

**Minutes of the Meeting of the
Legislative Committee to Study the
Distribution among Local Governments of Revenue
From State and Local Taxes, NRS 218.5388 to 218.53886, inclusive (S.B. 253)**

October 22, 1998

Las Vegas, Nevada

The sixth meeting of the S.B. 253 Committee was called to order by Senator Ann O'Connell, Chairman, on Thursday, October 22, 1998, at 9:30 a.m., in Room 4412 of the Grant Sawyer State Office Building, Las Vegas, Nevada.

COMMITTEE MEMBERS PRESENT IN LAS VEGAS:

Senator Ann O'Connell, Chairman

Senator Jon C. Porter

Senator John B. (Jack) Regan

Assemblywoman Joan A. Lambert

Assemblyman Bob Price

Assemblyman P. M. Roy Neighbors

COMMITTEE MEMBERS PRESENT IN CARSON CITY:

Senator Ernest E. Adler

COMMITTEE MEMBERS ABSENT:

Assemblywoman Vivian L. Freeman

ADVISORY COMMITTEE MEMBERS PRESENT:

Michael Alastuey, Clark County

Gary Cordes, City of Fallon

Guy Hobbs, Hobbs, Ong & Associates

Rick Kester, Douglas County School District

Janet Murphy, (Designee) Tahoe-Douglas District

Michael Pitlock, Department of Taxation

Linda Ritter, City of Elko

Terri Thomas, City of Sparks

Mary Walker, Carson City

ADVISORY COMMITTEE MEMBERS ABSENT:

Mary Henderson, Washoe County

Marvin Leavitt, City of Las Vegas

LCB STAFF PRESENT:

Kevin Welsh, Deputy Fiscal Analyst, Fiscal Analysis Division

Ted Zuend, Deputy Fiscal Analyst, Fiscal Analysis Division

Kim M. Guinasso, Principal Deputy Legislative Counsel, Legal Division

Jeanne Peyton, Secretary, Fiscal Analysis Division

OTHERS PRESENT:

Bob Ostrovsky, Nevada Resort Association

Carole Vilardo, Nevada Taxpayers Association

Colleen Wilson-Pappa, Clark County

Dudley Lowery, The Campbell Company

Jeff Fontaine, Nevada Department of Transportation (NDOT)

Kimberly McDonald, City of North Las Vegas

Stephanie Licht, Elko County Commission

Walt Rulffes, Clark County School District

Georgi Cody, Nevada Motor Transport Association

Cheryl Noriega, White Pine County

Antonio Noriega

Mark Calhoun, City of Henderson

Bob Campbell, The Campbell Company

Phil Stoeckinger, City of Henderson

Marta Golden Brown, City of North Las Vegas

Russ Fields, Nevada Mining Association

Janelle Kraft, City of Las Vegas

Barbara McKenzie, City of Reno

Alice Fessenden, City of Mesquite

Gary Milliken, Williams Company

Jerry McKnight, Nye County

Geneva Neuhauser, Nye County

Warren Hardy, North Las Vegas/Mesquite

Brent Hutchings, City of Ely

Jeff Payson, Clark County Assessor

Jim Slark, Clark County Assessor

Don Henderson, Nevada Division of Agriculture

Jim Schober

Tom Grady, Nevada League of Cities

Ron Kruse, Incline Village General Improvement District (IVGID)

Tim Smith, Tahoe Douglas Fire

Jim Epley, NDOT

John Whitaker, NDOT

Russ Law, NDOT

Chris Moyle, TMSG

James Nakada, IVGID

Ramona Cruz, IVGID

Bruce Brooks, Humboldt County

Michelle Gordon, Washoe County Regional Transportation Commission (RTC)

Barbara Byington, Douglas County Assessor

Kit Weaver, Assessors Association

Daryl Capurro, Nevada Motor Transport Association

Neena Laxalt, Rose Glen Group

Theresa Glazner, Department of Taxation

Alon Coyner, Nevada Division of Minerals

Exhibits

Exhibit A: Meeting Notice and Agenda.

Exhibit B: Attendance Record.

Exhibit C: Revenues (Governmental Funds, Non-School), submitted by Mary Matheus, Local Government Budget Analyst, Fiscal Analysis Division, LCB.

Exhibit D: An example of the database being developed (using Elko County as the example) for Local Government entities, listing revenue resources and expenses, submitted by Mary Matheus.

Exhibit E: Economic Overview of the Nevada Mining Industry 1997, submitted by Russ Fields, President, Nevada Mining Association.

Exhibit F: Public Land Grazing Trends in Nevada, submitted by Don Henderson, Deputy Administrator, Nevada Division of Agriculture.

Exhibit G: Testimony of Jeffrey Fontaine, Deputy Director, NDOT, concerning Recommendation No. 5 proposed by the Subcommittee to Study the Cost of Maintaining Roads, Streets, and Highways.

Exhibit H: Nevada Revised Statutes 318.490 "County Ordinance Merging, Consolidation, Dissolving District; Notice."

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CALL TO ORDER

Chairman O'Connell called the meeting to order and noted that a quorum was present.

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APPROVAL OF THE MINUTES FROM THE SEPTEMBER 3, 1998, MEETING

Chairman O'Connell requested a motion for approval of the Committee's minutes from the September 3, 1998, meeting.

ASSEMBLYWOMAN LAMBERT MOVED FOR APPROVAL OF THE MINUTES FROM THE SEPTEMBER 3, 1998, MEETING, WHICH WAS HELD IN LAS VEGAS. ASSEMBLYMAN NEIGHBORS SECONDED THE MOTION, WHICH CARRIED UNANIMOUSLY.

REPORT AND DISCUSSION ON LOCAL GOVERNMENT BUDGET INFORMATION CONTAINED IN THE LOCAL GOVERNMENT STATEWIDE SUMMARY REPORT

Chairman O'Connell stated that Mary Matheus, the first speaker, will provide the Committee with a fiscal overview on the smaller counties within Nevada that are having major financial problems. Ms. Matheus will explain the possible ways to obtain data through the Statewide Summary Report. The Committee will then have to decide what will be needed from the data she has available to depict where each of the counties and cities may need financial assistance.

Mary Matheus

Ms. Matheus, Local Government Budget Analyst, Fiscal Analysis Division, Legislative Counsel Bureau (LCB), provided the with a "snapshot" of local government finances. She noted that since 1983, LCB has maintained a database of local government financial data. This information is compiled from the budgetary submittal of local governments and some of the data available goes back as far as 1976. The budget information is manually input into the database and the Department of Taxation is required to submit this information to LCB. Prior to the 1997 Legislature, it was determined that the comprehensive report that had been compiled for a number of years was cumbersome and outdated, and did not provide the necessary information to analyze individual local government trends and activities. A new format was developed for the presentation of local government data, which provides a picture of each individual entity.

Ms. Matheus informed the Committee that the original database that was established in 1983 became obsolete and has been discontinued. The Fiscal Analysis Division of LCB together with the Department of Taxation has agreed to work together in a cooperative effort to design and implement a new database system that would provide information for both the legislative reports and for the Department of Taxation. Legacy Solutions, a software development company was contracted to work with LCB and the Department of Taxation to devise a database and place the information into it for the last couple of years. The LCB provided the initial funding for the design and implementation of the database with the agreement of that the Department of Taxation would input conduct the input and maintenance of the system. This is the first time the Department of Taxation has had the ability to track any local government budgetary information on computer. In the past, the information was kept on manual reports.

Ms. Matheus explained that Exhibit C is a basic chart of accounts and is based on the instructions that the Department of Taxation sends out to the local entities. It provides a list of the level of information that will be available through the database.

Continuing, she explained that Exhibit D is a sample, which outlines the format of the report. The report includes: (1) demographic information (i.e., population, full-time employees, combined tax rate, assessed value, and square miles of county); (2) a basic revenue and expenditure breakdown. Listed on pages 2 and 3 of Exhibit D is a detailed breakdown of each revenue source. Ms. Matheus explained that some problems exist in this part of the database. In the past, the Department of Taxation has manually reviewed budgetary information and if the analyst would find a minor discrepancy in the way an item was classified they would manually correct it. The entities have not been required to submit their information in a consistent manner. What is occurring when loading information in the database is that each of the entities are reporting revenues with a variety of descriptions. Therefore, the analyst that is reviewing the report is forced to make a judgment of how the revenue should be listed and because the information is not listed in a consistent manner by the entities, it is sometimes not comparable in the database.

Presently, the Department of Taxation and LCB is inputting the data and will then forward the reports back to the entities in the correct format for them to follow for future reporting. Ms. Matheus informed the Committee that the format for the database is still being worked on. Therefore, if the Committee has recommendations for modifications to the report, it can be changed at this time. When the budget formats are submitted, the level of information that is needed must be decided. Once this is decided, the Department of Taxation and LCB can work toward requiring and enforcing that this information be received by the entities. She noted that the Department of Taxation has always requested specific information from the entities, but it has not been able to enforce that requirement.

Continuing with her presentation, Ms. Matheus explained that on page 4 of Exhibit D is a breakdown of the general fund by function. A brief description of the proprietary activities and basic net income or loss information are included in these charts. She noted that the proprietary funds is an area where the Committee may want to recommend what information would be most useful to them.

Continuing, Ms. Matheus said that on page 5 of Exhibit D is a listing of the entities within each county and the debt information that was available.

In conclusion, Ms. Matheus urged the Committee to submit any suggestions that may be useful. Now is the time to insert additional information since the database is in the development process. It is important to work towards providing more consistent information.

Senator Regan asked if the analysis presented on Elko County, which is one of Nevada's export counties, has also been done on any of the smaller counties. He also asked if the small counties could afford a sophisticated system to produce this type of information.

Ms. Matheus noted that the Department of Taxation and LCB have discussed the inability of the counties who do not have the ability to submit their data electronically. The level of detail that is presently being requested is contained within their accounting systems and is required through the current budgetary process. As far as getting the data into the system to perform the analysis, the Department of Taxation and LCB are entering the data to perform the analysis. She noted that the county budgets should not be affected by this new procedure at this point.

