount actuarially required. The NIC might at the same time find that its rates for the past year were low by 10% and that the value of equities in its portfolio had dropped by 25%. The equity proportion of NIC's investments is 20-25% of the total portfolio which at June 30, 1978 was twice its premium. The loss of value in the stocks would therefore equal 12.5% of premium (.25x.25x2). The total loss to the NIC from this one year of adverse results would therefore be 22.5% of its premium. This would exceed a 20% provision for contingencies.

SUMMARY

In summary, if NIC will accept the risk of sometimes requiring employers in one year to offset deficits incurred from prior years' operations, a minimum provision for contingencies of 20-25% of premium appears reasonable.

Very truly yours,

PEAT, MARWICK, MITCHELL & CO.

By: Allan Kaufman
Allan Kaufman, F.C.A.S.

EXHIBIT E

NEVADA INDU[illegible]AL COMMIS[illegible]
Carson City, Nevada

MONTHLY AND YEARLY REGISTRATION AND WORK
LOAD CONTROL REPORT FOR FEBRUARY 1979

Form C-130 (Rev. 11/73) Date Prepared: 3-6-79

CURRENT YEAR		PAST YEAR	CLAIMS FOR YEAR % of Inc.	FISCAL YEAR 1979	FISCAL YEAR 1978	CALENDAR YEAR 1979	CALENDAR YEAR 1978	% OF INCREASE
Bal. Fwd.	32,481	24,638	LOCAL 18%	19,588	16,605	4,680	4,116	14%
Registered	5,193	4,663	L.V. 23%	24,259	19,790	6,095	4,898	24%
Re-Opened	117	119	TOTAL 20%	43,847	36,395	10,775	9,014	20%
Pensions	- 6	- 11	PENSIONS	49	72	11	18	
Closed	- 5,691	- 4,544	LOCAL 2,983	(more/less) 1979		564	(more/less) 1979	
Total	32,094	24,865	L.V. 4,469	(more/less) 1979		1,197	(more/less) 1979	
			TOTAL 7,452	(more/less) 1979		1,761	(more/less) 1979	

CORRECTIONS:

COMPARISON OF MONTHLY REGISTERED CLAIMS - ON AN ANNUAL BASIS

		CURRENT YEAR 1978	PAST YEAR 1977
JUL:	Local	2,367	1,911
	L.V.	2,751	2,267
	TOTAL	5,118	4,178
	Pen.	6	13
AUG:	Local	2,724	2,300
	L.V.	3,480	2,647
	TOTAL	6,204	4,947
	Pen.	5	10
SEP:	Local	2,718	2,212
	L.V.	3,189	2,521
	TOTAL	5,907	4,733
	Pen.	8	7
OCT:	Local	2,468	1,958
	L.V.	3,046	2,521
	TOTAL	5,514	4,479
	Pen.	5	10
NOV:	Local	2,482	2,099
	L.V.	3,116	2,688
	TOTAL	5,598	4,787
	Pen.	3	4
DEC:	Local	2,149	2,009
	L.V.	2,582	2,248
	TOTAL	4,731	4,257
	Pen.	11	10

		CURRENT YEAR 1979	PAST YEAR 1978
JAN:	Local	2,365	1,994
	L.V.	3,223	2,368
	TOTAL	5,588	4,362
	Pen.	5	7
FEB:	Local	2,315	2,122
	L.V.	2,872	2,530
	TOTAL	5,187	4,652
	Pen.	6	11
MCH:	Local		
	L.V.		
	TOTAL		
	Pen.		
APR:	Local		
	L.V.		
	TOTAL		
	Pen.		
MAY:	Local		
	L.V.		
	TOTAL		
	Pen.		
JUN:	Local		
	L.V.		
	TOTAL		
	Pen.		

Carole Larson
Claims Status & Index Clerk

Claims Manager

NEVADA INDU L COMMISSI
Carson City, Nevada

CLAIMS MONTHLY FISCAL YEAR DISTRIBUTION REPORT
FOR FEBRUARY 1979

Date Prepared: 2-9-79

LAIM INVENTORY - CARSON CITY - ACTIVE CLAIMS - FISCAL YEAR DISTRIBUTION

	TOTAL	1979	1978	1977	1976	1975	1974	Etc.	Pen.
al. Fwd.	14,745	10,906	1,612	450	237	213	238	174	915
egistered	2,321	2,274	40					1	6
eopened	52	6	21	15	3	1	3	3	
ensions	- 6	- 1		- 1	- 2	- 1		- 1	
losed	- 2,701	- 2,592	- 82	- 12	- 4	- 1	- 2	- 3	- 5
OTAL	14,411	10,593	1,591	452	234	212	239	174	916
**	+ 4	+ 1		+ 1		+ 1		+ 1	
	14,415	10,594		453		213		175	

LAIM INVENTORY - LAS VEGAS - ACTIVE CLAIMS - FISCAL YEAR DISTRIBUTION

	TOTAL	1979	1978	1977	1976	1975	1974	Etc.
al. Fwd.	17,736	13,551	2,118	655	430	365	426	191
egistered	2,872	2,859	13					
eopened	65	9	33	5	8	4	1	5
losed	- 2,990	- 2,793	- 180	- 8	- 6			- 3
OTAL	17,683	13,626	1,984	652	432	369	427	193
**	- 4	- 1		- 1		- 1		- 1
	17,679	13,625		651		368		192

LAIM INVENTORY --- TOTAL --- ACTIVE CLAIMS - FISCAL YEAR DISTRIBUTION

	TOTAL	1979	1978	1977	1976	1975	1974	Etc.	Pen.
al. Fwd.	32,481	24,457	3,730	1,105	667	578	664	365	915
egistered	5,193	5,133	53					1	6
eopened	117	15	54	20	11	5	4	8	
ensions	- 6	- 1		- 1	- 2	- 1		- 1	
losed	- 5,691	- 5,386	- 261	- 20	- 10	- 1	- 2	- 6	- 5
OTAL	32,094	24,219	3,575	1,104	666	581	666	367	916

** Monthly adjustment on Carson City and Las Vegas totals due to pensions registered this month.

C. Larson

EXHIBIT E

NEVADA INDUSTRIAL COMMISSION
Carson City, Nevada

MONTHLY AND YEARLY REGISTRATION AND WORK LOAD CONTROL REPORT FOR JUNE 1978

Form C-130 (Rev. 11/73) Date Prepared: 7-7-78

CURRENT YEAR		PAST YEAR	CLAIMS FOR YEAR % of Inc.		FISCAL YEAR 1978	1977	CALENDAR YEAR 1978	1977	% OF INCREASE
Bal. Fwd.	24,226	18,838	LOCAL	33%	25,651	19,294	13,162	9,788	34%
Registered	5,203	3,962	L.V.	18%	30,910	26,206	16,018	12,890	24%
Re-Opened	137	1,077	TOTAL	24%	56,561	45,500	29,180	22,678	29%
Pensions	- 14	- 8	PENSIONS		105	85	51	50	
Closed	- 5,112	- 2,724	LOCAL	6,357	(more/less) 1978		3,374	(more/less) 1978	
Total	24,440	21,145	L.V.	4,704	(more/less) 1978		3,128	(more/less) 1978	
			TOTAL	11,061	(more/less) 1978		6,502	(more/less) 1978	

