

MINUTES

WAYS AND MEANS COMMITTEE

NEVADA STATE LEGISLATURE - 60th SESSION

March 2, 1979

Chairman Mello called the meeting to order at 7:35 a.m.

PRESENT: Chairman Mello, Vice-Chairman Bremner, Mr. Barengo (Late 9:30), Mrs. Cavnar, Mr. Glover, Mr. Hickey, Mr. Mann, Mr. Rhoads, Mr. Vergiels, Mrs. Wagner, and Mr. Webb.

ALSO PRESENT: Bill Bible, Fiscal Analyst; Judy Matteucci, Deputy Fiscal Analyst; Mike Alastuey, Deputy Budget Director; Steve Robinson, Budget Office; Joe Souza, Director, Highway Department; Gene Phelps, Highway Department Business Manager; Don Crosby, State Highway Engineer; Assemblyman Chaney; Dr. Baepler, University of Nevada; Mr. Ray Conte, Independent Insurance Agent's Association; Mr. Roland Westergard, Director of Conservation and Water Resources; Terry Sullivan, State Purchasing; John Crossley, Legislative Council Bureau; Gary Crews, State Auditing; and Bill Hancock, Department of Public Works.

DEPARTMENT OF HIGHWAYS

Chairman Mello introduced Mr. Gene Phelps to speak to this budget and to the general fund one-shot request.

Mr. Phelps stated that increases in personnel are not being requested, and that because of state revenue shortages additional deterioration in the highway system would be particularly noticeable in the urban areas where traffic has increased rapidly. He indicated that a prime concern of the Department is resurfacing existing highways to delay deterioration to a point where it becomes necessary to rebuild at a much greater cost. Mr. Phelps said that the Federal Highway Program is not a grant type of program; instead the Federal Government agrees to construction on a project by project basis, with payment after the work is completed. He stated there is no Federal aid available for the maintenance program. Mr. Phelps furnished the Committee a handout detailing the revenue and other statistics. (Exhibit "A")

Mr. Phelps said that the Department, in light of Question 6, is not requesting a revenue increase this biennium but would most certainly request revenue increases such as; increases in the gasoline tax, registration and license fees; as ways of getting needed revenue to catch up with delayed priority construction projects. He indicated that the projected Highway fund cash balance, as of 6/30/81, of 2 to 6 million is dangerously low.

Mr. Phelps said that gas tax revenues are growing at a much lower rate than highway cost due to smaller cars and increased mileage. Mr. Phelps added that the cost of asphalt has gone up 100% and other materials have had similar increases.

Mr. Phelps said that the number of employees is about 1300 and the Department is budgeted for the biennium at 1325 full time positions with 47 additional CETA positions that are used in maintenance. He indicated that when these positions expire, the Department will not be able to use them anymore as the Federal government has reduced salary levels.

Mr. Phelps said that the Highway Department is seriously concerned about some of the old roads simply needing to be replaced. He said the Department should be spending \$23,000,000 on resurfacing contracts, but because of revenues, they have been averaging \$7,000,000 to \$8,000,000 per year.

Mr. Mello asked about the type of taxes that would be recommended. Mr. Phelps said that a 2¢ increase on fuel for maintenance and consideration of an additional 2¢ for bonding for high priority construction were currently being considered. ✓

Chairman Mello pointed out that Governor List has pledged to veto any increases in gasoline taxes unless provision is made for approval by a vote of the people.

Chairman Mello asked how Nevada compares with other states in the amounts charged for licensing and license plates. Mr. Phelps said that Nevada is in the bottom 10 in almost every non-gasoline tax category and a study done by the Department shows that if Nevada's fees were brought up to average an additional \$8,000,000 per year would be generated. Mr. Phelps referred to the fees as being registration fees, drivers licenses, motor vehicle fees, motor carrier fees which are all in the bottom ten in comparison with other states.

Chairman Mello asked Mr. Phelps to furnish the Committee a comparison of Nevada's fees with those of other states.

Mr. Mann said that gasoline prices may increase to \$1 a gallon and it would be difficult to convince the people of the need for a gas tax increase.

Mr. Hickey said that State funds have to go directly into maintenance and equipment and suggested a study of maintenance needs. He asked how Nevada ranks in per capita highway spending. Mr. Phelps said that most studies are based on cost per lane mile, or cost per mile and that a large portion of traffic is tourist traffic or traffic using Nevada as a "bridge" state to get to somewhere else. He pointed out that per capita expenditures would not be a realistic measure of maintenance costs. ✓

Mr. Phelps said that the \$5,000,000 one-time appropriation is recommended for replacement of worn and obsolete equipment and vehicles that could not otherwise be replaced; and the general fund will allow other funds to be used for Federal matching purposes and maintenance of State highways.

Mrs. Wagner requested a list of the 13 delayed priority projects that Mr. Phelps said were delayed because of lack of funds.

Chairman Mello asked why State Printing does not do the Highway Department's printing.

Mr. Crosby, Deputy Highway Engineer, said that the State Printing Office just could not meet the demand of the Highway Department, particularly during the legislative session.

Mr. Phelps said that in the past, State Printing has never been able to meet their needs, and deadlines. Mr. Crosby also said that the Department has a \$12,000,000 project in Elko with very tight scheduling and that a month delay due to printing delays in getting the contract out could have cost one to two million in increased costs.

Chairman Mello pointed out that State Printing is requesting some new equipment and has indicated that they can get the work out in a timely manner, even during the Legislative session.

Mr. Crosby added that Federal funds frequently become available on a first-come, first-serve basis with very little notification and that State Printing would have trouble handling this type of work. He observed that the Highway Printing Department has handled some of the overflow work for State Printing, and that the Highway Department has significantly reduced their printing costs.

Mr. Bremner said that many agencies are asking for microfilm and printing capabilities, which circumvent State Printing who is able to reduce printing costs through increased volume. Mr. Bremner said that there is a Subcommittee concerning this matter composed of himself and Mrs. Wagner and that State agencies will have to justify their need for this equipment or it will be taken away.

Mr. Hickey asked if during periods of time when State Printing does have too much work if some of this printing could be handled through outside contract instead of increased State agency printing.

Mr. Phelps said that a great deal of Highway's printing is done by the State Printing Office and that the Department only does specialized printing. He added that Highway has had their own printing operation for about 20 years.

Mr. Vergiels asked when Highway had last met with State Printing regarding their printing capabilities. Mr. Phelps said that the Highway Department had met with Mr. Bailey about six months ago.

Mr. Vergiels suggested that the Highway Department should again meet with State Printing because the Printer has assured the Committee that they want this program and can do the work on a timely basis.

Chairman Mello said that the more printing that State Printer has, the cheaper it can be done for the taxpayer.

Mrs. Wagner asked if the Highway Department has obtained any cost estimates from private printers on overflow work projects.

Mr. Phelps said that most of this printing is very specialized and he did not know of any private source being able to do this photograph and plan type of work.

Mr. Glover observed that it would be very difficult to sell the public on any tax increase unless they feel that the Highway Department is doing the best job possible without waste and duplication of work.

Mr. Phelps said that the Highway Department has done a productivity study of maintenance and has had substantial improvement in this area.

Chairman Mello asked Mr. Phelps for comments concerning Mr. Wittenberg's productivity study.

Mr. Phelps said that a study was made of the printing operation with very disappointing results as the specific areas that were suggested for study got very cursory treatment. He said that the study went into duplicating machines and suggested putting all these machines in one area which would have had engineers, and other highly paid people spending time running up and down stairs and standing in line to use this equipment. Mr. Phelps said that in addition people would have had to be hired to run the copy center.

Mr. Vergiels asked if the Highway Department has microfilm capabilities. Mr. Phelps replied that the Highway Department does and has made very productive good use of this capability.

Mr. Bremner said that these productivity studies are not supposed to justify what an agency is doing but are supposed to give suggestions that are helpful.

Mr. Phelps expressed the opinion that the Productivity Study done by the Personnel Department was not a good job.

Chairman Mello asked if the Highway Department is satisfied with other services of State Personnel.

Mr. Phelps said that they were not and are concerned about the long periods of time to recruit and examine people for even routine positions. Mr. Phelps said that it takes a minimum of 60 days to fill any position when someone leaves and sometimes as long as 6 months.

Mr. Hickey asked who did the maintenance productivity study for the Highway Department. Mr. Phelps said that it was done by an engineering consultant firm, Bird, Downing & McDonald, and he would furnish the Committee with a copy.

Mr. Hickey asked the number of unfilled positions. Mr. Phelps said that there are 60 vacancies in technical and professional areas. He added that there is a shortage of engineering people and that the State is noncompetitive in salary and that some of these positions have been unfilled for over six months.

Mr. Mann asked if the Highway Department has ever considered using prison inmates for roadside maintenance work to replace present help when it is no longer available.

Mr. Phelps said that the Highway Department could use prison help, but said that there may be security problems and would have to use guards for supervision. He added that this project might entail some degree of risk to the public using the highways and some risk to the prisoners as working on the highways is a very dangerous occupation.

Mrs. Wagner asked the salary of an engineer.

Mr. Phelps said that a beginning engineer with a college degree would start at about \$800.00 per month and to attract engineers, the Department has to pay about \$1200.00 per month. He indicated that the Department has a cooperative program with the University of Nevada where students work through school and are then offered work to fill vacancies.

Mr. Rhoads asked how much roadside rest areas cost to build. Mr. Phelps said that the initial cost is over \$300,000 to build and about \$45,000 a year in maintenance costs.

Mr. Rhoads asked if it is mandated by the Federal government to build these rest areas.

Mr. Phelps indicated that it was and said that the Federal government pays 95% of the construction costs and the Highway Department provides the other 5% and the annual maintenance costs.

Mr. Vergiels asked for a listing of positions which they have had trouble filling through State Personnel. Mr. Phelps said that he would furnish the Committee with this information.

Mr. Vergiels said that he would like to show this list to Mr. Wittenberg to see why it takes so long to publish these jobs and to get applicants for them.

Mr. Webb asked if some of these jobs are unfilled due to the tough labor market.

Mr. Phelps said that at least part of this problem is the whole process of announcement periods and oral examinations which take time.

S.B. 40

Mr. Swackhammer said that S. B. 40 had been introduced at his request and provides for the payment of the costs of Nevada's presidential preference primary elections. Mr. Swackhammer said that the cost of the referendum concerning the 18 year old right to vote cost \$156,000 and his office had to go Interim Finance to get the money which delayed payment to the counties by several months. This bill would provide payment through the Statutory Contingency Fund. He indicated that the cost of the election is difficult to estimate and should not really be a budget item.

Mr. Mann asked if Mr. Swackhammer was in favor of repealing the presidential primary. Mr. Swackhammer said that he opposed this idea as 65% of the registered voters approve the primary.

A.B. 342

Assemblyman Lonnie Chaney said that the intent of this bill requires employers to post an abstract of laws pertaining to equal employment opportunities and to advise individuals on where to go in the event of equal employment problems. Mr. Chaney said that the Equal Rights Commission had sufficient budgeted funds to provide for the printing of the abstracts.

Mr. Glover asked if this measure would really help people to get better jobs. Mr. Chaney said that this bill would not help people get better employment but would advise an individual on where to go if a problem arises in the area of discrimination.

Mrs. Wagner inquired about the number of establishments in the State that do not already have this information available, and asked Mr. Chaney to demonstrate a need for this legislation.

Mr. Chaney did not know the number of establishments but said that many people who felt that they had been discriminated against simply did not know where to go for help.

A.B. 83

Dr. Don Baepler, Chancellor, said that this bill provides a self insurance system for the University of Nevada System and that this concept had been considered several times in the past. He said that the bill has some technical problems on the type of coverage provided and the type of insurance monies paid to the fund. He pointed out that the bill would only cover property not liability, and that liability insurance would still have to be covered at a cost of about \$327,000 more per year than the University System is currently paying for insurance. Another problem, explained Dr. Baepler, is that the University is part of the State's general insurance program which would cause the rates to be raised if the University System is removed from the program.