Chairman O'Connell asked if information from the counties regarding the expense of collective bargaining or any information relating to what they consider unfunded mandates is available.

Tom Grady

Mr. Grady, Nevada League of Cities, noted that these items were worked on during the 1995 Session and he offered to provide Ms. Matheus with the necessary information.

Ms. Matheus said that collective bargaining and unfunded mandate data is currently not recorded separately by all the entities. If these items are reported separately, then each fund is tracked individually. If they are combined by the entity within another fund (i.e., the General Fund), they cannot be tracked.

The Chairman explained that the discussion is covering budget items that are beyond the control of the counties or city, and asked what percentage of the budget would fit into that category.

Mr. Grady said he would work with the cities to acquire that information

Responding to the Chairman, Mr. Alastuey noted that as the analysis is circulated to the counties in the new format, possibly there would be some elements regarding debt that may be of interest. There are parameters on a per capita basis that are used by bond rating agencies and other benchmarks that would indicate the level of debt in proportion to the size of the governmental entity that might be of importance. Regarding the discussion about reserves, unfunded mandates, and whether unfunded mandates might be separately tracked, currently the accounting systems in the counties do not provide for a separate accounting of unfunded mandates. He noted that the Nevada League of Cities and the Nevada Association of Counties have compiled statistics from various governments relating to unfunded mandates and this is probably the best source of information available at present.

**REPORT AND DISCUSSION OF FISCAL IMPACTS ON LOCAL GOVERNMENTS BY
FEDERAL AND STATE MANDATES, PARTICULARLY IN THE AREAS OF AGRICULTURE
AND MINING – BOB HADFIELD, NEVADA ASSOCIATION OF COUNTIES AND**

Bob Hadfield

Mr. Hadfield, Executive Director, Nevada Association of Counties (NACO), informed the Committee that NACO has been trying to figure out what is happening in the rural areas because of the decline in assessed valuation and revenues. An effort is underway by NACO to identify what is driving the decline in numbers in certain parts of the state (see Exhibit A, Tab IV).

Senator Regan requested that Mr. Hadfield explain to the Committee what is happening in Humboldt County.

Mr. Hadfield noted that Russ Fields of the Nevada Mining Association will provide information on how mining is affecting certain counties, including Humboldt County.

Continuing, Mr. Hadfield informed the Committee that on October 21, 1998, the United States Congress approved the Southern Nevada land buyout, which will enable Southern Nevada to purchase land for continued development. This legislation creates a pot of \$750 million that is allocated for the purchase of land in Nevada. To get an idea of how much land \$750 million could purchase, NACO is working with the assessors to establish the value of all the agricultural land located in Nevada. While some of the land could be located in Clark County, it is more likely that the money will be spent in other rural counties that already have diminishing tax bases and declining assessed valuations.

Mr. Hadfield stated that an effort is underway to compile a document for use by legislators and other interested parties, identifying the kinds of trends and actions taking place in Nevada. He explained that there may be policy decisions

that are impacting and creating problems at the city, county, and state levels. When looking at the impact of centrally assessed properties and utility deregulation and the fact that the power plants in Nevada may be bought out and some may be shut down, the future of the small counties is doubtful. He also noted that the issue of water is a big concern. According to Mr. Hadfield, many of these policies are driven by decisions made outside of the state by organizations that have good representation in Nevada, but also have a higher National agenda. Nevada needs to establish a state policy on these issues. Also, should the state continue to increase Federal land ownership in Nevada, when the counties are trying to figure out how to place property tax on less and less assessed property. He explained that this is a public policy issue that the counties cannot handle at the local level because they have no voice in the land exchange process, which is a federal process.

Senator Porter noted that the rural counties are facing some serious challenges under the status quo of revenue sources. There are also international, national, and regional challenges with the potential passage of unregulated Indian gaming in California. He questioned if the counties have a fiscal capacity analysis in place and do the counties have a financial action plan for the next two to five years to deal with the change in revenues.

Mr. Hadfield noted that through the action of the Legislature, the counties have a "rainy day fund" capacity. Fortunately, some of the entities have taken advantage of the good times and set aside funds that are not subject to negotiation and are available to access when the county has a 10 percent decline in general revenues. There are some entities that have been unable to take advantage of this tool because of limited funds.

The chart of accounts distributed by Ms. Matheus (Exhibits C and D) demonstrates the broad range of activities the counties, cities, and GID's are responsible for. Public safety is an issue of concern, and additional safety officers are always needed. In Mr. Hadfield's opinion, the entities are not in a position to "weather out a long term decline." Many of the entities are already having financial difficulty and the possibility that the Federal Government may continue to offload programs at the local level will add to the fiscal impact. He described a scenario where the Federal Government imposed additional water quality standards for drainage (soil separators must be placed in all parking lots), which imposed additional cost for both installation and maintenance of the systems.

Senator Porter requested that between now and the 1999 Legislative Session, the counties, cities, and the state respond to whether or not they have a fiscal action plan in place to handle a possible 10 to 20 percent downturn in revenues. He also requested a description of the plan.

Mr. Hadfield responded that approximately six counties are already at the tax cap and cannot afford to lose additional revenue. Mineral County's budget was decreased during this past year and it cannot survive a large cut in assessed valuation.

Senator Porter questioned if NACO has a plan outlined in case the financial strain on the counties worsens.

Mr. Hadfield noted that when the legislation was passed for the "rainy day fund," the counties were encouraged to take advantage of it. Some entities are prepared and do have plans. The other entities are just living day to day, and hoping that the net proceeds do not decline even further. Historically, the capacity in many of the districts has not been demonstrated to address what is a slower, normal growth, let alone a decline in the economy.

Senator Porter conveyed his concern for all the counties, cities, and the state during the next biennium.

Chairman O'Connell noted that the purpose of this Committee is to try to help alleviate some of the financial burden on the rural communities. She noted that Mr. Hadfield and herself had a meeting several months ago to discuss how the trends were going. Also, Mr. Alastuey and myself have had this discussion with Clark County to try to develop a prototype that could be used by the smaller counties to try to better their situation.

Mr. Neighbors explained that of the four counties in his district, one is the fastest growing county in the country and is financially solvent, but the other three (Esmeralda, Lincoln, and Mineral Counties) are experiencing financial difficulties. In Mr. Neighbors opinion, it may be time to review the Supplemental City/County Relief Tax (SCCRT) distribution. He stressed the importance of helping the rural counties.

Chairman O'Connell asked if anyone was in the audience today who represented the Governor or Nevada's Congressional Delegation. There being no response, the Chairman requested that staff send a letter to the Governor and Nevada's United States Representatives, inviting them to attend the next meeting of the S.B. 253 Committee. She noted that the issues being discussed are extremely critical to the state and this Committee needs the support of those representatives.

Russ Fields

Mr. Fields, President, Nevada Mining Association (NMA), provided the Committee with a booklet entitled "Economic Overview of the Nevada Mining Industry 1997," (see Exhibit E).

Responding to the Chairman, he noted that although he did not bring enough copies of Exhibit E for members of the audience, he would be glad to send a copy to anyone who requested it.

Beginning his presentation, Mr. Fields noted that the NMA is the trade association for the Nevada mining industry. The mission of the NMA is to work towards the best business environment that can be achieved for the development of mines (including gas and geothermal development) in the State of Nevada.

Mr. Fields noted that the NMA is interested in solving the problems at the local government level in the rural counties. Certainly mining is the largest economic force in a number of those counties and a vast majority of NMA's employees reside in those counties. He thanked Mr. Grady and Mr. Hadfield for their help in identifying possible means to solve these problems. He informed the Committee that the counties that are largely affected by net proceeds are Elko, Esmeralda, Eureka, Humboldt, Lander, Nye, and White Pine. Churchill and Mineral Counties are affected on a much smaller level.

Mr. Fields explained that Exhibit E provides a "snapshot" the year-end economic impacts and an outlook for the Nevada mining industry. At year end 1997, as in the preceding several years, Nevada was the leading producer of gold and silver in the United States and also mined a number of other industrial minerals (i.e., lead, barite, etc.). Referring to page 4 of Exhibit E, Mr. Fields provided a summary of economic statistics of Nevada's mining industry, which included:

- Direct Employment of about 14,700 jobs.
- Direct payroll of approximately \$731,753,000.
- Average salary is the highest in the state at \$49,905/year.

About \$5.9 billion contributed in direct and indirect employment impacts and about 63,000 jobs are involved in mining. Indirect impacts would include the provision of goods and services to the industry.

He noted that on page 5 of Exhibit E is a table listing revenues for 1995, 1996, and 1997 and a breakdown of the counties and state's share of net proceeds of mines, the sales and use tax, property tax, and the business license tax. During 1997, total revenues increased to \$125 million from about \$123 million in 1996.

Mr. Fields explained that about 85 percent of Nevada's total mineral wealth revenue is currently tied up in gold. If Nevada was a stand-alone Nation, it would be the third largest gold producer in the world behind South Africa and Australia, with approximately 8 million ounces produced during 1997. However, what has happened with the price of gold is, in 1997 the average was \$331 per ounce. Today, October 22, 1998, it is approximately \$296 per ounce. In 1996, the average price was \$388 per ounce. Presently, the industry and the counties would be happy to see gold rise to \$325 per ounce. What is important to county government is to understand how mining responds to this situation. There is nothing the NMA can do about the price of gold. It is set in the world markets and influenced by many things, which are outside the control of the United States Government. He explained that the cost of production can be controlled when

the price of gold decreases by: (1) buying less equipment, (2) shelve expansion plans, (3) increase in productivity, and (4) employee layoffs. This is not an unusual occurrence in the mineral business, and when the price is down – reductions are made.

Referring to federal and state mandates, he noted that regulatory requirements from government are significant and do have a notable influence on the mining industry. The environmental controls have a notable cost (i.e., air, water, wildlife, and reclamation requirements), but the State of Nevada has formulated one of the best mining regulatory packages in the world. He noted that other countries are trying to duplicate Nevada's regulatory procedures. Mr. Fields commented that while environmental controls are expensive, the NMA supports them.

