

JOINT HEARING

Senate Committee on Federal, State and Local Governments
 Assembly Committee on Government Affairs
 January 27, 1969

Subject: North Las Vegas Fiscal Matters

Committee members present:

James I. Gibson, Chairman)	
Marvin L. White)	
Warren L. Monroe)	Senate Committee on Federal, State
Vernone E. Bunker)	and Local Governments
Chic Hecht)	
Carl Dodge)	
Francis W. Farr)	
Hal Smith, Chairman)	
Norman Hilbrecht)	
David Branch)	Assembly Committee on Government
Don Mello)	Affairs
C. W. Lingenfelter)	
Bryan Hafen)	
Virgil Getto)	
Joseph Dini, Jr.)	

Also present were:

Senator Helen Herr	
Senator Mahlon Brown	
Austin Bowler	Assemblyman, North Las Vegas
Donald D. Anderson	Asst. Exec. Sec'y, PERB
Kenneth Buck	Secretary, PERB
Clay Lynch	City Manager, North Las Vegas
Milton Weiss	Dir. of Finance, North Las Vegas
C. R. Cleland	Council, North Las Vegas
Paul May	Assemblyman, North Las Vegas
Mort Saltzman	Associated Press
Norbert C. Chapp	Chamber of Commerce, North Las Vegas
Carlton Hall	Chamber of Commerce, North Las Vegas
Gene Echols	Chamber of Commerce, North Las Vegas
Curt Blyth	Nevada Municipal Association
E. L. Newton	Nevada Taxpayers Association
Bryn Armstrong	Las Vegas Sun
William Taylor	Mayor, North Las Vegas
James Andrus	C.P.A.
Roy Nickson	Nevada Tax Commission
Robert Bruce	Fiscal Analyst, State of Nevada
Earl Oliver	Deputy Fiscal Analyst, State of Nevada

Press Representatives.

Chairman Gibson called the meeting to order at 9:00 a.m., introducing himself as Chairman of the Senate Committee and Assemblyman Hall Smith as Chairman of the Assembly Committee.

Senator Gibson: The purpose of our meeting here this morning is primarily in concern with the report submitted to the Legislative Commission on the 21st of January concerning the status of the agreement between the Public Employees Retirement Board and the City of North Las Vegas on extension of time on interest and principal payments on bonds that are covered by that agreement. I think the place to begin may be to put the meeting in context. I have read some of the press reports and some of the reactions to those reports and I think maybe some statement is necessary to explain the position of the Committees at this time.

On January 21st, this matter was brought to the attention of the Legislative Commission, as required by law, in a report from the legislative auditor. At that time, the Commission was requested not to take action and to allow the standing committees of the legislature to look into the matter -- inasmuch as a bill had been requested by the City of North Las Vegas and this is now known as SB-26. The Counsel has advised us that we were not within the authority of the two bodies at the time it was made into a bill. The purpose of this meeting is to try to get the committees informed on the status of this agreement as well as the program the City has developed for correcting the delayed payments. As we got into this, we requested a report from the Tax Commission on the status of the City's finances, especially as regards to possible obligations against the ad valorem tax; because, if the Legislative Counsel's finding is correct and if the legislature could not deem it wise to pass the legislation requested, then it is possible that the delayed payments on interest and principal would become an obligation of the ad valorem tax.

Mr. Roy Nickson, Secretary of the Nevada Tax Commission, issued a report which was a run-down -- according to his records and his understanding -- of the finances of the City as of the present. I would like to emphasize that this was requested, not as "old hash," but to find out what the impact of the worst possible eventuality that might come out of this . . . report might be. As a result of what appeared to be the picture according to Mr. Nickson, the delegation requested that a bill be prepared which would impose a moratorium on any other bond issues by the City at this time until we could find out just what the status is and what can be done -- or what is needed. Maybe the situation isn't as serious as it seemed to be on the basis of the information that we have. So we have requested the appropriate authorities to be here; also representatives of the Retirement Board and we also have present the Legislative Counsel. (Mr. Frank Daykin, Chief Deputy.)

(Chairman Gibson then read the text of a letter from the Attorney General, Harvey Dickerson, dated January 22, 1969. This letter was addressed to Mr. Kenneth Buck, Executive Secretary of the Public Employees Retirement Board.)

"You have called the attention of this office to an action taken by the Public Employees Retirement Board approving an extension of payment of principal and interest on the North Las Vegas bonds for Improvement District No. 30, Series April 1, 1966.

"It will be remembered that this office approved the extension granted in March of 1968 based on the severe financial situation faced by North Las Vegas as a result of the owners of property involved in Improvement District No. 30 not meeting their assessments. As a result, the City of North Las Vegas filed suit against those in default of their assessment payments in Case No. A-41773 in the Eighth Judicial District Court of the State of Nevada, in and for the County of Clark, entitled "City of North Las Vegas, et al v. Tessie and Harry Somers, et al," which case was pending at the time application for an extension of one year was requested of the Public Employees Retirement Board. This was one of the determinative factors in granting an extension.

"It was this office which insisted on the insertion in Section 2 of the agreement, that provision limiting the extension to October 1, 1968.

"It is my understanding that curative legislation is now before the Legislature, which may afford North Las Vegas some measure of relief. However, this office cannot, in view of the objections raised, assent to a further continuance.

"Provision must be made by North Las Vegas, in the absence of legislative relief, to take whatever legal steps are necessary to meet accrued payments with interest to the State."

We are, I would say, faced with the need for some action; otherwise the effect of the situation could be quite disastrous on the financial affairs in the County (Clark). The opinion from the Counsel Bureau I believe has been made available to those interested. There is a flat expression in this opinion that the City of North Las Vegas was without authority to contract for an extension of its bond payments and they agreed to pay interest (on) bonding not extended. Finally, an expression on the authority of the Board on extending the agreement or the payments beyond the period . . . which is invalid in the opinion of the Legislative Counsel. To place this opinion in perspective, the Legislative Counsel is the legal advisor of the legislature.

(Chairman Gibson then asked if Chairman Smith had any comments and he stated that he felt that the above summary adequately covered the matter.)

(Senator White stated that he had a letter from the North Las Vegas Chamber of Commerce, expressing their interest in the Hearing. He introduced Mr. N. Chapp, President-elect of the Chamber, Mr. Carlton Hall, Treasurer, and Mr. Gene Echols, Managing Director. He also introduced the City Manager, Mr. Clay Lynch, Mr. Milton Weiss, C. R. Cleland, Mr. Paul May. He stated that Mr. William Taylor, Mayor of North Las Vegas would be delayed.)

He then read a letter from the North Las Vegas Chamber of Commerce.

"WHEREAS, there have been numerous accusations against our present City Administration and

"WHEREAS, the most recent accusations have been levied by our State Officials and

"WHEREAS, until the present time these have been ONLY accusations and

"WHEREAS, our present City Administration have assured us that the financial and fiscal affairs of our City are in sound condition and that these accusations, are and have been, in error and

"WHEREAS, we believe, to determine the facts and in the best interest of the Citizens, Businessmen, and Taxpayers of the City of North Las Vegas, and especially the members of our North Las Vegas Chamber of Commerce, that a full, complete, and impartial Audit and disclosure of the financial affairs and fiscal policies of our City is in order,

"NOW, THEREFORE, be it resolved, the North Las Vegas Chamber of Commerce urges a full and complete impartial audit of the Financial Condition & Fiscal Policies of the City of North Las Vegas be instituted immediately and full disclosure of the results thereof be made.

"ADOPTED, this 25th day of January 1969."

(Chairman Gibson then asked Mr. Kenneth Buck of the State Retirement Board to make any comments he might have.)

Kenneth Buck: I would like to speak very briefly of our experience in this matter. In February, 1968, Mr. Lynch appeared before our Board and stated that he would not be able to meet the payments in April of 1968. They had moved very promptly in the preceding year which was 1967, to go into Court against the people that own this property. As I understand the situation, the Court had eventually ruled, after a period of quite a few months, that the remedy which they were seeking was not the proper one and they had to go back and start all over again. But the Board was faced with this idea -- this was a general obligation bond of the City of North Las Vegas and naturally the general fund and the entire tax roll is subject to payment. So we were not then concerned with actually being paid eventually for this, nor are we concerned at the moment. We are quite certain that this will be paid off. But we did feel that to insist at that time to place this on the tax rolls would result in a great deal of difficulty for all of the political subdivisions in Clark County, as well as injuring the reputation, not only of North Las Vegas, but of all the municipalities of this State, in the bond market.

So with the approval of the Attorney General, which of course we sought and did receive, we did extend this one year. Now North Las Vegas has appeared before us again and requested an extension of another year. We approved such extension, subject to the approval of the Attorney General and Senator Gibson has just read you his answer. So in effect where we are now is that this legislature will determine whether or not the City of North Las Vegas is given one more year extension. I might say, that it was with some reluctance that we extended another year -- and probably would not extend for a third year. But it seems that the City of North Las Vegas has tried to remedy this situation and if our giving them just a little more leeway would help, we feel possibly it might be our duty as an agency of the State of Nevada. We'll mention that interest is being compounded on payments on interest, and we anticipate that we will not lose a dollar in that particular case. Thank you.

Chairman Gibson: What is the interest rate on this bond?

Kenneth Buck: 4.85. I might note that the first payments due on this bond were met. They were met by payments from the general fund of the City of North Las Vegas and the general fund just couldn't stand the second payments that were due. That is my understanding of the situation.

Chairman Gibson: What is the average rate of interest on funds that are invested?

Kenneth Buck: As of December 31, 1968, we were earning 4.97. It must be understood that it is only in the past two or three years that our interest returns have really jumped substantially. At the time these bonds were purchased, 4.85 was an excellent return. I might add this, it has been the policy of the Retirement Board since the creation of the system to bid on bond issues of political subdivisions but only if the rate of return which we could secure elsewhere as of the date of that bid. We feel that this way we are doing two things. We are safeguarding the income of the fund and we are also recognizing the fact that we are part of the State of Nevada. We have, I believe, been of assistance to many political subdivisions in the fact that it is known that we might bid. Our bid, however, would have to be at the rate that we could secure elsewhere at that same time. And at the time we bid for the City of North Las Vegas, 4.85 was excellent return.

Senator Dodge: I was going to ask what the policy in the past had been regarding investments in bonds in political subdivisions, but you answered it.

Kenneth Buck: The policy is one which I believe is a good one.

Senator Farr: About compounding interest. Should they default of the bonds then does the obligation then fall against the tax rolls. Would that compounded interest be added to that? Would it be the obligation of the tax rolls to pick it up?

Kenneth Buck: Yes, this is my understanding. Now possibly we can get into legal technicalities, and I'm not going to try to. But this is our understanding, that we will receive interest on the interest in compounding.

(Senator Herr arrived at this time.)

(Chairman Gibson stated that while he realized that there were many aspects of this that would interest the Committee, initially they would confine themselves to this particular matter with the Retirement Board and the status of the Industrial Park bonds. He then introduced Mr. Clay Lynch, City Manager of North Las Vegas.)