Dr. Baepler said that a reserve fund would have to be built up through annual payments and that it would be most difficult to determine an adequate reserve as a destruction of a building or a library could run as much as \$27,000,000.

Mr. Mann asked the total amount of property and liability claims in the last few years. Dr. Baepler said that the smaller claims of about \$40,000 had been mainly for fires and larger claims had been in the public liability areas with seven suits in 1978.

Mr. Mann observed that the statutory limit for taking action against State is \$35,000 and asked that since the University System has spent over \$200,000 in the last several years in premiums if it perhaps would be more economical to take a chance that there would not be a large suit and go ahead and establish this fund.

Dr. Baepler said that the \$35,000 limit could be challenged in the courts.

Mr. Barengo asked where the figures for insurance costs come from. Dr. Baepler said that these costs are the current premiums being paid. Mr. Barengo then asked if the University System had ever consulted a risk manager. Dr. Baepler said that they had not. Mr. Barengo requested that a risk manager be consulted.

Mr. Vergiels asked that figures be provided on separating property and liability coverage.

Dr. Baepler said that if public liability is removed from the bill and amounts budgeted for property insurance were put into the fund, it would amount to \$258,000 per year. Dr. Baepler said that it would take many years to accumulate a sufficient reserve to cover any large claims.

Mr. Hickey asked about the percentage increase of building values. Dr. Baepler said that the cost of replacing buildings has been increasing about 10% a year because of inflation.

Chairman Mello requested information on the premiums for the last five years and the losses for the last five years. Dr. Baepler said that he would furnish this information for the Committee.

Dr. Baepler introduced Mr. Ray Conte, Nevada Independent Insurance Agent's Association, to testify to this bill.

Mr. Conte said that this Association writes the insurance for the State and furnished the Committee with a letter from Mr. Larry Kees, Executive Vice President, which registered opposition to Assembly Bill 83. A copy of this letter is included as Exhibit "B".

A.B. 254

Mr. Terry Sullivan, State Purchasing Director, said that this bill provides for an appropriation of \$45,000 to purchase land in Las Vegas adjacent to the purchasing warehouse in Las Vegas.

Mr. Sullivan said that an appraisal of nearby land four years ago was \$2.94 per square foot and that this land is cheaper at \$2.67 per square foot for 1/3 of an acre. He indicated that the actual purchase price is \$40,000 but the seller has indicated that they will not pay any of the related costs involved in acquiring the land, thus the extra \$5,000. Mr. Sullivan added that this land is needed for storage and without it, that the State would have to rent land.

Mr. Mann said that this price seemed somewhat high for land and asked if Mr. Sullivan had compared other land prices in the area. Mr. Sullivan said that he had looked at other land in the same area that was more expensive and thought that this land is an excellent buy.

A.B. 301

Mr. Roland Westergard, Director of the Department of Conservation and Natural Resources, said that this request is for \$300,000 to augment litigation funds used to protect the State's interest on the Truckee River Stream System, where the Salmon Falls are, and other possible areas that might occur in the future. Mr. Westergard

said that the current balance in this fund is about \$190,000 and this additional funding is necessary to be sure that the State has adequate funding to protect the State's interest. He added that the status of these two cases are as follows: the Truckee River case is on appeal in the 9th Circuit Court of Appeals; the other case involves a stream in the northern part of Nevada where the people in Idaho are alleging that pumping of ground water on the Nevada side of this state line is adversely affecting flow of water and that this case has been referred back to the local District Court for a hearing on the merits.

Mr. Alastuey said that the bill provides for a reversion of this appropriation in Section 2 and suggested deletion of this provision in order to keep this fund available for on-going litigation. Mr. Westergard concurred in this suggestion.

S.B. 149

Mr. John Crossley, Legislative Auditor, said that this bill changes accounting procedures used by the State Computer Facility and makes an appropriation.

Mr. Crossley introduced Mr. Gary Crews, Deputy Legislative Auditor, who indicated that this bill changes depreciation procedures in regards to fixed assets such as equipment purchases. These assets would be depreciated for their estimated useful life. Since this change in accounting methods would recapture the equipment costs over the useful life, an appropriation is necessary for the purchase of the equipment.

Mr. Bible asked if a State appropriation would be necessary to provide working capital balances wherein the State operates an enterprise fund in order to accommodate this accounting charge.

Mr. Crossley said that this would not be necessary and some agencies, such as Printing, already have a balance that they work against.

S.B. 183

Mr. Bill Hancock, Public Works Board, said that this bill would provide \$300,000 to remodel the Octagon Building for use of the Controller and his staff. He indicated that this building should be designed for a one occupant use and pointed out that the refurbished capitol building would provide office space for all the elected officials except the Attorney General. The Controller, however, has indicated that he does not want to move back in unless his staff is close by. There is no space in the remodeled Capitol for the staff unless the Planning Coordinator were moved and a portion of the basement were renovated. He added that the Controller is currently renting 6,900 square feet of space.

Mr. Bremner asked if these offices could be moved into this building without remodeling. Mr. Hancock said that mechanically and electrically it would not be possible but that the building is structurally sound.

Mrs. Wagner asked what provision was made in the original remodeling plans for the Capitol Building for these offices.

Mr. Hancock said that in the original plans only the present occupants were considered and that consideration was not made for a change in the occupants.

Mr. Bremner asked who is currently occupying that building.

Mr. Hancock said that the contractor for the Capitol Building has the first floor, Buildings and Grounds stores materials in the basement, and bicentennial records are stored on the second floor.

Mr. Hancock said that at the Senate hearings, the desire was expressed to have this remodeling project done at the same time as the Capitol, and perhaps if the same contractor is awarded the bid, obtain a better price.

Mrs. Cavnar inquired into the procedure for letting of bids for these construction projects with regards to publishing the total amount of funds available.

Mr. Hancock said that the estimated construction cost of this project is \$240,000 with the balance being for architectural fees, etc. and estimates must be published when soliciting bids which gives the contractor an idea of the magnitude of the job. He further indicated that the competitive bid process produces more competition even though the contractors know the total funds available.

Chairman Mello pointed out that appropriating the money after bids are let would, because of inflationary building costs and the time involved in getting the necessary legislative action, probably increase the projects costs.

Chairman Mello said that this bill would be held until the Subcommittee reports back.

S.B. 149

Mr. Bremner made a motion for a "Do Pass"; seconded by Mr. Bremner. Motion passed.

Mr. Hickey made a motion for a "Do Pass, as Amended"; seconded by Mr. Webb. Motion passed.

A.B. 254

Mr. Webb made a motion to add a reversion provision to the bill, seconded by Mrs. Wagner. Motion Passed.

Mr. Webb made a motion for a "Do Pass, as Amended"; seconded by Mrs. Wagner. Motion passed.

A.B. 342

Mr. Mann made a motion for a "Do Pass"; seconded by Mrs. Cavnar. After some discussion, Mr. Mann withdrew his motion.

A motion was made by Mr. Mann and seconded by Mr. Bremner for a "Do Pass with a re-referral to the Commerce Committee. Motion passed.

S.B. 40

A motion was made by Mr. Hickey and seconded by Mr. Glover for a "Do Pass with re-referral to Elections Committee". Motion passed. Mr. Mann, Mr. Webb, and Mrs. Cavnar voted no.

DEPARTMENT OF ECONOMIC DEVELOPMENT

Mr. Bremner suggested adding \$150,000 to the budget each year for the Nevada Development Authority as follows: \$100,000 predicated on N.D.A. securing \$100,000 of matching funds, earned on a dollar-by-dollar basis; and \$50,000 predicated on N.D.A. securing an additional \$100,000 of matching funds earned on a one dollar for two dollar basis.

A motion was made by Mr. Bremner and seconded by Mr. Glover to adopt the additional \$150,000 each year as stated above. Motion passed. Mr. Webb, Mrs. Wagner, and Mrs. Cavnar voted no.

The budget was then held from further action pending additional information from Mr. Hickey on funding for other areas.

The meeting was adjourned at 10:30 a.m.