CORRECTIONS:

COMPARISON OF MONTHLY REGISTERED CLAIMS - ON AN ANNUAL BASIS

CURRENT YEAR 1977			PAST YEAR 1976			CURRENT YEAR 1978			PAST YEAR 1977		
JUL:	Local	1,911	JUL:	Local	1,604	JAN:	Local	1,994	JAN:	Local	1,526
	L.V.	2,267		L.V.	2,395		L.V.	2,368		L.V.	2,039
	TOTAL	4,178		TOTAL	3,999		TOTAL	4,362		TOTAL	3,565
	Pen.	13		Pen.	6		Pen.	7		Pen.	9
AUG:	Local	2,300	AUG:	Local	1,607	FEB:	Local	2,122	FEB:	Local	1,500
	L.V.	2,647		L.V.	2,593		L.V.	2,530		L.V.	1,919
	TOTAL	4,947		TOTAL	4,200		TOTAL	4,652		TOTAL	3,419
	Pen.	10		Pen.	2		Pen.	11		Pen.	6
SEP:	Local	2,212	SEP:	Local	1,603	MCH:	Local	2,264	MCH:	Local	1,778
	L.V.	2,521		L.V.	2,247		L.V.	2,632		L.V.	2,492
	TOTAL	4,733		TOTAL	3,850		TOTAL	4,896		TOTAL	4,270
	Pen.	7		Pen.	6		Pen.	10		Pen.	15
OCT:	Local	1,958	OCT:	Local	1,697	APR:	Local	1,987	APR:	Local	1,593
	L.V.	2,521		L.V.	2,111		L.V.	2,931		L.V.	2,062
	TOTAL	4,479		TOTAL	3,808		TOTAL	4,918		TOTAL	3,655
	Pen.	10		Pen.	6		Pen.	9		Pen.	8
NOV:	Local	2,099	NOV:	Local	1,583	MAY:	Local	2,343	MAY:	Local	1,671
	L.V.	2,688		L.V.	2,060		L.V.	2,820		L.V.	2,144
	TOTAL	4,787		TOTAL	3,643		TOTAL	5,163		TOTAL	3,815
	Pen.	4		Pen.	7		Pen.	0		Pen.	4
DEC:	Local	2,009	DEC:	Local	1,412	JUN:	Local	2,452	JUN:	Local	1,720
	L.V.	2,248		L.V.	1,910		L.V.	2,737		L.V.	2,234
	TOTAL	4,257		TOTAL	3,322		TOTAL	5,189		TOTAL	3,954
	Pen.	10		Pen.	8		Pen.	14		Pen.	8
							+ Reopened	1			

Claims Status & Index Clerk
Sylvia Mahaig

Claims Manager
WILLIAM DAGGETT

EXHIBIT E

NEVADA IN[illegible]RIAL COMMISS[illegible]
Carson City, Nevada

CLAIMS MONTHLY FISCAL YEAR DISTRIBUTION REPORT
FOR JUNE 1978

Date Prepared: 7-7-78

CLAIM INVENTORY - CARSON CITY - ACTIVE CLAIMS - FISCAL YEAR DISTRIBUTION

	TOTAL	1978	1977	1976	1975	1974	1973	Etc.	Pen.
Bal. Fwd.	11,144	8,490	691	324	281	273	56	157	872
Registered	2,466	2,447	4					1	14
Reopened	53	26	7	6	5	1	4	3	1
Pensions	- 14	- 2		- 3	- 5		- 2	- 2	
Closed	- 2,[illegible]32	- 2,157	- 94	- 30	- 23	- 17	- 5	- 6	
TOTAL	11,317	8,804	608	297	258	257	53	153	887
	* + 5	+ 1			+ 4				
	11,322	8,805			262				

CLAIM INVENTORY - LAS VEGAS - ACTIVE CLAIMS - FISCAL YEAR DISTRIBUTION

	TOTAL	1978	1977	1976	1975	1974	1973	Etc.
B[illegible]. Fwd.	13,082	10,318	1,000	547	411	544	110	152
Registered	2,737	2,732	3		1			1
Reopened	84	45	25	7		3	1	3
Closed	- 2,780	- 2,634	- 100	- 23	- 8	- 8	- 1	- 6
TOTAL	13,123	10,461	928	531	404	539	110	150
	* - 5	- 1			- 4			
	13,118	10,460			400			

CLAIM INVENTORY --- TOTAL --- ACTIVE CLAIMS - FISCAL YEAR DISTRIBUTION

	TOTAL	1978	1977	1976	1975	1974	1973	Etc.	Pen.
Bal. Fwd.	24,226	18,808	1,691	871	692	817	166	309	872
Registered	5,203	5,179	7		1			2	14
Reopened	137	71	32	13	5	4	5	6	1
Pensions	- 14	- 2		- 3	- 5		- 2	- 2	
Closed	- 5,112	- 4,791	- 194	- 53	- 31	- 25	- 6	- 12	
[illegible]	24,440	19,265	1,536	828	662	796	163	303	887

EXHIBIT E

* Monthly adjustment on Carson City and Las Vegas totals due to pensions registered this month.

9/26/78

Reserving For Temporary Total and Permanent Partial Disability Benefits

Average Per Day Cost of Temporary Total Disability Compensation at the Close of Each Fiscal Year

Claim Year	1969 Claims	1970 Claims	1971 Claims	1972 Claims	1973 Claims	1974 Claims	1975 Claims	1976 Claims	1977 Claims	1978 Claims
	8.305	9.184	9.094	11.520	11.64	12.45	13.20	16.38	17.86	19.06
1st Year	8.578	9.197	9.619	11.569	11.608	12.53	13.32	16.66	17.98	
2nd Year	8.595	9.195	9.699	11.547	11.562	12.54 (12.20)	13.35	16.72		
3rd Year	8.585	9.206	9.721	11.538	11.573	12.90 (12.21)	13.26			

Development of Average Days Lost Per Claim

Months Experience	1969 Claims	1970 Claims	1971 Claims	1972 Claims	1973 Claims	1974 Claims	1975 Claims	1976 Claims	1977 Claims	1978 Claims
9 months	52	52	53	51	51	50	53	49	46	43
12 months					(46)	(45)	(46)	(43)	(41)	(38)
24 months	68	70	72	67	69	75	72	66	61	60
36 months	78	79	80	77	81	91	82	72	70	69
48 months	83	83	84	82	88	97	86	77	75	74
60 months	84.7	85.1	87	85.5	90.6	99.9	88.8	79.8	77.8	76.8
72 months	86.5	86.3	89.4	87.1	92.4	101.4	90.3	81.3	79.3	78.3
84 months	88.2	87.0	91.1	88.2	93.2	102.2	91.1	82.1	80.1	79.1
96 months	89.0	87.3	92.3	88.8	93.8	102.8	91.7	82.7	80.7	79.7
108 months	89.7	87.8	92.9	89.4	94.4	103.4	92.3	83.3	81.3	80.3
120 months	90.0	88.1	93.2	89.7	94.7	103.7	92.6	83.6	81.6	80.6

*There is a distortion of about 5 days in the FY 1974 figures. This could not be detected until we initiated a method of calculating days lost on a "paid out" basis rather than relying on dates.