Clay Lynch: Mr. Chairman, we understand that we are here at the pleasure of this committee and we will follow whatever direction you wish. We appreciate the opportunity to explain our position. I should say that I appreciate the fact that this legislature is picking up at least one of the problems of local government early in the session. We hope that some of our other problems will also get this kind of attention. As Mr. Buck has already

stated, the property owners, who are the developers of this industrial park, failed to pay the City in March, 1967. The City of North Las Vegas promptly entered suit in court, in accordance with the only available legislation there is on the books today, to promptly resolve this matter. It then appeared that this court action was going to take an extremely long period of time. We went to our bonding attorneys, who are O'Melveny and Myers in Los Angeles, a nationally recognized firm. If I may direct your attention to Exhibit E in our folders -- on page 5 is the original memorandum of February 8, 1968, in which that firm did the extensive research on the subject of the agreement between the Public Employees Retirement Board and the City of North Las Vegas and issued a memorandum of 26 pages, indicating the method that we should follow and that the Public Employees Retirement Board should follow according to their opinion. As a matter of fact, at the same time, they prepared Exhibit F, which is in your folder and is the exact wording of the Agreement. The City of North Las Vegas brought to the Attorney General's office this memorandum of legal opinion by a nationally recognized bond counsel and a copy of the Agreement -- and it was subsequently entered into by the two public entities involved prior to the time that any payment on the part of the City was in default. The Agreement was dated in March, 1968, and it affected only the payments starting on April 1, 1968.

In the meantime, our legal staff went to the District Court and were informed by the District Court in Clark County that in their opinion, the District Attorney should process the collection and foreclosure procedures in the case of an assessment district of this kind and a problem of this kind. It was necessary for us to appeal that decision back up to the Supreme Court. In September of 1968, we were successful in a ruling of the Supreme Court which said, in fact, that in accordance with the provisions of our charter -- which is also State law -- the City Attorney and City staff could pursue this action. We took that decision from the Supreme Court right back to the District Court in Clark County. In the meantime, the property owners, who are ultimately responsible for this money, had failed to make their second annual payment; so it was necessary for our attorney to file a second amended complaint, bringing into the picture the fact that there were two payments now overdue on the part of the property owner. The time lag involved in the filing of that complaint will run out on February 10 of this year, at which time, I understand from our attorney, we will be free to enter a motion for summary judgment.

At the same time, we had received back some months ago, Mr. Frank Daykin's opinion in regard to this transaction and we re-referred (again on Exhibit E) the matter of Mr. Daykin's opinion to our bond counsel -- and on the fourth page of Exhibit E is a Memorandum dated July 29, 1968, in which they reiterate their opinion that both entities had the authority to enter into such an Agreement. And last week, we again consulted with the attorneys who are our bond counsel and on January 23, they issued the first three pages of Exhibit E, again reiterating their basic opinion that the Public Employees Retirement Board and the City of North Las Vegas acted legally. In all of the discussions on this matter, I have heard no question as to the wisdom or the integrity or the idea of endeavoring to postpone the crisis in ad valorem tax in Clark County while the slow process of collection goes through the courts. On top of that particular effort, I understand that Mr. Buck had the bill drafters prepare SB-26, in which we heartily concur and which has the endorsement of the Nevada

Municipal Association (meeting January 10th and 11th). I understand that the first paragraph of SB-26 may need to be revised to more clearly fit the legislature's idea of proper policy and to more clearly ideafy that the primary purpose to preserve the principal of the investments of the Board should be given greater emphasis -- and the policy that the Board and this legislature wishes to protect the credit of local government be a secondary benefit. And I believe that that could be reworded in order to accomplish the aims of all parties concerned. As Mr. Buck has been reluctant to enter into the question of law, I have to restrain myself from being an amateur lawyer, too -- and I say that if, in fact, we have a situation where we have a difference of opinion between the attorneys advising three different groups, that perhaps rather than the extreme legalistic approach, I hope this legislature will approach it from the standpoint of what is in the public interest -- regardless of legal opinion on one side or another.

Now, the real crux of the matter, we have endeavored to answer on Exhibit K. At the request of the City of Henderson, City of Sparks, City of North Las Vegas -- the firm of Dawson, Nagel, Sherman and Howard (a nationally recognized bond counsel from Denver, a most conservative firm) and assisted by Burrow, Smith and Company (Nick Smith's outfit -- fiscal agents out of Salt Lake) have prepared a piece of legislation which would have, primarily, as far as we are concerned, the important effect of streamlining and straightening out for all the government in the State, the procedure for collection in the event of a default on the part of the property owner in any kind of a special assessment district. The early parts of this proposed legislation make it clear that the city and the city staff can proceed with the collection, so we don't have that question come up every time the matter comes to court -- and waste a year on that particular subject alone. It provides, in Section 14-35, for additional methods of enforcing special assessments, either clarifying the method of suit or by special sale, very similar to that which is used in the event of collection of taxes. We suggest that the legislature might study this very carefully and we can certainly hope that they would consider the adoption of legislation along these lines, because that's the real basic problem here -- that when an assessment district does get into difficulty, there is no clear cut, expeditious method for local government to handle the situation. We cannot, at this time, predict how long it will take to process such an action. I think it appropriate at this time to point out that the City of North Las Vegas is not alone in this problem and this is not an unusual situation, Washoe County has its Horizon Hills district, Lyon County has the Penrose district. Carson City, itself, has the Carson City Industrial Park. I think the only distinctive part about this one is that something actively has been done within days of the situation arising where there was financial difficulty over the district.

Insofar as the security of the investment on the part of the Public Employees Retirement Board, we would like you to understand, on Exhibits G and H, (here we give just one page and two pages out of both of these books, which are extensive appraisal reports -- the examination was made by recognized firms -- certainly Ken Hall is well known and respected in the Las Vegas area) in which the opinion in April, 1965 (on Exhibit H) indicated that the value of the land involved is \$5,280,000.00. Later, on December 20, 1965, as the improvements were going in, Kenneth Hall put a value on the land involved at \$9,000,000.00 and this is our first line of security against the \$2,350,000.00 investment on the part of the Public Employees Retirement Board. Now in addition to the security afforded by the land which we hope will ultimately become the property of the city or be disposed of by some sale or by order of the Court --

on Exhibit I, we want to point out to this Joint Committee a fact that could not be known to your Tax Commission or most of the State agencies because our budgets and our financial statements are recorded on a cash basis -- the City of North Las Vegas has a note receivable as an asset for the future. We have sold the property across from our Civic Center to Pardee Phillips, and we hold a note backed by mortgage on $34\frac{1}{2}$ acres in one spot about one-half acre in the other -- for a total asset value of \$678,936.65 in one parcel and \$20,000.00 in the other parcel, and under those notes, we will start to receive a cash flow into the City of North Las Vegas on October 4, 1969. The sums of money coming in from this source are not pledged to any particular use of the City of North Las Vegas, and on October 4, 1969, the City Council will be free to pledge the proceeds in installment payments and interest that comes in on this to any public purpose of the City of North Las Vegas and give us an additional security to guarantee that one way or another, we are going to pull this district out and insure that the Public Employees Retirement Board does not suffer any loss of interest or loss of principal or loss of their regular investment. We recognize that -- as a matter of fact, if at this time, the payments were being made promptly, the interest thereon could probably be reinvested by Mr. Buck at a slightly higher interest than the 4.85 that is on the compounded interest of our agreement. I think the principal consideration between the Board and the City of North Las Vegas was that the preservation of a status quo in regard to ad valorem tax and the local credit in Clark County over-rode any possible small number of dollars involved in the slight interest differential.

Now, it has been mentioned that it is possible that this would have to be put on the ad valorem tax levy. The City of North Las Vegas has done and intends to do everything possible to avoid this. To give you the scope of what we are talking about the precise calculations of the interest, principal and compounded interest that would apply to the fiscal year's budget of the year 1969-1970, would reduce the operating budget of the City of North Las Vegas by \$366,000.00, seriously affecting normal municipal functions. It would have the overlapping effect of taking the tax rate away from Clark County of approximately \$.60 -- or a figure of approximately \$5,000,000.00 a year. It is an alternative we recognized would be true, if necessary, and this is why we have so diligently worked to avoid it. Now, if you have any further questions in regard to this one item, we would be more than happy to answer them -- and I should say, we are prepared to go into all of the financial matters raised by your Tax Commission staff at the same time this subject came up.

(Upon a question from Chairman Gibson regarding timing of the initial extension granted by the Retirement Board, Mr. Lynch stated that it was up in January of this year.)

Clay Lynch: You see, the agreement specifies that it will be reviewed in January, because, if -- in fact -- the Board made a determination, as they may have to in view of the Attorney General's opinion that the legislature needs to help this situation -- if, in fact, they said, "We cannot go and give you another year's extension," then we would start our budget procedure to handle the next fiscal year. The agreement as it stands now would take care of the payment in April of 1969 -- but would not take care of the payment due in October of 1969. That's why we timed the review in January, so that if there was a reversal of position on the part of the Public Employees Retirement Board, provision could be made in the budget for the following fiscal year to absorb it. We're talking of approximately \$750,000.00 that

would have to be raised in the fiscal year 1969-1970, in order to put us current with the Public Employees Retirement Board.

Mr. Hilbrecht: I was just curious. I appreciate that perhaps this sale to Pardee Phillips may not have been under the most advantageous circumstances, but it is rather a prime part, and I was wondering if you could explain the interest rate. As I understand it, prime interest rates are way up around 7% and over and this 3.5% interests me and I wonder what the reason for that is, in view of the fact that you're getting eaten up at 4.85 compounded.

Clay Lynch: This was a transaction which was made five years ago at a time when the City of North Las Vegas enjoyed 3.7% as its regular interest rate. The City Hall, and all of our \$8,500,000.00 capital improvement program that was voted in 1963, was financed at 3.7% and that's why the percentage was established at the same price that the City of North Las Vegas was paying for money at the time.

Mr. Lingenfelter: I have a question. You're saying 3.7, how come you sold at 3.5? There's a difference there of .2%.

Clay Lynch: 3.7 is an average interest rate over the entire life of the bonds. In the early years of those bonds, they were couponed at 5% and Pardee Phillips paid 5% on the early interest payments in this series of payments. In the years that they pay principal and interest both, the coupon rate, the interest rate on our outstanding bonds was at 3.5.

Senator Dodge: With reference to Exhibit B, which was not touched on, you list General Obligation Bonds (Tax Supported) at \$3,500,000.00 and General Obligation Bonds (Revenue Supported) at \$4,300,000.00. In which category do the bonds held by the Retirement Board fall?

Clay Lynch: Go below the figure of 8.155 and get into the category of Assessment Districts (Bonds) -- \$4,763,500.00.

Senator Dodge: These are the bonds held by the Retirement Board now. Is that right? . . . Or how much of that?

Clay Lynch: 2.150 principal.

Senator Dodge: As I understand it, with the default you backed the Industrial Park with the general obligation of the City of North Las Vegas. Right?

Clay Lynch: Senator, let me clarify a slight error in Mr. Buck's statement. The assessment districts in the City of North Las Vegas -- and I think this is true in any of them under the general law in regard to assessment districts -- are not a debt of the City and are not a general obligation. The language clearly sets them as a special kind of security and the language says that they shall first be security on the land involved in the assessment -- and also as security against the people's payments which are assessment against that land. In the event of a failure on the part of those payments to be made by the property owners of the land, it shall constitute an obligation of the City to pay from general fund revenues of the City. In the event that the general fund revenues of the City are insufficient to meet this obligation,

the City shall in the following fiscal year, levy an ad valorem property tax which shall enjoy the same priority as that on the general obligation bond levy. It's a distinction, but there is a difference -- and the payment that was made to the Public Employees Retirement Board, a first principal and interest payment, was made from the City's general assessment district funds, not from our general fund.