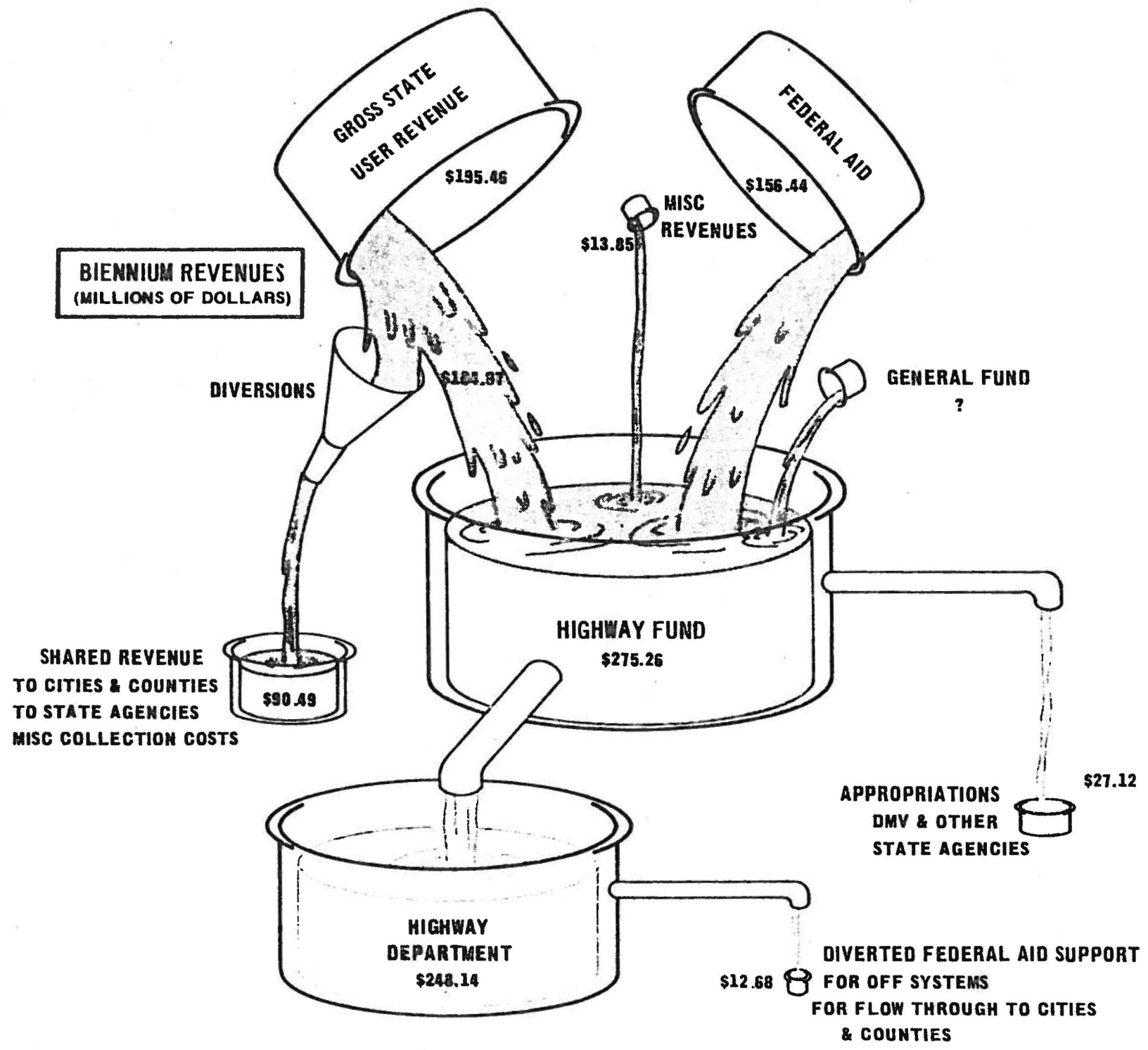
DEPARTMENT
OF HIGHWAYS

Budget Summary

1979-1981 Biennium

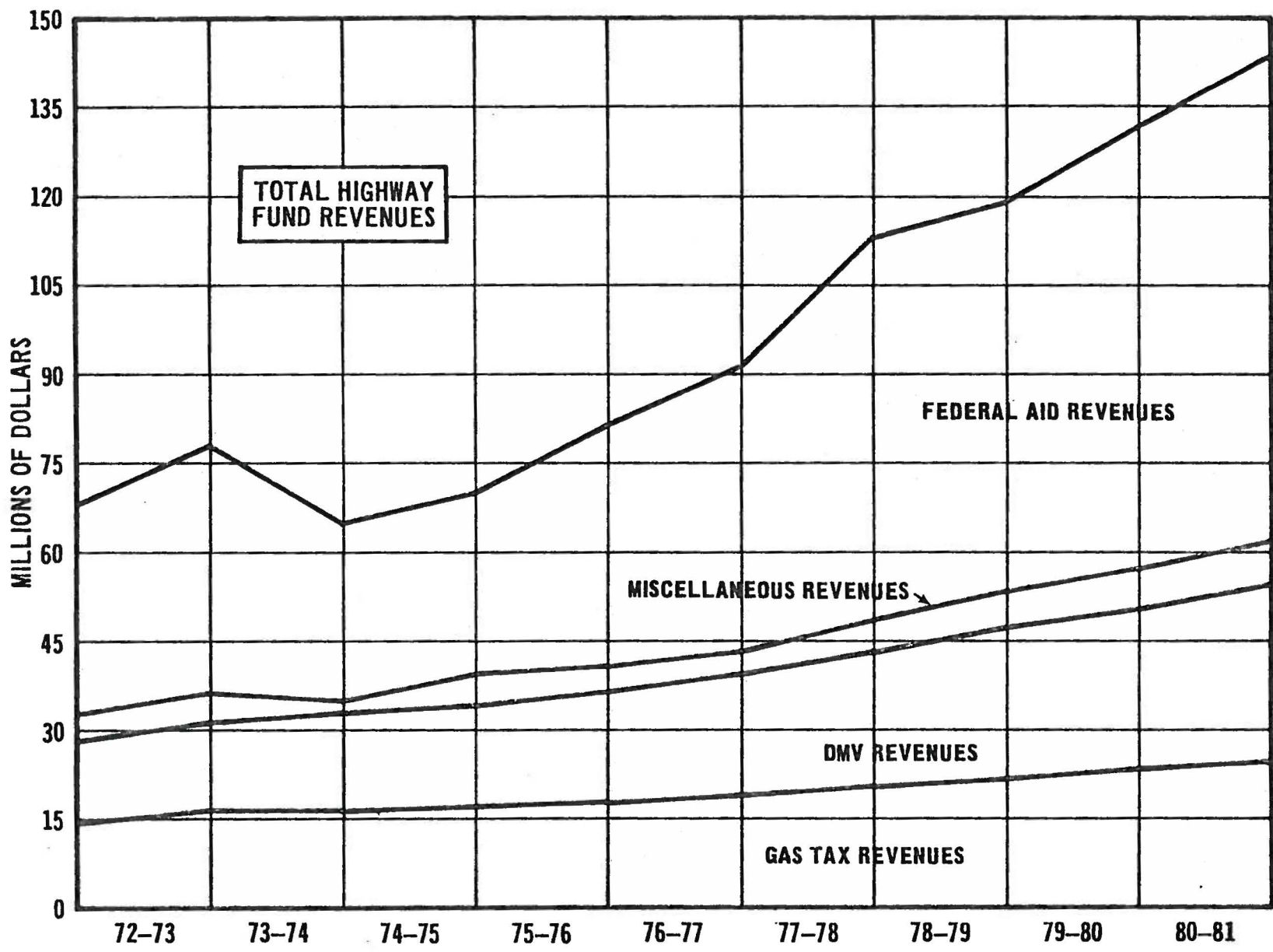
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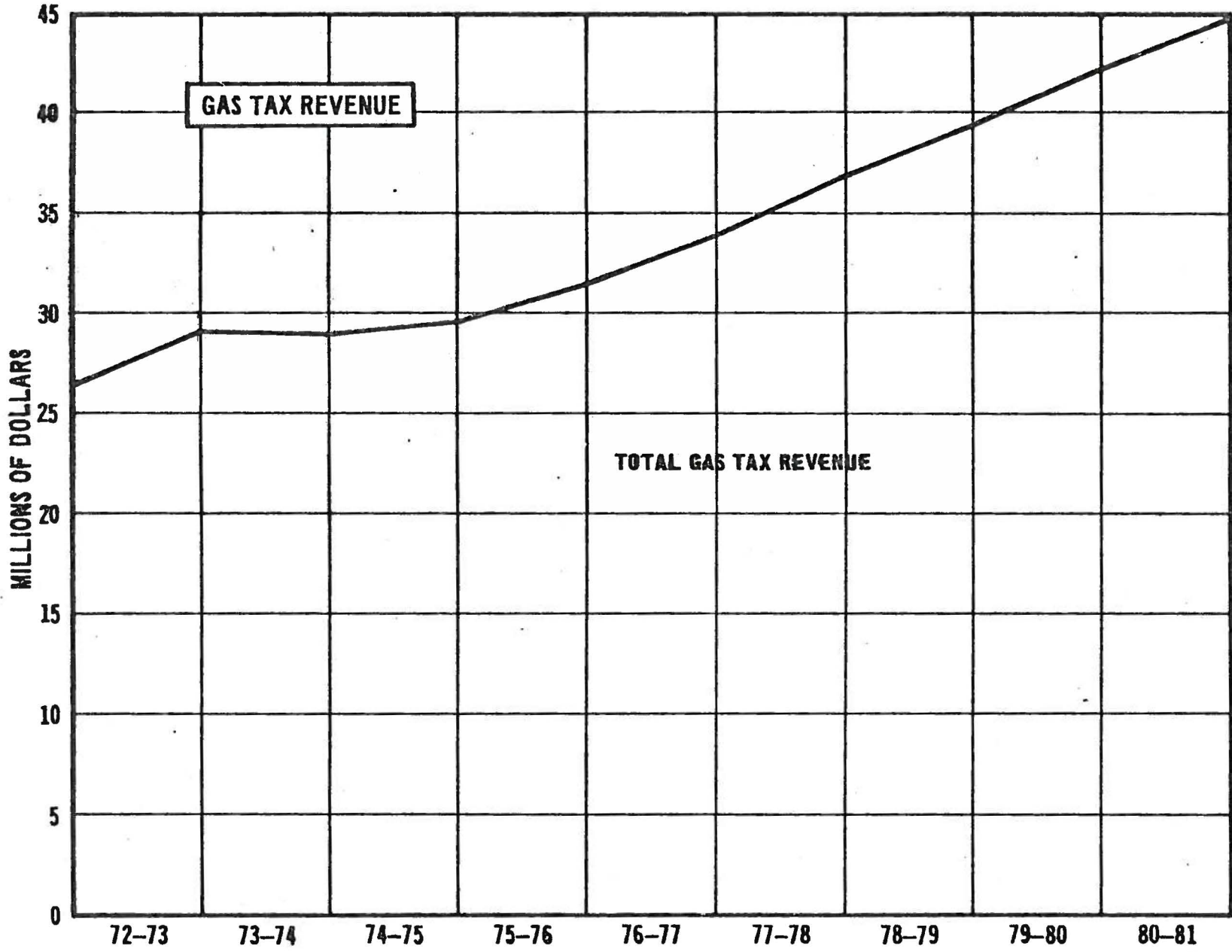
**BIENNIUM REVENUES
(MILLIONS OF DOLLARS)**

