

**MINUTES OF THE MEETING  
OF THE  
LEGISLATIVE COMMISSION=S SUBCOMMITTEE  
TO ENCOURAGE CORPORATIONS AND OTHER BUSINESS ENTITIES  
TO ORGANIZE AND CONDUCT BUSINESS IN THIS STATE: SUB-SUBCOMMITTEE  
TO REVIEW ECONOMIC INCENTIVES IN OTHER STATES  
(Senate Concurrent Resolution No. 19, File No. 144, *Statutes of Nevada 1999*)  
February 3, 2000  
Las Vegas, Nevada**

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The second meeting of the Legislative Commission=s Sub-Subcommittee to Encourage Corporations and Other Business Entities to Organize and Conduct Business in this State (S.C.R. 19): Sub-Subcommittee to Review Economic Incentives in Other States was held on Monday, February 3, 2000, at 11 a.m., at the Grant Sawyer State Office Building, 555 East Washington Avenue, Room 4412, Las Vegas, Nevada. The meeting was videoconferenced to the Legislative Building, 401 South Carson Street, Room 3137, Carson City, Nevada. Pages 2 and 3 contain the AMeeting Notice and Agenda.@

**SUB-SUBCOMMITTEE MEMBERS PRESENT IN LAS VEGAS:**

Senator Ann O=Connell, Chairman  
Senator Dean A. Rhoads  
Assemblywoman Barbara K. Cegavske  
Bob Shriver, Executive Director, Commission on Economic Development

**SUB-SUBCOMMITTEE MEMBER EXCUSED:**

Stephen Brock, President, Nevada Business Journal

**SUBCOMMITTEE MEMBER PRESENT IN LAS VEGAS**

Assemblyman David R. Parks

**LEGISLATIVE COUNSEL BUREAU STAFF PRESENT:**

Allison Combs, Principal Research Analyst  
Bradley A. Wilkinson, Principal Deputy Legislative Counsel  
Jill E. Lusher, Deputy Legislative Counsel  
Roxanne Duer, Senior Research Secretary

**REVISED**

**MEETING NOTICE AND AGENDA**

Name of Organization: Legislative Commission=s Subcommittee to Study Methods to Encourage Corporations and Other Business Entities to Organize and Conduct Business in this State (S.C.R. 19):  
**Sub-Subcommittee to Review Economic Incentives in Other States**

Date and Time of Meeting: Thursday, February 3, 2000  
11 a.m.

Place of Meeting: Grant Sawyer State Office Building  
Room 4412  
555 East Washington Avenue  
Las Vegas, Nevada

Note: Some members of the Sub-Subcommittee may be attending the meeting and other persons may observe the meeting and provide testimony, through a simultaneous videoconference conducted at the following location:

Legislative Building  
Room 3137  
401 South Carson Street  
Carson City, Nevada

*If you cannot attend the meeting, you can listen to it live over the Internet. The address for the legislative web site is <http://www.leg.state.nv.us>. For audio broadcasts, click on the link *AListen to Meetings Live on the Internet.*@*

### **AGENDA**

#### **I. Opening Remarks and Introductions**

Senator Ann O=Connell, Chairman of the Sub-Subcommittee

#### **\*II. Approval of Minutes of January 10, 2000, Meeting**

#### **III. Background on Innovative Economic Development Program Offered Within the Electrical Engineering Department at the University of Nevada, Reno**

John Kleppe, Professor, University of Nevada, Reno

#### **IV. Presentation Regarding the Proposed Ruby Gas Pipeline/Power Plant Project in Elko County**

Ursula Powers, Elko County Economic Diversification Authority  
Mike Franzoia, Mayor of Elko  
Linda Ritter, City Manager, Elko  
Glen Guttry, Elko City Board of Supervisors  
Tom Parker, Energy Source

#### **V. Marketing Nevada=s Economic Opportunities**

Stephen Brock, Advisory Member of S.C.R. 19 Subcommittee and President of the Nevada Business Journal

#### **VI. Public Testimony**

#### **\*VII. Discussion of Recommendations and Testimony from the January 10, 2000, meeting of the Sub-Subcommittee**

#### **VIII. Adjournment**

\*Denotes items on which the Sub-Subcommittee may take action.

Note: We are pleased to make reasonable accommodations for members of the public who are disabled and wish to attend the meeting. If special arrangements for the meeting are necessary, please notify the Research Division of the Legislative Counsel Bureau, in writing, at the Legislative Building, 401 South Carson Street, Carson City, Nevada 89701-4747, or call Roxanne Duer, at 775/684-6825, as soon as possible.

Notice of this meeting was posted in the following Carson City, Nevada, locations: Blasdel Building, 209 East Musser Street; Capitol Press Corps, Basement, Capitol Building; City Hall, 201 North Carson Street; Legislative Building, 401 South Carson Street; and Nevada State Library, 100 Stewart Street. Notice of this meeting was faxed for posting to the following Las Vegas, Nevada, locations: Grant Sawyer State Office Building, 555 East Washington Avenue; and Clark County Office, 500 South Grand Central Parkway.

### **OPENING REMARKS BY THE CHAIRMAN**

Chairman O=Connell called the meeting to order and noted that all members of the S.C.R. 19 Sub-Subcommittee were present. She stated that Stephen Brock, S.C.R. 19 Sub-Subcommittee member and President of the Nevada Business Journal, was excused and noted that in his absence Kay Scherer, Marketing Director, Commission on Economic Development, would provide information pertinent to marketing Nevada=s economic opportunities. Chairman O=Connell explained that at the conclusion of public testimony, the Sub-Subcommittee would proceed with a roundtable discussion to determine the recommendations to be presented at the March 24, 2000, S.C.R. 19 Subcommittee meeting.