Note: The figures below the diagonal line are projections of anticipated development of lost time days. Those above the diagonal line represent the actual average days lost.

EXHIBIT E

EXHIBIT "F"

NEVADA INDUSTRIAL COMMISSION

		2/29/79 Market Value	% of Portfolio	Annual Income	Current Yield
FIXED INCOME SECURITIES					
Cash & Short-term Securities	(0-5 Years)	$ 62,065,640	29%	$ 5,988,660	9.7%
Medium-term Bonds	(6-10 Years)	9,225,000	4	781,250	8.5
Long-term Bonds	(Over 10 Years)	89,798,891	43	8,260,643	9.2
TOTAL FIXED INCOME		$161,089,531	76%	$15,030,553	9.3%
EQUITIES					
Consumer		$ 15,846,125	8%	$ 734,260	4.6%
Financial		4,247,000	2	277,820	6.5
Manufacturing		11,384,125	5	582,760	5.1
Raw Materials		12,672,005	6	761,972	6.0
Utilities & Transportation		6,844,750	3	529,460	7.7
TOTAL EQUITIES		$ 50,994,005	24%	$ 2,886,272	5.7%
TOTAL ACCOUNT		$212,083,536	100%	$17,916,825	8.5%

EXHIBIT F

NEVADA INDUSTRIAL COMMISSION

Bond Quality Distribution

Prime Rated Cash Equivalents	25%
U. S. Governments	30
Aaa Telephones	14
Aaa Finance	6
Aaa Canadians	5
Aaa Industrials	5
Aa Industrials	4
Aa Finance	4
Aa Canadians	2
A Telephones	2
A Industrials	1
A Utilities	1
Baa Utilities	1

EXHIBIT F

NEVADA INDUSTRIAL COMMISSION

Common Stock Quality Ratings
by Individual Issue

	Standard & Poor[1]
CONSUMER:	
Cosmetics & Toiletries	
Avon Products	A
Chesebrough-Ponds	A+
Gillette	A-
Tampax	A+
Drug & Hospital Supplies	
Abbott Laboratories	A
American Home Products	A+
Bristol-Myers	A+
Eli Lilly	A+
Merck	A+
Food & Beverage	
Beatrice Foods	A+
Pepsico	A+
Philip Morris	A+
Ralston Purina	A+
R. J. Reynolds Industries	A+
Household Products	
Procter & Gamble	A+
Merchandising	
Jack Eckerd Corp.	A+
R. H. Macy	A-
May Department Stores	A
Recreation & Service	
American Greetings	A
CBS Inc.	A
Commerce Clearing House	A-
Dun & Bradstreet	A

	Standard & Poor
Eastman Kodak	A+
A. C. Nielsen Co.	NR
FINANCIAL:	
Banking	
First Bank System, Inc.	NR
Household Finance	A-
Manufacturers Hanover	NR
Insurance	
Continental Corp.	NR
Provident Life	NR
U. S. Fidelity & Guaranty	NR
MANUFACTURING:	
Autos & Accessories	
Champion Spark Plug	A
Firestone Tire & Rubber	A-
General Motors	A-
Business Equipment	
International Business Machines	A+
Minnesota Mining & Manufacturing	A+
NCR	B+
Sperry Rand	A-
Xerox	A+
Construction	
Johns-Manville	A-
Electric Equipment	
Emerson Electric	A+
General Electric	A+
Electronics	
RCA Corp.	B+
Machinery	
Combustion Engineering	A
Pullman	B+

EXHIBIT F

EXHIBIT F — 1008

	Standard & Poor
Printing & Publishing	
Times Mirror	A-
RAW MATERIALS:	
Chemicals	
E. I. duPont	A-
Monsanto	A-
Union Carbide	A
Forest Products	
International Paper	A-
St. Regis Paper	B+
Mining & Metals	
Aluminum Co. of America	B+
Newmont Mining	B+
U. S. Steel	B+
Petroleum	
Atlantic Richfield	A
Continental Oil	A
Exxon	A+
Gulf Oil	A
Mobil	A+
Phillips Petroleum	A
Standard Oil of California	A+
UTILITIES & TRANSPORTATION:	
Public Utilities - Electric	
Allegheny Power System	A-
American Telephone	A+
Duke Power	A-
General Telephone	A
Tampa Electric	A-
Public Utilities - Gas	
Panhandle Eastern Pipeline	A
Tenneco	A-
Transportation	
Union Pacific Corp.	A

(1) Ranking based on growth and stability of earnings and dividends.

SCUDDER, STEVENS & CLARK

INVESTMENT COUNSEL

EXHIBIT F

EXHIBITS FOR INVESTMENT MEETING

NEVADA INDUSTRIAL COMMISSION

FEBRUARY 12, 1979

GARY N. COBURN, VICE PRESIDENT
JOANNE L. HOWARD, VICE PRESIDENT

EXHIBIT "F"

EXHIBIT F

FINANCIAL POSITION OF THE PRIVATE ECONOMY

	Year-End 1978	Year-End 1977	Most Favorable Ratio in 1975-76 Period	Most Unfavorable Ratio in 1973-74 Period
Household Liquidity				
Total Debt/Income	81.4	79.5	73.0	76.9
Repayments/Income	20.6	19.6	19.0	19.4
Corporate Liquidity				
Internal Funds/ Capital Spending	74.3	82.2	106.9	56.2
Liquid Assets/ Short-term Liabilities	26.7	30.4	34.0	25.0
Banking Liquidity				
Loans/Deposits	91.6	85.8	81.7	93.5
Investments/ Total Bank Credit	26.6	29.1	32.0	27.2