Senator Dodge: Well, there may be a technical difference, but two things I'd like to get clear -- one, I'd like to ask Mr. Buck -- before he said he wasn't concerned about ultimately being paid, (addressing Mr. Buck) do you feel that your security lies in the land itself or your pre-emption on the tax assessment.

Mr. Buck: I would say, Senator, my pre-emption on the tax This is my ultimate security.

Senator Dodge: Well, if that be true, even though there's a technical difference, the thing I would like to get clarified -- maybe not this morning, because it might take some time -- you show general obligation bonds, double barrelled revenue backed by G.O., I presume it's 4.3, and then this 2.150 thousand, which may be a technical difference, but still would be a demand on your ad valorem rate -- Is there any way to determine, in the event there was default on some of your other bonds, where the priorities would lie? In other words, you've got bonds, of course, at different payments and different retirement dates and that sort of thing, but do you concede, for example, Mr. Buck that you have first priority on the tax rate down there as against other general obligation . . . ?

Mr. Buck: (Testimony garbled because of noise) which of course means that the entire property in the City of North Las Vegas is security for these bonds.

Senator Dodge: More or less as a first mortgage?

Mr. Buck: Yes.

Senator Dodge: Do you agree with that, Mr. Lynch?

Clay Lynch: I would like to point out, Senator, I agree with the statement insofar as all the rest of our special assessment district program -- which is very wide in scope in our city. Over the past years, from 1960 to date, the receipts and disbursements have been nearly precisely equal. We have collected in the assessment district programs since 1960 \$10,965,947.00 and disbursed \$10,913,205.00. The possibility of a problem in regard to those districts is very remote, and as a matter of fact, our collection procedure is such that 97.8% of the money on our assessment district program comes in precisely on time and 100% has come in with penalties where there is a slight delay.

Senator Dodge: Well, do you agree with him that he has first priority on your rate, as against this 7.8 million dollars worth of general obligation bonds or double-barrelled bonds?

Clay Lynch: No, sir, I cannot agree that they have a first priority. I think they are co-equal. All three of the classes have a parity and the

language is such that they are co-equal in their effect upon the ad valorem tax. I don't think that the assessment district or the land that is held by the Employees Retirement Board would necessarily have any greater priority than the others. Now, of course, the 4.4, 4.3%, 4.2 million is revenue-supported G. O. Bonds have never been a problem; they are paid purely and solely out of the revenues of the water and sewer operation, have never been on the tax levy for the last six years.

Senator Dodge: You don't see any problem, then, as to the 4.3 million group?

Mr. Lynch: As a matter of fact, Mr. Knisley who is the author of the legislation, which guaranteed that it would be impossible for the cities to impose an advalorem tax levy to support their utilities. We are required by state statute and by the bonding companies to raise our water rates to insure that this will not occur. The only reason that these kind of bonds are issued as revenue bonds backed by the G. O. is that it enhances the saleability and as long as it is below the legal limit of our city, it makes it cheaper for us to borrow money for this purpose and give them the double-barrelled bonds.

Senator Dodge: Do you have prepared anywhere schedules of repayment obligations under these G. O. bonds and what this is in terms of rate based on the present assessment?

Mr. Lynch: Yes, sir, as a matter of fact this Exhibit "L" refers to a certified public accountant audit. In this financial statement, of course, there is a complete schedule year-by-year for everyone and the issues of every security we have outstanding. As a matter of fact, in the opinion of my office a complete audit has already been conducted in this blue book, and could serve as a complete source of any information that you would need. It can be supplemented by the issue of material that the city staff can make available and I have additional material in here that we can get into the overall financial picture of our city at your pleasure.

Chairman Gibson: Clay, I wonder if it might not be helpful to the committee to ask you to review the set-up on this particular district. I think it might be well for the committee to have a little understanding on the bond set-up you have in this project and how the city became involved in it and why.

Mr. Lynch: The prime mover in this project was a Mrs. Tessie Summers. Mrs. Summers is a very active and energetic business woman with a reputation in business and with a sound financial statement and she got the idea that she could bring in particularly warehousing industry, into our city, if the city would make use of it -- a special assessment district procedure for the development of the industrial park, as has been done in the State of California in a number of instances successfully. When she came to the City of North Las Vegas she had land value demonstrated by appraisals in excess of the requirements of the law and enough land value to convince our Mayor and City Council it was a good policy to go into development.

She, at that time, indicated that she had prime customers to move into the area -- the project started under construction and at that period of time when construction money interest rates all of a sudden jumped from something normal to something completely out of the question. It made it impossible for her to proceed with the development of the buildings in the industry that she intended to put into the area. The city was unable to proceed with the development of it because technically the land to be developed is the property of the individual property owner, and it is not under our control except as to the streets.

Mrs. Summers then contracted a form of cancer and her ability to proceed with this development dwindled and dwindled until she died last year of cancer. Her husband, had no interest in this project and no background to continue it, and he sold his interest last summer to a corporation called Diversified Capital Corporation. The principal owner and president is Mr. Irving Boren from Los Angeles.

Mr. Boren has made an active effort to try to solve this industrial park financially. He has prepared extensive brochures, distributed nation-wide sales efforts -- to this day his efforts have not been successful in developing something solid. His attorneys have been successful in taking each step that is available to them to delay the final resolution of the plans. The City of North Las Vegas is proceeding with its litigation -- immediately proceeding with his efforts to promote the park -- I believe, or I hope sincerely, that our litigation will be successful sometime in the recently near future.

Chairman Gibson: If your litigation is successful, it will still be sometime before you can realize any money out of it. Won't you then have to sell the assets. . . . In other words, this 750,000 that you mentioned, within the next year you will have to come by -- how will you obtain that short of the property rate?

Mr. Lynch: Well, in answer to your question- if we are successful -- and I hope to change that -- when we are successful in the court, the law is general enough that the court could make any kind of an order that they wish. They could order an immediate sale on the same basis as the sale of property for ordinary taxes, and could result in a rather quick realization of cash to liquidate the investment here. It would get back to where basically the investment that's involved in the securities represents only about 30 cents per net square foot of useable industrial land with full first class offsite improvements out in front of it -- water, sewer, street lights, and a transfer running to the property with a freeway exchange on each corner.

The alternative that we could start using to reduce our obligation to the public employees retirement board I've already mentioned is involved in the note from Phillips on the land to cross this thing off.

Senator Brown: There is a picture in my mind because of Senator Dodge's line of questioning -- do you remember the that were considered in the assessments in this industrial park as general obligation bonds. Strictly there is a technical difference here which I think is something that

both of us thought was going to sell, considering that the general obligation bonds stated that the technicality was strictly that it was based on the fact that in the event there was a default in these things, it would be the responsibility of the city treasurer or the City of North Las Vegas to pay out of their general funds. Falling short of that they would have recourse to sell the bonds and go back to the property itself -- not against the general tax flow of the county in this department -- is that right?

Mr. Lynch: Senator, I don't pretend to be a bonding attorney, but our bonding attorneys, Dawson, Nagel, Sherman & Howard and then we have O'Melvin & Myers, now that we are using in Los Angeles, tell me that there is a difference and a distinction and that the city staff cannot call these general obligation bonds. In almost every case they say they are special assessment district bonds backed by a levy on the general fund, backed by the necessity of a levy on the ad valorem tax. They say that's different.

Senator Brown: Mr. Buck has given the impression that these were general obligation bonds against the County of Clark. Is that correct?

Mr. Buck: Senator, I knew that they could be relieved by addition to the tax roll. If I use the term wrong, there may possibly be a technicality -- I may be incorrect, but I believe it is correct that we can remove the tax rolls from the City of North Las Vegas to recover these bonds.

Senator Brown: Ultimately?

Mr. Buck: Ultimately. But you figure and they said that they were in default, such as they are, and you have given them the extension, your recourse . . . on the City of Las Vegas, they would have to make it up out of their general funds and to do this they would either have to put up with the services that are presently in existence in North Las Vegas or go ahead and take the property back, sell the property, and then in turn pay off the indebtedness with the Eventually, Senator, I think that they must go on the tax rolls -- it is very necessary that they go on the tax rolls -- it is required.

Mr. Lynch: Senator, we couldn't solve this problem simply by reducing municipal services of the general fund. The number of tax dollars we're talking about here in the ad valorem rate are such that it would wipe out all operating and go beyond that.

Senator Brown: The only recourse was actually to get the court, if there were default, to get judgment against the defaulting property owners to sell the property and whatever was realized out of the property, to pay off the retirement board.

Mr. Lynch: Right, we're asking the retirement board to withhold any action in regard to this that would force it on the tax rate until we can get out of court. We're pleading with the legislature to do the same thing and then further go ahead and give us legislation that won't put local government in the situation of fighting for two years to get even heard before this Give us some legislation that will expedite this process.

Mr. Hilbrecht: Mr. Chairman, this is just a point of information. I, for one, would like to see Mr. Daykin's written opinion. I don't seem to have it.

Mr. Daykin: I will be glad to provide a copy of it afterwards.

Chairman Smith: Mr. Lynch, I saw a newspaper article a few months ago indicating that you had quite a theft and damage to that property out there. What is the estimated cost to bring that back up to the value as indicated in Exhibit "G"? What is the city going to have to spend additionally to bring it up to the value that "G" indicates that it is?

Mr. Lynch: The only extensive damage done there was the fact that the copper cable for the street lighting system was stolen. Over a period of time they came in and disconnected each one of the street lights and pulled it with a truck, coiled it up and took it away. We're talking, generally speaking, about \$25,000.00 worth of copper -- in any of the disposal procedures that the city would contemplate -- we're talking about disposing of this industrial park as is, and a developer would proceed to put this copper in as was needed. As a matter of fact, we believe that one of the basic faults in the development plan that Mrs. Summers put forth in the first place, was the governing to put complete service on the entire 230 acres and not developing it in increments, but she insisted on this at the time and had the legal right to insist on it once the district had been established.

Senator Farr: In our committee last year we had this bill, and didn't we amend the bill to include the double-barrelled phrase on that statement as to questions for the security and faith and credit of these revenue bonds to fall back to the general obligation bonds? Didn't we amend the Industrial Bonding Act last session to include that?

Chairman Gibson: They are not under that.

Assemblyman Dini: I'd like to have some information: Would there be any legal technical change in the status of the bonds when the state sold their interest to the next corporation -- do they assume full obligation and were they a responsible company that could assume this responsibility?

Mr. Lynch: The state, at the present time, holds all these securities in their portfolio -- every one of the original bonds issued. I do not know of any institution that would be interested in acquiring these securities under the present circumstances simply because No. 1, the market is in the worst shape it's ever been since 1929; No. 2, there's a plentiful supply of bonds that do not have any litigation involved in them, and No. 3, at 4.85% they would not even be an attractive investment on the current market unless they were discounted, and I don't believe that this would be good business.

We're faced with the job of resolving this problem between the two public entities involved and we need some help and time in accomplishing it because the court action is taking so long.

Senator White: There's a question I'd like to ask as to the value of this property. Could you tell us how much this property -- what the consideration was when Mr. Boren bought the property from Mrs. Summers -- what was the transaction?