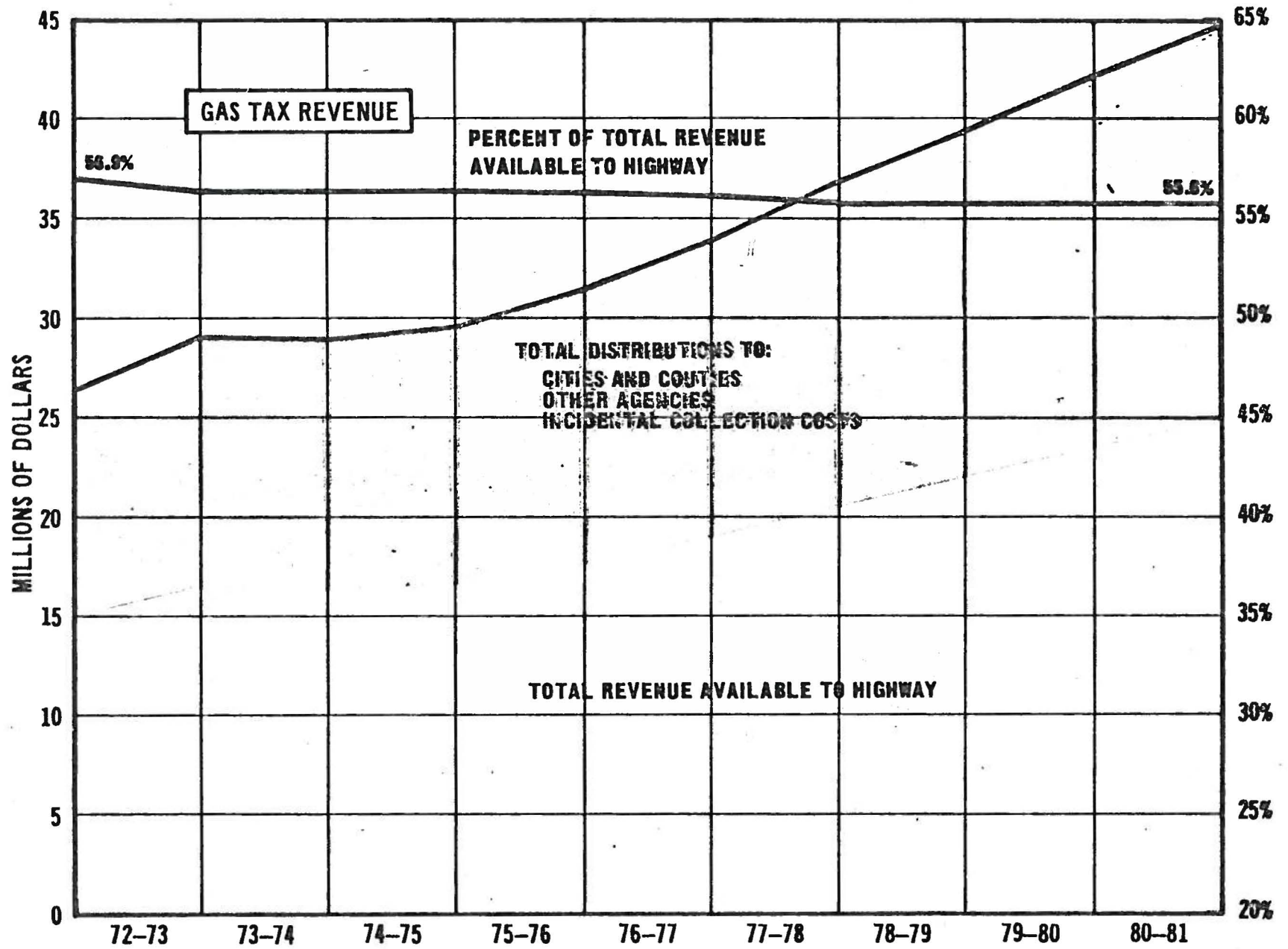


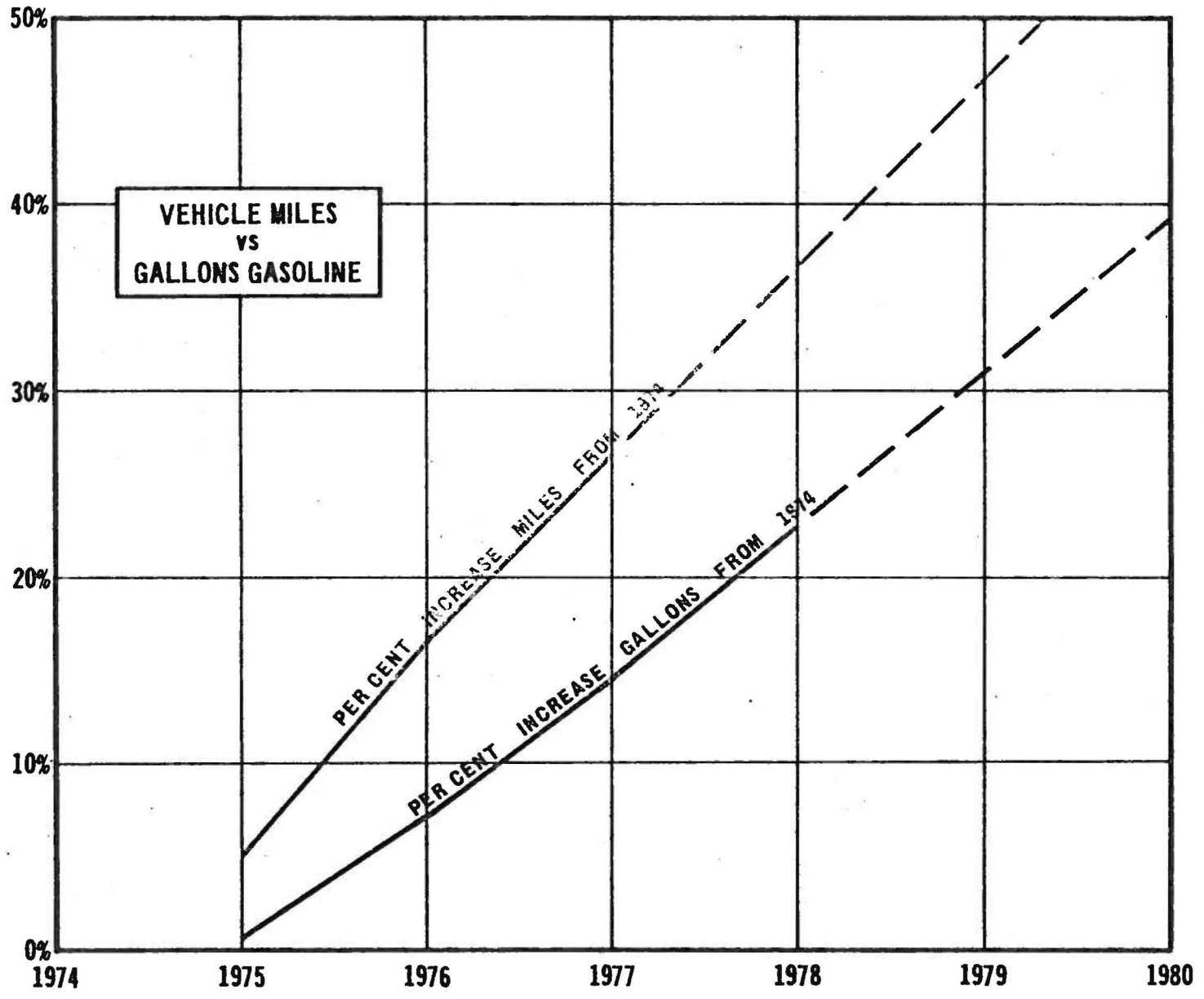
SOURCE OF REVENUES
(MILLIONS OF DOLLARS)

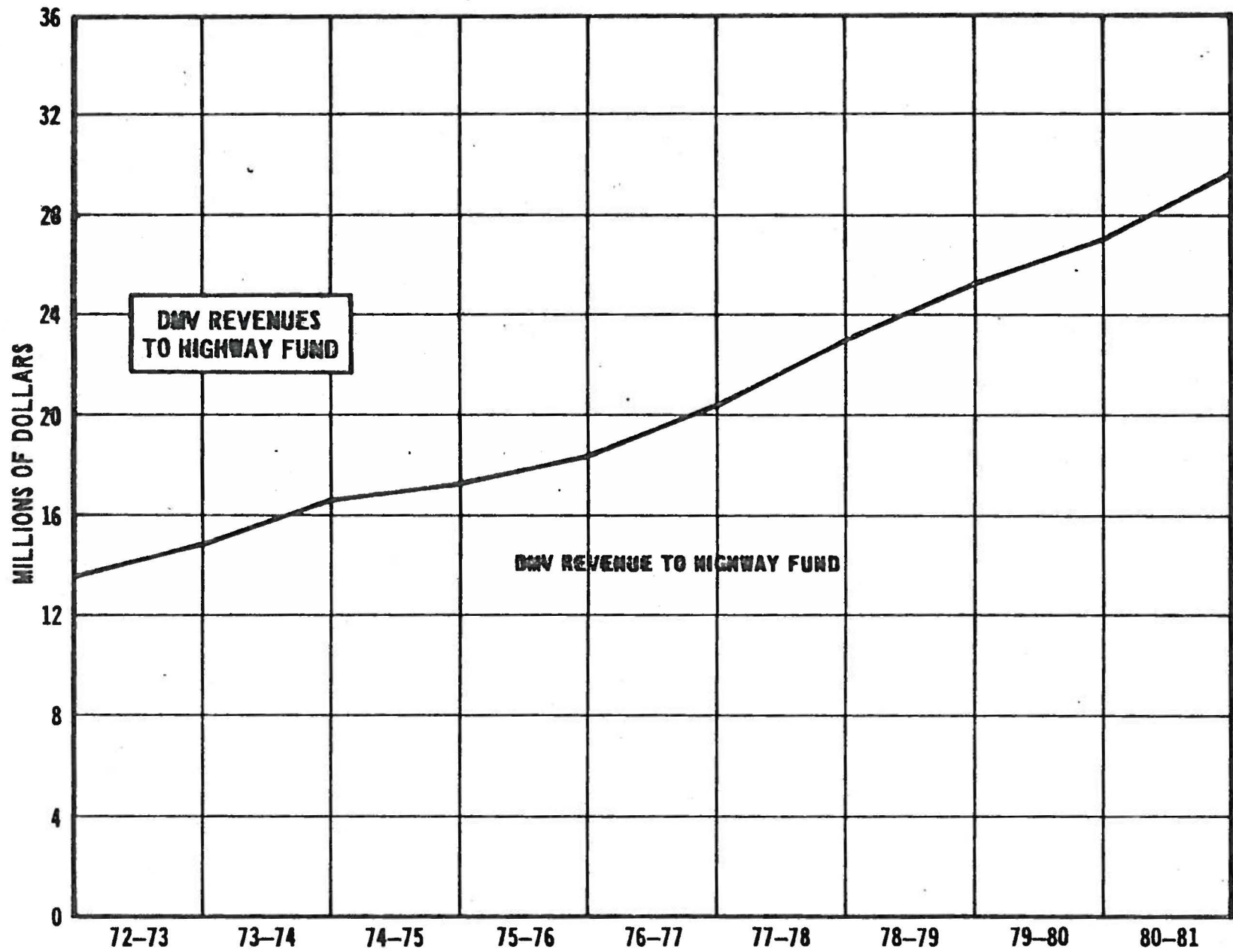
	77-78	78-79	79-80	80-81
GROSS HIGHWAY USER REVENUE	\$78.30	\$85.02	\$93.64	\$101.82
LESS: SHARED REVENUE TO CITIES & COUNTIES	31.08	33.73	38.76	42.61
SHARED REVENUES TO OTHER AGENCIES	2.79	3.05	3.26	3.54
MISC COLLECTION COSTS	.97	1.05	1.13	1.19
TOTAL SHARED REV & COLL COSTS	34.84	37.83	43.15	47.34
LESS: APPROPRIATIONS TO DMV	9.81	10.14	11.82	11.98
APPROPRIATIONS TO OTHER STATE AGENCIES	1.34	1.54	1.52	1.80
TOTAL APPROPRIATIONS	11.15	11.68	13.34	13.78
REMAINING HIGHWAY USER REVENUE (AVAILABLE TO HIGHWAY DEPT)	\$32.31	\$35.51	\$37.15	\$40.70
HIGHWAY USER REVENUE AVAILABLE TO HIGHWAY DEPT	\$32.31	\$35.51	\$37.15	\$40.70
GENERAL FUND APPROPRIATION	0.00	0.00	0.00	0.00
FEDERAL AID REVENUE	66.96	65.99	74.81	81.63
MISCELLANEOUS REVENUE	5.30	6.07	6.62	7.23
TOTAL REVENUE AVAILABLE TO HIGHWAY DEPT	\$104.57	\$107.57	\$118.58	\$129.56