EXHIBIT F

KEY POLITICAL AND ECONOMIC DEVELOPMENTS SINCE JULY MEETING

ENERGY BILL

TAX BILL

WAGE-PRICE GUIDELINES

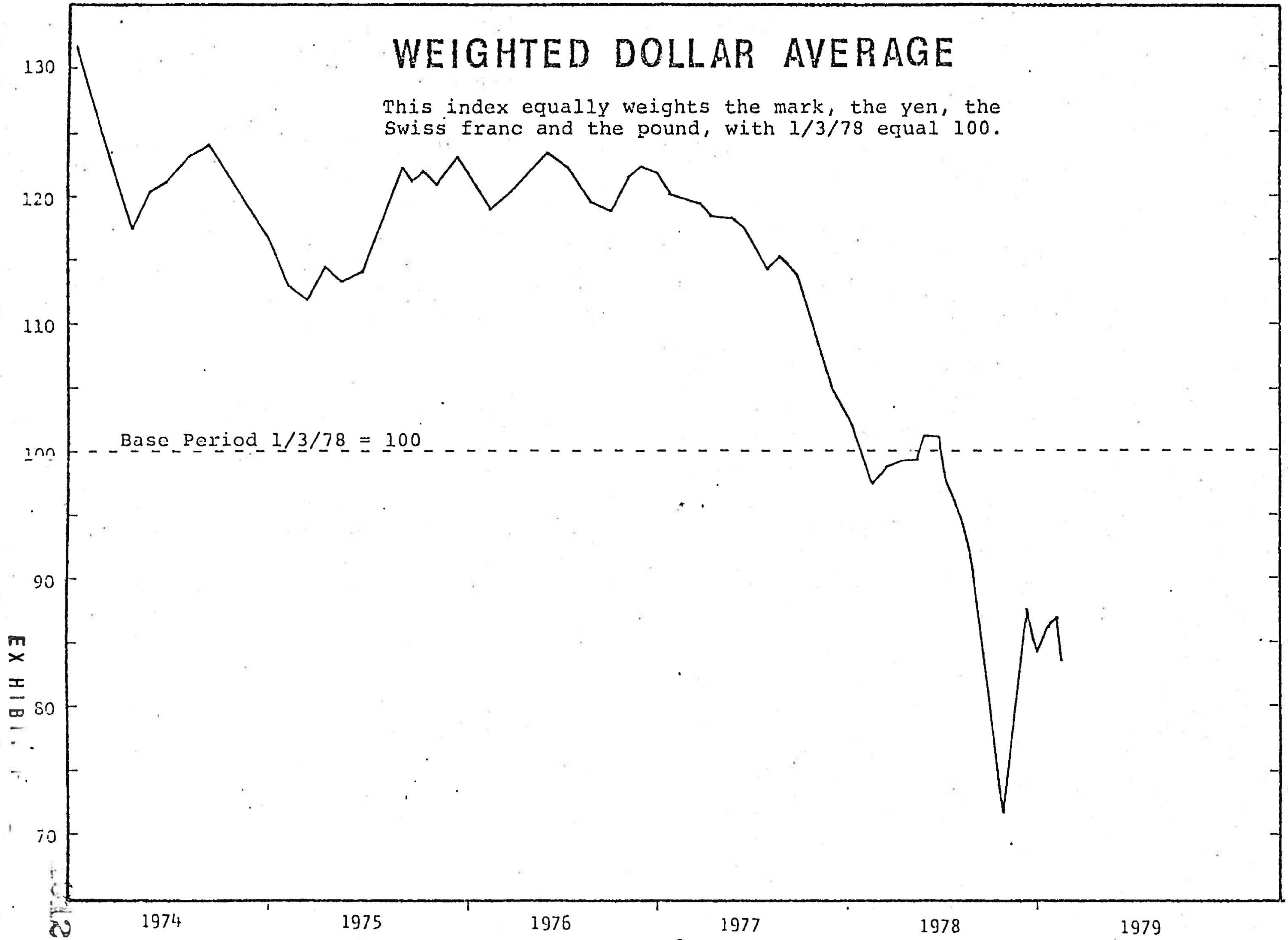
ACTION TO SUPPORT THE DOLLAR

NATIONAL ELECTIONS

OPEC OIL PRICE INCREASE

IRANIAN UPHEAVAL

NORMALIZED CHINA RELATIONS



WEIGHTED DOLLAR AVERAGE
This index equally weights the mark, the yen, the Swiss franc and the pound, with 1/3/78 equal 100.
Base Period 1/3/78 = 100
130
120
110
100
90
80
70
1974
1975
1976
1977
1978
1979
EXHIBIT

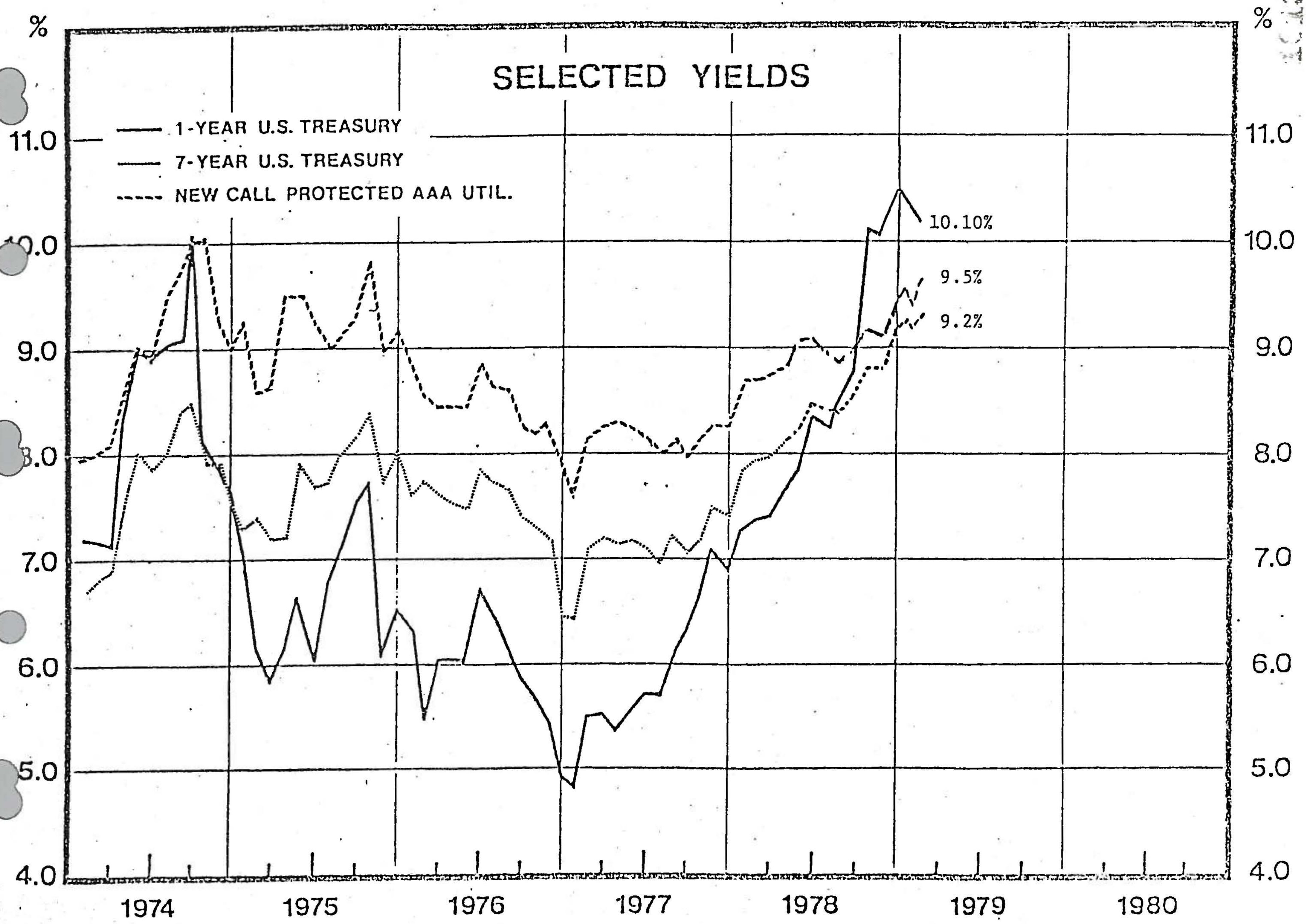

SELECTED YIELDS
1-YEAR U.S. TREASURY
7-YEAR U.S. TREASURY
NEW CALL PROTECTED AAA UTIL.
%
11.0
10.0
9.0
8.0
7.0
6.0
5.0
4.0
10.10%
9.5%
9.2%
1974
1975
1976
1977
1978
1979
1980