Mr. Lynch: This was last summer Mr. Boren got a Grant, Bargain & Sale Deed signed by Mr. Summers after his wife's death. The only apparent consideration that I could find was a Trust Deed made out at the same time and recorded simultaneously to Mr. Summer's attorney for \$732,000.00, which I believe in Mr. Summer's opinion of his equity in the project after consideration that there are outstanding 1, 2, 3, 4, 5, 6, 7, more mortgage notes against the property that are inferior to our needs.

Senator White: What is the amount of the assessment there?

Mr. Lynch: Approximately two and a half million dollars. Our lien is, at the present time, in excess of two and a half million because the penalty and the interests are continuing to accrue from the date that the property owners failed to pay from March of 1967.

Senator White: Based on the principal of Mr. James R. Leonard and Mr. James Barton Smith, Exhibit H shows the \$5,280,000.00 appraised land. What was the state of the property at that time and how much does this represent politically? What was the shape of the property at that time as to the relationship of any improvements at all and how much does this represent per acre -- the property involved?

Mr. Lynch: The difference actually between the five million figure and the nine million figure in these two appraisals represents a different interpretation as to are we considering the value of the land before the improvements or after the improvements.

Senator White: Well, the question is on the initial appraisal valued at \$5,280,000.00. What was the actual condition of the property at that time -- was there any improvements at all?

Mr. Lynch: No, sir.

Senator White: And what does that represent per acre?

Mr. Lynch: Divide that figure by 230 net acres -- about 60 cents per square foot -- 25,000 an acre.

Senator White: So this nine million figure then represents the improvements that have gone in there as the valuation increased on the property itself, plus the addition to the improvements -- is that correct?

Mr. Lynch: Right, and the figures in this same category were used in subsequent transactions by the Nevada State Highway Department to acquire portions of this park for the construction of the freeway. It was the basis of the court decision awarding Summers their freeway right-of-way.

Senator White: How were these appraisals attained and what was the method of payment to these appraisers?

Mr. Lynch: In the procedure for special assessment on raw land, the developer is required to state who they will use as an appraiser to get the approval of the city as to the qualifications, and they advance the money for the appraisers with the understanding that if, in fact, the district is successful and does go forward and needs funding, the amount of money for these appraisals will be reimbursed at no expense to the district.

Senator White: How is he actually paid? Is he on a percentage basis for the appraisal or is it a flat fee or what's the difference?

Mr. Lynch: He quotes a special fee based on the complexity of the job -- has no relationship to the alternate result -- based on the fact that his opinion and the fee are not connected in any way.

Assemblyman Hilbrecht: I have one question, Clay. Was there set up in connection with these condemnation suits the lien of the city or the assessment district the proceeds from the state highway set up on those portions of the project sold or transferred, I take it, on the orders of immediate possession from the Highway Department?

Mr. Lynch: Yes, as a matter of fact, the court determined this.

Assemblyman Hilbrecht: So we now have some money available in escrow, is that right?

Mr. Lynch: A very small amount of money and much less than the second interest payment that we made so that actually the cash position of the city in regard to this district -- the portion where they accrued it upon the assessment district itself were relatively small because the district was designed around the plans of the freeway and it was intended that there be no overlap, and it was only by the provisions and plans of the Highway Department that it did overlap and it came to our attention that per square foot the price of the Highway Department was confirming these appraisals.

Assemblyman Lingenfelter: How much money was involved in this?

Mr. Lynch: I'd have to find it, but we're talking in terms of \$10-15,000.00, but we can dig it out.

Assemblyman Lingenfelter: One other question: In my determination the value on this property was placed at about 60 cents per square foot unimproved.

Mr. Lynch: Yes, sir.

Chairman Gibson: What is the property tax status of this land now?

Mr. Lynch: It has not been paid.

Chairman Gibson: For how long -- for two years?

Mr. Lynch: The same two-year period. And undoubtedly the usual efforts of the tax assessor will start to parallel ours now because it will go on the trustee roll if they should start that process.

Chairman Gibson: Do you know where they fall in priority as far as the claim against.?

Mr. Lynch: They're co-equal, and the amount is relatively small because I don't think they have ever changed the assessed valuation from what it was 20 years ago.

Mayor Taylor: I have a business that's not too far from this property, and I have some unimproved property on the corner of Cheyenne and Boise that was recently appraised at about $4\frac{1}{2}$ acres at \$105,000.00. Directly across from this piece of land, which is also unimproved, there's another piece of property, three acres that sold close to three months ago for \$75,000.00, which is \$25,000.00 an acre -- this is also unimproved. It's right off the freeway and it's the next major artery on the road. I'd say it's about two miles away from this area.

Senator Dodge: How much acreage is involved in the industrial park?

Mr. Lynch: 230 net.

Senator Dodge: 230 acres. Are you inferring that there would be a like value to all that acreage or would it be just on the acreage that fronts on roads or intersections and that sort of thing?

Mayor Taylor: Well sir, inasmuch as it hasn't been sold, it would just be a supposition on my part to tell you exactly what it was worth. It is improved and it certainly ought to be worth more than 30 cents per square foot. I think that's about what we had in it, Clay -- 30 cents?

Mr. Lynch: Yes, sir. Every acre of this fronts on a paved street built to industrial specifications and lit with more than the normal street lighting because it lights the street and the front yards of all the industrial property and is rail supported from the main line of the Union Pacific Railroad to the property. It has access to land interchange in the northeast corner as well as access to interchanges in the southwest corner.

Senator Dodge: In other words, it's not just a big block of land.

Mr. Lynch: No, this is the best looking industrial park in the United States.

Mayor Taylor: I think we're talking about 30 cents per square foot for what is involved as far as the Nellis Industrial Park is concerned improved against the sale of land in our area at 60 cents a square foot unimproved.

Chairman Gibson: Just for clarification I notice you refer to this as Industrial Park, Unit I. Is there another unit, too?

Mr. Lynch: At the time that this was accepted the property owners to the west of this park had brought into the Planning Department a tentative map extending additional units to the west and extending the general principal to the area, and those units were identified on the tentative map as Industrial Park, Unit No. II.

Chairman Gibson: Has it been developed?

Mr. Lynch: No, sir. It's just simply a tentative map which has been submitted.

Chairman Gibson: Has it changed hands lately?

Mr. Lynch: I don't know, sir. Not to my knowledge. As far as I know this piece of property is in the hands of Madison Graves (?) and some of his associates.

Chairman Gibson: Are there any other questions at this time from the committee?

Mr. Cleland: The value of this property in my own mind is well established. I know I talked to probably four different developers who have expressed a great interest in this piece of property. I know of one that would give me a letter of commitment this afternoon to the effect that they would be delighted to pick up this piece of property for the City of North Las Vegas as investors and probably more, and they are only waiting to see how we come out in this court procedure to make their offer. Of course, any large developer, any large businessman would like to get the best price possible on a piece of property like this and this one would buy it today if it were available.

Chairman Gibson: Does your access to the property itself through the court, does that clear all other liens?

Mr. Lynch: Yes, sir. It is the same as the first mortgage sale.

Senator Hecht: I don't understand this one thing here -- after two years in court, how come you could not just foreclose?

Mr. Lynch: Because there is no clear-cut legislation available to the attorneys that are pursuing this course of action. If you can work on this chain of events a new start or a legal action in the event of failure on the part of the property owner today by using our charter and in a paragraph in the charter it grants the right to the city council to pursue with the city staff and city attorney per election suit and we then have to jump over and follow the procedures that are actually delineated in general law for the collection of taxes and will involve that as procedural guidelines to get to an ultimate decision -- and that's why 18 months ago the request was made of Dawson, Nagel, Sherman & Howard to get us something drafted here that is a proper procedure and clearly identified as being a manner in handling such and such a district.

Senator Hecht: If you get this court order and you are able to go in and foreclose, do you have to put up a cash sale or are you able then to take the same amount of time that you gave the subdivider and sell it and whereby this greater price will occur to you. What are the procedures on that?

Mr. Lynch: The law appears to give wide latitude to the Judge who makes the ultimate decision as to whether he will require sale or simply award the title to the land to the city to make its own arrangements for disposition. None of the attorneys that have worked on this have been able to answer that question for me to my satisfaction, and that's why I can't answer it more fully.

Senator Dodge: With other encumbrances on it though, they couldn't very well do that, could they? After all there are other equities which exist and wouldn't you have to sell it? The city couldn't pre-empt title to it by just taking it over for their own obligation if there are six behind them.

Mr. Lynch: The most likely possibility is that the sale will be conducted along the same lines as the sale for regular collection or taxes.

Senator White: You indicated that you had a delay here where the city didn't want for obvious reasons, to use the district attorney as their legal counsel. How long a period would this take to get this action settled before you could use your own staff?

Mr. Lynch: It started in April of '67, and it was September of '68 before we got the Supreme Court Order recognizing that the charter provision in our charter being a special law superceded the general law.

Senator White: Is it true that you now are employing outside legal counsel O'Melven & Myers, rather than staff counsel?

Mr. Lynch: We have since the beginning of the problem employed O'Melven & Myers as associate counsel advising us and assisting our regular legal staff. Since Mr. John Fadgen, who was our city attorney, left and went into private practice, and since he is more acquainted with this entire project than any other, the city council has retained his firm and therefore Mr. Fadgen, who is most knowledgeable about this particular district and who pursued this as a contract and was the attorney who filed the Second Amended Complaint after consulting with our city attorney and our bond counsel.

Senator Dodge: I understood you were bogged down in this court proceeding, and I don't know whether this legislature has ever done it -- we have to consider the appropriateness of the action -- but would it help you if we memorialized the judge to expedite this thing in all ways that he could?

Mr. Lynch: Senator, we're ready to accept any help regardless of how strong it may be, and if you memorialize the district court to assist us, it is certainly going to help us to a certain extent and to what extent it would be I couldn't estimate, but we're asking for whatever assistance we can get from any direction.

Senator Dodge: Do you say that you're supposedly clear on the 10th of February?

Mr. Lynch: On the date of the 10th of February we should be free to file a Motion of Summary Judgment. The question again, is how long it would take and how long the district courts would work on that situation.

Senator Farr: Do you have a bonding commission in Clark County that revenue bonds have to go through that bonding commission?

Mr. Lynch: Only general obligation bonds that will be general obligations that will have a potential of being a general obligation bond. As a matter of fact, I think most of the members here are aware of the fact that we have applied to the General Obligation Bond Commission for a hearing before them on Wednesday for \$540,000.00 for the double-barrelled water revenue bonds backed by general obligation, which are absolutely necessary for construction of capital facilities, and we need it by this coming summer on which we have a guarantee at the present time of federal assistance somewhere in the neighborhood of \$350,000.00 to supplement the construction of a pumping facility at Desert Air Station well on Crate (?) Road, and a transmission main from that location to the service areas of the city.

Senator Farr: Did they take into consideration revenue bonds when bonding commission meets that there might be default on those -- or do you know? The point I'm making here is that there seems to be a difference of opinion as to whether the revenue bonds can fall back on the tax rolls and most of the opinion rendered that they can't. Now, does the commission take this into consideration when they're levying additional ad valorem bonds for revenue figures?