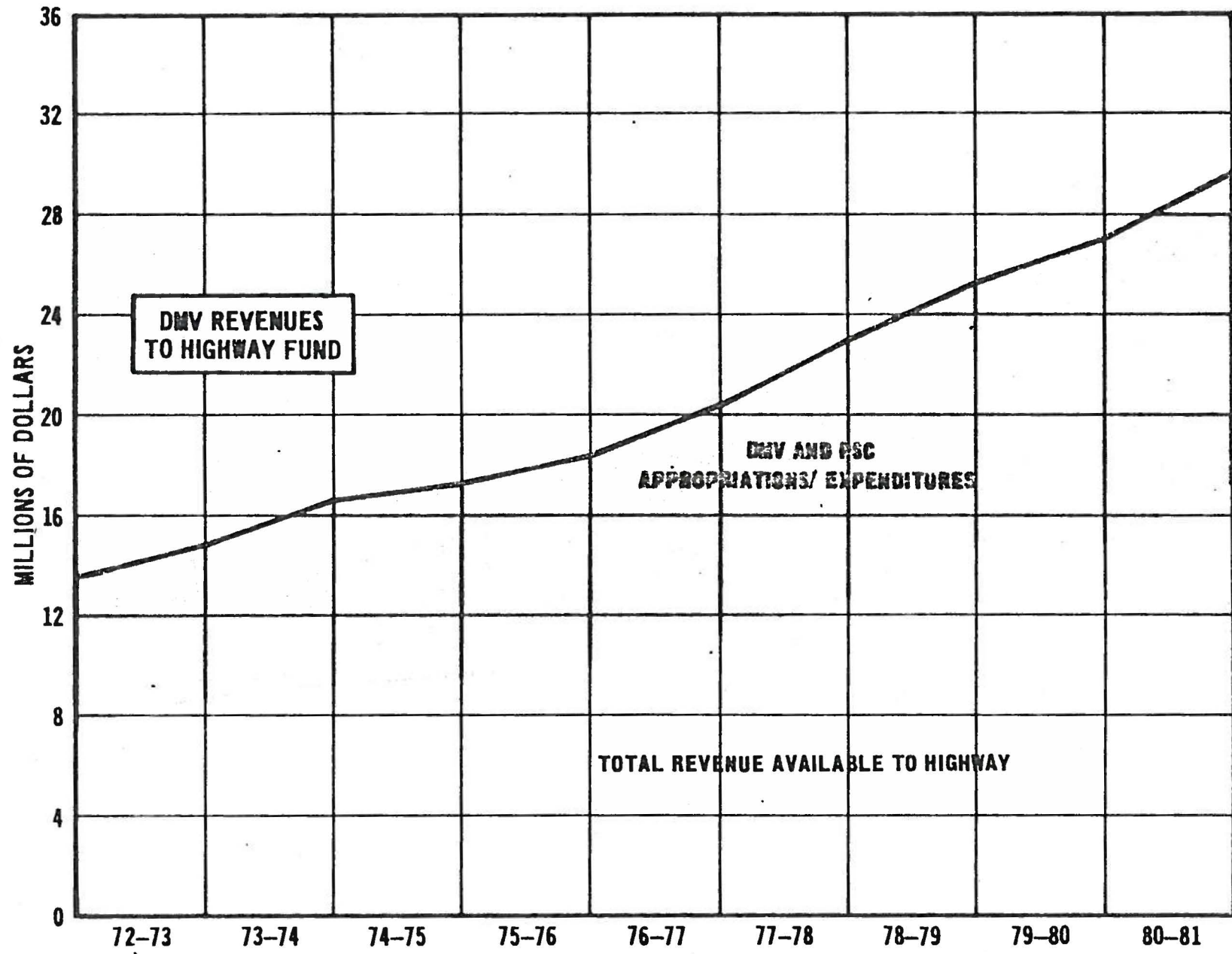


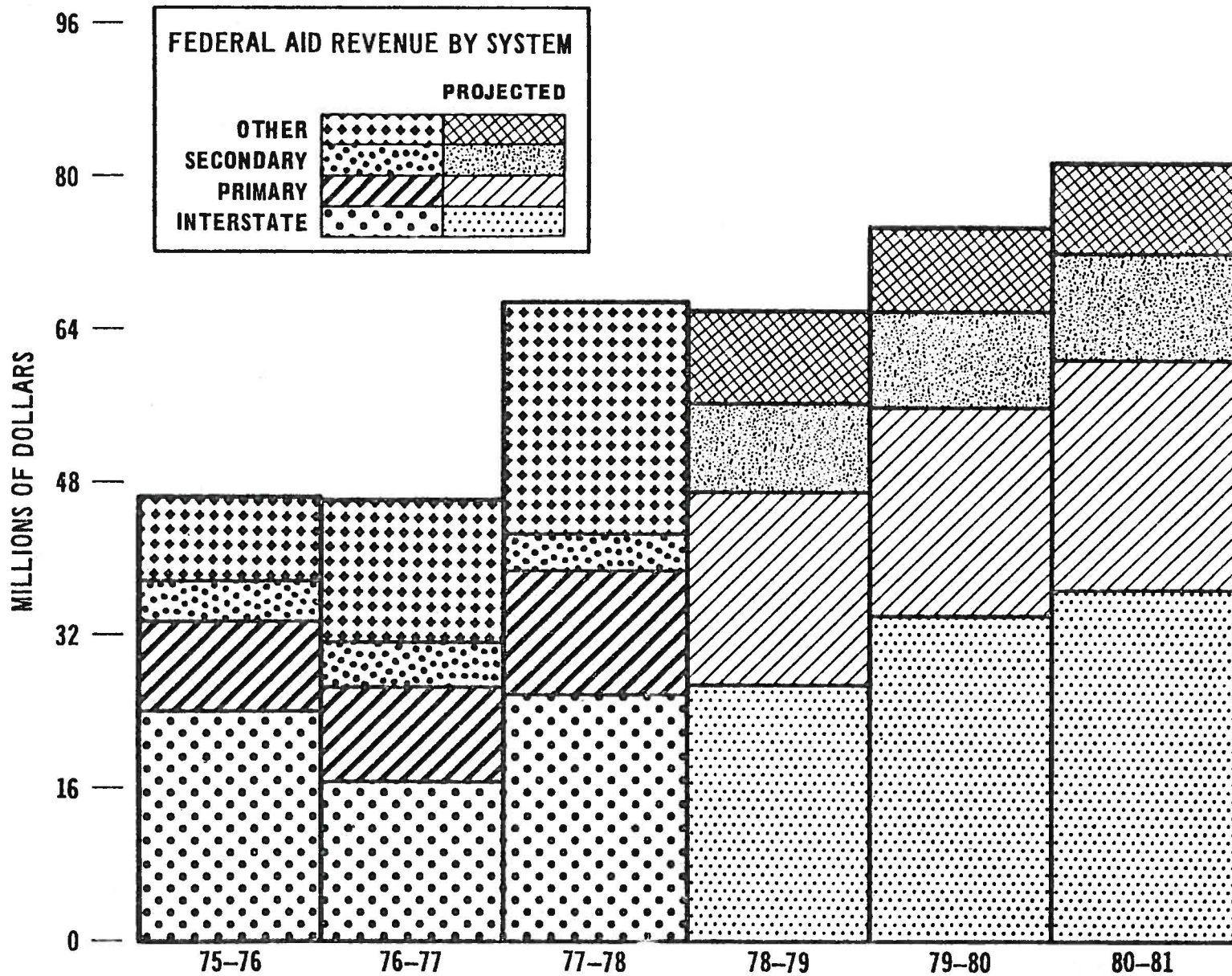


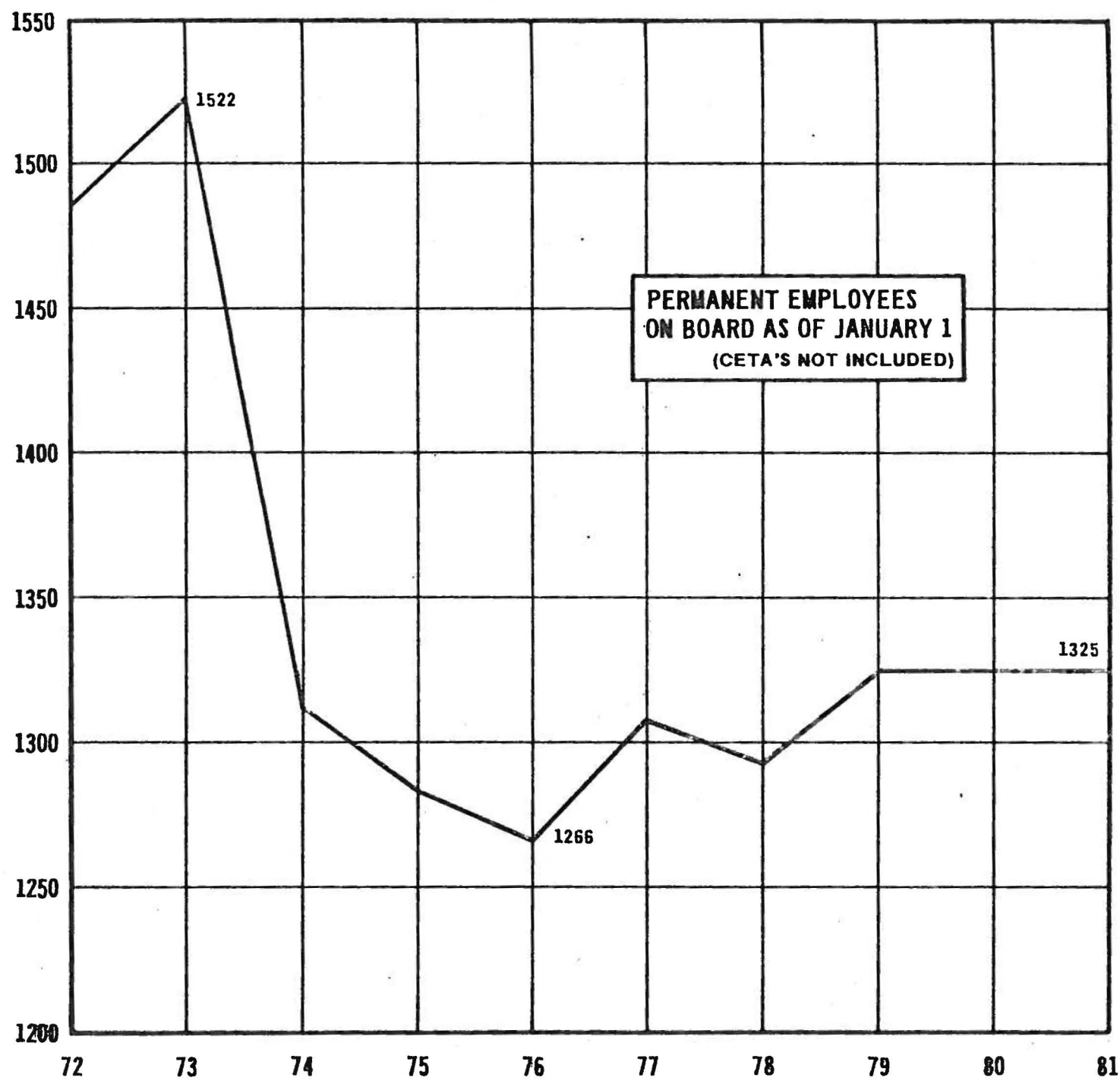




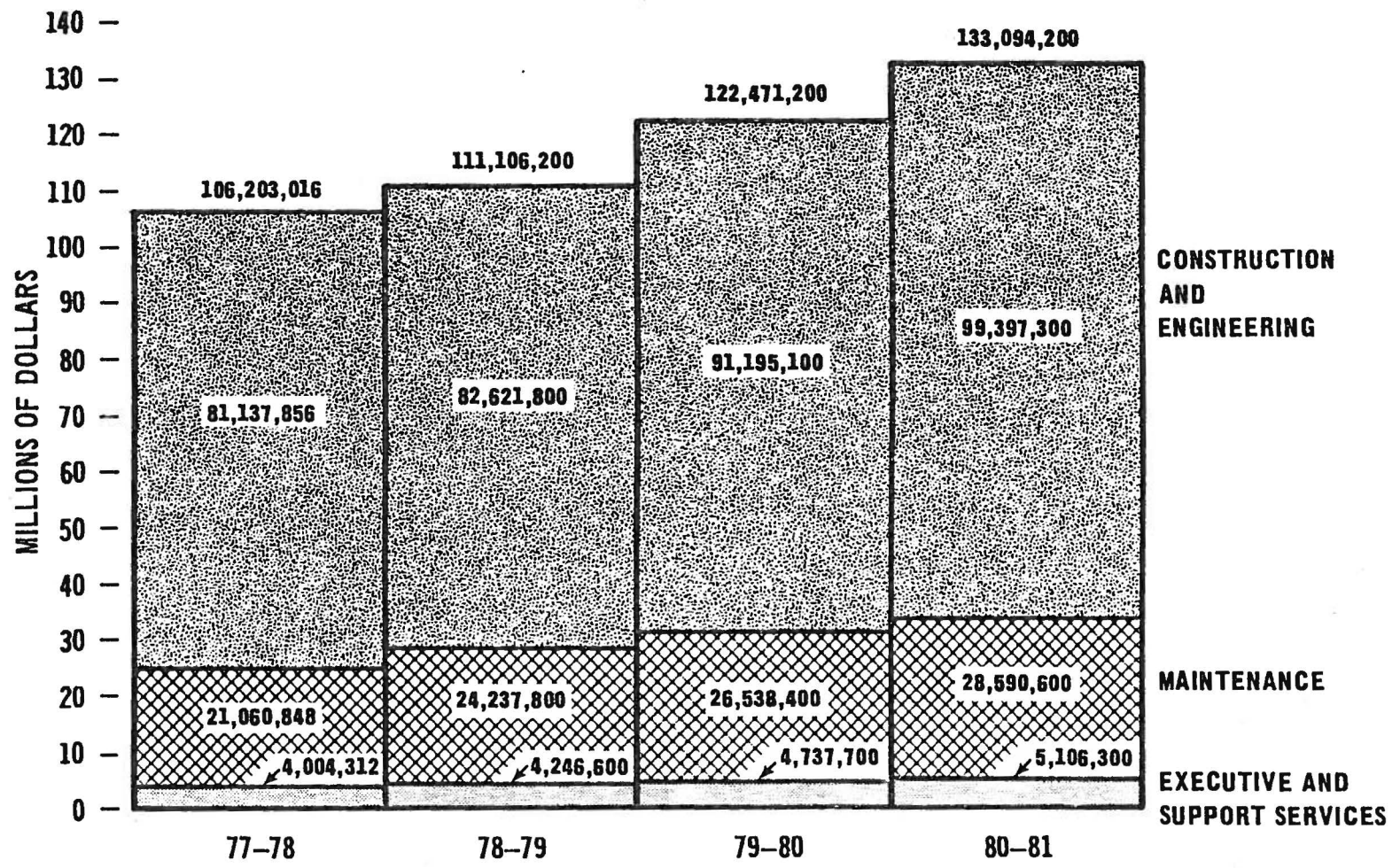








EXPENDITURES BY PROGRAM



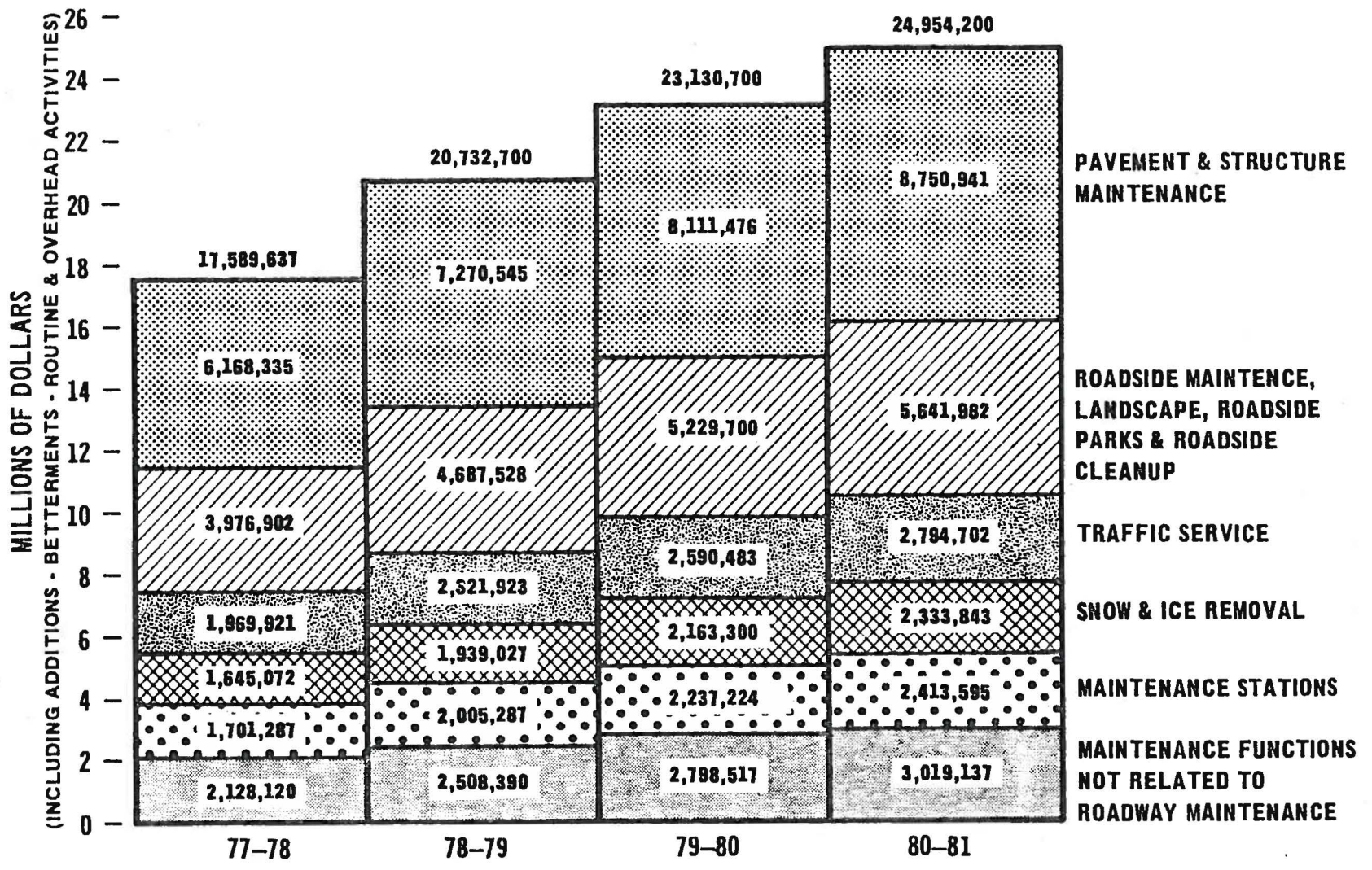
INVENTORY OF MAJOR MAINTENANCE UNITS

	CURRENT INVENTORY 1978	ADDITIONS DURING BIENNIUM
LANE MILES	14,621	194
ROADSIDE MOWING (SHOULDER MILES)	3672	53
ROADSIDE REST AREAS	80	2
INTERCHANGES	120	10
STRUCTURES	587	28
LANDSCAPE AREAS (ACRES)	140	10
RIGHT OF WAY FENCE (MILES)	2713	287
LANE STRIPING (MILES)	16,231	215
TRAFFIC PAVEMENT MARKING (SQ FT)	156,150	2575
GUARD RAIL (LIN FT)	1,726,560	22,940
MAINTENANCE STATIONS	58	0
TUNNELS	4	0
DITCHES (MILES)	7853	104
SIGNS	22,324	326
CULVERTS	24,788	337

INCREASE OF MAINTAINED FACILITIES