EXHIBIT F

EXHIBIT F

CYCLICAL TROUGHS FOR

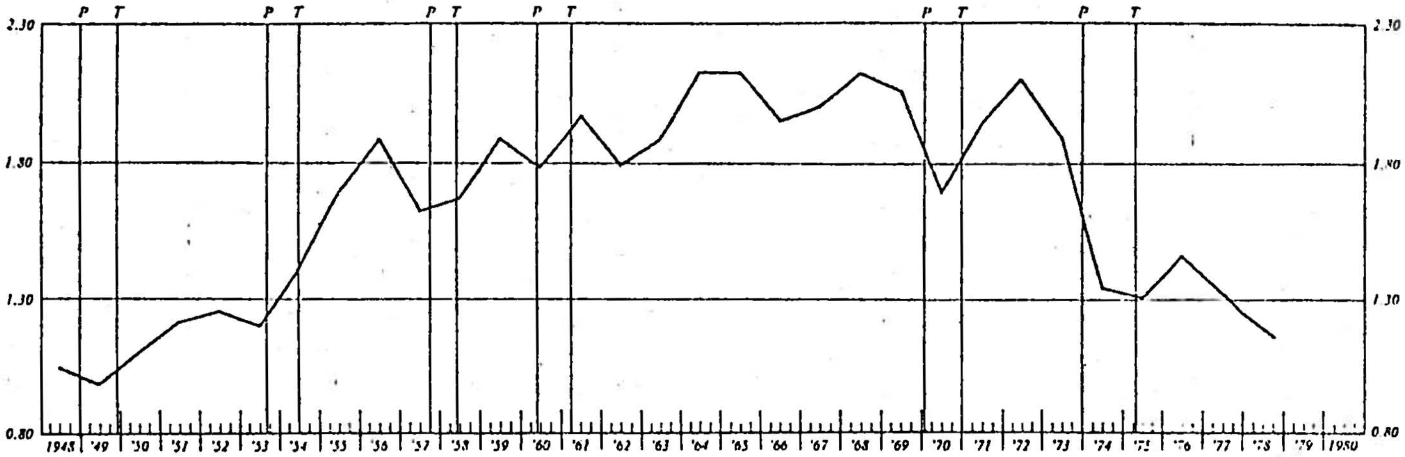
DOW JONES INDUSTRIAL AVERAGE

	6/26/62	10/7/66	5/26/70	12/6/74	2/28/78	2/9/79
Price	535.76	744.32	631.16	577.60	742.12	822.32
Previous Peak Price	734.91	995.15	985.21	1051.70	1014.79	
Decline	27.1%	25.2%	35.9%	45.1%	26.9%	
Trailing 12 Months:						
Earnings	$34.74	$57.36	$53.18	$99.04	$96.06*	$101.53
Dividends	$23.04	$30.42	$31.93	$37.72	$46.53	$ 47.[illegible]9
Payout Ratio	66.3%	53.0%	60.0%	38.1%	48.4%	47.0%
Price/Earnings Ratio	15.4X	13.0X	11.9X	5.8X	7.7X	8.1X
Dividend Yield	4.30%	4.09%	5.06%	6.53%	6.27%	5.80%
Book Value	400.97	475.92	573.15	746.95	853.0E	900.0E
Market/Book Ratio	133.6%	156.4%	110.1%	77.3%	87.0%	91.4%
New AA Utility Bonds	4.24%	5.90%	9.25%	10.40%	8.80%	9.40%

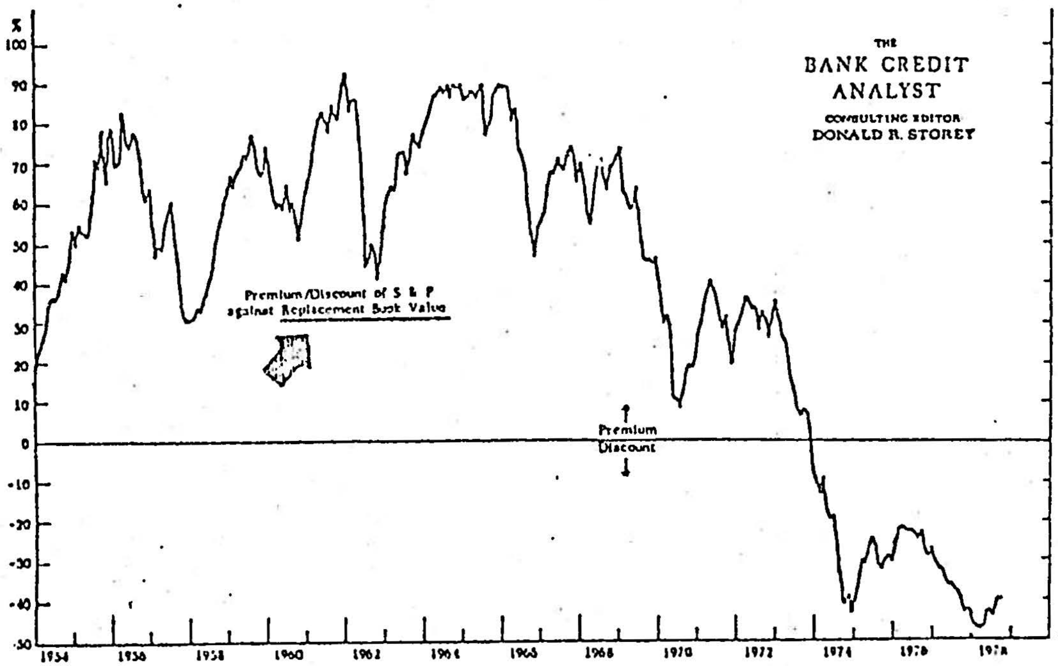
*Excludes Bethlehem Steel $9.85 write-off

Source: Salomon Bros.

Ratio of Market to Book Value, S&P 400



THE STOCK MARKET AND BOOK VALUE



Source: U.S. Dept. of Commerce
Federal Reserve System
Standard & Poor's Corp.

© MONETARY RESEARCH LTD

S&P 400 NOW SELLING AT 60% OF REPLACEMENT COST BOOK VALUE.

