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STATE OF NEVADA
OFFICE OF THE STATE TREASURER

May 3, 2010

Senator Bernice Mathews
Chair
Interim Finance Committee

Dear Madam Chairman and Members of the Interim Finance Committee:

In response to several question at the April 29, 2010 Interim Finance Committee concerning the financial health and solvency of the Gov. Guinn Millennium Scholarship Program (GGMS), I offer the following information so you can more clearly see the predicament the state now finds itself if this valuable program is to continue through Fiscal Year 2011 and beyond.

As you know, the GGMS Program relies primarily on funding from the Tobacco Master Settlement Agreement (MSA) and a transfer from the Unclaimed Property Fund. The only other source of financial support for the GGMS Program is the interest received through investing the funds, which is a very small amount in present market conditions.

When the Legislature was faced with very tough budget decisions during the 75th Session in 2009 and during the 2010 Special Session, decisions were made by that body to eliminate the yearly \$7.6 million transfer from Unclaimed Property Fund to the GGMS Trust Fund in fiscal years 2009, 2010, and 2011. Further, due to budget constrictions felt by the Legislature, that body made the decision to make a \$5 million cash withdrawal from the GGMS Fund in Fiscal Year 2009 and another \$5 million in Fiscal year 2011.

These decisions, along with the unanticipated reduction in tobacco revenue, will leave the GGMS Fund with an estimated balance of \$10.2 million at the conclusion of Fiscal Year 2010, and an estimated shortfall of \$4.2 million by the end of Fiscal Year 2011.

Prior to the legislative decisions to remove funding from the Program for other purposes, coupled with the fact that the Treasurer's Office had received legislative permission to provide funding from the College Savings Trust Fund to pay for GGMS Program administrative cost, it was projected the GGMS Program would be available through Fiscal Year 2021.

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During the 2010 Special Session, Treasurer's Office staff met with Legislative Counsel Bureau staff at their request to discuss the possibility of infusing \$2 million into the GGMS Fund from the College Savings Trust Fund in Fiscal Year 2010 and Fiscal Year 2011. It was hoped such an infusion would partially offset the prior removal of funds by the Legislature and would provide enough money to fund the GGMS through Fiscal Year 2014. During those discussions, it was stated that the decision was not the State Treasurer's, but rather that of the College Savings Board, a public body consisting of three Governor appointees—Director of the Dept. of Administration and two private citizens—a representative from Chancellor of the Nevada System of Higher Education, and the State Treasurer. Further, it was stated that a strong possibility existed that at least two of those members would most likely vote "no" to such a proposal, thereby making the other three votes imperative to pass the measure.

An item on the College Savings Board March 18, 2010 agenda stated:

- *6 Receive report on the Governor Guinn Millennium Scholarship Program funding allocations and consider allocation of \$2 million from the College Savings Endowment Account for FY 2010 to the Millennium Scholarship Trust Fund, or direct staff as appropriate.**

As previously predicted, when Treasurer Marshall brought this item up for discussion, it became very clear that two of the College Savings Board members were completely against gifting any money from the College Savings Trust Fund to the GGMS Fund. Two other members clearly stated during this discussion at the March 18, 2010 Board meeting that only an amount necessary to fund the GGMS Program through Fiscal Year 2011 should be allocated for this purpose (minutes from meeting attached).

College Savings Board members echoed the same refrain: the Board's primary fiduciary responsibility rested solely with the Nevada College Savings Plans Program and the Nevada Prepaid Tuition Program; the only programs mandated by statute to the Board (see attached minutes).

At that time, the amount needed to fully fund the GGMS through Fiscal Year 2011 was determined to be \$166,000. The Board, by a vote of 3-2, agreed to "the transfer of \$200,000 from the College Savings Endowment Account to the Millennium Scholarship Trust Fund in order to make the scholarship whole until the 2011 Legislature convened."

The Board expressed concern that money transferred from the College Savings Trust Fund to the GGMS Fund could not, according to statute, be provided as a loan. Rather, any transfer had to be a gift, as there exists no mechanism in statute for the GGMS Fund to repay the money to the College Savings Trust Fund.