Mr. Lynch: It is our intent to make a full disclosure to that General Obligation Bond Commission of all the facts regarding all of our bonds and to point out to them that if you total all of the tax-supported bonds, the revenue-supported bonds, and the assessment-supported bonds, add them all up, we're up to about \$12,587,500.00, and as we note on Exhibit "B", our legal debt limit is twenty million and 776 to 73 hundred -- so that we're clearly well below our legal debt limit at the present time. Mr. Smith, undoubtedly, could speak for what the G.O. Commission will require better than I can.

Assemblyman Hilbrecht: I wonder if at this juncture the policy of the City of North Las Vegas might be changed with respect to allowing a few industrial and revenue bonds by the bond commission of the county. As I recall, you took a rather strong position against it during the last session when legislation was introduced.

Mr. Lynch: You mean to regard to strength of the bonds. Mr. Hilbrecht, let me answer your question this way -- that in the last two years the General Obligation Bond Commission, I think have demonstrated that they intend to do a responsible job and discharge the responsibilities assigned to them by the legislature. At the last regular session we were concerned

that a commission was going to be established much the same as the old annexation commission in Clark County, which had a uniform policy saying "no" to everything that was presented to it. Now, the fact is that the G. O. Bond Commission has over the last two years demonstrated that they will take a responsible and objective viewpoint to issues presented to them and treat them fairly, and if their authority was extended further, it would not be with any objection, at least on the part of the staff of the City of North Las Vegas.

Assemblyman Branch: I have a question -- going back to Exhibit "B" on the City of North Las Vegas and on page 46 of the budget there seems to be a conflict here. My question is based on the overall total bonds -- why don't these figures agree with the audit report and where are the endless liabilities? On page 46 here it says that the total bonds appearing are \$8,487,000.00 and in your figures here \$7,855,000.00; and then the liability is \$3,739,000.00; and again, you don't state the interest on these bonds here at all, and yet this is your budget, but they don't agree -- the audit report doesn't agree with Exhibit "B" which you put out.

Mr. Lynch: They agree except as to point in time, Mr. Branch. The audit report that you have states that the City of North Las Vegas as of June 30th, 1968, as reported by a certified public accountant. Exhibit "B", as listed at the top, is the current indebtedness as of January 1, and the difference between these figures and those shown in the audit clearly demonstrates the fact that in the last six months we have promptly paid principal and interest on all of our other securities and materially reduced the indebtedness as of June 30th.

(At this point Chairman Gibson asked Mayor Taylor if there were any further comments he wished to make.)

Mayor Taylor: It is an honor for me to appear before this body of Senators and Assemblymen here in the State of Nevada. I'm not happy to be here under these circumstances because I think there has been some misunderstandings and I think they should be cleared up. I'm primarily concerned with the report Mr. Nickson has given here, and I'm sure that he felt this was accurate. I think there's some questions about it we would like to resolve, and I want you to know that the city manager and all the people on the city staff have been instructed -- at least they should feel this way -- to come here with an open mind to see what is right and separate the fact from the fiction and find out just how things should be.

I have the utmost respect for our certified public accountant, Mr. Andrus. Mr. Andrus was formerly a senior partner with Bunker & Jones of the City of Las Vegas and also a senior accountant with the firm of Pete, Martin & Mitchell (?) in Los Angeles and is now associated with the firm of Harris, Herb & Michels(?) in that direction. Maybe you don't know, but the certified public accountants were directly under the direction of the city council -- they don't work under the direction of the city manager -- and the reports that are prepared by the C.P.A. firm are given to the mayor first and the council and we have a meeting with them. As Mr. Andrus knows, I have instructed him from the very beginning.

I want to know all the facts about everything that goes on in the city financially. If there is anything that is wrong, I want to know about it now. Mr. Lynch doesn't have the opportunity to see anything until after it goes through my hands and also the hands of Mr. Andrus.

I've had strong feelings -- I feel we've got a wonderful city -- we have assets of over \$52,000,000.00 at the present time and are still wondering if there are some entities that we'd like to absorb, as I think anybody would like to take over a city that is really moving. Our pace has slowed down because of the necessity isn't there as it was before. But we feel that we have a fine city -- there are problems -- I talked with Mr. Andrus and asked him the other day about the status of our other assessment districts, and without an exception every assessment district we have in the City of North Las Vegas is in the black except this one.

My personal feeling is that this is something that can be resolved and resolved quite easily. I feel that the big problem is not this assessment district it's going to be based against -- it's going to be the funds that we're going to have to pay the employees of our city, because at the present time they're asking for approximately a 30% increase across the board. This is going to affect all the cities in the entire state, and it's going to be something that we're going to have to reckon with. Our employees in our city -- there are about 40% of them that will qualify for low-income housing, and 67% of them can qualify for an \$18,000.00 house. They just can't make the payments, and it's a said situation when the police officers that you have make 5, 6, 7 hundred dollars a month. So something has to be done along these lines, and I'm in favor of exploring all the means necessary.

(Chairman Gibson stated that there was a tape available they could listen to, and asked the committee to reconvene at 3:00 P.M. Mayor Taylor said that Mr. Lynch would be here and available to the committee as long as they needed him.)

Mr. Echols: Senator Gibson, I'm Gene Echols, manager of the North Las Vegas Chamber of Commerce. I think this is something that is long overdue. I think this item on the discussion on the extension of the payments on the bonds on the industrial park are a part of the whole problem -- they are not the whole problem, by any sense of the word. I'd like to say to the committee, that our Chamber of Commerce has already brought in in November a professional industrial consultant to give his opinion of this industrial park. It certainly is an excellent addition. There are cities around the country who would be pleased to have this type park -- it's unfortunate that it's in litigation, but if it were in fact available, it would take a professional industrial person, an organization to bring in the business.

Now, we've been assured that as soon as this thing is out of litigation there are people waiting to fill this park. This, I hope, is a reality, but in the event it is not, then to do this job that should be done, there is an entire can of worms that needs to be cleaned up -- and I'm thinking of all the problems and discussions that have been coming forth -- for the simple reason that no industry per se is going to move to a community that is continually having problems with their press and with their community relations.

That's why we urge this committee to take serious thought of this resolution that has been presented.

(Senator White and Assemblyman Branch made brief comments at this point. Chairman Gibson adjourned the meeting until 3:00 P.M. this same date.)

Afternoon Session -- 3:00 P.M., January 27, 1969.

(Chairman Gibson called the meeting to order, and requested that Mr. Lynch continue with the next phase of the discussion from the morning meeting.)

Mr. Lynch: Well then, sir, the continuous way to handle this is to have the Exhibit "C" in front of you open to page 2. This material was presented for our Mayor and City Council -- we'd like to follow this format because we find it is quicker than the other system of presenting material. On the letter from Mr. Nickson, on page 2, item 4, subsection (1) listed the ad valorem debt service for general obligation bonds, principal and interest. This is, of course, the budgeted items for this fiscal year and the monies to be paid that will come from the ad valorem property tax and from the utility revenue. As they point out in Exhibit "B" we make a distinction between that which is a tax-supported item and that which is revenue-supported, and we want to assure you that we have absolutely no problem in reading this just as a regular budget in a normal annual item.

Now, Section 2, under that is special assessment debt service for bond in Assessment District No. 30. Since July 1, of '68, the last fiscal report that was made, we have reduced our special assessment debt service by some 200-300,000 or more. Our records indicate that assessment district collections run 97.8% current and 100% with some penalties and delays, except for the problem of Nellis Industrial Park.

Our audit report will in its balance sheet on page 40 and 41, show that all special assessment debt is shown as a liability, and the assessments that we have against property as an asset, and the balancing items so far as affecting the general financial structure of the city.

On Item 3, Section 3, Utility Fund Debt, \$524,405.16. Here the statement is made in our special audit by an independent auditor and a letter from Mr. Nickson. The independent auditor verifies this debt and makes the following statement: "It appears that these transfers may be in conflict with the bond ordinance." This is one of the few places where the staff and city manager disagree with our independent auditor. I would prefer, and I think it would be more accurate to state that these transfers were not specifically authorized by the bond ordinance. This particular item going from nine years to '65, '66, and '67, the early years of the bond issue -- it was necessary for the city to advance from the capital body of the proceeds of the sale of the bonds their monies for the payment of principal and interest to keep the bond series current and to pay the bond holders promptly on the date, because those three years we experienced a lull in new construction utilities and revenue utilities, and it became necessary to do so, and the only funds available to do so was the body of the bond issue proceeds.

Now, this has been questioned in the past, and I might as well state that in the year of 1967 the transactions involved here were exhaustively examined by the Grand Jury of Clark County. On August the 8th, 1967, the District Attorney made a special visit and held a special meeting with our City Council together with his own auditor and his own exhaustive investigation, and his own opinions as to the legality of these particular transactions, and it was at a time when he had prepared for him and the Grand Jury, they had been more than anxious and more than interested in proceeding with prosecution of any one or any item or any group of people that were accomplishing anything that was illegal. It's the opinion of the city manager of North Las Vegas that if, in fact, there was anything illegal about this transaction it's a matter that should have been settled two years ago, instead of being brought up as a point here.

As a matter of fact, since October of 1967 it has not been necessary for us to make these kind of transactions to advance from the body of the principal of the bond issue any more monies for the payment of principal and interest. And as a matter of fact, in this current fiscal year we are coming in at the present rate, over a hundred thousand dollars to begin reducing this and begin putting the money back into the capital body of the bond issue.

So that you will understand why this money was available for this purpose, when the bonds were sold and monies deposited in the bank, we employed independent engineering consultants, Engineering Science, Incorporated, who were world authorities on this subject, who came over and made a feasibility study on the advisability of proceeding with a million dollar sewer plant at that time. Their report indicated that we should either wait until the City of Las Vegas makes any change in what they charge for sewer service, or should wait until the volume of our sewage problem was such as to make this economically feasible. At the present time their projections would indicate that it will be 1975 before we will need this plant. The money was therefore sitting in idle funds -- capital project funds of the bond issue for sewer and was used during a three-year period of time to insure prompt payment of principal and interest. Every dollar and cent of it was meticulously accounted for and will be repaid over the coming years when we'll have not only the gross pattern we have now, but we will also have the increased rates which were established by our city council in the summer of this last year.

The retirement system is similar to that of capitalized interest put into an original bond issue. It is accurate to state that the capitalization of interest was not specifically authorized in the ordinance, but the advance of this money for this purpose was regularly authorized by regular claim form by the City Council and we do not consider this a debt as such -- it is a sum of money which the city will return to capital construction funds available for capital construction sewer as soon as our revenue justifies the return of the money.

I might also point out that at the tail end that this letter of Mr. Nickson's also says the ordinance also requires a monthly deposit to a redemption fund, and of course, obviously if the revenues are in a decline, we cannot provide for monthly payments into a fund. The tailend of this paragraph says this

is a cumulative debt to date from 1966 -- most of it is cumulative debt pre-dating 1966 and was not subject in any case to the effect of Regulation 651, or the Local Government Budget Act, which became effective July 1, 1966.

Senator Dodge: I'd like to ask if you sought any approvals or clearances for this type of borrowing from anyone outside your own county, either by local Grand Jury or some investigation by the district attorney. Who handled the bond sale for you?

Mr. Lynch: _____ & Company, our fiscal agents in Denver, and Dawson, Nagel, Sherman & Howard were the bonding attorneys. The only place that these people were contacted was that the district attorney's office again contacted the bonding attorneys in Denver and were told politely that the question of the handling of the funds after the sale of the bonds was not the proper province of bond counsel.