He also mentioned that federal restrictions are important to the NMA, and include:

- Limiting access to federal lands for exploration activities. Since Nevada is 87 percent public lands, the future of mining in the State of Nevada depends on being able to access this land.
- Lengthening of permitting timeframes. Presently, it takes a minimum of 24 months to permit a new mine, and in some cases 4 to 5 years.

Senator O'Connell added that this is exactly what caused the problem in White Pine County.

Mr. Fields said that the major companies that are involved in mining in Nevada are all multi-national and are most interested in where they can make the most profit.

Continuing, Mr. Fields said that the NMA is constantly working with regulators at both the state and federal level and have always had a good relationship

Ted Zuend

Mr. Zuend, Deputy Fiscal Analyst, Fiscal Analysis Division, LCB, said that in preparing revenue projections for the Economic Forum, one of the components of the state budget is the net proceeds tax. Referring to page 3 of Exhibit E, Mr. Zuend mentioned the large increase in production that occurred in 1997 in the face of the sharply declining prices in gold. Also, the price the industry projected for the next two years was going to continue at \$290 per ounce.

With regard to the increase in production from 1996 to 1997, Mr. Fields noted that because of permits and construction, it can take several years to bring a mine to operation. The increase in production from 1996 to 1997 was the advent of the Meikel Mine, which suddenly began producing about 700,000 ounces per year. Another significant incremental increase in production in 1998 will be seen in 1998 from the Pipeline Mine. Even though the price is lower than was originally was predicted, it is still worth producing gold. The result is that the return on equity decreases tremendously because of larger capital expenditures and the lower price of the product. An evaluation of a group of 18 companies revealed a 3.3 percent return on equity in 1997.

Regarding forecasting the price of gold, Mr. Fields said that it is difficult to predict the price of gold from one year to another. He explained that his recommendation to the Department of Taxation was based on the fact that Nevada's major companies forecast their budgets based on a steady price of gold.

Continuing, he explained that the Asian culture dictates that "it's a good thing to hold gold and jewelry as a store of wealth and safety." Because of the economic slowdown in Asia, Nevada has lost part of a market where gold is used for electronic components. The decision by central banks in Europe regarding how much gold they want to hold in reserve to back their monetary unit will also affect the market price.

Senator Regan commented that with the raft of mergers over the past three years and the economic conditions in the Far East it is certainly difficult to determine how the price of gold will be affected.

In addition, Mr. Fields said that with the price of gold falling, the stock prices are also decreasing, which makes these companies easy targets for takeovers. In Mr. Fields opinion, as long as the price of gold stays low, it is likely that

additional consolidation within the industry will take place.

Responding to an earlier question about Humboldt County, Mr. Fields said that the mining industry has a large presence in this area. Currently, there are five significant mines located in Humboldt County. In general, these mines are higher cost mines than those located in Carlin, Nevada. As a result, the net proceeds and actual projections for Humboldt County have been extremely low to non-existent for the past year. Because these mines are more challenged from a cost standpoint, they are doing things to cut costs tremendously, including:

- Purchasing less equipment, which translates to less sales and use tax and to lower property tax.

Referring to the page 14 of Exhibit E, Chairman O'Connell said that this chart clearly represents net proceeds revenues compared to earnings by other industries.

Responding to the Chairman, Mr. Fields said that the NMA will not be presenting legislation to the 1999 Legislature. The NMA plans to monitor other legislation. He noted that possible legislation that will be presented by Linda Ritter will be to go back to a "payment in arrears" situation. He offered his assistance in working with Ms. Ritter and this Committee to help prepare proposed legislation to bring back an actual payment situation. In his opinion, this would be a better way to handle net proceeds of mines, since the price of gold cannot be predicted.

The Chairman requested that Ms. Ritter make her presentation regarding net proceeds of mines.

STATUS REPORT AND POSSIBLE RECOMMENDATIONS FOR BDRS FROM TECHNICAL ADVISORY COMMITTEE REGARDING THE FOLLOWING ITEMS

Net Proceeds of Mines

Linda Ritter

Ms. Ritter, City Manager of Elko County, informed the Committee that the possibility of a stabilization fund was researched and several scenarios were reviewed. The "back to actual" (see Exhibit A, Tab VIID) language was reviewed for counties, providing the mines would make payments as they are presently doing. On occasion, estimating net proceeds has caused situation where counties are later required to make a refund. At the October 15, 1998, the Technical Advisory Committee (TAC) members agreed to going back to using net proceeds collections for budgeting, where the mine would pay in arrears. She explained that by using this system, the local governments will know what their revenue will be.

The Chairman asked Ms. Ritter if she was making a recommendation to the Legislative Committee to prepare a bill draft request (BDR).

Responding, Ms. Ritter said that the TAC is planning another meeting in November 1998 and would like to discuss this issue further before making a recommendation to the S.B. 253 Committee. She noted that the correct language must be prepared so that the entities will not be negatively impacted. It was also discussed to cut back on the revenue from net proceeds by approximately 20 percent over five years. Currently, with the decline in sales tax, some of the local governments may not be able to financially handle a cut back on net proceeds. Therefore, more time will be needed to discuss the issue with the counties and come up with a plan that will accommodate everyone.

Questioning Mr. Fields, Mr. Alastuey asked "if the price of gold is down, production is up, and the amount of net proceeds being paid is stable and operations have been trimmed by laying off approximately 600 employees, could an argument be made that the industries point of view is one of rather than being at the door of disaster, but one of cautious optimism on the expectation of an era of higher profitability to come."

Senator Regan added that gold is not sold immediately upon production, but is sold in the future. He asked Mr. Fields to give Mr. Alastuey an analysis of "future selling."

Mr. Fields noted that the common term used for future selling is "hedging." Probably about ½ of Nevada's production is sold forward and the balance is sold at "spot market." He explained that hedging contracts or forward sales contracts are negotiated for a period of time based on what the parties agree the price of gold may be in the future. However, they are just guessing on the price and as their contracts end, they are re-negotiated. He explained that hedging stabilizes the price of gold during the contract period.

In closing, Mr. Fields said that he is not implying that the mining business will be problematic for the State of Nevada in terms of revenues for a long period of time. The mining industry is not in a downward long-term trend. He reiterated that when the price is low, costs are cut, which is to benefit the net proceeds of mines tax. Direct operating costs have been reduced from \$230 to about \$214. This reduction is not applied to the net proceeds of mines tax purposes. He explained that as the industry gains efficiency and improves operations, and is able to survive at the lower price levels; when the price of gold increases the industry "looks really good." As long as mining exists, Nevada will be part of it. He explained that Nevada's costs are lower than South Africa and Australia.

Assemblyman Neighbors questioned why most of the exploration money is going to South America. Also, he mentioned that when referring to cutting costs – another issue is when the price of gold decreases, the cutoff grades on ore also decreases. Therefore, the waste to ore ratio will change.

Responding, Mr. Fields said that the Nevada Division of Minerals, which is part of the Department of Business and Industry does annual explorations. The reason for the exploration money going out of the United States is because over the last several years there has been uncertainty over what the Federal Government will do with mining law reform, royalty, access to public lands, and time frames for permitting mines. As noted earlier, Mr. Fields said that the mining companies have the option to go anywhere in the world and they utilize that opportunity to get the largest profit on their product. However, in the last 18 months, there has also been a decline in exploration activity, which is due to reduction in budgets. Over the past year exploration forecasts fell from approximately \$131 million to \$87 million.

Regarding access to public lands, which is where new mineral deposits can be explored, many lands in the State of Nevada have been tie up by military and wilderness withdrawals, and by Bureau of Land Management (BLM) designations called "areas of critical environmental concern." While all these items have merit, it takes away millions of acres that are available for exploration in a region that is highly mineralized.

Responding to Assemblyman Neighbor's question relating to cutoff grades, Mr. Fields concurred that as the price of gold drops, less tonnage of material becomes available to mine and still be profitable (i.e., areas with less waste must be mined).

Mr. Pitlock added that the Tax Commission is in the process of a rule making proceeding. They are reviewing the regulations dealing with the calculation of net proceeds. One of the issues being debated relates to how gross proceeds are calculated and whether or not the spot price should be used or the actual amount realized through hedging, or another financial arrangement.

**REPORT AND DISCUSSION OF FISCAL IMPACTS ON LOCAL GOVERNMENTS BY
FEDERAL AND STATE MANDATES, PARTICULARLY IN THE AREAS OF AGRICULTURE
AND MINING – DON HENDERSON, NEVADA DEPARTMENT OF AGRICULTURE**

Don Henderson

Mr. Henderson, Deputy Administrator, Nevada Division of Agriculture, provided a presentation on public land grazing trends in Nevada and the affect on local rural economies via an overhead slide presentation (see Exhibit F). He informed the that the statistics being presented today come from three recent studies conducted during 1997 and 1998, and performed by Resource Concepts, Incorporated, of Carson City. The sponsors for these reports include three state grazing boards and six rural communities, including: Eureka, Humboldt, Lander, Lincoln, Nye, and White Pine

Counties. The study area included in these reports is comprised of the Ely, Battle Mountain, and Winnemucca BLM Districts. The Great Basin National Park is located in the Ely Ranger District. The areas not included in this data are Elko County and Elko BLM District; the Carson District and forest service lands within the Carson District; and Clark, Northern Washoe, and Western Humboldt Counties.

Pointing to a chart in Exhibit F, Mr. Henderson noted that the Federal Government decided to regulate grazing in order to benefit from the resources available. The Federal Government went through an adjudication process, which was completed in Nevada in the mid 1960s to early 1970s. The BLM numbers went from 2 million animal unit months (AUMs) at adjudication to 1.3 million AUMs at present, representing an overall 34 percent loss.

According to Mr. Henderson, United States Forest Service (USFS) and National Park grazing results are slightly lower, but the downward trend is very similar. In 1980 there were 151,000 AUMs, and presently there are 115,000 AUMs, an overall reduction of approximately 23 percent.