EXHIBIT F

STOCK PRICES & SHORT-TERM INTEREST RATES

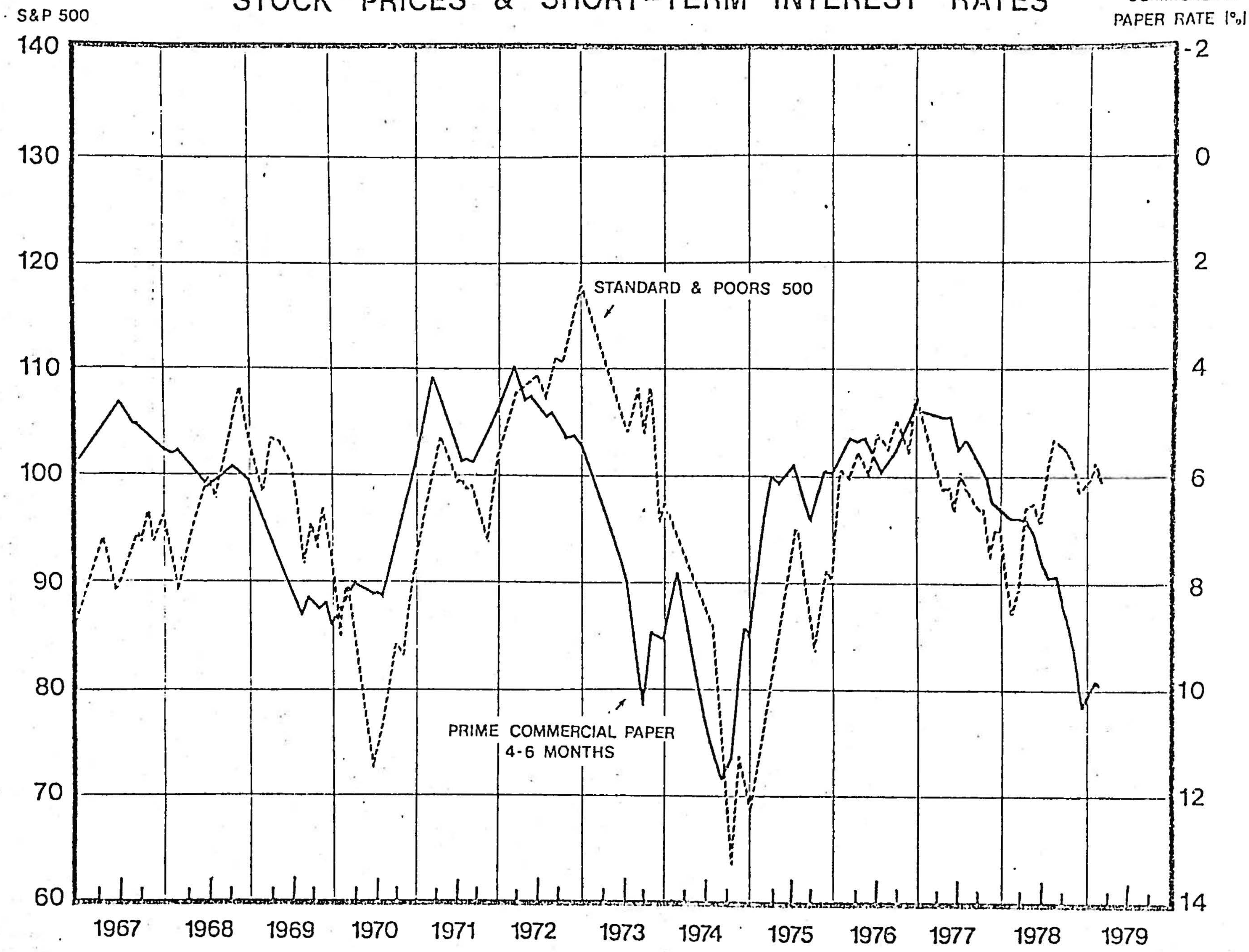


EXHIBIT F

EXHIBIT F

NEVADA INDUSTRIAL COMMISSION

Common Stock Portfolio Composition

	12/31/76	12/31/77	7/25/78	1/31/79	S&P 500	S&P 500 1978 Total Return
ECONOMIC SECTORS						
Consumer	29%	33%	37%	32%	24%	6.0%
Financial	6	8	10	9	6	6.6
Manufacturing	23	25	24	24	30	9.8
Raw Materials	31	22	18	24	24	5.6
Utilities & Transportation	11	12	11	12	16	0.5
	100%	100%	100%	100%	100%	6.5%

SENSITIVITY TO BUSINESS CYCLE						Unweighted Scudder Universe Total Return
1. Established Growth	26%	26%	32%	33%	23%	11.5%
2. Secondary Growth	0	2	3	3	6	14.0
3. Stable	19	24	23	20	22	3.4
4. Cyclical Growth	39	38	36	37	35	10.7
5. Cyclical	16	10	6	7	14	- 1.0
	100%	100%	100%	100%	100%	- 8.8%

QUALITY					
I Highest	15%	14%	17%	18%	14%
II	10	16	19	20	24
III	46	43	38	36	30
IV	29	27	24	24	24
V Lowest	0	0	2	2	8
	100%	100%	100%	100%	100%

EXHIBIT F

	S & P 500		Established Growth Stock Index		Consumer Price Index
	EPS	DPS	EPS	DPS	
1978E	204	169	310	318	188
1977	189	152	275	264	174
1976	172	132	247	224	164
1975	138	120	215	201	155
1974	154	117	204	182	142
1973	142	110	180	156	128
1972	111	103	152	144	120
1971	99	100	131	137	116
1970	89	102	116	124	112
1969	100	103	111	114	105
1968	100	100	100	100	100
% Increase					
1972-1977	+70%	+48%	+104%	+121%	+45%
1968-1972	+11	+ 3	+ 52	+ 44	+20

Yearly Avg. Common Stock Prices (1968=100)

	S & P 500	Indicator Digest Avg. (NYSE)	Amex Indicator Digest Avg.	Established Growth Stock Index
Cur.	98	59	35	120
1977	101	56	28	119
1976	102	48	23	138
1975	85	38	19	125
1974	83	39	19	128
1973	108	59	29	171
1972	113	75	43	163
1971	99	72	44	123
1970	83	66	54	99
1969	99	94	94	105
1968	100	100	100	100