### **APPROVAL OF MINUTES OF JANUARY 10, 2000, MEETING**

SENATOR RHOADS MOVED FOR APPROVAL OF THE MINUTES OF THE JANUARY 10, 2000, MEETING OF THE LEGISLATIVE COMMISSION=S SUB-SUBCOMMITTEE TO STUDY METHODS TO ENCOURAGE CORPORATIONS AND OTHER BUSINESS ENTITIES TO ORGANIZE AND CONDUCT BUSINESS IN THIS STATE (S.C.R. 19): SUB-SUBCOMMITTEE TO REVIEW ECONOMIC INCENTIVES IN OTHER STATES. ASSEMBLYWOMAN CEGAVSKE SECONDED THE MOTION WHICH PASSED UNANIMOUSLY.

### **BACKGROUND ON INNOVATIVE ECONOMIC DEVELOPMENT PROGRAM OFFERED WITHIN THE ELECTRICAL ENGINEERING DEPARTMENT AT THE UNIVERSITY OF NEVADA, RENO**

*John Kleppe, Ph.D., PE*

Professor Kleppe, University of Nevada, Reno (UNR), explained that he is a fifth generation Nevadan whose great grandfather, also named John Kleppe, came to Virginia City from Essen, Germany, in the 1860s and worked as a teamster hauling silver ore from Jumbo Grade to the Washoe Valley railhead and returning with mine timbers. As an entrepreneur, he built his business by acquiring several wagons and by 1865 sold the business and became a rancher in the lower Truckee Meadows.

Professor Kleppe is currently serving his 31<sup>st</sup> year on the faculty of the Electrical Engineering (EE) Department, and served as chairman of the Electrical Engineering/Computer Science Department from 1985 to 1988. He has received Outstanding Engineer awards from the Nevada Society of Professional Engineers and the Northern Nevada Chapter of the Institute of Electrical and Electronic Engineers. Belonging to numerous professional organizations, he is a member of the Nevada Inventors Hall of Fame and was named Nevada Inventor of the Year in 1985. Additionally, he has published over 50 technical papers and a textbook entitled *Engineering Applications of Acoustics*.

Professor Kleppe presented the Sub-Subcommittee with a copy of the EE Department=s syllabus and various articles featuring Professor Kleppe and the University=s E-Teams, AE@ standing for excellence and entrepreneurship (please refer to Exhibit A).

Professor Kleppe stated that it was necessary to Abuild a bridge@ between the legislative branch and the executive branch in order to develop a state program that would address the state=s technology sector. Thus, the Office of Science, Engineering, and Technology (OSET) was created within the executive branch by the Legislature with the agreement that it would be privately funded for the first two years, after which time the Legislature would provide financial support if the OSET had developed Aa good track record.@ For the first two years, OSET was funded by the Lemelson Foundation and co-funded by the National Science Foundation for Nevada. In July 1999, the Legislature allocated funding to the OSET for the first time. The OSET serves as a clearinghouse for legislative inquiries, maintains continuity of information as newly elected officials take office, and presents new technologies that may effect Nevada.

Utilizing a slide presentation (please refer to Exhibit B), Professor Kleppe focused his comments on infrastructure and addressed the elements involved for a state to achieve economic diversification through innovation and product development:

- \$ Research and development;
- \$ Private/public infrastructureBinstitutional foundations;
- \$ Private capital institutional development;
- \$ Technology venturing institutional development;
- \$ Major public institutional types of support activities;
- \$ Innovation center/manufacturing center;
- \$ Entrepreneurial elements for success; and
- \$ Outputs
  - < Resource development
  - < Economic wealth
  - < Marketing
  - < Job creation; and
  - < Economic development process.

Professor Kleppe then referred to *Nevada Revised Statutes* (NRS) 349.900 through 349.929, ARevenue Bonds for

Venture Capital@ and stated that this statute is one of the most innovative venture capital bills in the country, which passed approximately ten years ago but has not been exercised. For example, the state could sell \$100 million in bonds, invest \$60 million of the revenue in treasury bonds, and select a financial management company to manage the \$40 million. Sixty percent of the investment is guaranteed to be returned, with 40 percent of the funding invested in venture capital. He opined that this source of revenue could enable the state to proceed with venture capital investing without amending the *Nevada Constitution*.

Professor Kleppe indicated that the Electrical Engineering 491/Mechanical 452 class is funded by the Lemelson Foundation. He explained that Jerome Lemelson established the Foundation whose mission is to promote innovation, invention, and entrepreneurship in higher education nationwide. Mr. Lemelson, who was an Incline Village resident, was second only to Thomas Edison in the number of patents held, and had more than 500 patents. Most notably, he was responsible for the invention of bar code readers, cordless telephones, cassette players, and camcorders.

General discussion ensued about the Electrical Engineering 491 class which is comprised of electrical and mechanical engineering upper level students. E-Teams are formed which include MBA students who assist the engineering students with commercial applications for their inventions. Students learn how to present a project for venture funding, write proposals, and market their product. Grades are based on a point system in which the team with the most points achieves the best grade. Students can hire or fire individuals from their team which will cost points. Class points are awarded by a certificate that resembles money (please refer to Exhibit C). This approach stimulates Abartering@ in which students become very competitive and creative.

It is Mr. Kleppe=s opinion that the economy of Lake Tahoe can help pay for its own scientific research. To prove this, he referred to an invention from last year=s class in which a robotic weather station was established at Fallen Leaf Lake in South Lake Tahoe, California. It made sense that people would want to call for weather forecasts directly to the location where they will be vacationing, swimming, diving, or boating. Since installation, 3,000 people have accessed the service. If a fee of \$3 per call had been imposed, it would have paid for itself in 60 days. To experience the project firsthand, Professor Kleppe encouraged the Sub-Subcommittee members to call the weather facility at (530) 543-0649. Plans are underway to install a similar station at Gerlach, Nevada. Another plus is that the weather data is transmitted to UNR for its scientific records. The project was based on the concept of, Why should the federal government need to fund this project when the people who are enjoying the lake can provide the economic resources.@

Professor Kleppe then outlined the speakers who will address the students of the EE Department during the 2000 spring semester (please see Exhibit D) and described the various presentations. A sampling of the lecture series includes:

- \$ Starting and managing a high technology company;
- \$ Product design for safety and product liability;
- \$ Methodology of product development;
- \$ Small business innovation research program and translating innovation strategies into action;
- \$ What to expect when you graduate;
- \$ Engineering ethics;
- \$ Guerrilla marketing for entrepreneurs;
- \$ Design and development of products for local area networks and what it is like to work for a large company;
- \$ How to start and run a consulting business;
- \$ Starting a business using venture capital;

- \$ Writing proposals and ordering parts;
- \$ Financial statements and fiscal reporting requirements for a company; and
- \$ Job search and employment strategies.