Explaining further, Mr. Henderson said that grazing trends can also be reviewed by region. Over the period from 1980 to 1998, AUMs were reduced by: 21 percent in the Northwest Region; 16 percent in the Eastern Region; and 22 percent in the Central Region. Overall, a 342,600 reduction in AUMs occurred in Nevada (20 percent) over the past 18 years.

He noted that this research was compiled with the help of the University of Nevada, Reno, Economics and Statistics Departments. Some of the economic effects occur when a rancher purchases a ranch that has public land grazing associated with it, because he is paying for that federal permit. Economists have noted that those permit values are about \$37 for a BLM-AUM and about \$42 for a USFS-AUM, and as grazing land is taken away from a ranch, a loss occurs. For the three regions used in the study, a one-time loss of \$12.8 million occurred over the period from 1980 to 1998. In the livestock sector, in the three regions a loss of \$7.2 million occurred; and the loss to all sectors is about \$12.3 million on an annual basis.

Mr. Henderson said that Nevada's Division of Agriculture believes that this type of information is critical to local and state governments, the involved federal agencies, and interested public, as they meet to discuss and interact in public land grazing management and policy issues. The Division has requested additional funding to complete this type of analysis for the remainder of the state. This study will provide a better picture of what is involved and how it is affecting local economies. The purpose of the study will be to collect grazing data to determine statewide economic impacts from public land grazing over the past 20 years. If funded, the work would be put out to competitive bid by a qualified third party contractor. It would expand the existing database that has been developed to cover the balance of the state. The database will provide a year-to-year occurrence of each allotment. The study would be complete by the Year 2000 in time for the 2001 Legislature and the report would be provided to state and local governments. The cost to complete this study on a statewide basis is approximately \$80,000. Continuing, he noted that with a completed statewide inventory, state and county legislators and policy makers will be provided a better tool to understand past and future affects resulting from federal grazing programs. With this information, these entities can effectively dialog with the involved federal agencies to achieve changes that are more cognizant of the federal impacts on local governments, the rural economies, and the range livestock industry.

Responding to Assemblywoman Lambert, Mr. Henderson said that livestock is valued on a per unit basis and the counties collect a "head tax." The tax does not vary according to the price of beef.

Responding to Senator Regan, Mr. Henderson concurred that the state has lost its sales of grain pellets to the Far East. He noted that there has been an effort within the industry to diversify and improve Nevada's export outlets. The downturn in the Asian market has greatly affected these imports that have been developed. He noted that the State of Texas was looking to purchase hay due to flooding in that state, but it was found by Nevada that it is less costly to ship to Asia than to Texas.

Mr. Pitlock asked what the major causes are for the decline of grain sales. He noted that the tremendous reduction in grazing that has occurred in Nevada from when it was an open unregulated industry to present is not showing on the trends. Previous to adjudication, many people in the agricultural business did not apply for permits from the Federal Government. From a livestock level, we are not dealing with over grazing issues or an overage of cattle, but the problem is livestock distribution. The cattle are grazing about the same area, but still have concentrated areas of overuse.

In Mr. Henderson's opinion, the Federal Government should try to work cooperatively with ranchers to develop management solutions to the livestock grazing problems they are trying to address, instead of taking the simple administrative route of cutting permits.

Continuing his presentation, Mr. Hadfield noted that he was provided with the returns received from counties on unfunded mandates (see Exhibit A, Tab IV). Federal legislation has been implemented that is having a dramatic on local government at all levels relating to solid waste management (landfill areas). He added that the Federal Clean Air and Clean Water Acts are having continuing impacts because they restrict the amount of development that can occur in the rural areas because what they are targeting is no growth in those areas, no change in air quality because that clean air is needed to dilute bad air in other areas. He noted that this situation will continue to impact future economic development in the rural communities of the state.

According to surveys received, said Mr. Hadfield, some areas are not claiming any impact at all from unfunded mandates and other are listing significant impacts. In Mr. Hadfield's opinion this could be due to a problem with data collection, which NACO is trying to address.

In closing, he noted that both the Nevada League of Cities and NACO, will be studying the issue of unfunded mandates further. He noted that these organization intend to pursue this matter during the 1999 Legislative Session by submitted a BDR relating to this issue. Additionally, he noted "at the federal level, I cannot stress that the continuing pressure to take private land in this state and put it into public ownership - as long as that continues at it current rate, I don't know what kind of solution this could craft." NACO argues at the national level against all kinds of issues because of its concern to maintain access to known minerals. Eighty-three percent of Nevada is a "playground" for the United States and in his opinion, "the people that reside in Nevada deserve a little bit of there own land to develop a better economy."

Mr. Hadfield also stressed the importance of local governments participating in any process that involves change of land ownership in the state, whether it be through the Federal or State Government. He relayed NACO's concern with the diminishing tax capacity. According to Mr. Hadfield, the Federal Government does not treat local governments as a partner by excluding them from decisions and later ignoring the impacts of their actions."

Senator Regan concurred with Mr. Hadfield about the actions of the Federal Government, but disagreed that it was a state problem.

Chairman O'Connell requested that NACO, NMA, and the Nevada Division of Agriculture, provide the Committee with an itemized list of all the unfunded mandates, including the cost to local government of each component.

Mr. Fields clarified that the spot market price of gold is the value of the mineral extracted. Forward sales contracts and hedging agreements are know as derivatives. They are financial agreements between willing parties and have nothing to do with the spot market price of gold. He noted that for taxation purposes, this is being discussed with the Department of Taxation and the Tax Commission, but it is clear that state law is talking about the value of the mineral extracted, which is the spot market price, not the financial agreements.

Following a short break, Chairman O'Connell called the meeting back to order. She requested that public testimony be taken now on the items previously discussed.

PUBLIC TESTIMONY

Carole Vilardo

Ms. Vilardo, Nevada Taxpayers Association, provided testimony on the Elko report presented by Ms. Matheus. Referring to page 1 of Exhibit D, "Other Financing Sources" – the actual for 1996 list \$8 million and the actual for 1999 is \$2.4 million. She suggested including a footnote explaining the radical drop in funds. Since Elko is a large mining county it could be assumed that this decrease was caused by net proceeds. Since the assessed value increased, it is

questionable where the drop in "Other Financing Sources" came from and it should be identified.

Noting that Exhibit D deals only with General Fund revenues and expenditures, she suggested either including enterprise funds in this report or preparing a separate list for each entity. She noted that because each entity deals with enterprise funds differently (i.e, some entities include the enterprise fund in the General Fund, where others have a separate account) it would be helpful to have a listing of each local government's enterprise fund.

Ms. Vilardo further suggested that since the issue of net proceeds is extremely important to rural communities, it should be calculated separately (see page 2 of Exhibit D, Revenue Sources by Function). She also noted that a separate category for centrally assessed property be included.

In Ms. Vilardo's opinion, the 1999 and 2001 Legislative Sessions will be dealing extensively with centrally assessed property, therefore, it would helpful to legislators and other interested parties to have a benchmark available.

She also suggested including a percentage of square miles of land in private ownership as part of the demographic statistics.

Senator Regan also recommended including a category for non-paid properties (i.e, public/non-profit property ownership).

Mr. Pitlock informed the Committee that on page 2 of Exhibit D is a listing of intergovernmental revenues which includes many of the payments being discussed.

In addition, Ms. Ritter said page 3 of Exhibit D lists a breakdown of debt payment under the "Other Financing Sources" category. She noted that, in her opinion, the summary report is satisfactory, as long as the detail is included to explain some of the wide variances.

The Chairman noted that due to Mr. Leavitt's illness today, Mr. Hobbs would be speaking on agenda item V.

RECONSIDERATION OF COMMITTEE'S RECOMMENDATION(S) REGARDING THE STATUTORY \$3.64/\$100 PROPERTY TAX RATE CAP

Guy Hobbs

Mr. Hobbs stated that at the last meeting of this Committee, direction was given to prepare a BDR to address the changes discussed regarding the \$3.64/\$100 property tax rate cap. It was recommended to change the \$3.64 cap by excluding the 25 cents levy that is used for school operating purposes and the 15 cent state debt rate from the \$3.64 cap. Following Committee discussion, it was decided that a \$3.14 cap would be reserved for local government purposes, and the school operating rate and the state debt rate would be in addition to the \$3.14, bringing the total cap to \$4.04.

Most of the focus centered around whether or not it would be appropriate to constrain the state's ability to levy a statewide tax rate for debt purposes. At the last technical committee meeting, which was a week ago today, some of the members had the opinion that this was such an important item that it deserved further consideration. The TAC is requesting authorization to pursue options, other than those previously discussed and acted upon for presentation at the next meeting of the full S.B. 253 Committee.

Responding to the Chairman, Assemblyman Neighbors said that he had some concerns when this issue was originally discussed and hoped they would be addressed in the final recommendation by the TAC.

The Chairman noted that it is important for the to realize that this is an issue that needs to be resolved. She noted that "the longer a resolution is put off, the larger crisis will become." She requested that the Committee review the issue thoroughly and decide on ways it can be resolved. She noted that Ms. Vilardo mentioned that in 1981 when Nevada went through the tax shift, an emergency fund was set up for the counties if it was needed. She requested that the TAC and legislative members review this issue and come back to the next meeting of the full Committee with a proposed bill

draft request that may be successful in passing the 1999 Legislature, without worrying about political ramifications. She noted that the financial ramifications would be more serious to the counties if this issue is not resolved.

Chairman O'Connell requested that Mr. Welsh and Ms. Guinasso review the constitutional requirement related to a uniform and equal tax and if there is an emergency level set that allows a smaller county to increase the \$3.64 tax rate.

Mr. Pitlock stated that the severe financial emergency statutes deal with entities that require financial assistance. The Committee on Local Government Finance with the approval from the Department of Taxation can go to the Tax Commission and get an entity's rate increased up to \$4.50.

Responding to the Chairman, Mr. Pitlock said there is a five-year limit on financial emergency situations.

Mr. Hobbs questioned how two separate thresholds of the maximum combined tax rate would affect the financial emergency statutes.