EXHIBIT F

NEVADA INDUSTRIAL COMMISSION

Purchases for the Period
July 30, 1978 through February 8, 1979

Number of Shares Held	Security	Total Shares Held	Approx. Purchase Price	Principal Value	Category	Quality	P/E	Yield
	CONSUMER							
6,000	Avon Products	16,000	56	$ 339,725	1	I	12	5.1%
7,000	Chesebrough-Ponds	37,000	23	164,650	1	II	10	4.2
2,000	Abbott Laboratories	12,000	36	72,475	1	III	12	2.5
18,000	Eli Lilly	NEW	50	910,000	1	II	11	3.7
5,[illegible]00	Merck	13,000	64	350,975	1	I	15	2.8
2[illegible]0	Beatrice Foods	38,000	23	47,200	1	I	8	4.8
2[illegible]0	PepsiCo	35,000	26	51,450	1	II	9	3.9
1,500	Philip Morris	10,000	71	107,262	1	II	9	2.9
1,000	R.J. Reynolds	15,000	57	57,100	3	III	6	6.7
1,000	Procter & Gamble	12,000	86	86,625	1	I	13	3.4
5,000	American Greetings	30,000	11	54,375	2	III	6	4.5
5,000	Commerce Clearing House	25,000	23	113,750	2	II	12	3.4
5,000	Dun & Bradstreet	15,000	35	175,587	1	II	13	4.0
3[illegible]0	Eastman Kodak	13,000	61	184,450	1	II	10	4.3
	TOTAL CONSUMER			$ 2,715,624				
	FINANCIAL							
5,000	First Bank System	30,000	38	$ 189,240	3	II	6	5.2%
5,000	Manufacturers Hanover	20,000	34	169,500	3	III	5	7.1
4[illegible]00	Continental Corp.	28,000	24	97,450	4	III	5	6.9
1[illegible]00	Provident Life & Accident	9,000	44	44,500	2	III	7	2.8
	TOTAL FINANCIAL			$ 500,690				

EXHIBIT F

NEVADA INDUSTRIAL COMMISSION

Purchases for the Period
July 30, 1978 through February 8, 1979

Number of Shares Held	Security	Total Shares Held	Approx. Purchase Price	Principal Value	Category	Quality	P/E	Yield
	MANUFACTURING							
3,000	General Motors	17,000	57	$ 171,700	5	II	6	7.4%
10,000	Minnesota Mining & Mfg.	15,000	61	610,837	1	I	12	3.2
1,000	NCR Corp.	11,000	70	70,250	4	IV	8	2.3
12,000	Xerox Corp.	17,000	56	666,088	1	III	8	3.8
1[illegible]000	Johns-Manville	43,000	24	239,137	4	IV	5	8.0
[illegible]00	General Electric	NEW	49	739,225	4	II	8	5.5
1[illegible]00	RCA Corp.	35,000	26	261,412	5	IV	7	5.4
	TOTAL MANUFACTURING			$ 2,758,649				
	RAW MATERIALS							
3,000	E.I. duPont	5,000	129	$ 388,175	4	III	9	5.7%
6,000	Monsanto	12,000	51	305,312	4	III	6	6.8
1[illegible]00	Union Carbide	22,000	38	644,675	5	III	7	8.2
1[illegible],000	International Paper	22,000	40	477,700	4	IV	7	5.5
3,000	St. Regis Paper	20,000	29	87,300	4	IV	8	6.4
2,000	Aluminum Co. of America	12,000	45	89,712	4	III	6	4.2
10,000	Newmont Mining	25,000	22	217,900	4	III	8	3.7
4,000	U. S. Steel	24,000	28	114,150	5	IV	5	7.5
5,000	Atlantic Richfield	20,000	51	257,499	4	IV	8	4.2
[illegible]000	Continental Oil	25,000	30	91,500	4	III	6	5.3
[illegible]00	Exxon	33,000	48	242,550	4	III	7	6.9
[illegible],000	Gulf Oil	35,000	25	75,375	4	V	5	8.1
10,000	Mobil Oil	NEW	70	701,000	4	IV	6	6.3
10,000	Phillips Petroleum	30,000	31	308,000	4	IV	7	3.8
12,000	Standard Oil of California	22,000	46	549,000	4	IV	7	5.6
	TOTAL RAW MATERIALS			$ 4,549,848				

NEVADA INDUSTRIAL COMMISSION

Purchases for the Period
July 30, 1978 through February 8, 1979

nber of ares ld	Security	Total Shares Held	Approx. Purchase Price	Principal Value	Category	Quality	P/E	Yield
	UTILITIES & TRANSPORTATION							
000	General Tel & Electronics	70,000	29	$ 1,153,862	3	III	6	8.7%
000	Panhandle Eastern Pipe Line	22,000	40	484,225	3	IV	6	7.0
000	Tenneco	30,000	31	94,875	3	IV	6	7.3
	TOTAL UTILITIES & TRANSPORTATION			$ 1,732,962				
	TOTAL PURCHASES			$12,257,773				

EXHIBIT F

1021

NEVADA INDUSTRIAL COMMISSION

Sales for the Period
July 30, 1978 through February 8, 1979

EXHIBIT F

Number of Shares Sold	Security	Total Shares Remaining	Approx. Sale Price	Principal	Cost	Gain/Loss
	CONSUMER					
5,000	Longs Drug Stores	0	28	$ 144,245	$119,425	$ 24,820
15,000	R. H. Macy	0	41	629,129	401,279	227,848
10,000	A. C. Nielsen	0	27	277,600	234,687	42,912
	TOTAL CONSUMER			$1,050,974		
	MANUFACTURING					
12,500	Combustion Engineering	10,000	41	$ 519,219	$456,789	$ 62,430
	TOTAL MANUFACTURING			$ 519,219		
	TOTAL SALES			$1,570,193		
	TOTAL REALIZED GAINS					$358,010

EXHIBIT F

1023

COMPARATIVE COMMON STOCK PORTFOLIO STATISTICS

		NEVADA INDUSTRIAL COMMISSION	S&P 500	DJIA
1.	Market Value (12/29/78)	$48,762,500	96	805
2.	Price/Earnings Ratio on 1979 Est. Earnings	7.5x	8.4x	7.8x
3.	Current Yield	5.6%	5.5%	6.1%
4.	Price Volatility	1.04	1.01	1.07
5.	Price/Book Value	1.25x	1.17x	.95x
6.	Historical Earnings Growth - 5 Years	10.0%	9.8%	5.1%
	- 10 Years	8.8%	8.5%	6.3%
7.	Historical Dividend Growth - 5 Years	10.1%	9.0%	7.1%
	- 10 Years	7.0%	5.2%	4.4%
8.	Projected Earnings Growth - 1979 over 1977	19%	6%	6%
	- 1979 over 1978	6%	- 4%	- 4%
	- 1978 over 1977	12%	10%	10%
9.	Net Profit Margin (Net Income/Sales)	6.3%	5.5%	3.6%
10.	Current Ratio (Current Assets/Current Liabilities)	1.83x	1.63x	1.83x
11.	Equity as % Total Capital	66%	65%	69%
12.	Return on Equity - 5 Year Average	13.8%	12.8%	11.4%
13.	Payout Ratio - 5 Year Average	42.5%	41.6%	45.4%
14.	Implied Growth Rate (Return on Equity x (1- Payout Ratio)	7.9%	7.5%	6.2%
15.	+ Current Yield	5.6%	5.5%	6.1%
16.	= Indicated Total Return (Implied Growth Rate + Current Yield)	13.5%	13.0%	12.3%