Projects being considered for the current semester are varied:

- \$ Hydrofoils for Lake Tahoe;
- \$ Measurements for water quality, automated rovers;
- \$ Clarity measurements;
- \$ Wind sensors; and
- \$ Stream flow gauges.

Responding to a question from Chairman O'Connell, Professor Kleppe stated that students usually take Economics 101 and 102, which are general economics courses. The Department is currently working on the development of a class that would upgrade Economics 102 with the economics of product creation, entrepreneurship, and venture capital. A majority of students are only familiar with traditional economics, not patents, trademarks, copyrights, and venture.

Referring to a handout titled AA Venture Capital Primer for Small Business@ and the five-step procedure taught by the Inventors Forum in Orange County, California, (please refer to Exhibit E). Professor Kleppe outlined the five critical steps involved in the invention process:

- 1 Establish the legal date of conception by disclosing the fine details of the idea on paper. Have the document witnessed, and sign and date it as the Inventor@;
- 2 Evaluate the marketability of the preferred product. Identify products or services that meet the same human needs of the preferred product;
- 3 Patentability research to determine if the idea is protectable or if it might infringe the patent rights of others;
- 4 Reduction to practice, which means building a prototype to prove that the idea really works or is appealing to others; and
- 5 Formulate a business plan.

Responding to Assemblywoman Cegavske's question regarding the role of the Chamber of Commerce and why it is not involved at the beginning stages of development, Professor Kleppe explained that becoming a member of a Chamber of Commerce is an infrastructure tool that assists one with networking. A business from outside the area can network with established businesses which is extremely valuable.

In conclusion, Professor Kleppe thanked the Sub-Subcommittee for asking him to participate and offered his services in the future as an entrepreneurial resource.

## **PRESENTATION REGARDING THE PROPOSED RUBY GAS PIPELINE/POWER PLANT PROJECT IN ELKO COUNTY**

*Glen Guttry*

Mr. Guttry, a member of the Elko City Board of Supervisors and Chairman of the Elko County Economic Diversification Authority, introduced Mr. Tom Parker, a consultant with Energy Source; Mike Franzonia, Mayor of the City of Elko; Linda Ritter, City Manager of Elko; and Ursula Powers, Economic Development Director of Elko and the Co-Director of the Elko County Economic Diversification Authority. Mr. Guttry thanked the Sub-Subcommittee for the opportunity to share information regarding the economic development situation in rural Nevada. He indicated that he has been involved in the economic diversification efforts of Elko County for over ten years and noted that in the rural areas of the state, the old methods of attracting new industry no longer work. Recently, Elko's Economic Diversification Authority spent thousands of dollars in marketing and advertising with very limited success. Over the past year, in one marketing campaign, over \$30,000 was spent producing and mailing marketing materials to 700 targeted, primary industries throughout the United States, and then followed up with a personal telephone call. Of the 700 contacts made, not one viable lead was generated.

Responding to several inquiries from Chairman O'Connell, he indicated that there was some response from Nevada companies who were not ready to expand or relocate. The majority of the large corporations have a marketing department which aggressively seeks relocation areas that fit the company's criteria. Mr. Guttry stated that the marketing campaign took place in March 1999. He stated that industries require a combination of three things components: (1) industrial parks; (2) existing warehouse space; and (3) an abundant natural gas supply. The issues of industrial parks and warehouse availability have been addressed; however, energy infrastructure is beyond the capability of rural Nevada communities. The key to the future success of the state's rural communities is adequate energy resources.

In response to a question from Senator Rhoads, Mr. Guttry stated that the availability of qualified and trained employees was not a primary concern, but locating to a rural community posed a problem. Fernley, in contrast to Elko for example, is a bedroom community to an international airport and destination resort area.

Referencing a handout provided by Elko County titled "Elko County: An Economic Development Case Study in Rural Nevada" (please refer to Exhibit F), Mr. Guttry spoke on taxable sales for Fiscal Year (FY) 1999 and summarized the following points:

- \$ Elko has an industrial taxable sales base of 36 percent that serves as the revenue base for local government activities which include street repair, police protection, parks, et cetera.
- \$ The county has experienced an overall decline in taxable sales since April 1997. A large portion that decline is in the area of sales to industry and business. To date, the trend has not reversed.
- \$ Nationwide, the manufacturing portion of the economy should be approximately 16 percent; however, in Elko and Eureka Counties, it is 1 percent. These entities are dependent on mining as the main part of their economy and can be short term in nature. A sharp downturn in the mining industry could lead to reductions in other sectors of the tax base.
- \$ In order to diversify rural communities on an industrial level, focus should be on energy, particularly natural gas and electricity which are generally controlled by private companies.
- \$ Rural communities offer incomplete products. Such an example is the City of Wells which has an industrial park complete with sewer and water, but no natural gas available. The City of Winnemucca has four industrial parks with no access to water, gas, or sewer. This predicament is representative throughout rural Nevada.

Senator Rhoads noted the increase in taxable sales for October and November 1997, and asked Mr. Guttry if there was a specific reason for the appreciated sales. Mr. Guttry replied that there have been significant increases over the past two years, but stated that the inconsistencies cannot be determined. Mr. Franzonia, identified previously, commented that a contributing factor to sales tax decreases could be the loss of 1,400 mining employees and the auxiliary companies that support the mining industry.