Mr. Pitlock noted that when the Department was working through the financial emergency process for Nye Regional Medical Center, it found that timing of the decision to request a higher tax rate is critical. It was found in the case of the hospital that it is impossible to send out a supplemental property tax bill. It has to be timed so that the increase in the rate can be included in the property tax bills, which are sent out in July of each year.

STATUS REPORT AND POSSIBLE RECOMMENDATIONS TO THE DIRECTOR

OF THE LEGISLATIVE COUNSEL BUREAU FROM SUBCOMMITTEE TO STUDY COST OF MAINTAINING ROADS, STREETS, AND HIGHWAYS

Les Dunn

Mr. Dunn, Consultant to the Subcommittee to Study the Cost of Maintaining Roads, Street, and Highways, said that Dr. Nambisan will present an update of the subcommittee work to the S.B. 253 Committee.

Shashi Sathisan Nambisan, Ph.D

Dr. Nambisan, Associate Professor of Civil Engineering, University of Nevada, Las Vegas (UNLV) relayed five recommendations for the Committee's consideration, including:

- Adoption of standardized definitions.
- Potential change in redistribution formula.
- Change in county option tax (RTC).
- Adoption of a maintenance management system and uniform reporting formats.
- Potential inclusion of diesel tax and other gasoline taxes in the redistribution formula.

Dr. Nambisan stated that the above listed recommendations address the issues the subcommittee was contracted to resolve.

Dr. Nambisan explained that included in Recommendation No. 1 are definitions of: (1) roadway, (2) right of way, (3) roadway surface, (4) standard lane mile, (5) roadway section, (6) maintenance, (7) certified mileage, and (8) maintenance management system. He explained that this recommendation was modified from the last TAC meeting to include suggestions that were made.

Assemblywoman Lambert questioned why turning lanes were eliminated from the measurement of the standard lane

mile.

Responding, Dr. Nambisan said that since turn lanes are not significant in size, typically they will not be included in the overall width of lane miles, unless it is a continuous turning lane down the center of the roadway.

Responding to Assemblywoman Lambert regarding the definition of maintenance and repair, Dr. Nambisan said that the changes were very minor. Mainly the word "highway" was deleted and "roadway" was inserted.

On page 3 of Exhibit A, Tab IV, Assemblywoman Lambert request an explanation of: "The roadway inventory includes the miles of standard lanes that are under the jurisdiction and maintained by that entity." She asked how this statement would affect the streets maintained by Nevada's Department of Transportation (NDOT) that are located within a city.

Responding, Dr. Nambisan said if they are state highways maintained by the city, it would be counted by the city, but if it is maintained by NDOT, they highway would be counted by the state.

Chairman O'Connell asked if changing from center lane miles to standard lane miles would be more reliable.

In reply, Dr. Nambisan said that it is easier to calculate standard lane miles and the purpose of this is to try to reduce the burden on the reporting requirement and keep inventory in a greater amount of detail. However, to ensure proper measurement it will be necessary to break down the standard lane miles in three different categories.

Continuing with his presentation, Dr. Nambisan said that Recommendation No. 2 is provided to consider a new redistribution formula. Based on research conducted through NDOT and what Nevada's neighboring states are using, it is suggested to:

- Remove area and vehicles miles of travel from the formula. It is suggested to remove vehicle miles of travel because of the difficulty to verify that accurately. What the subcommittee has tried to accomplish is to remove the practice of using estimates and create a system that is more easily verifiable.

Responding to Assemblywoman Lambert, Dr. Nambisan said that no analysis has been done regarding how the redistribution would financially impact the counties. The subcommittee wanted to complete the technical issues first, by reviewing what other states are using and deciding what would work best for Nevada. He further noted that all the data is not available yet regarding the road networks in each entity by the type of roadway. Finally, he noted that the task outlined to the subcommittee was to prepare a formula and not necessarily provide a fiscal impact.

Ms. Thomas (identified on page 1) asked for clarification of the 1.75 cent county mandatory gasoline tax, redistributed within a county based on appraised value of property, which is listed in the chart on page 6 of Exhibit A, Tab VI.

Dr. Nambisan said that tax was not considered in the study. The subcommittee's task was to review the formula that addressed the 3.6 cents tax (consisting of the county mandatory taxes of 1.25 and 2.35 cents).

Chairman O'Connell requested that Ms. Vilardo explain the 1.75 cent county mandatory gasoline tax.

Ms. Vilardo explained that when gasoline tax was first placed in the redistribution formula which occurred in approximately 1924, the easiest measurements to use at that time were area and population. No local options were allowed until about 1969, when 1 cent was distributed to the counties for road maintenance. At that time, except for the two urban cities, the cities were so rural, they did not have a road responsibility.

Continuing, she explained that the State of Florida has been conducting a history on its redistribution formula. It began receiving federal highway funding in approximately 1954 and had to add this element into the redistribution formula. She noted that Florida is presently trying to develop a better formula and has been working with three different formulas, including: (1) population; (2) road miles; and (3) eliminated the use of area.

Continuing, she noted that many of the states receive highway funds, of which gasoline tax is the bulk, but when you are in a large area state, the number of roads to be maintained increases.

Ms. Ritter noted that it would appear the formula is antiquated and explained that assessed value does not necessarily reflect need.

Mr. Welsh said that according to statute, the 1.75 cent tax is based on assessed valuation and is apportioned between the county, towns, and towns with town boards; and it is used for bond service, road construction, maintenance and repair, but not for administration.

Ms. Ritter noted that she would prepare information for Committee relating to redistribution of taxes based on assessed value and whether or not net proceeds should be included in that formula. Recently, Elko County discussed the issue of RTC taxes that are distributed to its cities, and the County has been including the net proceeds portion, which went from \$8 million to \$130 million, and has impacted all the cities. She questioned if the counties should include the net proceeds in that valuation.

Following discussion, it was noted that according to statute, net proceeds should be included in that valuation.

In response to Ms. Thomas's comment, Dr. Nambisan explained that the formula does not address the 1.75 cent tax. There are several parts of the redistribution formula that go back to the county of origin and are redistributed with the county based upon assessed values.

Continuing with his presentation, Dr. Nambisan said that when measuring standard lane miles, it is suggested to use the State of Utah's formula. It consists of breaking down the road network into three different categories, including:

- High-type (5 rating) roadway consists of asphalt, concrete, or Portland cement concrete and provide wearing surfaces that adequately support the expected traffic load.
- Intermediate (2 rating) type roadway consists of a chip seal.
- Low-type (1 rating) roadway consists of dirt or gravel and are maintained on a yearly basis in terms of grading.

Regarding the 5 to 1 rating factor, Ms. Ritter asked if there was any data available from the state to verify that this rating system will work.

Dr. Nambisan said that unless data is collected for at least a three to five year period, it is impossible to validate these recommendations. It would have to be done after the data is compiled for a three to five-year period.

Responding to Ms. Ritter, Dr. Nambisan emphasized that the data is presently unavailable to verify what it costs to maintain a mile of roadway. He said that following the September 3, 1998, meeting of the S.B. 253 Committee, Chairman O'Connell sent out letters to the 35 entities (17 counties and 18 cities) asking for clarification and additional data. Presently, 12 responses have been received.

Clarifying her question, Ms. Ritter asked if there was a way, as engineers, to figure the cost to maintain a mile of roadway using the different types suggested above.

Mr. Dunn explained that it is difficult to compile this information without actually having the proper information to base it on. A list could be prepared on the cost of replacing the different types of road surfaces per square foot (i.e., asphalt, concrete, or gravel). However, this will not provide the Committee with actual numbers for the entities.

Ms. Thomas added that some jurisdictions have good pavement maintenance systems in place and can provide actual costs. She questioned why this information could not be used to measure costs. She noted that the City of Sparks could furnish reliable information and if additional data could be provided by one of the Southern Nevada cities, this material could be used to determine the facts needed.

In reply, Dr. Nambisan said that an estimate of the cost to maintain a mile of roadway will be formulated from the best information available that is provided by the entities. He noted that following a meeting approximately one month ago with Mr. Welsh and Mr. Leavitt, it was his understanding that the subcommittee should prepare draft recommendations

to serve as placeholders if BDRs were required, and as more data became available they could be refined.

Summarizing the variables in the formulas analyzed, Dr. Nambisan said that that population and the extent of road network in term of miles is used by all four states (Arizona, California, Nevada, and Utah). In addition:

- Arizona uses gallons of fuel sold and consumed.
- California uses the number of registered vehicles in each entity in its formula and also has special allocations that are more ad hoc than formula based.

Referring to Recommendation No. 3, Dr. Nambisan suggested that the 9 cent County Optional Tax (RTC) be changed to a mandatory tax. He noted that there are six counties across the state which presently levy the full 9 cents and the remaining counties do not. This tax is not a counterpart of the redistribution formula, but whatever tax is generated is returned to the originating county. Humboldt County has been gradually increasing its rate and should be at the full 9 cents by July of 1999. Also, collecting the full 9 cents could help deal with possible adverse affects from a change to the 3.6 cents in the redistribution formula. A chart on page 3 of Exhibit A, Tab VI describes the increases each entity would receive by utilizing the full 9 cents county optional tax.

Regarding Recommendation No. 4, Dr. Nambisan noted that several entities are already using some type of maintenance management system. This recommendation does not suggest changes to those systems in place, but only that the entities without any system should consider or be required to have some type of uniform reporting format. As part of the study, the subcommittee will provide a template for a maintenance management system to be used by these entities. In Dr. Nambisan's opinion, the fiscal impact would be minimal (approximately \$2,000 per entity), and that a simple personal computer would be sufficient to initiate such a program. He further suggested that at least two people from each entity be provided training at UNLV or University of Nevada, Reno (UNR). The estimated cost for training is about \$500 per person, including travel and a two-day training workshop.

Responding to Ms. Thomas about how many man-hours would be required to input the data and the on-going costs, Dr. Nambisan said that the burdens will be much greater for larger entities. He further noted that he did not have exact costs at present, but in his estimation this would only be a different way of record keeping.

Mr. Cordes (identified on page 1) asked if any of the state's included in the study have successfully implemented a computerized maintenance management system.