NEVADA INDUSTRIAL COMMISSION
FIXED INCOME TRANSACTIONS

July 29, 1978 - February 12, 1979

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EXHIBIT F

Amount	Security - PURCHASES:	Approximate Principal	Approximate Gain/Loss
$ 500,000	Southern Bell Tel., Deb. 7.625%, 3/15/13	$ 426,515	
$3,000,000	New York Telephone, Deb. 7.875%, 6/15/17	2,623,008	
$2,000,000	Northwestern Bell Tel, Deb. 8.125%, 3/15/17	1,796,950	
$2,000,000	Southern Bell Tel & Tel, Deb. 8.25%, 4/15/16	1,836,980	
$2,000,000	Illinois Bell Tel, Deb. 8.25%, 8/18/16	1,827,040	
$5,000,000	New York Tel Co., Deb. 8.25%, 10/15/15	4,596,100	
$1,500,000	Wisconsin Tel, Deb. 8.25%, 11/15/16	1,367,025	
$2,000,000	Pacific Telephone, Deb. 9.625%, 11/1/14	2,000,000	
$ 500,000	General Motors Acceptance Corp. 7.125%, 9/1/92	421,390	
$2,000,000	General Motors Acceptance Corp. 8.000%, 1/15/02	1,790,960	
$1,250,000	Standard Oil of California, Deb. 8.75%, 7/1/05	1,193,750	
$2,500,000	Canada Bonds 9.00%, 10/15/83	2,500,000	
$4,000,000	Canada Bonds 9.25%, 10/15/98	3,996,250	
		$26,375,968	
	SALES:		
$1,000,000	Pacific Gas & Electric, 1st Mtge. 9.625%, 12/1/06	$ 1,028,750	+$31,250

EXHIBIT F

FIXED INCOME PORTFOLIO COMPOSITION

	12/31/76	12/31/77	12/29/78	Bond Market Returns 1978*
MATURITY				
Short-term (1-5 Years)	17%	19%	30%	6.9%
Medium-term (6-10 Years)	3	17	10	.1
Long-term (over 10 Years)	80	64	60	- .1
	100%	100%	100%	
AREA				
Governments	27%	51%	30%	1.8%
Industrials	29	18	14	1.1
Telephones	11	10	19	-1.0
Utilities	6	5	2	- .2
Finance	11	11	9	.7
Canadians	8	3	7	NA
Cash Equivalents	8	2	19	7.7
	100%	100%	100%	
QUALITY				
I	29%	50%	30%	1.8%
II	18	16	26	.1
III	30	22	33	.3
IV	22	11	10	.7
V	--	1	1	.3
VI	1	--	--	--
	100%	100%	100%	
Current Yield	7.5%	7.8%	9.2%	

*Lehman Bros., Kuhn Loeb and Salomon Bros. Index

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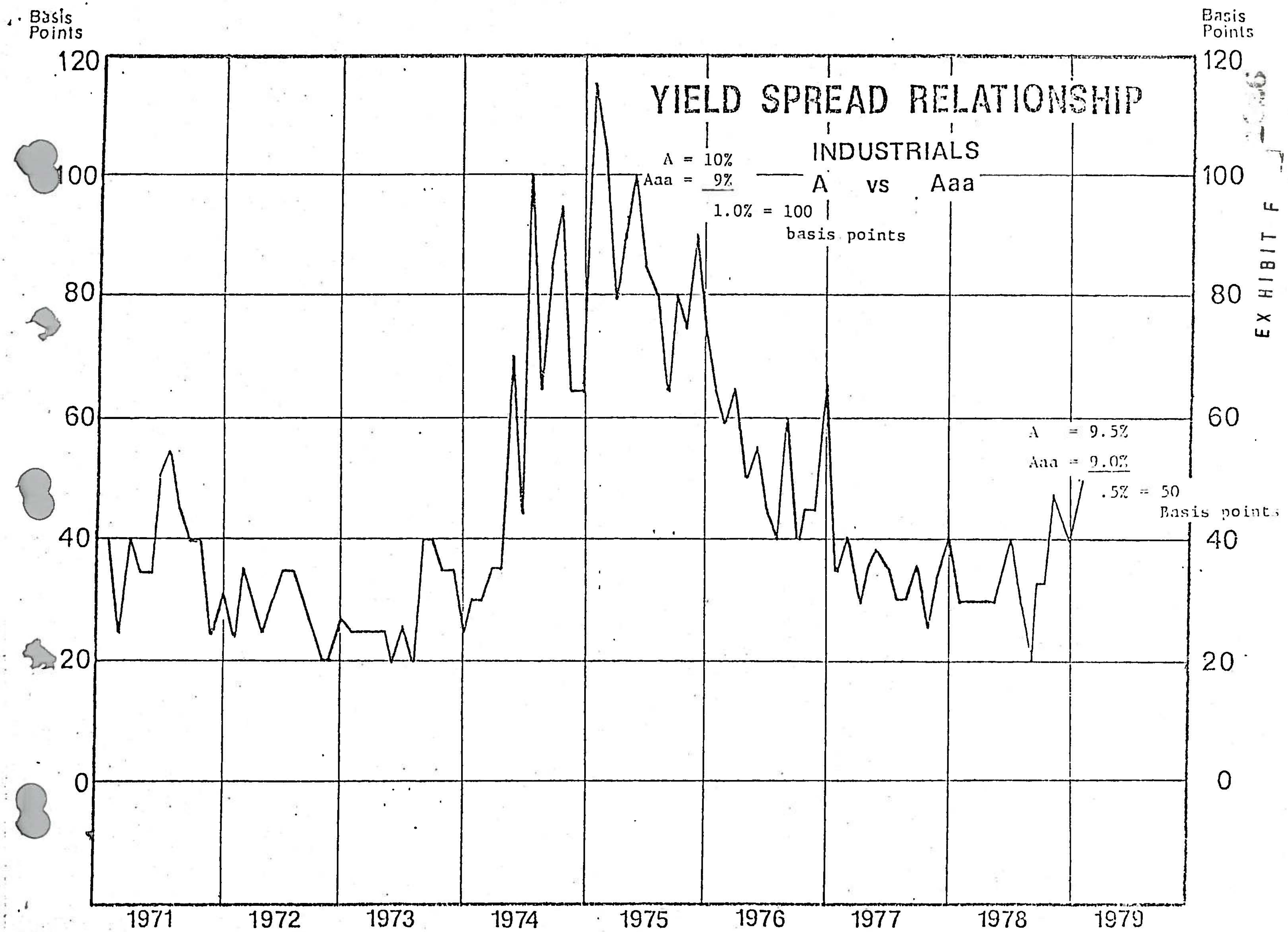
Basis Points
Basis Points
YIELD SPREAD RELATIONSHIP
INDUSTRIALS
A vs Aaa
A = 10%
Aaa = 9%
1.0% = 100 basis points
A = 9.5%
Aaa = 9.0%
.5% = 50 Basis points
EXHIBIT F
120
100
80
60
40
20
0
1971
1972
1973
1974
1975
1976
1977
1978
1979