Mr. Guttry commented that given the importance of energy resources to the economy of the rural areas, the City of Elko engaged the services of Tom Parker, a consultant with the firm of Energy Source, to research the natural gas and electricity problems in rural Nevada. He explained that Energy Source is a telecommunications, energy, and project development firm based in Reno, Nevada, with 180 years of combined experience in utility infrastructure planning, design, operations, and project development. During his 27 years with Sierra Pacific Power Company, he served as a corporate officer and was responsible for economic development. Mr. Parker has been charged with reviewing and recommending process improvements for economic development.

*Tom Parker*

Mr. Parker, identified previously, provided a historical background and explained that in the 1960s the Donner fire burned the interties over the summit which left Reno in the dark for a number of days. This incident stimulated the construction of oil and natural gas fired electric generators by Sierra Pacific Power Company east of Reno and in the Yerington area. This anchor generation load powered by gas brought the Paiute Pipeline in from Southern Idaho. In the same era in southern Nevada, Nevada Power Company recognized that hydro availability from the Hoover Dam Project had exceeded its demand so construction of gas and oil fired generation commenced, as well as coal fired generation, which induced the expansion of natural gas in southern Nevada as well.

Responding to an inquiry from Chairman McConnell, Mr. Parker stated that federal law prohibited the use of natural gas for electricity generation from 1974 to 1979. Because of the shortage of natural gas during that period it was required to go to residential customers instead of industrial users and certainly not to generation.

During the 1980s, generation requirements due to the growth in southern and northern Nevada necessitated the need for electricity. The economic and environmentally preferred way to accomplish this was firing on natural gas; hence the Kern River Pipeline was built in southern Nevada, and the Tuscarora Pipeline was built in northern Nevada.

Mr. Parker then addressed assessments and findings:

- \$ Availability of sufficient natural gas pipeline capacity and supply is critical to a manufacturing/light industrial economic base;
- \$ Most of rural Nevada is deficient for economically competitive natural gas for industrial recruitment. Sufficient anchor demand is critical to investment/construction/expansion of natural gas pipelines;
- \$ Previously, anchor demand usually occurred with the construction of electric generators and their constant need for fuel, and/or other industrial development requiring significant heat for processing; and
- \$ Rural communities are caught in a catch 22 situation relative to their economic diversification efforts. At the front end, attraction of industry requires a competitive fuel source for industrial processing and if there is no significant anchor demand, natural gas pipelines are not viewed as viable economic investments.

Continuing, Mr. Parker explained that the Paiute Pipeline in northeast Nevada delivers natural gas to the City of Elko, Carlin, and Newmont Gold Company. The line also provides natural gas to rural neighbors up and down the Interstate 80 corridor such as Battle Mountain, Carson City, Douglas County, Gabbs, Lovelock, Winnemucca, Nevada, and Sierra Pacific Resource who supplies the cities of Reno and Sparks. Rural neighbors face similar economic development restrictions when it comes to natural gas. The Cities of Ely, Eureka, Wells, and West Wendover, Nevada, do not have natural gas in their service area at all. Paiute Pipeline has been working diligently for over a decade and have made improvements to supply the incremental growth, but the cost to find a solution of any magnitude to anchor an expansion for the Paiute Pipeline will take a major anchor customer to justify the connection cost to either a new pipeline or to the existing pipeline. The price to anchor a significant pipeline is approximately \$200 million.

Some alternative pipeline and power plant options are:

- \$ Connections to existing Kern River Pipeline;



\$ Connections to existing Northwest Pipeline;

\$ Connections to existing and expansion of Tuscarora Pipeline; and

\$ Power plant expansion of existing generation plants of Fort Churchill, Tracy, Valmy, and Agreenfield@ sites (new locations).

Responding to questions from Chairman O=Connell, Mr. Parker commented that:

\$ The federal government deregulated telecommunications 15 years ago and deregulated gas 6 years ago and has not moved to deregulate energy, but basically has open-accessed the transmission. They are depending on private industry to respond to the energy issues, both gas and electricity. On the natural gas side, the response has been good. If there is a market, wells will be drilled; the supply will be developed; and a gas pipeline will be brought in when there is an anchor demand that will justify it economically. The dilemma is that the federal government has left the deregulation of generation to the states.

\$ The private sector will respond to provide generation. The issue is the Atime warp@ between truly deregulating the market and the market=s response. It is so new that investors are wondering if they are going to have a market, and the individuals who are buyers anticipate a lower price. Electric rates have been frozen for a ten year period; therefore, a windfall in savings will not be realized. What may be achieved is either no growth in real terms of the price of electricity, or slow growth and the development of new innovations.

Referencing a map in Exhibit F provided by Colorado Interstate Gas Company, a subsidiary of the Coastal Corporation, Mr. Parker noted the proposed route of the Ruby Gas Pipeline. Coastal Corporation proposes the construction of a gas pipeline from Price, Utah, to the Elko area which would interconnect with the Paiute system that supplies Reno. Completion of the gas line would provide a significant improvement for capacity transport as well as a new supply basin that would be very competitive. Responding to inquiries from the Sub-Subcommittee, he replied that:

\$ The new pipeline will be sized appropriately for the demand. Originally, it was sized at 24 inches, but realistically it will be 18 to 24 inches;

\$ The current pipeline serving Elko is a 6-inch pipe, but from Carlin it is 12 inches. Essentially, there are two pipelines from Carlin. The new pipeline would connect at Carlin and would reinforce the entire system; and

\$ The life expectancy of a pipeline is 30 to 35 years.

Mr. Parker discussed the proposed benefits of the pipeline:

\$ A 24-inch pipeline that would provide an ample supply of natural gas through Elko County with a destination point ending at the Carlin Trend region which would be anchored to mines and an electric power plant;

\$ If private contracts could be obtained, the project has the ability to increase natural gas capacity in the Carlin and Elko areas, and could add service to Eureka county and the cities of Wells (and possibly Spring Creek) and West Wendover;

\$ The pipeline could lead to future development opportunities and could promote growth, investment, diversification, and jobs; and

\$ Constructing the pipeline may attract a major international energy company who would be motivated to partner with the rural communities and other local energy providers to recruit large and diversified primary industries into the area to be served by a system that can expand.