Replying, Dr. Nambisan said that he did not have that information available. He informed the Committee that Dr. Edward S. Neumann is involved in that part of the research, but because of a previous commitment, could not attend this meeting today.

Continuing, he noted that this recommendation was made because of the problems that were encountered by the subcommittee when trying to collect reliable data from the entities to be used for this study. Adoption of a maintenance management system will help entities not only track costs, but will provide assistance for long-term planning.

According to Dr. Nambisan, the system which is recommended will:

- Provide a certified mileage report that will include roadway name or number, section number, length of section, roadway surface type, number of standard lanes, and width of roadway.
- Help quantify costs by type of activity in terms of:

1. Maintenance activity;

2. Roadway surface type; and

3. Equipment, labor, and material costs.

He explained that once an initial report is compiled, the entities would only have to add changes or additions or the network.

Responding to Ms. Ritter's questioning regarding whether alleys are included in roadway miles, Dr. Nambisan said the definition is: "A Roadway is any interest or easement that has been deeded to a city, county, or the State of Nevada or by a prescriptive right and is used for public vehicle use."

Responding to Ms. Walker (identified on page 1), Dr. Nambisan noted that the county or city where a General Improvement Districts (GID) is located would be responsible for the GID's road maintenance, unless the GID did its own road maintenance, then that would be counted as a separate entity.

Mr. Dunn added that the subcommittee's research revealed that some of the GIDs received gasoline taxes and some did not. In his opinion, if GIDs are to be included in this study, the subcommittee will have to conduct further research to divulge who is actually counting the roadways within the GIDs.

Ms. Walker informed the Committee that Douglas County received funding for the roads located within GIDs in that county.

Ms. Ritter also noted that Elko County has homeowners' associations that maintain their own roads. These communities are not included in the formula, but are provided with public right-of-ways.

Responding, Dr. Nambisan said that, in his opinion, the Committee should consider if the GIDs and homeowners' associations should be included in the formula.

Ms. Ritter added that in Elko County, the Spring Creek Homesowners' Association maintains approximately 69 miles of roadway. This roadway is not included in the County's tax or distribution formula; however, the citizens that live in this community may want to be credited for some of the gasoline taxes that they are paying.

Responding to Assemblyman Price regarding restricted access to the Spring Creek area, Ms. Ritter said that the roads were accepted by the county for public use, but not maintenance. Historically, Elko County has done this on many occasions.

Moving on to Recommendation No. 5, "Potential Inclusion of Diesel Tax and Other Gasoline Taxes in Redistribution Formula," Dr. Nambisan said this addresses the potential inclusion of diesel tax and other gasoline taxes in the redistribution formula. The study revealed that Nevada's neighboring states include a portion of their diesel fuel tax, and the motor vehicle registration and privilege taxes as part of their distribution formulas.

Responding to Mr. Pitlock, Dr. Nambisan said he did not know the exact portion of the diesel fuel tax the other states were including. He noted that the states include all the taxes into a pool. A portion of the funds may be used for public safety or school related issues, and the balance is redistributed by formula. He said that he was not recommending a percentage of the diesel fuel tax in Nevada to be placed in the formula at this time. In his opinion, it will take at least two years to implement Recommendation No. 5, and this was proposed only to be discussed and reviewed further.

In closing, Dr. Nambisan said that basically, only 3.6 cents of fuel tax is subject to the redistribution formula. The other taxes collected are returned to the county of origin, 18.4 cents is returned back to the state, and 18.3 cents is returned to the Federal Government. Continuing, he referred to several pie charts describing the comparison of gasoline taxes collected and gasoline revenue redistributed to each county. He noted that during Fiscal Year 1996-1997, approximately \$121 million in gasoline taxes was collected and \$115 was redistributed. The State Highway Fund receives 54 percent of the total gasoline tax collected, and when diesel tax is included, the state receives 64 percent in total fuel revenues. He explained that some of the diesel fuel tax collected by the state is sent to other states based on the mileage reported to the International Fuel Tax Agreement (IFTA).

Mr. Hobbs noted that the TAC received Dr. Nambisan's presentation last week, however, there have been some modifications made. The TAC has discussed setting aside a full day to review the substance of the five recommendations because of the complexity of these issues, and to try to sort out which recommendations may be more

appropriately dealt with in the near term and those that may require further study. The TAC will setting a meeting sometime during the first week of November 1998 to deal with these issues.

Continuing, Mr. Hobbs suggested that an assessment of the original scope of the UNLV contract and the intent of what the consultants have been asked to produce be reevaluated by the TAC to decide whether or not the scope of the contract is still appropriate. The consultants have been unable to gather some of data that was requested, particularly in the area of maintenance costs per mile or the availability of reliable road inventory information. He requested that Messrs. Leavitt, Alastuey, and Ms. Ritter discuss this issue and further analyze possible modifications to the scope of the study that will allow the consultants to be most useful for the remainder of the study.

Mr. Cordes mentioned that a group of county road managers and city engineers was organized to work with the consultants on this study. He suggested inviting some of these people to the next TAC meeting to present their findings.

Responding, Mr. Hobbs noted that the subgroup he appointed to review the scope of the contract could also consult with the representatives of the counties involved in the study. Because of the limited timeframe, and the technicality of these issues, Mr. Hobbs said it would be more beneficial if these issues were reviewed in advance of the next TAC meeting. The subgroup could present their findings to the full technical committee at its next meeting.

Chairman O'Connell requested Ms. Thomas to be part of the subgroup, as a northern Nevada representative. She also asked the UNLV consultants if the study can be accomplished in the time frame they are working with. She also asked if a change to scope of the information requested by the Committee could be analyzed in this time period.

Dr. Nambisan said that the reports have been submitted addressing Tasks A and B of the study. Task B is near completion and in his opinion, the consultants remained in conformance with the scope of the study. By June 1999, which will be the completion of the study, the maintenance management system will be complete. However, he noted that gathering the data that was requested will take longer because of the poor record keeping systems of the entities. In his opinion, it could take two to four years to collect the information needed to prepare an accurate report.

The Chairman noted that \$62,500 has been set aside for completion of each task of this study. She asked if completed information is not presented to the Committee, will the charge be lowered.

Dr. Nambisan said that this charge is based on the effort of the consultants to try to gather the data. He noted that when Task A was completed, an invoice was sent in for payment. Task B and Task C is where the consultants have been encountering problems collecting the proper information. An invoice has not been sent out yet for payment of Task B since it has not been completed.

The Chairman requested the TAC to review each task to determine how much of the study was completed.

Mr. Hobbs said that would be included in the items for review by the subgroup previously identified.

Discussion ensued between Mr. Pitlock and Mr. Hobbs regarding the Department of Taxation preparing calculations on the recommendations made by the UNLV consultants. This will provide the Committee with an idea of what the fiscal impact to the counties could be. It was decided that any information that was prepared regarding the fiscal impact to counties will be helpful.

Senator Adler requested that calculations be prepared for road maintenance based upon a contractors model. He suggested that those figures could be compared to the actual figures received by the counties and cities to see what the correlation is between them.

He also said that in some of the rural counties, senior citizens who use kerosene fuel for heating their homes are being charged fuel tax. They have to apply to be rebated back. He recommended that a system be developed for senior citizens using kerosene as a home heating method, to be exempt from paying the fuel tax.

Responding to Mr. Dunn's suggestion to use dyed kerosene fuel, Senator Adler said that the dyed fuel could prove to be a health hazard and should not be burned in the home.

In Mr. Dunn's opinion, there should be some type of dye that could be used which would not cause health problems. The kerosene fuel could be slightly colored to indicate that it was non-taxable and for home use.

PUBLIC TESTIMONY

Daryl Capurro

Mr. Capurro, Managing Director, Nevada Motor Transport Association (NMTA) testified regarding diesel fuel. He informed the Committee that he concurred with NDOT regarding Recommendation No. 5 (see Exhibit G). One of the problems is the misconception of how the fuel taxes are collected (diesel and gasoline). Gasoline tax is applied at the point of sale, whether it be the state or county portion of the tax. However, diesel fuel is taxed at the point of use – If it is purchased in Nevada, but only 10 percent is used in Nevada, then Nevada will only receive 10 percent of the overall tax. Any other states that the vehicle traveled in will receive its proportionate share. He explained if gasoline is purchased in Reno and is primarily for use in California, the State of Nevada and Washoe County are the recipients of the tax.

Continuing, Mr. Capurro said that in order to have a formula devised including diesel or any of the special fuels in the redistribution, mileage would have to be reported on a countywide basis. Since 90 percent of the trucking industry traffic is on state routes, most of which is on the interstate, very few counties will benefit from any distribution based upon actual use.

As pointed out by NDOT at the TAC, Mr. Capurro said that the counties benefit from the diesel tax. All revenues are used to build and maintain highways and streets in the rural communities, as well as the urban counties.

In closing, Mr. Capurro said that the NMTA does not support Recommendation No. 5, "the potential inclusion of diesel tax and other gasoline taxes in redistribution formula." He further noted opposition to Recommendation No. 2 (change in redistribution formula) and Recommendation No. 3 (change in County Optional Tax [RTC]). Those counties that need additional funds to perform maintenance and construction to their road have the option of increasing this tax. In his opinion, it is questionable whether or not the Legislature will mandate this tax.

Questioning the consultants, Mr. Neighbors asked if the problem of compiling figures on maintenance or construction in the rural areas relates to "hot mix" versus "cold mix." In many of the rural areas, they choose not to bring in a hot plant because of the high cost, and therefore, use cold mix. Also, he asked if other factors such as transporting oil and gravel to the rural areas, and the compaction and thickness of roadways, have been considered.

Mr. Dunn noted that one of the dangers of taking information from the pavement management systems (PMS) is because most of the larger entities have a PMS system, while the rural areas do not. Therefore, no calculations are available relating to exact costs.

Responding to Assemblyman Neighbors, Dr Nambisan said that, no information in terms of how much it costs to do a specific maintenance activity is available. The surveys that were sent out asking for that level of detail have not been fully completed.