Therefore, the Board considered gifting \$2 million in Fiscal Year 2010 and another \$2 million in Fiscal Year 2011, as first proposed during the 2010 Special Session when Treasurer's Office staff met with Legislative staff, as jeopardizing \$4 million dollars of college savings fees, which could be used to further the funded ration of the Nevada Prepaid Tuition Program, the Board's principle fiduciary responsibility.

In addition, the Board feels its fiduciary responsibility is to private citizens who have invested their money in Nevada's college savings and prepaid programs; people who rely upon the Board to administer those programs for the purpose of protecting the long-term assets of account holders. The Board has been working diligently to outline a long-term plan for the financial viability and protection of the Nevada Prepaid Tuition Program and its account holders, including the stabilization of the Higher Education Trust Fund, a program to monitor and ensure proper financial regulation of investments in various programs and portfolios approved by the Board, updating administrative tools, and expanding participation in the Program to produce more new contract revenue that will be used to enhance the College Savings Plans and Nevada Prepaid Tuition programs.

Further, the Board realized that due to continuing budget problems, the 76th Legislature, which will convene in 2011, might decide to continue to not fund the GGMS Program with the infusion of the expected \$7.6 million transfer from the Unclaimed Property Fund and the GGMS Program's annual share (40 percent) of the Tobacco MSA. The Board reiterated its principal fiduciary responsibility is to better ensure the long-term viability of the Nevada Prepaid Tuition Program rather than financially support the GGMS Program for one year, especially given that the Legislature could make the decision to not provide future funding for the GGMS Program, thus negating any financial solvency provided by the gifting of \$4 million.

It should be pointed out that the money in the College Savings Trust Fund and in the Higher Education Trust Fund (Prepaid) comes from contract purchases and from fees associated with these contract purchasers paid by the private companies who manage the Nevada College Savings Plans Program and by account holders. No General Fund money is provided to these programs. Further, the Nevada Prepaid Tuition Program is not backed by the Full Faith and Credit of the State of Nevada, meaning the program must survive and meet payment obligations on its own.

As a further complication, when the state received its spring Tobacco MSA payment on April 15 and April 18, it was approximately \$8 million less than projected by Global Insight, and about \$5 million less than the State Treasurer's Office projected amount (per NRS, the GGMS Program share of the MSA is 40 percent). For the record, state treasurer's offices around the nation do not receive advanced payment information relating to the MSA; when the check shows up is our first and only notice. According to the National Association of Attorneys General, the main factor for the precipitous drop for this particular payment was that national tobacco sales were down about 9 percent. However, there is no present information that would clearly indicate that the lower-than-projected amount was an anomaly or a pattern for future payment amounts.

This has placed the GGMS ending balance for Fiscal Year 2011 in a \$4.2 million hole (this includes the transfer of \$200,000 from the College Savings Trust Fund agreed to by the College Savings Board at its March 18, 2010 meeting). We are continuing to work with the Nevada Attorney General's Office to determine when money placed into the MSA Dispute Resolution Fund may be available to the states.

To capulate:

- As of April 30, 2010, the GGMS Fund would require an infusion of \$4.2 million to be fully funded through Fiscal Year 2011
- As of April 30, 2010, the GGMS Fund would require an infusion of \$11.7 million to be fully funded through Fiscal Year 2013

NOTE: As mentioned at the April 29, 2010 Interim Finance Committee meeting, the current payout to the Nevada System of Higher Education for millennium scholars is approximately \$25 million per fiscal year. That is projected increase to \$26 million in FY 2012, to \$27 million in FY 2013, and to \$28 million in FY 2014.

The attached chart shows:

- Original projections for Fiscal Year 2009, which were provided to the Legislature.
- Projections provided to the Legislature during the 2010 Special Session, which includes the proposed \$2 million transfer from the College Savings Trust Fund.
- Same projections without the \$2 million transfer, but with the \$200,000 from the College Savings Trust Fund to the GGMS Trust Fund approved by the College Savings Board at its March 18, 2010 meeting.
- Revised projections with the reduced Tobacco Master Settlement Agreement payment for the spring of 2010 included, and updated projections for FY 2012-2014.
- Revised projections if the Legislature made the decision to continue the GGMS Program for this year's graduating high school seniors and for those students already enrolled in the Program (\$4.2 million deficit in FY 2011, but positive cash balance as of FY 2012).
- Revised projections if the Legislature made the decision to discontinue the GGMS Program for this year's graduating high school seniors, but to carry the Program forward for those students already enrolled in the Program.