Responding to a question from Senator Rhoads, Mr. Parker stated that a firm commitment must be made to the

pipeline to gain approval from the Federal Energy Regulatory Commission. Thereafter, it is easy to expand the line. A target commitment of 50 percent of the capacity of the generation is needed before the project can proceed. That 50 percent would be available to meet growth and demand in the new market. If the two mining companies committed their entire energy demands, it would more than justify the 50 percent.

The benefits of having an electric generation plant in Elko County include:

- \$ Reliability for the industry served;
- \$ Large industries like to be close to its electricity sources;
- \$ Increased energy capacity for the entire region; and
- \$ A clean, natural energy producer.

Answering a question posed by Assemblywoman Cegavske, Mr. Parker stated that generating firms have been concentrating their efforts in southern Nevada; however, northern Nevada (and especially the rural areas, including Ely) is plagued with the difficulties of transporting fuel. Elko is attractive because of the large demand of the mining companies for electricity and natural gas. When the pipeline is constructed, it could very easily go through the cities of Wells and Wendover providing an ancillary benefit.

Mr. Franzoia indicated that the obstacles to this golden opportunity are contract agreements and commitments. To overcome this hurdle, a combination of players from the primary industrial base, the mining industry, and the companies involved in the proposal is desired. Additionally, state and local governments could explore incentives to see the project through on behalf of Nevada citizens and future economic expansion. Perhaps, state industrial revenue bonds could be pursued to provide appealing financing. Rural areas need incentives for private utility investment and to motivate growth potential. The present life and future of many of the communities in northern Nevada are intertwined with the mining industry who has been generous to its rural neighbors in many ways, and the City of Elko looks forward to working with them and its citizens in building a successful future.

In conclusion, Mr. Franzoia asked the Sub-Subcommittee to consider options that will attract private utility investors to enable Nevada's rural areas to diversify and develop in the future. Rural communities are faced with great economic challenges. Minerals are a finite, nonrenewable resource, and therefore, mining alone cannot sustain these areas forever. Without new industry in rural Nevada, he expects to see modern ghost towns scattered throughout the Great Basin. An ample supply of competitively priced energy can become our field of dreams for economic development. Elko can attract such an investment by working with its current industry, mining, to encourage development of ample energy resources, and to provide incentives, financing opportunities, and even venture capital, when appropriate, to make a project like the Ruby Gas Pipeline the most logical, affordable, and attractive alternative for the provisions of energy in northeastern Nevada. With the support of the S.C.R. 19 Subcommittee, the City of Elko can change the boom-bust cycle of the mining industry and enable the city to flourish and contribute to the overall success of the State of Nevada.

Addressing a question from Chairman O'Connell, Mr. Franzoia stated that the issue of land was not a concern for the City of Elko. In fact, Elko could double its population based on the expanded sewer plant and its proactive water system. The city has worked with the Bureau of Land Management (BLM) to acquire or at the very least consider saving those lands within the township of Elko, which is quite large, to ensure availability for future growth. Obviously, the City would pay market value to acquire those lands for public or industrial applications. However, the City of Elko does not have the funding to purchase property, but if a private enterprise is interested, the BLM does consider an arrangement in which the city would support the land acquisition with provisional controls to ensure facilities are built to city code. At the same time, the city could provide water and sewer supply outside the city limits.

Senator O'Connell asked if the City of Elko had information relative to the number of Nevada residents who are employed at more than one job, and what the tax burden is on a small community such as Elko. Ms. Ursula Powers,

identified previously, stated that the information which is available is approximately four years old; however, she is in the process of obtaining the most recent information from the UNR and would provide it to the Sub-Subcommittee. Chairman O=Connell also requested that the average wage be included as well.

Addressing revenue bonds, Bob Shriver, Executive Director, Nevada=s Commission on Economic Development, mentioned that as a member of the Private Activity Bond Council which appropriates investment revenue bonds, the largest user of investment revenue bonds in the State of Nevada is the Housing Division, Nevada=s Department of Business and Industry. Basically, industrial revenue bonds provide a tax credit to the state on a per population basis. The Council is allocated \$150 million annually, of which \$30 million is appropriated for job growth, housing, and then utilities. The Ruby Gas Pipeline project takes on a different interest because it is a job creation element as well as a utility element. Mr. Shriver indicated that this project would best be addressed by contacting Steve Ghiglieri, Chief, Office of Business Finance and Planning, Nevada=s Department of Business and Industry.

Mr. Franzoia opined that under regulation, the Public Utilities Commission of Nevada would be able to control and allow regulated companies to expand facilities thus spreading any potential risks across the ratepayers. Now that the state is deregulating, which will create private enterprise and computing factors, the risk will be assumed by the provider of the energy source, i.e., the gas pipeline or a power plant. These entities are less apt to assume the risk; therefore, the rural communities will be affected adversely.

Chairman O=Connell referred to a letter received from Assemblyman John C. Carpenter, District No. 33, addressed to the S.C.R. 19 Sub-Subcommittee which expressed the need for increased natural gas supply in rural and western Nevada (please refer to Exhibit G).

### **MARKETING NEVADA=S ECONOMIC OPPORTUNITIES**

*Stephen Brock*

Mr. Brock, S.C.R. 19 Advisory Member and President of the Nevada Business Journal, was excused from the meeting.

*Kay Shearer*

Ms. Shearer, Marketing Director, Commission on Economic Development, provided the Sub-Subcommittee with two charts depicting marketing programs by states (please refer to Exhibit H). Chairman O=Connell inquired about the data collection requested by the Sub-Subcommittee regarding why businesses leave Nevada and why they go out of business. Ms. Shearer noted that at the S.C.R. 19 Sub-Subcommittee meeting of January 10, 2000, in Las Vegas, Assemblywoman Cegavske had asked about the Business Activity Tax (BAT) and its impact on attracting and retaining businesses. Referencing a handout titled AQuestions from S.C.R. 19 Sub-Subcommittee on January 10, 1999@ (please refer to Exhibit I), she indicated that there is no empirical data which addresses the impact of the BAT on either attraction or retention figures. However, in attracting primary jobs with wages above the statewide average of \$14.12, the anecdotal reports from economic development professionals indicate that the BAT is not viewed as significant and does not appear to be a barrier at this time to attraction efforts.