Senator Dodge: Well, how about the holders of the bonds -- was there anything inherent in the bond agreement or on the face of the bond that limited your use of those funds or that required any authorities for any diversions?

Mr. Lynch: There would be a vital bond holder only in the event of failure of prompt payment of principal and interest, which was not true at any time during the period of time.

Senator Dodge: Did you seek any advise or authorities beyond your own sphere in North Las Vegas for this transfer?

Mr. Lynch: No, sir, and I perhaps excuse that by stating that it became a matter of necessity -- the principal and interest was due, the money was available only from one source -- it was forced upon us, and as to the question of whether we should have sought advice on it or not, did not occur to us at the time -- or to me at least.

Senator Dodge: Some people sometimes -- I'm not saying this of political subdivisions, but individuals under the stress of necessity do some things that are questionable as far as where they lay their hands on money. Now, whether this has application to the subdivision, I don't know.

Mr. Lynch: Senator, I assure you that we do not believe that this particular item on this transaction was good fiscal management -- it was a necessity at the time, and was forced upon us by unforeseen conditions of overbuilding and a slump in revenue of utilities.

Chairman Gibson: This was money that you have earmarked to go to the sewer plant?

Mr. Lynch: Yes, sir -- from the bond issue.

Chairman Gibson: You sold the bonds for that, but you're not going to build the plant, is that right?

Mr. Lynch: Until the economic feasibility can be justified, which would probably be in 1975, and we will have the funds back and available for capital construction well before then.

Chairman Gibson: Why did you sell the bonds -- is this a general obligation bond?

Mr. Lynch: It was a double-barrelled bond on sewer revenue backed by general obligation.

Chairman Gibson: It wasn't voted on?

Mr. Lynch: Yes, sir. As a matter of fact every one of the nine questions were submitted to the electorate in 1963, and it is our intent to comply with the mandate of that and build the plant. In the meantime, the idle money has been used to keep from getting any principal and interest payments behind.

Assemblyman Hilbrecht: My question would be -- I think probably the question evolves upon what the bonding debenture says as to whether or not in essence the money may be diverted or used as it has been used irrespective of whether the intent are to eventually go to the assets. I wonder if it might not serve if we're interested in deciding whether or not in a legislative sense to audit the portion of the records and books of the City of North Las Vegas in this area, and we might at the same time in order to get a relevant answer to also ask our counsel to examine the bonding issue with respect to this particular issue.

Mr. Lynch: Mr. Chairman, I would point out that this figure is clearly and fully disclosed in our certified public accountant's audit. It shows at page 40 under the balance sheet and in the column utilities. Our assets would indicate that a considerable portion of it can be retired at the end of this year, and without any examination by your legal counsel or the legislative counsel bureau we can assure you that the ordinance originally establishing this bond issue did not specifically authorize capitalized interest. Many such issues do, recognizing that in the early stages of a bond issue of this nature there will be a necessity to do so. At the time the growth pattern of North Las Vegas and the growth of our utility system indicated that it wouldn't be necessary -- didn't prove to be necessary in the very early years after the issuance of the bonds. I will submit that it may very well be that your Legislative Counsel may find that it was not specifically authorized, but from the department standpoint it was necessary -- specifically taken care of and specifically reported in the county.

Senator Farr: Clay, do you have any provisions in your charter for the council to authorize by a total vote of the council to by-pass the vote of the people on transfer of funds?

Mr. Lynch: No, sir.

Senator Farr: In other words, when the people voted for these bonds to go into this specific fund for building of the sewer -- there's nothing in your charter that provides for the council by a majority vote to transfer those funds?

Mr. Lynch: No, sir, we had no intention to change to the original intent of the issuance of the bonds. We simply point out that with greater foresight we would have included capitalized interest in the original issue and then we wouldn't have been faced with the problem of explaining that we did in effect advance certain monies from the body of the project fund for principal and interest.

Senator Monroe: Isn't it true that the emergency loan provisions of the general law provided that you borrow money from one fund of the city to pay the loan from other funds, that you have to go through the emergency loan procedures?

Mr. Lynch: That is true today, sir, not at the time that these transactions were made.

Senator Monroe:1963?

Mr. Lynch: Not as it would apply to the operations of a sewer utility, sir.

Senator Monroe: It applies to any city operation. If you borrow money from one fund -- I don't care what fund it is -- the purpose of the loan fund, you have to go through the emergency loan procedure.

Mr. Lynch: You understand, of course, that we were not borrowing from a fund to pay another fund --we were taking money that was on hand and available in the sewer construction fund to pay the principal and interest on that fund.

Chairman Gibson: On the same fund.

Mr. Lynch: Senator, the defense that I have in this instance, is that it was a necessity at the time, correction is being made to correct it -- we have fully disclosed it and we intend to follow a program this year of reducing the amount of this outstanding transfer.

Senator Monroe: Necessity isn't the only reason that you're entitled to violate the law.

Mr. Lynch: There was no intent to violate the law -- certainly if we did violate a law, necessity is no excuse for it. At the time we felt that the compelling factor was the fact that we were required to meet principal and interest faithfully in order to continue our. . .

Senator Monroe: If you can't do this legally, then you can't do it -- is that right?

Mr. Lynch: If it was, in fact, illegal, it was made known a couple of years ago, and no one who was in an appropriate authority position to do so took any action in regard to this, or considered it illegal.

Assemblyman Branch: I have a question on this same item. First, it says \$524,405.16 advanced on the various sewer bond project

funds at the time of building, debt service will be repaid from additional revenue generated from our sewer system from the recent increase in water. Well now, my question is this: What are the total revenues that will be produced from the increased water rates, and weren't these increases originally announced in council when the chamber was there at the time -- announced for the purpose of hiring additional policemen?

Mr. Lynch: Well, the answer to your first question, of course, is that the utility operations of the city's funds are co-mingled, so that there is no problem in regard to water and sewer; and secondly, sir, I will assure you that at every meeting at which the 18½% increase in water rates was proposed last summer, and in the public hearing for that purpose, it was clearly stated to the public and to the council and to everyone concerned that the purpose of the water rate increase was to be devoted entirely to the operations of our utility system. The suggestion that an additional increase in water rates of 10% would and could develop additional police protection was separately considered and a month later placed on a public hearing and was not passed because it did not gain public support at that public hearing. Specifically, at that time it was conjecture that the revenue of the water system would be approximately \$727,000.00 a year -- that an additional 10% rate increase would generate \$72,000.00, which would generate sufficient revenue to provide possibly 10 police officers on the force. But that hearing and that subject and the police protection were not involved in the 18½% increase which was actually passed.

Assemblyman Dini: Senator Gibson, are we to assume then that the city didn't do anything to alleviate this condition for about five years until the independent auditor made this statement?

Mr. Lynch: No, sir, we ceased any action in regard to this in 1967 -- the third year in which it was done, prior to the time that Mr. Andrus and his firm were employed. This was meticulously kept track of during the three years in which it was done, and this fiscal year of '68-'69, is the first year in which we will have sufficient revenues that we can start to reduce it -- put it back into the capital construction fund. It was the early three years of the bond issue in which it was done -- the fourth year we have gone in the proper direction, and now it is the fifth year, we are in a position to start making a reduction of that. As a matter of fact, on the overall balance sheet on page 41, 40, at the bottom it will show that actually the deficit was 314,225.00, and you consider what assets we have available to partially offset that in this fiscal year.

Assemblyman Dini: But it did take five years to raise the water rates -- increase the utility rates, right? And start repayment.

Mr. Lynch: And to generate sufficient revenue to get in a position where we could do so.

Chairman Gibson: Let's go on with the next item.

Mr. Lynch: Item No. 4, Section 4, Assessment District No. 23: Assessment District No. 23 is a subdivision at the corner of Civic Center

and John Avenue -- total construction amounted to something in the vicinity just under \$320,000.00. The item on this one, it should be pointed out that in our overall C.P.A. report we have an offsetting asset of a levy of \$320,000.00 in assessment against the property involved. In assessment district procedure there are two public hearings: No. 1 hearing is for the purpose of determining whether there will be a district and the total dollar amount of that district; and this district went through that public hearing.

The second public hearing is for the purpose of determining which lots will pay what share of the project cost. In the interim period between the two public hearings, two of the property owners got out an injunction and had been successfully delaying the establishment of the second public hearing. However, there is an asset against the land and a lien against the land established by the first public hearing and it is different from other assessment districts only in that we are not currently collecting assessments and can't until we get the injunction out.

Senator Dodge: Did you say the property was of this assessment district an asset?

Mr. Lynch: Well, our only asset that we can consider is that it's \$320,000.00 of direct lien against the subdivision or what.
It's assessed valuation includes 160 apartment units, a small shopping center, a number of residential lots ready for development with water and sewer all available on them. The overall possible continuous asset is much greater than the actual lien that we have created.

On Item 5, Assessment District 15, 18, and on through to 35, these represent assessment districts which are in the process of being developed in either design or engineering or construction. As a matter of fact, since the time of the audit report we have been able to reduce this amount by \$80,000.00 because Assessment District No. 33 was completed for construction and completed for sale along with the bonds, and this figure on January 1, of course, is \$80,000.00 less. Again, it is an item the total dollar amount is offset by assessments that have been regularly established against various areas of the city and our feeling is that they are offsetting assets.

Assemblyman Hilbrecht: Mr. Lynch, with respect to this immediately preceding -- liens, are they now mature liens and if so, are they now current by way of payments or partial payments on the assessments representing those liens?

Mr. Lynch: Well, there are different categories. In most cases they are mature liens which are being collected as funds are coming in for -- all cases they are mature liens, but there are no collection processes on Item 4 or Item 5 at the present time.

Assemblyman Hilbrecht: Simply because of the development plans of the city where they are uncollectible?

Mr. Lynch: That's right, they are in process at the present time. In the audit report Mr. Andrus has specifically listed how much we have

in the way of these kind of assessment district liabilities and also has indicated the amount of outstanding liens that we have as an offsetting item.

Assemblyman Hilbrecht: But doesn't that have the effect of changing that 97% payment figure that you were reciting earlier?

Mr. Lynch: The 97.8% collection is the figure relating to those which are actively in current collection. Assessment districts which have been completed. . .

Assemblyman Hilbrecht: These are in "limbo", so to speak. They are uncollectible -- they are just liabilities of the city as yet.

Mr. Lynch: And as rapidly as we can we carry them through the process. I hope on the other sheet I've showed you that this is a program that goes throughout the city and we have a number of them in progress at all times. If it's any comfort to anybody analyzing this part of it, we have only one major assessment district left to cover the developed portion of the town. The city was technically without a main street in 1960 and this has been the answer.

Senator Dodge: Are some of these overlapping assessment districts as far as the rate against the properties?

Mr. Lynch: No, sir, only in one case. There was a street lighting assessment district back in the early years and subsequent to that some of the paving _____ overlapped that, but only a minor overlap. On page 40 under Total Combined Funds of our Trust Fund, pages 40, 41, we show special assessments receivable, which has been verified by our C.P.A. for \$5,115,432.91, which nearly offsets completely the total of the various kinds of assessment districts listed. Under Trust Fund and again under Total Combined Funds, special assessments receivable.