Jeffrey Fontaine

Mr. Fontaine, Deputy Director, NDOT said that Russ Law, who has been NDOT's representative, working with this Committee on these issues is in Carson City and will also be available to answer questions. He noted that Thomas Stephens, Director, NDOT could not be here today, but he requested that his concerns regarding Recommendation No. 5 (see Exhibit G) be provided to the Committee. Mr. Fontaine explained that NDOT is concerned about the proposal to include a portion of the diesel fuel tax in the funds to be distributed to counties and incorporated cities.

In NDOT's opinion, according to the draft report, the only reason it is being considered to include diesel and gasoline taxes in because some of Nevada's neighboring states are doing this. Nevada's Department Of Transportation believes that including the diesel tax in the local distribution is not appropriate. He explained that heavy trucks inflict 89 percent of the pavement damage on state maintained highways (see the chart on page 2 of Exhibit G). These trucks consume 94 percent of the highway use diesel fuel and only 2 percent of the lighter weight vehicles that typically

travel on locally maintained roads are diesel powered. Sixty-three percent of all vehicle miles traveled in Nevada is on state maintained highways, 37 percent is on local highways. Overall, 92 percent of the highway use diesel fuel is consumed on state maintained highways. The state pay 100 percent of the cost of administering diesel taxes. Because diesel tax is collected on a point-of-use basis it is much more difficult to administer than gasoline tax. Interstate diesel tax is administered through a reciprocity program called IFTA. Fourty-nine states and several Canadian provinces belong to IFTA, and Mexico may be joining in the future.

In addition, Mr. Fontaine noted that local taxes available for highways include gasoline tax, sales tax, motor vehicle privilege tax, development fees, jet fuel tax, and room tax. Of these taxes, only the gasoline tax is available to State Government. In NDOT's opinion, if the diesel tax is included in the comprehensive study by UNLV, the taxes that not are distributed to the state should also be included. Although Arizona, California, and Utah include diesel tax in their local government distributions, the rate that is distributed is actually lower than what is currently available in Nevada just for the gasoline tax.

In answer to Mr. Pitlock's question, Mr. Fontaine said that when the diesel and gasoline taxes are combined in Arizona, California and Utah, it was found that their effective local rate averaged 7 cents per gallon of fuel. In comparison, Nevada surpasses these states with an effective local rate of 12.1 cents per gallon of fuel.

Continuing, Mr. Fontaine said that the state diesel fuel tax is used to maintain highways in every county in the state. Typically, state maintained highways are the most important in each of the counties. A reduction in diesel tax revenue to the state would result in reduced maintenance to the state highways. Distribution of diesel tax to counties and incorporated cities would not necessarily mean more maintenance or improvement to local streets, these taxes could be used to offset general funds or developer contributions that are normally available for local streets.

In summary, Mr. Fontaine said that NDOT is opposed to Recommendation No. 5. It does not believe that including a portion of the diesel fuel tax in the redistribution formula is in the public's best interest. It diverts money from primary highways to pay for local streets. Mr. Fontaine asked that the S.B. 253 Committee direct the TAC and the UNLV consultants to discontinue evaluation of this particular recommendation.

Referring to a chart on page 2 of Exhibit G, Mr. Pitlock said that since 11 percent of the pavement damage done by heavy trucks is inflicted on highways maintained by local governments, would NDOT oppose a 10 percent distribution.

Responding, Mr. Fontaine said that NDOT acknowledges that there is an element of pavement damage caused by heavy vehicles on locally maintained roads, but as previously noted, if diesel tax were to be included in the redistribution formula, a comprehensive study of all the taxes that are available to local government that are not available to NDOT must be evaluated.

Responding to Mr. Pitlock, Mr. Fontaine said that NDOT has information relating to the cost to maintain a road in Nevada. He noted that he would provide any information that NDOT had available regarding roadway costs, and would also be happy to work with the UNLV consultants and the TAC. He noted that there is a variation in the amount of dollars per lane mile throughout the state because of the different types of material used.

Ms. Ritter also requested that NDOT provide any statistics they had available relating to weather conditions to the Committee.

In closing, Mr. Fontaine added that Nevada's state highways need to be constructed and maintained to a different standard than locally-owned roads. The Federal Government places certain conditions on how the federal highway money that is allocated to Nevada is spent.

Russ Law

Mr. Law, NDOT, testified from Carson City via video teleconference. Mr. Law advised the Committee that NDOT had excellent information available and has been provided to UNR, for a pavement study they are doing for NDOT. The UNR and UNLV are partners in NDOT's study, and, therefore, the information could easily be passed along. Mr. Law noted that the state does much more extensive work because of the heavy truckload on the state roads. High and low-type maintenance strategies are both used on the state highways and road and that data is also available. Mr.

Law noted that the data was compiled by NDOT and involved extensive research. Regarding weather related factors, NDOT also has that information and is part of the UNR study.

Responding to Senator Adler's comments about kerosene and dyed fuel, Mr. Law said that this is not an issue the state has control over. The requirements for dying Kerosene come from the Federal Government. There is federal tax on highway use of diesel and kerosene, as well as state tax. There is also a federal law requiring that non-dyed fuel be used for highway purposes. If suppliers provide non-dyed fuel to homeowners, the homeowner must pay the required tax and later apply for a rebate.

Regarding the taxes involved in the UNLV study versus the other mandatory county taxes, Mr. Law noted that about one year ago at the first meeting of the S.B. 253 Committee, it was suggested to the Committee during a break out group to review all the total combined taxes and not to focus only on the 3.6 cents. At that time Senator Regan concurred that all the taxes should be reviewed together and whatever work was done by the S.C.R. 40 Committee should be considered, but the scope of the study should be expanded to include all taxes.

In conclusion, Mr. Law suggested that:

- The Committee provide direction to UNLV as to which taxes should be included in the study.
- The minutes of the first meeting of the S.B. 253 Committee be reviewed to determine whether or not UNLV consultants had been instructed at that time to consider all county taxes.

Mr. Law stated that presently there is no definition for high, intermediate, and low type pavements to determine cost of roads. In his opinion, it will be extremely difficult to determine the difference of a high-type pavement versus an intermediate and low type. He suggested that revenues be distributed based on population rather than road mileage.

The Chairman asked Mr. Hobbs and Ms. Walker if when the UNLV contract was outlined, was it decided to include only the 3.6 cents of the formula in the study.

Responding, Ms. Walker said that the total of 3.6 cents was decided upon by the TAC to be part of the UNLV study. The 1 cent county mandatory tax was voter imposed and originally was only collected by certain communities. She noted that in Carson City it was imposed in 1986. The 1 cent tax is placed in a fund to be used specifically for road maintenance for Carson City streets. She explained that during the late 1980s the 1 cent tax was made mandatory statewide in order to have level taxation. That was one of the reasons the TAC only requested that the two gasoline taxes (totaling 3.6 cents) be included in the study. She added that it might be a good idea to review the history of the 1.75 cent county mandatory tax.

The Chairman noted that a history of each tax was researched about four years ago and is listed is "Tax Facts," a publication compiled by the Nevada Taxpayers Association.

Mr. Pitlock said that since some of the counties are utilizing the optional 9 cents tax and other counties are not, if it becomes mandatory for all counties, the same problems as discussed with the 1 cents tax previously discussed will occur.

Chairman O'Connell added some counties have put the optional 9 cents county tax before the voters and it did not pass in the counties that do not require the full amount.

Mr. Dunn added that in Lyon County, following public hearings, a decision was made by the board to increase it to the full 9 cents. Mr. Dunn advised that it is lawful to make the 9 cent county option tax a mandatory tax if that were to be the Committee's choice on that recommendation.

The Chairman added that several counties have been reluctant to make it mandatory because it has already gone before the voters and failed.

Ms. Walker clarified that when it was taken to the voters, it was done under an old law, when the additional 5 cents was supposed to be used for new construction. In many of the rural communities new construction was not needed, and, therefore, it was turned down by the voters. The rural areas now have the ability to use it for maintenance, which is where their needs are.

Mr. Pitlock asked if Carson City set this amount aside and promised to give it to the state for the bypass.

Responding, Ms. Walker agreed and noted that the 9 cents county optional tax should not be considered as part of the formula. This tax is specifically designed for road construction and maintenance in Carson City, Clark and Washoe Counties and for the rural communities.

Ms. Ritter added that the cities within White Pine County, requested that the Board of County Commissioners impose the full 9 cents, but the county refused to do so. Therefore, the cities are required to operate with limited funds because of a decision made by the county.

The Chairman noted that the TAC and legislative committee members must get "very" serious about resolving the issues that will be recommended to the 1999 Legislature. She noted that the TAC should have any proposals they wish the 1999 Legislature to act upon to be prepared for the November 1998 meeting of this Committee. Since the Legislative Session may be limited to 120 days, there will be time restraints on when a bill can be introduced.

Continuing, she mentioned that Recommendation No. 5 submitted by the UNLV consultants is a priority, which is the key issue on the agenda today.

**TAX DISTRIBUTION FORMULA BASE AS ESTABLISHED BY S.B. 254 OF THE 1997 SESSION ;
DEPRECIATION, REAL AND PERSONAL PROPERTY; AND REDUCTION OF ALLOWED PROPERTY
TAX RATE UNDER CERTAIN CIRCUMSTANCES**

Guy Hobbs

Mr. Hobbs said that item VII-B (Depreciation – Real and Personal Property) and VII-C (Reduction of Allowed Property Tax Rate Under Certain Circumstances) are still being reviewed by the TAC and a recommendation should be prepared by the November 1998 meeting.

Item VII-A (Tax Distribution Formula Base as Established by S.B. 254 of the 1997 Session) will be monitored by the TAC, but will not result in a recommendation at this point. He noted that different elements of the formula have been reviewed over the past few weeks. Mr. Leavitt has concentrated his efforts on the "one plus" issue in the formula (see subsection 4 of *Nevada Revised Statutes* 360.690). Providing a brief summary of Mr. Leavitt's initial observations, Mr. Hobbs said with removal of the "one plus" issue, all the emphasis will be placed on the two statistics for growth, which are population and assessed valuation. He explained that in an entity could have excess funds in one year, where another entity may experience excess funds in another year – the "one plus" lends stability to those statistics over time.