Further, regarding the request for the number of new business licenses issued, Ms. Shearer noted that inquiries have been made to local government entities for historic and current data related to the business licenses issued. This information will be compiled and forwarded to the Sub-Subcommittee. In addition, she referred to a statistical report from Economy.com (please refer to Exhibit I) that includes the number of new business incorporations in Nevada and also presents a nationwide ranking and percentage change.

Additionally, in terms of retention data, the state currently does not maintain a source of information about departing companies. The data does, however, exist through private sources in which there is a fee associated with such a request. The Commission is in the process of examining its budget to determine if that data can actually be purchased. There are two companies that compile this type of information for various states. Another piece of information that is often used in looking at core retention rates in Nevada is the rate of personal bankruptcies; and

Nevada is ranked second nationally (please refer to Exhibit I). The lack of an organized retention program involving state and local entities is an additional source of negative comment. She noted that a number of factors are utilized in determining the quality of life indicator such as crime, pregnancy rates, et cetera.

Mr. Shriver, opined that when the BAT was initially administered, feedback was primarily from the sole proprietors of existing businesses in Nevada who had difficulty adjusting to the tax. When speaking to an average wage of \$14.12 per hour for major corporations who are looking to establish operations in Nevada, \$100 per year per full time employee is not a significant cost. To the average small business retailer that is a different story.

### **PUBLIC TESTIMONY**

*Charles W. Joerg*

Mr. Joerg, who represents Laughlin Associates, Inc., spoke about the importance of creating a competitive atmosphere to encourage corporations to organize in Nevada whether or not they ultimately do business in the state. There are two reasons for incorporating: (1) the economic benefits of filing fees, et cetera; and (2) if businesses organize in Nevada and then ultimately want to expand or relocate, they already have an association with the state. Addressing deficiencies in Nevada=s statutes, Mr. Joerg noted that Laughlin Associates has regrettably directed its clients in some cases to other jurisdictions (principally Wyoming or Arizona) where their needs can be better served. Mr. Joerg submitted a letter (please refer to Exhibit J) with three proposals regarding a domestication statute, lifetime proxies, and limited partnerships.

He opined that no economic impact would be incurred from any of these proposals that would encourage incorporation and increase revenue.

*Scott Anderson*

Mr. Anderson, Deputy Secretary of State for the Commercial Recordings Division, Secretary of State=s Office, and an Advisory Member of the S.C.R. 19 Subcommittee, indicated that at the January 24, 2000, meeting of the S.C.R. 19 Sub-Subcommittee to Review Incentives Offered Through the Office of the Secretary of State (Office) for Businesses to Locate in Nevada, the redomestication statute was addressed. He noted that this item will be discussed at the Sub-Subcommittee=s February 28, 2000, meeting. Although this statute does relate to business law, the Office is considering this item as an additional service that would be provided by the Office to allow companies to maintain their corporate history when organizing in Nevada.

Chairman O=Connell suggested that Mr. Joerg=s proposals may be addressed by the S.C.R. 19 Sub-Subcommittee reviewing Nevada=s business laws.

### **DISCUSSION OF RECOMMENDATIONS AND TESTIMONY FROM THE JANUARY 10, 2000, MEETING OF THE SUB-SUBCOMMITTEE**

#### **1      Networking and Training for Venture Capitalists**

Chairman O=Connell indicated that the number one item brought before the Sub-Subcommittee was networking and training for venture capitalists. She also noted that due to budgetary constraints, it would be best if recommendations presented to the S.C.R. 19 Subcommittee do not include extensive funding requests. The following suggestions were provided:

§      Mr. Shriver referred to testimony from Robert Heard, President of the National Association of State Venture Funds, in which he mentioned an initiative in Iowa in which the Governor personally invited 300 people to attend an event. He suggested that a personal invitation from Governor Guinn to attend the Fiscal Forum in May 2000 would be appropriate.

\$ Chairman O=Connell suggested scheduling a dinner during the Forum at which time Nevada=s networking program could be discussed. Additionally, she recommended that a place be reserved at each table for representative(s) from a Nevada based business to enable interaction with investors and entrepreneurs.

The Sub-Subcommittee made the following recommendations:

- A. *The S.C.R. 19 Subcommittee work with Governor Kenny Guinn=s staff to organize a dinner during his Fiscal Forum in May 2000. The purpose of the dinner would be to encourage private businesses to start a program for networking between investors and entrepreneurs. Eventually, the program would also offer training.*
- 2 To encourage potential investors to attend, ask the Governor to issue a personal invitation to those on the invitee list, which should include prominent Nevada businesses such as International Game Technology.
- 3 Recommend the Legislature appropriate \$100,000 to the Commission on Economic Development to facilitate a program of networking and training for investors and entrepreneurs.

## 2 Issues Involving Rural Nevada

The Sub-Subcommittee discussed the economic development and diversification issues affecting Nevada=s rural communities. Two topics discussed were:

\$ The fact that the federal government owns and/or controls more than 87 percent of land in the state; and

\$ The proposed Ruby Gas pipeline and power plant in Elko and the impact such an infrastructure development would have on the future economic success of rural Nevada. Chairman O=Connell indicated that she will request this issue be placed on the future agendas of: (1) The meeting of the interim study chairmen scheduled for March 3, 2000; and (2) the next meeting of the Committee to Study the Distribution among Local Governments of Revenue from State and Local Taxes (NRS 218.53881).