Now, Item 6, basic water and storm sewer fund debt. This is where we go into the fact that the City of North Las Vegas is probably the most active in the number of, dollar value of, and kinds of, federal aid programs, and I'm sure this is a misunderstanding that could be worked out with Mr. Nickson. He mentioned in the last of his letter that we probably have information that would make this clearer.

In Assessment District 29, in contemplated construction there were a number of storm drains, sewage pipes, and sewage facilities which were eligible for federal assistance under a program called Basic Water and Sewer Facilities Under Development. In order to obtain the federal assistance for this program, a portion of the proceeds of the sale of securities or Assessment District No. 29 -- the portion that would be devoted to underground storm drains had to be segregated -- not taken out of the assessment district -- segregated so that they would be separately accounted for for the purpose of complying with federal regulations. This \$226,620.00 was segregated from the body of the

rest of the funds for financing Assessment District 29, and put over here in the fund to be used for the storm drain of Assessment District 29 and be separately accounted for so that we could in passing it through that transaction take up \$159,300.00 in federal assistance under that program for the people in that neighborhood. As a matter of fact in the first public hearing on this assessment district, the city council did reduce the total assessment in 29 which was contemplated to be a million dollars down to 685,000 in contemplation of at least two forms of federal assistance in this assessment district. 226,620.00 does not constitute a debt, it constitutes the setting aside of a specific sum of money for a specific part of the construction in order to separately identify it and to obtain the federal assistance available to that portion of the program.

Item 7, under 7, Cartier utilities relocation segment of the trust fund. Here we're running into the black through our reports and our accounting is done on a tax basis, and on a cash basis this shows in the report as a dollar figure in parenthesis, because it is \$10,926.51 that was cash advanced for two specific purposes. In the Cartier utilities relocation project we are to explain the role as a city and as a local public agency of the development, in developing residential lots for sale to developers for single-family homes. Under the usual operating practices of the Nevada Power Company, the city was required to advance \$9,750.00 to the power company on a standard refunding agreement, which is refundable back to the person advancing the money as soon as these houses are hooked up to the power company system.

We were also required to advance an additional sum of money which comes up to the total of 10,926.51 to the telephone company, which was occasioned by the fact that F.H.A. made requirements on the power of the telephone system, to which the telephone company was not able to meet without compensation. And that portion of this figure is covered by refundable agreement with the developers. We have two developers in the project now who are purchasing lots and who are paying off this amount -- and this is not a debt figure, but is in fact, if we were on an accrual basis would show accounts receivable monies advanced on refunding money to come back to the city as soon as the lots are developed and sold.

Now, Item 8, motor equipment segment of the trust fund, with regard to the establishment of a central garage. A little over a year ago we adopted the practice of requiring all departments of the city to centralize the maintenance of our moving equipment at our central garage which is operated by the Street Department in order to maintain a reasonable cost accounting system.

In the last fiscal year a figure was arrived at an hourly rate and unit prices for certain jobs to be done for the other departments and during the fiscal year ending June 30th, 1968, the department did not operate at a profit under those rates and discovered that they were not charging the other departments a sufficient amount of dollars for services being rendered. They wound up at the end of the year with 32,235.84 as an apparent bookkeeping deficit of the Central Garage operation. In a review with other garage operations, both municipal and private, and with the other department heads, the rates for the service were adjusted and as of December 31st, '68, the end of the calendar year -- the deficit here has been completely wiped out and the Central Garage

fund has at the present time a surplus of \$8,620.86 and 11 department heads that are mad at their prices.

Item 9, the payroll advance is a standard rotating account out of the trust fund -- it is a revolving fund and reimbursing fund where the paychecks are all made on a money fund and one bank account by computer, and then reimbursed immediately after pay day from each of the departmental functions, and therefore it is not exact. It constitutes a debt of monies that is owed by each of the departments to the trust fund that issues the checks.

Item 10, negotiated warrants payable for special assessment districts.

Chairman Gibson: Why is this advanced out of the trust fund? What is the trust fund? Is that all liquid assets that you have available or does it include general fund money?

Mr. Lynch: No, sir, it does not include any of the general fund monies that are generated by the regular general fund sources of revenue. It includes such things as deposits that have been placed up for service rendered by the city; a great variety of miscellaneous dollar figures that are put into the trust fund that are not related to the general fund, are not a part of the special assessment district funds, and are not a part of any bond funds. This account is, in effect, a clearing account for the pay checks.

Item 10, negotiated warrants payable for special assessment districts due June 30, 1969. The note on the second quarter of the issue report indicates that a bond sale was conducted under the debt service fund for assessment district that generated revenue which was repaid negotiable warranty in the amount of \$572,809.38, and is making the repayment of negotiable bonds for the special assessment district No. 29, which will be repayable on October 17th, '68, in the amount of \$555,000.00, as discussed previously.

We can't reconcile this exactly with Mr. Nickson's figures, but I don't think it's pertinent to reconcile it exactly -- the fact is that at the time the budget was prepared for the fiscal year '67-'68, Assessment District No. 29 was again plagued with a new suit, and we could not proceed with the sale of the long-term bonds, and this assessment district was financed on negotiable warrants on a short-term basis until such time as the suit would be settled. The Finance Department had no way of determining when this matter would come up before it, or if in fact it would be successful, and therefore did not budget for the sale of the long-term bonds. As a matter of fact, we did get into court more promptly than was anticipated and we were completely successful, and we were able to conduct the sale of the long-term bonds and this figure is reduced by 555,000.00 in long-term bonds -- is now 228,000.00 in outstanding short-term bond warrants of this nature. These are warrants that are out to other financial institutions for the short-term year financing making the sale of the long-term bonds for the assessment districts.

Senator Dodge: Is this a warrant of the city or of the assessment district?

Mr. Lynch: Warrant of the assessment district issued in pursuance of Chapter 3 of the charter which authorizes improvement districts.

Senator Dodge: Well, then why does it show up in the figure in the city's books at all?

Mr. Lynch: Because when we make our report, which we'll come to later, we report it at least as information only. Every financial transaction in which we are indirectly or directly related, and every transaction of assessment districts, federal aid programs, urban renewal housing authority, everything that we do in North Las Vegas goes into one central finance control -- consolidated under one governing body. The fact that it shows up as a city debt, of course, ignores the fact of Section 97 in the charter, chapter 3, states specifically that assessment districts, their warrants and their bonds are not a city debt, but are the debt of that special assessment district. Again, I repeat, in Mr. Nickson's comment he said there were a number of items that could probably be very clearly and quickly explained.

Item 11, interfund warrants payable for special assessment districts. Interfund warrants, as I understood, is there is no proviso in the Local Government Budget Act for such action. The act does authorize interfund loans and interfund transfers. Now, the Local Government Budget Act does not regulate and doesn't provide the funds, and the investment of idle funds as in assessment districts, but is clearly set forth in Section 105 of the last paragraph of our charter, which it says, "that securities issued in pursuance of assessment districts are legal investments of any political subdivision of the State of Nevada." These are warrants that have been issued for the financing of assessment districts and have been purchased as investments by the City of North Las Vegas from funds available to it and idle funds, particularly in sewer bond fine. We have, in effect, found it difficult in current market conditions to find sufficient places to put these warrants, and when we have money available in idle funds we purchase securities of our assessment districts with our own funds establishing the same terms and conditions, the same interest rates that prevail in the market at the time, and it is clearly written that any political subdivision may invest in these securities.

Assemblyman Hilbrecht: Mr. Lynch, am I correct in presuming that that is a method by which these districts, while they are in their formative stages as through these local financing agencies or through this method through the body the issuance of warrants against the assessment district?

Mr. Lynch: The assessment district issues warrants in accordance with the same procedure it would to any other institution. And the city uses its idle funds to invest in those securities pending the sale of them to financial institutions for the sale of long-term bonds in the market.

Assemblyman Hilbrecht: So this is a familiar financing technique then?

Mr. Lynch: It is one of our interfund interim financing techniques -- particularly during the engineering and design phase.

Senator Dodge: Again going back into the bond indenture, are there any conditions or limitations on the face of the bond as to the types of investments you can make with that money if you don't go ahead to build the asset?

Mr. Lynch: Not to my knowledge there is not.

Senator Dodge: Have you ever been asked for any opinion on whether this other practice which we talked about back here under Item 4, Section 3, where they diverted money out of that fund -- that sewer bond project fund -- whether this was in violation of bond ordinances? And I'm prompted to ask that question by virtue of the comment in here that the ordinance -- the independent auditor's comment that it appears that these transfers may be in conflict with the bond ordinance. Has there been anyone ask for an opinion of you about whether this in fact would be in conflict with the bond ordinance?

Mr. Daykin: The district attorney of Clark County at the time of the Grand Jury investigation, and after the bond counsel in Denver had declined to pass on any handling of the funds after the bonds were sold; retained Russ McDonald and myself as special counsel to examine the proceedings. They supplied us with copies of certain ordinances and certain proceedings before the Grand Jury examining -- I do not remember at the moment whether it was one ordinance or more than one -- it may have been but one, and those proceedings. We found no authority in the ordinance or a general law to make this type of transfer and so informed them. Mr. Lynch has subsequently stated to me that there are other relevant ordinances, copies of which were not supplied to us. Therefore, I can't say that it is necessarily in conflict with ordinances because I have not examined all of the ordinances of the City of North Las Vegas. I found no authority in this specific ordinance which authorized the issue of these bonds, however.

Senator Dodge: And which ordinances were submitted to you by the district attorney?

Mr. Daykin: That is correct.

Mr. Lynch: I'd like to address the question with further discussion with Mr. Daykin. As a matter of fact, it was one ordinance that was submitted to you, and when it came to the attention of the City of North Las Vegas that you were being asked to give an opinion on a meager portion of the total transcript of the bond issue involved, the city promptly invited you to examine any and all parts of the transcript and suggested that it might be advisable and, as far as I know, you have not availed yourself of that opportunity because no one asked you to or instructed you to other than the city invited you to examine them.

I would further state that I don't believe in any of the correspondence that I've seen on it that you've found any specific prohibition to this practice. You've said in your opinion that you did not find authority for it -- that's where we get back to this choice of words with Mr. Andrus where he says, "it appears that it may be in conflict," and I say, "it may not be authorized by."

Senator Dodge: Do you assume then as a matter of operation, Mr. Lynch, that anything that is not specifically prohibited by statute or ordinance, you are permitted to do?

Mr. Lynch: No, sir, not in those broad general terms.

Senator Dodge: Isn't that what you just said -- that he said it wasn't specifically prohibited, and therefore you take the position that anything that's not specifically prohibited is permissible?

Mr. Lynch: If this were in the category as this was of the practice of keeping principal and interest payments promptly paid. I would not suggest that this broad answer to the question could be used for any public purpose. For this specific purpose, I felt it was justified.

Chairman Gibson: I have some question on your policy on these type of projects -- one thing that's puzzled me is that you had gone ahead and sold the bonds on the sewer plant and then decided not to build it. My question is: Did you sell the bonds before you made the decision not to go ahead with the project?

Mr. Lynch: As a matter of fact, the decision to build the sewer plant was based upon very good local engineering opinion that we needed it and needed it in the near future. It was only when we brought in highly specialized people in this particular field, who specialized in the field of water reclamation by the use of these kind of sewage plants -- the kind of plant we had anticipated -- that the engineering advice changed. The advice I had at the time that this was recommended to the council and presented to the public, and the advice that the council had was that we should promptly have built the sewer plant. In a very detailed analysis which is some pages thick, and cost the approximately \$8,000.00, they determined that it was not feasible at the time.