	JULY 1, 1973	JUNE 30, 1981	PER CENT INCREASE
LANE MILES	11,825	14,815 est	25.3
STRUCTURES	575	615 est	7.0
INTERCHANGES	110	130 est	18.2
REST AREAS	78	82 est	5.1
LANDSCAPE ACREAGE	45	150 est	233.3

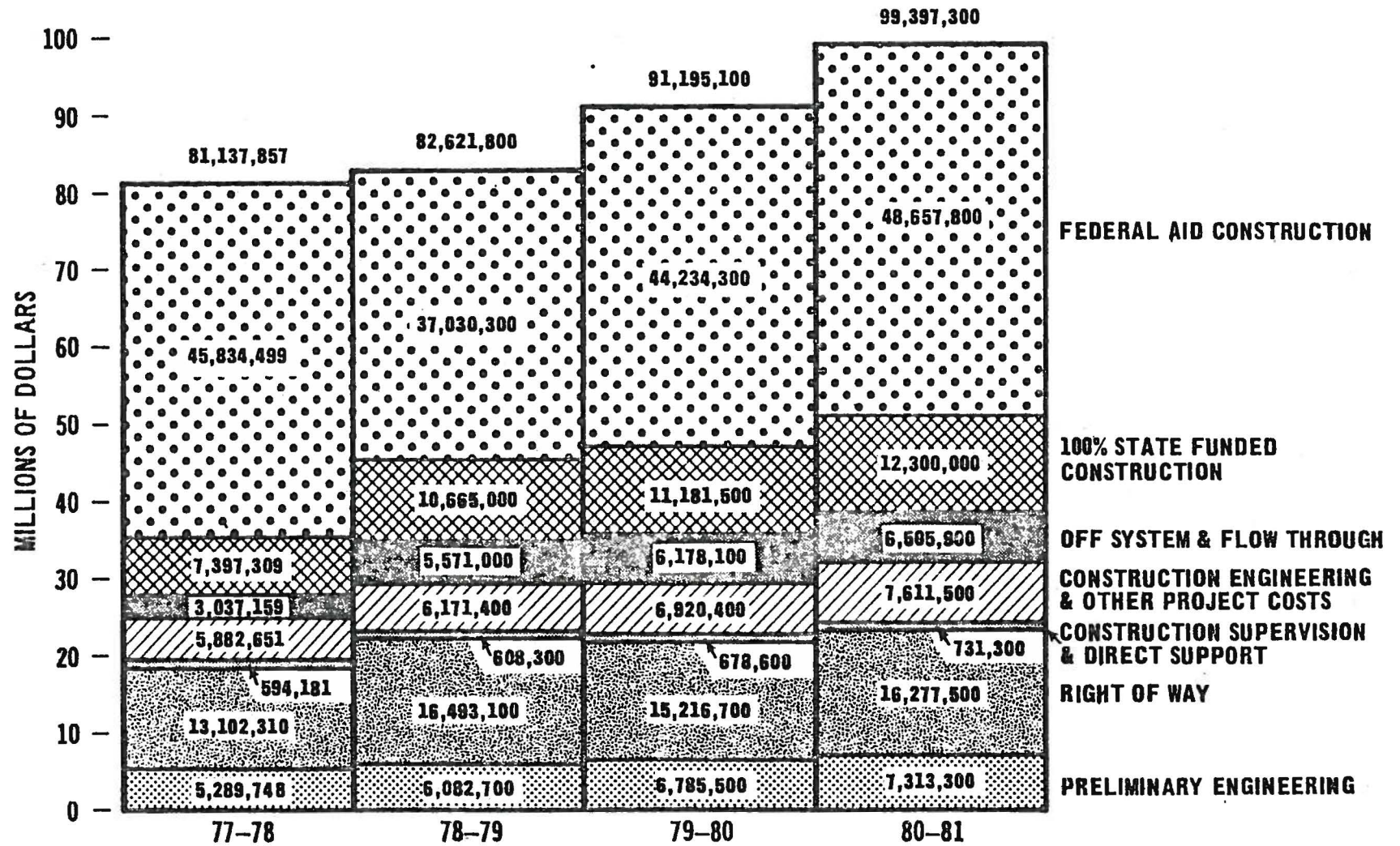
MAINTENANCE BY FUNCTION



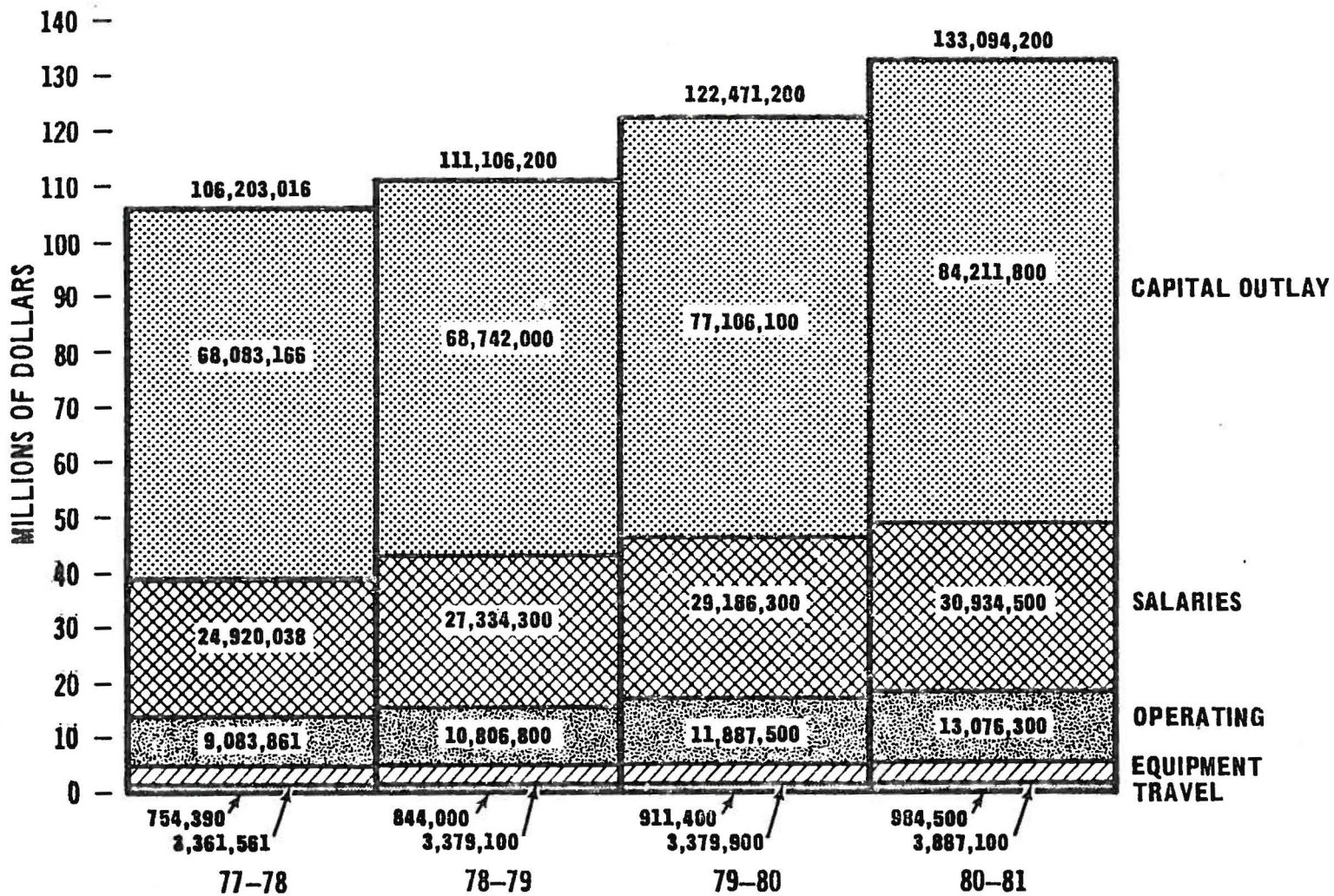
EXECUTIVE & SUPPORT SERVICES

- EXECUTIVE**
 - STATE HIGHWAY BOARD**
 - HIGHWAY DEPARTMENT ADMINISTRATION**
- FINANCIAL SERVICE & D.P.**
 - INTERNAL AUDIT**
 - ACCOUNTING & FINANCE**
 - DATA PROCESSING**
- PUBLIC INFORMATION**
- INDUSTRIAL RELATIONS**
 - PERSONNEL**
 - TRAINING**
 - INDUSTRIAL SAFETY**
- INDIRECT SUPPORT SERVICES**
 - CIVIL RIGHTS**
 - LEGAL SERVICES**
 - FLIGHT OPERATIONS**
 - REPRODUCTION**
 - OFFICE SERVICES**
 - BUILDINGS & GROUNDS**
 - PURCHASING & STORES**