The Sub-Subcommittee approved the following proposals:

- 11 Recommend that the S.C.R. 19 Subcommittee send a letter to Nevada=s Congressional delegation in support of the Nevada Public Land Management Act of 1999 (Senate Bill 719). The measure A would require that public lands for sale in Northern Nevada be auctioned off to the highest bidder and designate how proceeds from the land sales are to be divided.@
- 12 Encourage the media to publicize the economic issues in rural Nevada by contacting the newspapers and editorial boards in Nevada to encourage articles examining the financial issues in each county in Nevada. Particular issues to review include the status of land ownership in Nevada and projects such as the proposed pipeline and power plant in Elko.
- 13 Send a letter and package of materials to all Nevada senators and assemblymen that contains the information presented before the Sub-Subcommittee regarding rural Nevada. Include information concerning the federal ownership of land throughout the state and the efforts to build a gas pipeline and power plant in Elko.

## 3 Strategic Plan for Economic Development and Diversification in Nevada

Mr. Shriver addressed the following issues:

\$ Marketing Nevada and particularly the urban and rural areas which are considered attractive locations due to the growing workforce and their geographic location in the west;

- \$ Focusing on the film industry which brought in approximately \$50 million in 1999 with expectations to exceed that figure in 2000;
- \$ The role of new technology in the economy; and
- \$ Emphasizing retention and expansion of existing Nevada businesses in the state=s plan. This component should be in balance with Aattraction@ efforts.

The Sub-Subcommittee recommended:

- 14 That the S.C.R. 19 Subcommittee send a letter to Bob Shriver, Director of the Nevada Commission on Economic Development (Commission), and Lieutenant Governor Lorraine T. Hunt, Chairman of the Commission, encouraging the Commission to accomplish the goals of:
  - 1 Developing a state plan for economic development and diversification that targets the following:
    - \$ Marketing;
    - \$ The growth of the film industry;
    - \$ The role of technology in the economy; and
    - \$ The retention and expansion of existing businesses.
  - ii Working closely with the Office of Science, Engineering, and Technology and the University and Community College System of Nevada to develop a strategic plan for Nevada. Ensure that the study proposed in conjunction with Battelle Memorial Institute is undertaken to examine the economic strengths and weaknesses of the entire state and to establish a plan for Nevada=s economic future.
  - iii. Recommend that the 2001 Legislature consider any recommendations from the study for possible legislative action.

#### 4 **Legislation for Venture Capital for the Development of Businesses in Nevada**

Discussion ensued in which the Sub-Subcommittee referred to a handout titled ASenate Bill 309 Suggested Amendments from Nevada Technology Council, March 31, 1999@ (please refer to Exhibit K) and suggested the following revisions:

- \$ Page 1, Section 1, remove subsection c which states, Aproviding an opportunity to attract sources of venture capital and corporate sponsors to operate within the state and to correct a shortage of readily available venture capital needed by technology-based enterprises;@.

- \$ Page 2, Section 7, omit subsections [a], [b], [c], and [d] which read:

- 40 Has or will have immediately after a loan or investment is made to it, at least fifty percent (50%) of its employees or assets located in this state and has its principal place of business in this state;
- 2 Has a total capitalization of less than ten million dollars (\$10,000,000);
- 3 Needs financial assistance in order to commence or expand such business which provides or intends to provide goods or services;
- 4 Is dedicated to the development of a new technology and is not engaged in banking, farming, gaming, lending, or investing funds in other businesses, mineral exploration, mining, ranching, real estate development, real estate sales, retail sales of food or clothing, or tourism, provided,

however, businesses that provide or intend to provide goods or services involving new technology, equipment or techniques to such businesses listed in this subparagraph, shall not be subject to any disqualification from participation in any program established pursuant to this act; and

Subsection (e) will be moved to Section 1. This section states:

- 5           Has a business plan that is consistent with the goals of the Commission on Economic Development for industrial and commercial development and that would, if successfully implemented, create jobs in this state that pay at least the state average industrial wage.

\$       Page 3, Section 8, remove the language Anew technology.@

\$       The Sub-Subcommittee discussed the fact that subsections [1] through [6] were added to Section 9, page 3, based on the assumption that Senate Joint Resolution No. 12 of the 69<sup>th</sup> Session would fail in the 2000 General Election. Mr. Shriver indicated that his personal preference was to leave the subsections intact until the election results. Bradley A. Wilkinson, Principal Deputy Legislative Counsel, Legal Division, Legislative Counsel Bureau, indicated that if the Sub-Subcommittee recommends retaining the language, it can be drafted accordingly depending upon the outcome of the November elections.

Assemblywoman Cegavske asked if the language Anew technology@ should be omitted from the entire bill. Chairman O=Connell replied in the affirmative.

Mr. Shriver asked that the University and Community College System of Nevada (UCCSN) be correctly referenced in Section 9. Additionally, in Section 9, subsection 3, Mr. Shriver noted that the statutory reference to the Office of Science, Engineering, and Technology may need to be revised.

The Sub-Subcommittee recommends:

*Redrafting Senate Bill 309 from the 1999 Legislative Session with certain modifications to address the anti-donation clause under Article 8, Section 9 of the Nevada Constitution.*

## 5       Linked Deposit Program

Mr. Wilkinson, identified previously, explained that a link deposit program allows the State Treasurer to deposit funds with a depository institution. That said institution would provide loans to businesses. In essence, the state would deposit the money at a lower interest rate than the current market rate and, in turn, the financial institution would provide loans to new businesses at a lower interest rate. Thus, the state does not obligate itself because the agreement is between the bank and the borrower.

The Sub-Subcommittee agreed on the following recommendations:

- 50           Recommend the creation of a Alinked deposit program@ under which the State Treasurer deposits funds in an account at a depository institution at below market interest rates in exchange for the institution=s agreement to lend its own funds at a comparably lower interest rate to certain businesses. The purpose is to stimulate economic development and growth by reducing the financing costs of those who wish to borrow money for certain business ventures.

- 51           Consider the possibility of using the money from the Unclaimed Property Fund (Chapter 120A of Nevada Revised Statutes) for the funds deposit by the State Treasurer.