Regarding setting the tax distribution formula base, Mr. Hobbs said that some entities feel that the formula is not rewarding growth at this point in time. To those of us that have reviewed the formula, it appears to be working as it was designed. He noted that the TAC is sensitive to the concerns brought forth, but the time the formula was designed, the most sensible solution that was available was used. Since the formula has been in effect for such a short time, its performance will have to be monitored on a regular basis.

In conclusion, Mr. Hobbs noted that the formula is working as it was designed to work and the "one plus" issue is best left in the formula for future stability. In the opinion of the TAC, the issue at this point lies in the establishment of the base.

Mr. Pitlock added that the new formula has been in place for approximately two months and since all the taxes included in the formula are not received on a regular basis, the true influence of the entire formula has not been experienced. He noted that real property transfer tax has not been included in the formula yet because it is distributed on a quarterly basis; many of the sales tax entities report on a quarterly basis; the cigarette tax fluctuates because it based on the sale of the stamps. Therefore, as mentioned by Mr. Hobbs, one month cannot be multiplied by 12 to obtain an actual reading of how the formula is working.

Continuing, Mr. Pitlock noted that it was discussed at the last meeting of this Committee that in March 1999 when the formula has been in place for six months, the TAC will begin to analyze its impacts.

Responding to the Chairman, Mr. Hadfield said the low-income housing and mobile home situation is a closed issue at this point since there is nothing further that can be done. Continuing, he mentioned that following the September 3, 1998, meeting of this Committee he was contacted with several suggestions from assessors. Many of the county government's do not want affordable housing apartment units in their communities because of the loss of tax revenue. It has been suggested to take the amount of the federal investment that goes into the construction of those units and use a percentage of the total cost as a tax break. If a project had 20 percent in federal funding, there would be a 20 percent tax break. In his opinion, this is a good approach since it may lead counties to look more favorably upon them. He also noted that there are some owners or developers of these properties that agree to pay the property taxes.

Continuing, he noted the problem in northern Nevada is that market rent prices are being charged for the affordable housing units even though no taxes are paid. In private units, paying the same rent, the taxes are paid from the rental income.

Brent Hutchings

Mr. Hutchings, Clerk/Administrator, City of Ely said he was under the assumption that Mr. Pitlock was going check to see how often exemptions had been used on such properties. Mr. Pitlock had mentioned at the last meeting of this Committee that because the number of exemptions was so small, legislation regarding that issue would not be worthwhile.

Mr. Pitlock added that during the 1997 Session a bill was presented to eliminate the exemption, and, at that time, the number of properties taking advantage of the exemption was insignificant.

Senator O'Connell requested the TAC to review the issue regarding affordable housing mentioned by Mr. Hadfield, and perhaps a representative from the assessor's organization provide a presentation to the TAC.

COORDINATION OF SERVICE LEVELS WHEN GENERAL IMPROVEMENT DISTRICTS COMBINE, EXPAND, OR ANNEX ADDITIONAL PROPERTY, VOTER APPROVAL FOR CONTINUATION OF GENERAL IMPROVEMENT DISTRICTS AFTER A CERTAIN TIME (E.G. 20 YEARS), AND OTHER GENERAL IMPROVEMENT DISTRICT MATTERS DISCUSSED PREVIOUSLY BY COMMITTEE

Mary Walker

Ms. Walker noted that a working group has been formed to discuss the GIDs. The group included legal representation provided by Noel Manoukian, Esq.; NACO; Nevada League of Cities; Nevada Taxpayers Association; Janet Murphy, Tahoe-Douglas District; and myself. She noted that one concern is that there are no laws within the GIDs or the township in regards to a process at the time of annexation. When a GID takes over property, no process exists for coordination of service levels; therefore, taxpayers are being charged a higher tax rate for services they will not receive. For example; a property may reside within a GID, but the road outside the property could a county road. Consequently, neither the GID or the county is maintaining the road. In Ms. Walker's opinion, more coordination of the service levels must be established.

Ms. Walker informed the Committee that Mr. Manoukian, and Tom Perkins of Douglas County are working on draft language which would mirror the annexation laws of the cities for the GIDs. The group working on this issue will be meeting next week to finalize several of these items.

Regarding a request from Ms. Vilardo to review whether or not continuation of a GID should be voted on after a 20-year period, she suggested either that: (1) the life of the GID be limited; or (2) voter approval is necessary for continuation of the GID.

Ms. Walker explained that some GIDs provide only nonessential services (i.e., recreational services), and do not provide service for sewer, water, and roads. According to Ms. Walker, a review of the GIDs revealed a problem in some areas where the entity cannot provide the service level for which they were formed. In one case, a GID collects only \$52,000 in total revenues and a new road must be built in that community which is estimated to cost \$2.5 million. She suggested using a professional, technical process to assist in determining whether or not the GID remains in existence in the case where the GID is not financially able to provide the service for which it was formed. An optional annual process was considered to require all GIDs to submit their budget to the county by July 1 of each year. The county would review the budgets and set a meeting with the GID to discuss service levels and the GID's ability to perform them. If there is

an impasse where a decision cannot be made, a request for evaluation by the Department of Taxation could be made. The Department of Taxation could follow the criteria set forth in the financial emergency law in Chapter 354 of the *Nevada Revised Statutes* (NRS).

She noted that the Department of Taxation would determine the amount of:

- Expenditures necessary to allow the local government to perform the basic service for which it was formed; and
- The revenue expected to be available to the government and consideration of alternative sources of revenue.

After this review, if the executive director of the Department determines the available revenue is not sufficient to service the entity, the Department would submit a recommendation to the county. The recommendation could include, but would not be limited to consolidation with the county, consolidation with another local government or GID, or allow the GID to remain independent.

Ms. Walker noted that a process of this type could replace the voter approval every 20 years. In closing, she noted that the working group will be meeting on October 28, 1998, in NACO offices in Carson City at 10 a.m. At that time the group will review all three items previously discussed.

Chairman O'Connell noted that it was her understanding that the previous meeting held by the working group was very productive.

With respect to the procedure where the executive director of the Department of Taxation would make a recommendation to the county, Mr. Pitlock advised that the way the Department is structured, all decisions of the executive director are subject to review by the Tax Commission.

Ms. Walker said the reason she suggested making a recommendation back to the county is because the GIDs are components of the county. She asked if Mr. Pitlock was suggesting that the executive director of the Department must report to the Tax Commission for a final recommendation.

Responding, Mr. Pitlock concurred and also said that the Committee on Local Government Finance should be included in the process because of the way the severe financial emergency statutes are written.

Assemblywoman Lambert stated that there are cities and counties that are unable to perform the services expected of them. In her opinion, it is discriminatory to review only one form of government for accountability and ability to perform its function.

Responding, Ms. Walker said that GIDs with the inability to financially perform will be reviewed. Situations that are beyond financial emergency will be addressed. It is for situations where a GID may be meeting all its payments, but, as mentioned above, cannot provide funding to build or maintain a road. She explained that a professional procedure for the GIDs to follow is necessary.

Janet Murphy (identified earlier on page 1), clarified that the key word is "inability," and must be defined. In Ms. Murphy's opinion, bringing in other parts of the government will add to the bureaucracy. Provisions are listed in NRS 318.490 – "County Ordinance Merging, Consolidating, Dissolving District; Notice" – that cover this issue (see Exhibit H). It is the county commissioner's duty on behalf of the taxpayers to make sure everyone is accountable. She noted that

there is an annual audit report that is submitted by all entities to the clerk treasurer as well as the Department of Taxation. The GIDs should receive the same benefits as other governments in the case of financial difficulty. Ms. Murphy noted that she is in favor of voter approval for continuation of a GID.

Reciting from Exhibit H, Ms. Walker said that the statute reads "Whenever a majority of the members of the board of county commissioners of any county deem it to be in the best interests to consolidate." It does not cover the process before it gets to that point.

Ms. Murphy added that NRS 318.500 sets forth that public hearings will be held and surveys will be sent to people within that district.

James Nakada

Mr. Nakada, Chairman of the Board of Incline Village General Improvement District, conveyed his concern about the discussions taking place. In his opinion, a simple mechanism could be put in place addressing mergers and consolidation of GIDs. Regarding the issue of voter approval for continuation of a GID, he noted his opposition. He concurred with Ms. Walker's suggestion to use procedures that currently exist and could be used and facilitated by the county commissioners. He noted that IVGID's budget is between \$18 and \$20 million each year, which is greater than many of the counties within the State of Nevada.

Responding to the Chairman, Mr. Nakada said he would be attending the working group meeting on Wednesday, October 28, 1998, in Carson City.

Discussion ensued regarding scheduling the next meeting of the full S.B. 253 Committee and the TAC meeting.

Mr. Hobbs asked if the TAC members would be available to meet on November 4 and 5, 1998, for its next meeting. All members concurring, the TAC meeting was set for Wednesday and Thursday, November 4 and 5, 1998.

The Chairman noted that the full Committee would meet on Thursday, November 12, 1998, in Carson City for its next meeting.

Ms. Thomas asked that the issue of the Motor Vehicle Privilege Tax for Washoe County be included in the November 12, 1998, agenda.

Ms. Vilardo requested that the redevelopment issue also be placed on the November 12th agenda.

The Chairman listed the agenda items for the November 12, 1998, meeting, as follows:

- During the morning, the TAC will present its reports to the full committee. The meeting will begin at 9 a.m.
- During the afternoon the Committee will break out into discussion groups, which will not be teleconferenced.
- Information on the fiscal impact to local governments caused by federal and state mandates.
- General Improvement District recommendations.
- Motor Vehicle Privilege Tax report.
- Redevelopment.
- \$3.64/\$100 property tax rate cap.
- UNLV recommendations.

There being no further business before the Committee, Chairman O'Connell adjourned the meeting at 3:00 p.m.

Respectfully submitted,

Jeanne Peyton

Secretary

APPROVED:

Senator Ann O’Connell, Chairman

Date