**CONSTRUCTION AND ENGINEERING
TOTALS BY YEAR**

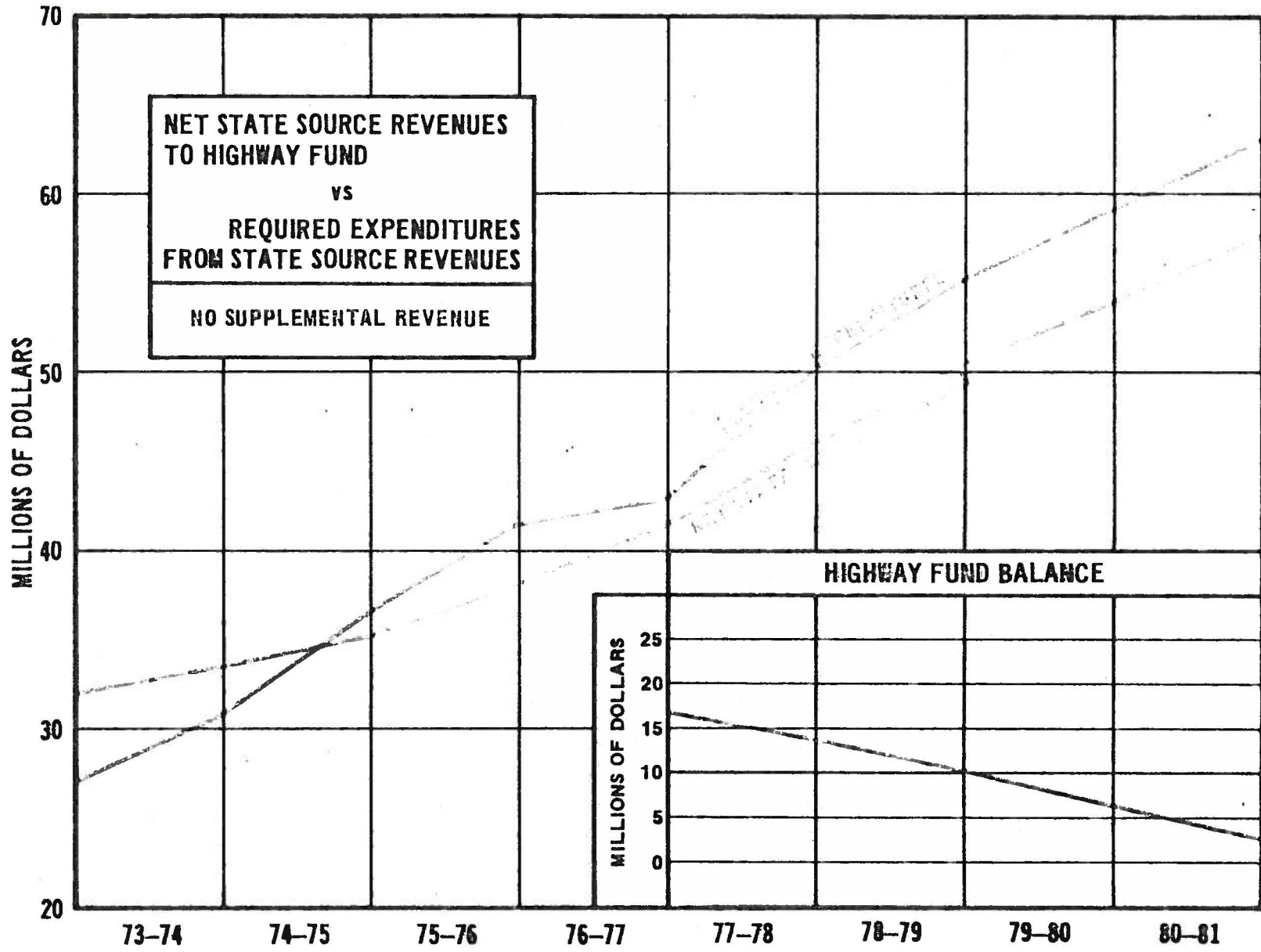


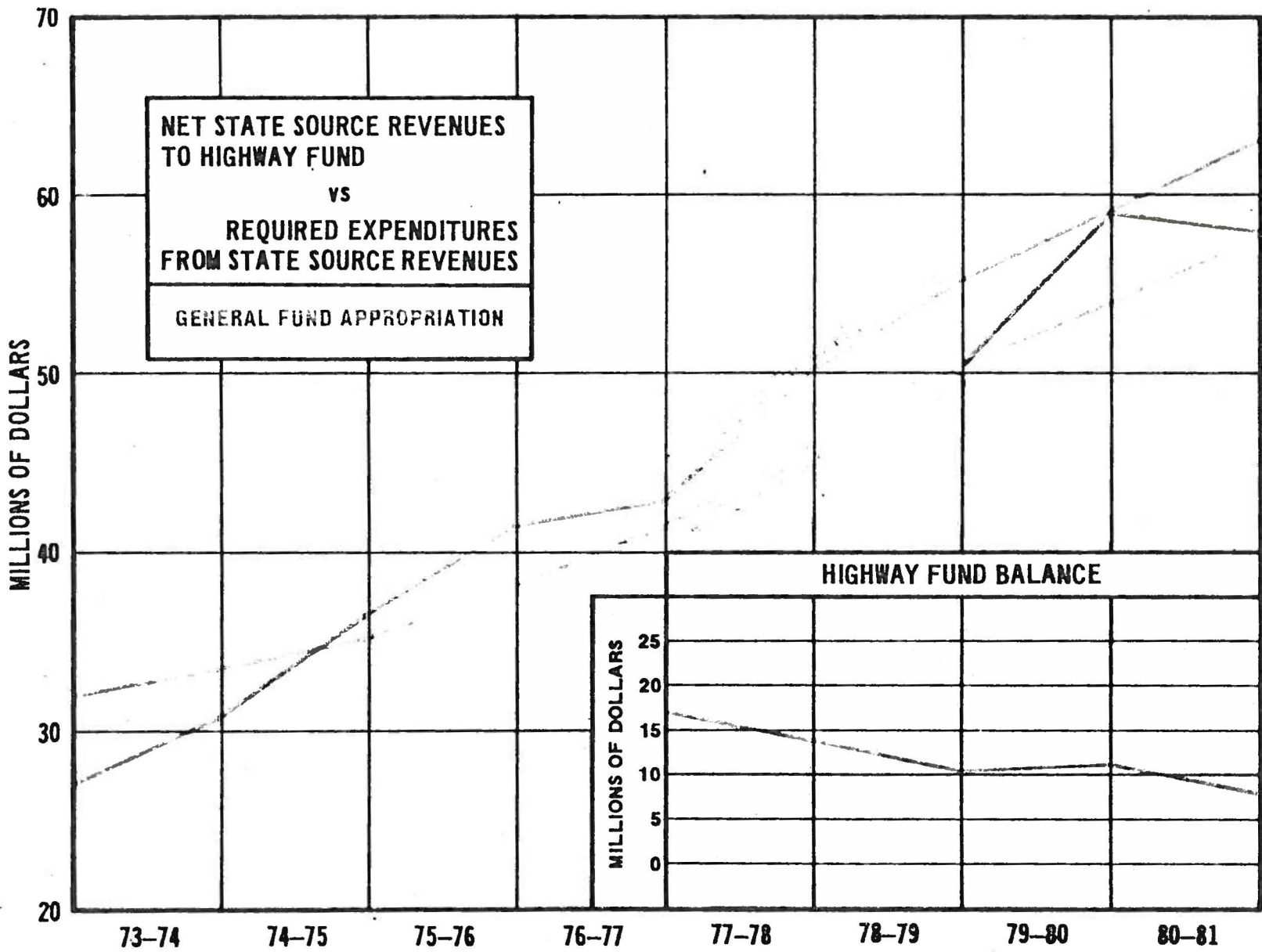
EXPENDITURE BY OBJECT

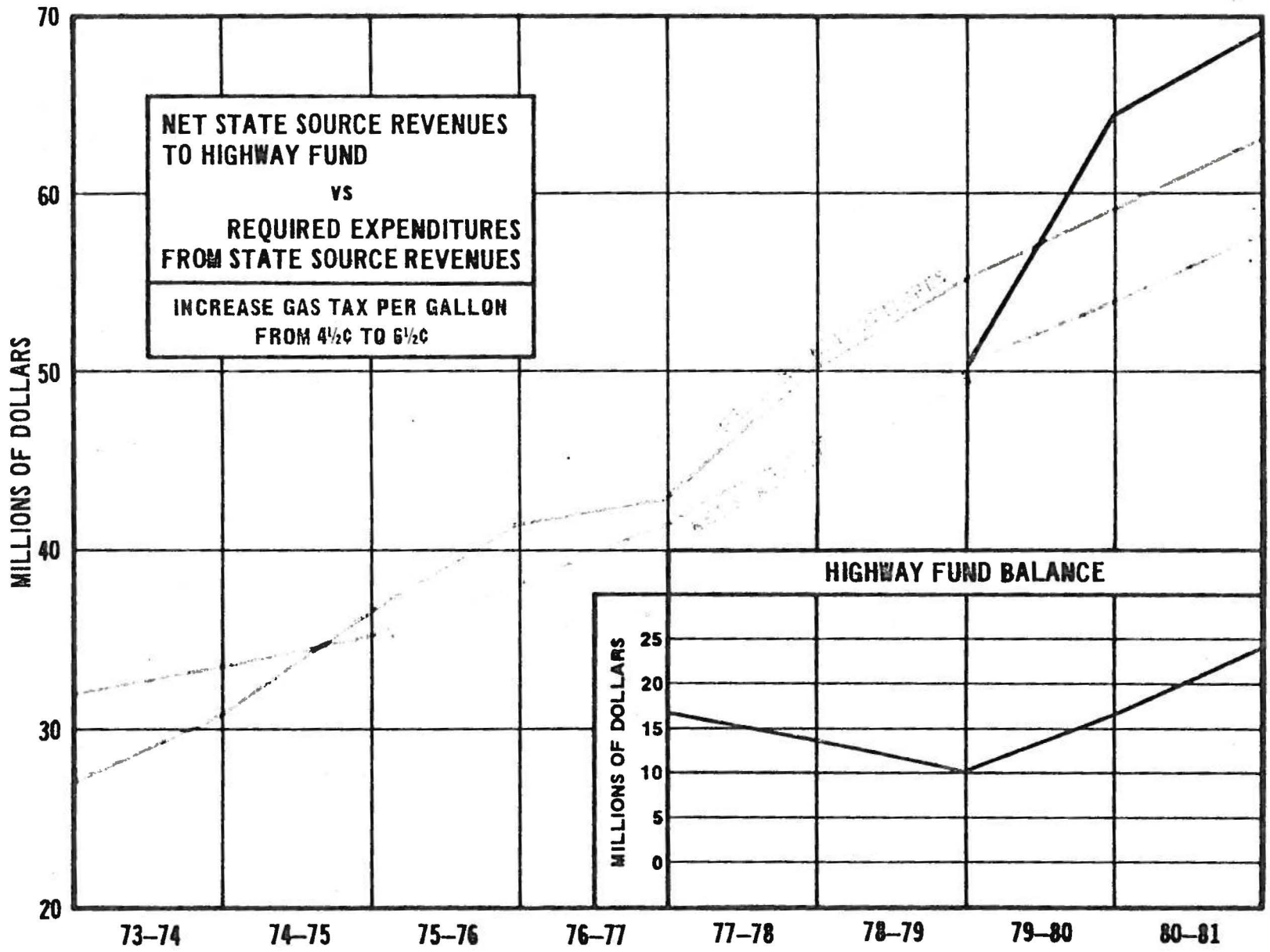


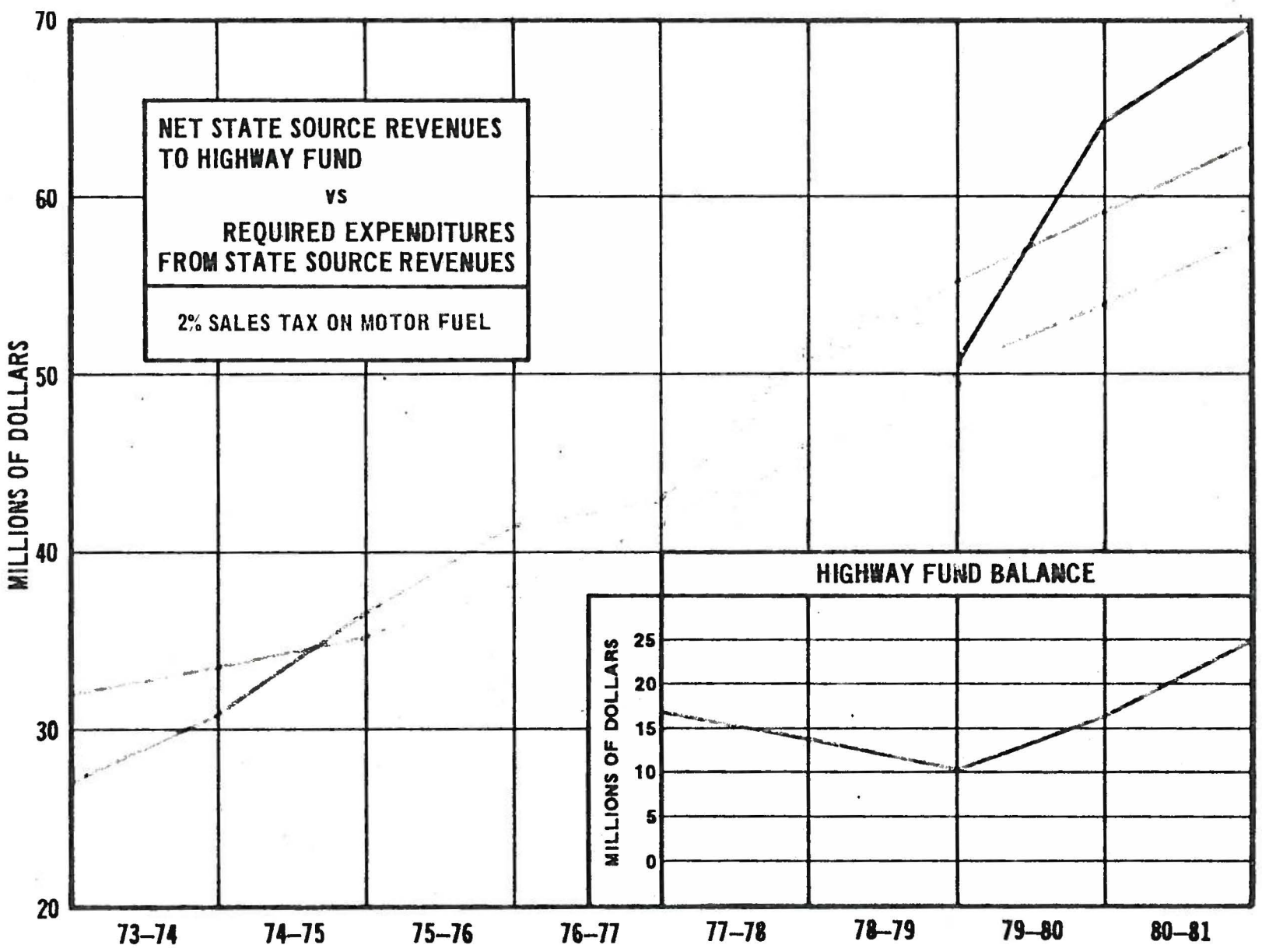
**PROJECTION OF
HIGHWAY FUND BALANCE**

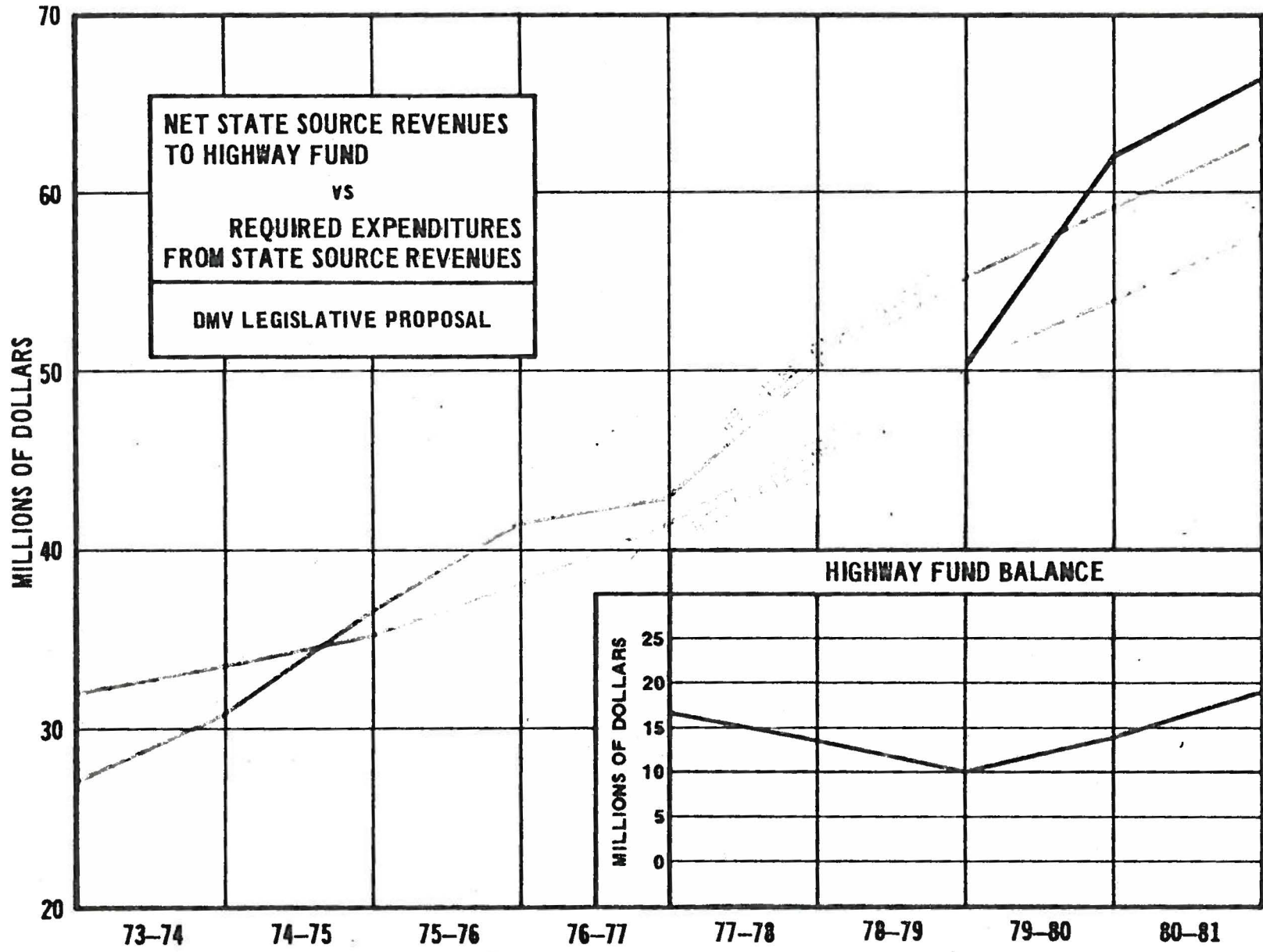
HIGHWAY FUND BALANCE 7/1/78		ESTIMATED REVENUES		ESTIMATED EXPENDITURES & APPROPRIATIONS		ESTIMATED HIGHWAY FUND BALANCE 6/30/81
		119,253,924 (FY 79)		122,785,123 (FY 79)		
		131,933,000 (FY 80)		135,799,503 (FY 80)		
		143,334,800 (FY 81)		146,862,220 (FY 81)		
\$13,595,154	+	394,521,724	-	405,446,846	=	\$2,670,032













A STATEWIDE ASSOCIATION OF INDEPENDENT INSURANCE AGENTS

March 1, 1979

Mr. Don Mello, Chairman
Ways and Means Committee
Nevada State Assembly
Carson City, NV 89710

Dear Mr. Mello:

On behalf of the Nevada Independent Insurance Agents Association which is honored and privileged to act as agent and broker for the property and casualty insurance requirements of the State of Nevada, including the University of Nevada System, I would like to register our opposition to Assembly Bill 83.

The apparent purpose of the legislation is to require total self-insurance of the physical assets of the University of Nevada System. We do not object to the concept but we do disagree with the unscientific method of application. The potential for catastrophic loss is totally overlooked and the result could be exceedingly serious.

The more generally accepted approach to self-insurance by any entity, whether it be public or private, is to use deductibles and a sinking fund. Generally, the entity involved, in this case the University System, would purchase full coverage with small deductibles. At the same time each division of the System would contribute funds to a deductible pool. As the pool grows the insurance policy deductible level is increased