NOTE: The revised MSA projections are based on information provided to the Treasurer's Office from Barclay's on April 30, 2010. It should be noted that at this time, no one knows if this year's lower-than-projected MSA payment was an anomaly or a pattern for future payment amounts.

Using revised projections, the \$2 million transfers from the College Savings Trust Fund to the GGMS Trust Fund in FY 2010 and FY 2011 discussed during the 2010 Special Session as a way to get the GGMS Program fully funded through Fiscal Year 2013 would be insufficient.

Below are possible funding solutions identified by the Treasurer's Office that would provide the financial ability for the GGMS to be provided through Fiscal Year 2011, thus providing the 2011 Legislature the opportunity to thoughtfully review the future of the Program:

- Based on the chart provided and explained previously, the Legislature could make the determination to not transfer \$5 million from the GGMS Fund in Fiscal Year 2011, thus providing adequate funding to ensure high school seniors graduating this year could rely upon the GGMS being available at least through the September 2010 through May 2011 NSHE school year, as well as to those students already enrolled in the Program.
- The Legislature has been informed that the Unclaimed Property Division will transfer to the General Fund an additional \$10 million more than previously projected by June 30, 2010. The Treasurer's Office intends to present a Work Program to the Interim Finance Committee at its June 2010 meeting requesting that the Legislature allow this additional transfer from the Unclaimed Property Fund to be placed in the GGMS Trust Fund, thus providing enough funding at this time to prolong the GGMS Program through Fiscal Year 2011.
- The Legislature could also make the determination to again change the criteria for GGMS Program eligibility, which would impact the number of students enrolled. As you know, the Treasurer's Office role is simply to administer funds provided by the Legislature to the Program: the Legislature establishes the criteria and NSHE ensures that students meet the established criteria.

In closing, the Treasurer's Office stands ready to assist the Legislature in any way economically feasible to prolong the life of the Gov. Guinn Millennium Scholarship Program, to the benefit of thousand of Nevada students. Please feel free to contact myself or Chief Deputy Treasurer Mark Winebarger (775-684-5884).

Respectfully,



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	ORIGINAL Projections (as of FY09)	FY 10 Special Session Projections (\$2 million)	FY 10 Special Session Projections (\$200,000)	REVISED Projections (eff 5/2010)	REVISED Projections (2010 last graduating class)	REVISED Projections (2009 last graduating class)	REVISED Projections (\$10 million from UP) eff. 5/2010
FY10 Beginning Balance	18,753,461	18,753,461	18,753,461	18,753,461	18,753,461	18,753,461	18,753,461
FY10 Tobacco Revenues	18,278,479	18,278,479	18,278,479	16,521,785	16,521,785	16,521,785	16,521,785
FY10 Transfer from UP	3,800,000	-	-	-	-	-	10,000,000
FY10 Transfer from College Savings	-	2,000,000	-	-	-	-	-
FY10 Interest Revenue	159,344	100,879	93,379	88,379	88,379	88,379	83,379
FY10 Tuition Payments	(25,214,418)	(25,578,690)	(25,578,690)	(25,150,016)	(25,150,016)	(25,150,016)	(25,150,016)
FY10 IT Cost Allocation	-	(11,329)	(11,329)	(11,329)	(11,329)	(11,329)	(11,329)
FY10 Transfer to General Fund	-	-	-	-	-	-	-
FY10 Ending Balance	15,776,866	13,542,800	11,535,300	10,202,280	10,202,280	10,202,280	20,197,280
FY11 Beginning Balance	15,776,866	13,542,800	11,535,300	10,202,280	10,202,280	10,202,280	20,197,280
FY11 Tobacco Revenues	18,464,118	18,464,118	18,464,118	15,610,217	15,610,217	15,610,217	15,610,217
FY11 Transfer from UP	3,800,000	-	-	-	-	-	-
FY11 Transfer from College Savings	-	2,000,000	200,000	200,000	200,000	200,000	200,000
FY11 Interest Revenue	165,889	76,246	16,247	8,750	8,750	8,750	100,000
FY11 Tuition Payments	(25,186,501)	(25,186,501)	(25,186,501)	(25,186,501)	(25,186,501)	(17,493,450)	(25,186,501)
FY11 IT Cost Allocation	-	(11,120)	(11,120)	(11,120)	(11,120)	(11,120)	(11,120)
FY11 Transfer to General Fund	-	(5,000,000)	(5,000,000)	(5,000,000)	(5,000,000)	(5,000,000)	(5,000,000)
FY11 Ending Balance	13,020,372	3,885,543	18,044	(4,185,124)	(4,185,124)	3,516,677	5,909,876