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Mr. Shriver asked that the Sub-Subcommittee encourage passage of Senate Concurrent Resolution No. 12 of the 69<sup>th</sup> Session (please refer to Exhibit L).

The Sub-Subcommittee:

*Recommends that the S.C.R. 19 Subcommittee send a letter to the Chairman of the Legislative Commission, Senator Ann O=Connell, in support of the Legislature=s 2000 Ballot Question regarding economic development. Senate Joint Resolution No. 12 of the 69<sup>th</sup> Session proposes to amend the Nevada Constitution to allow the investment of state money in businesses to stimulate economic development and to create new jobs.*

### **ADJOURNMENT**

Exhibit M is the AAttendance Record@ for this meeting.

There being no further business, Chairman O=Connell adjourned the meeting at 3 p.m.

Respectfully submitted,

Roxanne Duer  
Senior Research Secretary

Allison Combs  
Principal Research Analyst

Approved By:

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Senator Ann O=Connell, Chairman

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Date

### **LIST OF EXHIBITS**

Exhibit A consists of the following documents submitted by John A. Kleppe, Ph.D., PE, Professor, University of Nevada, Reno:



- 1 Two articles from the University of Nevada, Reno=s magazine *Silver & Blue*, titled A*L*ights, Cameras, Inventions!*@* dated March/April 1996; and A*I*nventing Inventors,*@* dated January/February 1994.
- 2 A newspaper clipping from *Nevada News*, the newspaper of the University of Nevada, Reno, titled A*T*op Student Inventors Display Nevada Genius at Smithsonian,*@* dated March 15, 1999.
- 3 A biographical sketch of John A. Kleppe, Professor, Engineering Department/MS 260.
- 4 The syllabus for the Electrical Engineering Department/260, College of Engineering, University of Nevada, Reno, titled AEE491/MECH452, A Special Inter-Disciplinary Class for Senior Electrical and Mechanical Engineering Students on Innovation and Entrepreneurship,*@* dated Spring Semester 2000.

Exhibit B is a chart titled A*F*ramework for Economic Growth Through Technology,*@* dated February 3, 2000, submitted by John A. Kleppe, Ph.D., PE, Professor, University of Nevada, Reno.

Exhibit C is a student contract which was provided by John A. Kleppe, Ph.D., PE, Professor, University of Nevada, Reno, and is titled A*O*fficial EE 491 Point Transfer Contract,*@* dated February 3, 2000.

Exhibit D is a Project Schedule of Events for the EE491/MECH452 class submitted by John A. Kleppe, Ph.D., PE, Professor, University of Nevada, Reno, dated February 3, 2000.

Exhibit E, submitted by John A. Kleppe, Ph.D., PE, Professor, University of Nevada, Reno, consists of the following:

- 1 A copy of the five-step procedure taught by the Inventors Forum in Orange County, California, from *The Inventor=s Resource Guide*, dated Fall 1995.
- 2 An outline titled A*V*enture Capital Primer for Small Business,*@* dated February 3, 2000.

Exhibit F is the presentation of the City of Elko delegation, titled A*E*lko County: An Economic Development Case Study in Rural Nevada,*@* and submitted by Tom Guttry, Elko City Board of Supervisors and Chairman of the Elko County Economic Diversification Authority.

Exhibit G is a copy of the correspondence from Assemblyman John C. Carpenter, District No. 33, to Senator Ann O=Connell, Chairman of the Sub-Subcommittee, titled A*L*egislative Commission=s Subcommittee to Study Methods to Encourage Corporations and Other Business Entities to Organize and Conduct Business in this State (S.C.R. 19): Sub-Subcommittee to Review Economic Incentives in Other States,*@* dated February 2, 2000.

Exhibit H was submitted by Kay Shearer, Marketing Director, Commission on Economic Development, and includes two charts titled A*M*arketing by Program; by State.*@*

Exhibit I, submitted by Kay Shearer, Marketing Director, Commission on Economic Development, consists of:

- 1 A response to the S.C.R. 19 Sub-Subcommittee to Review Economic Incentives in Other States regarding BAT Tax Impact, New Business Licenses, and Retention Data, titled A*Q*uestions from S.C.R. 19 Sub-Subcommittee on January 10, 1999.*@*
- 2 A handout titled A*N*evada by Business Categories.*@*
- 3 A national ranking of 511 bankruptcies per 100,000 population, titled A*P*ersonal Bankruptcy Rate in 1998.*@*

Exhibit J consists of the following items submitted by Charlie W. Joerg, representing Laughlin Associates, Inc.:

- 1 A copy of correspondence to Senator Ann O'Connell, Chairman, from Bob Seligman, Laughlin Associates, Inc., titled ALegislative Proposals (Three) Which Will Encourage the Organization and Conduct of Business in Nevada by Corporations and Other Business Entities,@ dated February 2, 2000.
- 2 A copy of Wyoming statute 17-16-1701. Domestication of Foreign Corporations, titled AArticle 17, Domestication and Continuance of Foreign Corporations,@ dated October 12, 1999.
- 3 A copy of a Wyoming statute titled A17-16-722. Proxies.@
- 4 A copy of Arizona legislation from *ALISOnline*, titled A29-341. Rights of judgment creditor,@ dated March 1, 1999.

Exhibit K contains suggested amendments for Senate Bill 309, titled ASenate Bill 309 Suggested Amendments from Nevada Technology Council,@ dated March 31, 1999, submitted by Allison Combs, Principal Research Analyst, Research Division, Legislative Counsel Bureau.

Exhibit L is a copy of Senate Joint Resolution No. 12 of the 69<sup>th</sup> SessionBCommittee on Finance, provided by Allison Combs, Principal Research Analyst, Research Division, Legislative Counsel Bureau.

Exhibit M is the AAttendance Record@ for this meeting.

Copies of the materials distributed during the meeting are on file in the Research Library of the Legislative Counsel Bureau, Carson City, Nevada. You may contact the library at (775) 684-6825.