and the premium savings are added to the pool. This approach continues until the pool becomes large enough to absorb expected losses with adequate reserves for catastrophic losses. During the entire process full coverage has been purchased but premium savings result due to the ever increasing level of deductible.

Once the pool is built (which is otherwise known as the sinking fund or the self-insurance fund) the System should still purchase limits of insurance which are in excess of the expected losses from both the frequency and severity points of view. The System pays for all losses short of those which were prejudged to be catastrophic. At that level the excess insurance comes into play and at premium levels which can be nominal depending, of course, on the level of self retention.

Bi

Exhibit "B"

Mr. Don Mello
March 1, 1979
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There are several areas in a self-insurance program which require caution. First, once a self-insurance fund is actuarially established it must not be invaded for any non-insurance purposes. Second, losses do not adjust themselves. Someone on the System's staff must be available and qualified to oversee the reconstruction process. Third, to keep losses within manageable and economically feasible bounds there should be an effective loss prevention and loss control program. Fourth, someone on staff must manage the overall self-insurance program. The additional costs for these necessary services are obvious.

We are not implying that self-insurance is not possible. However, it is more complex than it appears and is much more difficult than AB 83 makes it appear.

We urge defeat of AB 83 and we renew our previous offers to assist in developing a sound self-insurance program for the University.

Respectfully,

Larry Kees/nj
Larry Kees
Executive Vice President

LK:nj

EXHIBIT "810"
(Page 2)