	ORIGINAL Projections (as of FY09)	FY 10 Special Session Projections (\$2 million)	FY 10 Special Session Projections (\$200,000)	REVISED Projections (eff 5/2010)	REVISED Projections (2010 last graduating class)	REVISED Projections (2009 last graduating class)	REVISED Projections (\$10 million from UP) eff. 5/2010
FY12 Beginning Balance	13,020,372	3,885,543	18,044	(4,185,124)	(4,185,124)	3,516,677	5,909,876
FY12 Tobacco Revenues	18,718,074	18,718,074	18,718,074	15,298,013	15,298,013	15,298,013	15,298,013
FY12 Transfer from UP	7,600,000	7,600,000	7,600,000	7,600,000	7,600,000	7,600,000	7,600,000
FY12 Transfer from College Savings	-	-	-	-	-	-	-
FY12 Interest Revenue	224,423	29,142	-	-	-	75,000	37,500
FY12 Tuition Payments	(26,130,387)	(26,130,387)	(26,130,387)	(26,130,387)	(18,353,890)	(12,120,432)	(26,130,387)
FY12 Transfer to General Fund	-	-	-	-	-	-	-
FY12 Ending Balance	13,432,482	4,102,372	205,731	(7,417,498)	358,999	14,369,258	2,715,002
FY13 Beginning Balance	13,432,482	4,102,372	205,731	(7,417,498)	358,999	14,369,258	2,715,002
FY13 Tobacco Revenues	18,933,005	18,933,005	18,933,005	14,992,052	14,992,052	14,992,052	14,992,052
FY13 Transfer from UP	7,600,000	7,600,000	7,600,000	7,600,000	7,600,000	7,600,000	7,600,000
FY13 Transfer from College Savings	-	-	-	-	-	-	-
FY13 Interest Revenue	268,984	30,768	-	-	75,000	600,000	-
FY13 Tuition Payments	(26,917,488)	(26,917,488)	(26,917,488)	(26,917,488)	(12,676,108)	(7,644,689)	(26,917,488)
FY13 Transfer to General Fund	-	-	-	-	-	-	-
FY13 Ending Balance	13,316,983	3,748,656	(178,752)	(11,742,934)	10,349,943	29,916,621	(1,610,434)
FY14 Beginning Balance	13,316,983	3,748,656	(178,752)	(11,742,934)	10,349,943	29,916,621	(1,610,434)
FY14 Tobacco Revenues	19,141,169	19,141,169	19,141,169	14,692,211	14,692,211	14,692,211	14,692,211
FY14 Transfer from UP	7,600,000	7,600,000	7,600,000	7,600,000	7,600,000	7,600,000	7,600,000
FY14 Transfer from College Savings	-	-	-	-	-	-	-
FY14 Interest Revenue	327,704	28,115	-	-	450,000	1,200,000	-
FY14 Tuition Payments	(28,103,132)	(28,103,132)	(28,103,132)	(28,103,132)	(8,187,638)	(4,018,098)	(28,103,132)
FY14 Transfer to General Fund	-	-	-	-	-	-	-
FY14 Ending Balance	12,282,724	2,414,808	(1,540,715)	(17,553,854)	24,904,517	49,390,735	(7,421,354)