As a matter of fact, one of the factors that was threatened at the time was that the City of Las Vegas, who do all of our effluent treating at the present time, all of our sewage effluent comes out on Owens Avenue is treated by them. At the time there was a definite threat that there would be a major increase in the cost that the City of Las Vegas would charge us for the treating of sewage and that we needed to be in a position where we could answer a major increase by constructing our own plant, which would operate at a rate less than that, and there were two factors involved, both financial and engineering design involved in the decision.

(Question from Chairman Gibson not clear on the tape.)

Mr. Lynch: Yes, sir, it was approximately a million dollars that would be devoted to the construction of a water treatment plant -- sewage plant. It is a part of a basic master plan that in Clark County we are wasting our effluent by taking it so far away and so far down hill that it is economically unfeasible.

Senator Dodge: This is a practice that seems to me to be fraught with some danger -- the problem of trying to bail out the money from the assessment district, but also trying to put it back into your sewer bond fund.

Mr. Lynch: Yes, sir, we understand that and that's why over a period of time we have been reducing the amount outstanding in that to a minimum, and as a matter of fact, we have special council policy directive to reduce it to zero as soon as it is possible to do so.

Chairman Smith: Mr. Lynch, have you had this money invested at a current interest rate -- is it bearing interest now where you have it invested? The excess funds -- are you deriving income from those funds?

Mr. Lynch: Yes, sir, either on the interim warrants or on the U. S. government securities. As a matter of fact, at the bottom of page B indicating a short summary of our liquid assets in this regard of cash in the bank and investment in U. S. government securities.

Chairman Smith: How much has this particular one earned for you over a period -- where have you utilized this money?

Mr. Lynch: It goes right back into the fund that loaned it -- it isn't utilized.

Assemblyman Hilbrecht: I assume in considering the feasibility of the assessment district, one has to consider the bond market in your locality for this kind of bond, and if the city is going to, in effect, create an artificial bond market by loaning the money on warrants that you finance these districts, don't you create an entirely artificial bond market which in turn would lead to an untrue and non-objective view of the assessment district feasibility perhaps?

Mr. Lynch: In the first place, we do not create an artificial market for it because we charge an interest rate equal to what we would gain from investment in short-term U. S. government securities; and secondly, the decision as to whether an assessment district is feasible is not actually dependent upon the ability to issue the securities and it is upon the value of the land and the buildings and the structures that are the true security for the payment of the assessment district. As a matter of fact, the state law makes it very clear that we must establish at least the market value to back up the investment that is being made.

Assemblyman Lingenfelter: What generated the idea of this more advanced study to not build a sewer plant after the bond issue had been sold? You had a study that said you needed the sewer plant -- what caused this new study to be made and determine not to build it?

Mr. Lynch: We called in Engineering Science, Incorporated, specifically for the purpose of designing the plant, and they came in and started gathering data pertinent to the design of the plant, and it is most unusual for an engineer not to go right ahead and design it for you whether you need it or not. Their initial reaction was, and the results that we have from their preliminary studies now, we think we should postpone the construction. They were selected to be the design engineers for the construction.

Assemblyman Getto: Is it the usual policy to sell the bonds before you have designed the plant?

Mr. Lynch: Yes, if they are sold on the basis of engineering investments at cost. A great number of entities do not have available engineering funds -- certainly our city has no general engineering fund with which to design the plant and we have to include it in the cost of construction.

Assemblyman Getto: One more question then. If this were a general obligation bond, it went to the vote of the people -- is that right?

Mr. Lynch: Yes, sir, I'm going to be precise here and answer that it went to the vote of the people. But to be perfectly accurate the vote of the people in this particular bond issue was not that critical to the issuance of the bonds. Our bonding attorneys at that time were Dawson, Nagel, Sherman & Howard, and they said, you have gone to a vote of the people, and provided for a vote on nine separate questions, and all nine questions were approved by the people, but so far as we're concerned as bonding attorneys that vote was advisable in nature only -- that told the city council that they had public support in the 1963 election for all of these things to be done. But they then set up the transcript for the bond issue based upon the state procedure for issuance of five proclamations -- a waiting period of time for call of petition and issuance of the bonds. I don't want to confuse the issue, but I don't want to inaccurately answer your question. The bond election was advisory in nature only -- it told the council to go ahead with the procedure -- but the procedure for the issue on them did not require an election.

Chairman Gibson: This is a double-barrelled bond.

Senator Farr: I am just concerned about the federal government appropriates advance funds for design and engineering of sewer plants, and knowing you, Clay, I am wondering why you didn't apply for those grants?

Mr. Lynch: Because the monies for the design and engineering are not grants -- they're simply loans.

Senator Farr: And you didn't apply for any?

Mr. Lynch: The paper work involved in getting loans and the complexities in the waiting period of time for appropriations to come through, are such that it is not really feasible to go after loans for this purpose. And we go after grant money when we can keep the money after we once get hold of it.

Senator Farr: Is it not true that when you borrow that money from the federal government for that purpose it can become a part of the bonding procedure for paying back, providing you proceed with the sewer plant?

Mr. Lynch: Yes, but at the time that we are talking about on this particular sewer plant, our city enjoyed a 3-3/4% interest rate, which was materially less than what Uncle Sam was ready to come down to. (At this point Mr. Lynch referred to Item 12, and read from Exhibit M.)

Senator Dodge: Do you act as an intermediary only then, when you execute this kind of a loan?

Mr. Lynch: Yes, sir, just the same as we also function within the internal organization of our city government, the mayor, or council, or

local public housing authority, and we started January 15th of last year a leased public housing program where the housing authority goes out and rents a dwelling unit, and puts a low-income family in it. We pay the landlord what he's entitled to, the tenant pays what he can afford to, the federal government pays us the difference, and pays us for the cost of handling it. We are agents in this respect for the process within our community -- the city gains the benefit indirectly in that the property stays on the tax rolls and pay their usual utilities and taxes. The tenants gain benefit in that they're living in a normal living situation.

Senator Dodge: But the actual obligation is against the renewal agents?

Mr. Lynch: The housing authority. We consolidate all of these functions so that we will work as a team. If the Urban Renewal Agency needs a house demolished, the fire department practices on it one day, the Street Department carries it away the next day. We have a functional relationship among the various functions in the city.

Chairman Gibson: In this paragraph you have here -- in effect in your situation the city is a local public agency.

Mr. Lynch: The city has to serve as the governing body of the local public agency. The city, as such, is not a local public agency. The City Council, sitting as a City Council, appointed themselves to the post of governing body of the local public agency, and the reference here to properties with regard to the local public agency -- this loan note is a lien against any property owned by that agency. In fact, last spring we got in similar notes on the Rose Garden Renewal Project and the authorities proceeded with them, and in a two and a half month period of time purchased two and a half million dollars worth of property for the Rose Garden Project, all of which are assets of the agency. These notes and liens are a lien against that, but not against the city.

Now, at the bottom of that same page 4, the city anticipates major revenue which has not materialized and we have a balance in here on the library -- actually the library item has been reduced to 22,500.00 because our grant didn't come in in as much as we had anticipated, and it's an anticipated revenue, which if it does come in will be extended for our library. It's a fund of money that we received for reimbursement of expenditures for books, cataloguing of books, preparation and mending of books. Our library complicates our bookkeeping system by being the only one in Clark County which makes use of this federal aid program. But we have already gotten this year, on this particular item, \$5,906.00 of the anticipated revenue. If our activity in the library continues at the current pace, we probably will get in the 22,500 authorized.

On urban beautification, Mr. Weiss has put into the budget at the time of preparation the possibility of obtaining a federal grant in the amount of \$45,000.00, because we were actively seeking one at that time. . . and during that time there were changing regulations which had the effect of changing the relationships with the federal government, to where we had to, in effect, spend \$44,000.00 in urban beautification before they became our partners in

any additional increments of amount. And we then shifted our interest and arranged for a grant program for outdoor recreation where they become a partner with the first dollar instead. That 45,000 will not come in because the effort to obtain it has been abandoned as being economically unfeasible in this particular fiscal year.

Senator Dodge: Now, the fact of the diversion of bond sale out of the sewer bond fund -- if it follows that you could draw money out of that fund to keep up principal and interest payments -- why didn't you feel that you could withdraw the funds if you were contemplating replacement of the money through anticipated revenues before the need for the money -- why didn't you withdraw some money to keep up with the current payments for the public employees retirement fund?

Mr. Lynch: One of the principal reasons that we considered justified in doing this for bond issues, because we are talking about bond issue money -- the use of bond issue money proceeds and the proceeds of the sale of the bonds to maintain the prompt and regular payment of principal and interest on those particular bonds seemed to be logical -- to extend it to any other use would invite even greater criticism than we've had in this case.

Senator Farr: After your years of moratorium that you were granted funds but knowing that you weren't making revenues to pay the retirement board, if that the case at issue here -- the following year when you budgeted did the State Budget Act require assessments and bonds and bonded indebtedness play a priority as to disbursement of funds? Did you take that into consideration when you were making up your budget and set that in the goal of revenue received and all operational expenditures therefor meant that you had to cut back?

Mr. Lynch: Let me say this, that the agreement as executed with the public employees retirement board in effect took the problem of their principal and interest out of the fiscal budget for 1968-69. It covered all of the payments, including April of 1969, in the original agreement. Now, during this month of January and February we hope to arrange, with the help of the legislature, a year's extension of that that will cover '69-'70. If we are not successful we will have to, in the budget preparation and process in the next couple of months, include this as an overriding item in next year's budget.

You are well aware of the fact that the City of North Las Vegas is operating on the bare minimum of public safety personnel. We do not have services and operations that can be drastically cut to the tune of the kind of money we're talking about, and it's our urgent hope that we will be given continued time in which to resolve this -- either by getting out of court and getting successful action in regard to that -- or as we have stated, we have available to the council a fund of over nearly \$700,000.00 that will start coming in to us in October of '69 in the next fiscal year to help alleviate this situation.

Senator Farr: Do you have funds available over on the revenue side to take care of this situation if the legislature doesn't give you relief on it?

Mr. Lynch: As a matter of fact, if the legislature and the public retirement board's attorney do not give us relief it will wipe out \$366,000.00 of operating money -- it will wipe out the general ad valorem property tax as a source of operating money for the City of North Las Vegas, and will overlap into other jurisdictions. Mr. Henry has already corrected me and said it will probably affect the schools instead of him, by about \$5,000,000.00 in operating revenue on the ad valorem property tax.

This is the kind of upset that was understood would happen and the reason why the public employees retirement board and the city worked out what we believed to be a very logical and effective means of taking care of this.

Senator Farr: And knowing this in advance, did you have these feelings when the sewer plant bonds were sold? Did you have to go before the Commission to coordinate that?

Mr. Lynch: No, this was sold before '63.

Assemblyman Hilbrecht: Mr. Lynch, briefly, I want to call to your attention a portion of the letter to Mr. White from Mr. Nickson . . . following Item 12, and the schedule on the last page, are these items correct as they appear down here? For instance, the interest projection on the general obligation bonds and the general assessment bonds? For instance, under special assessment bonds, and right after that, on the interest item there and if those totals are correct, they together total something like 17,000,000.00, which doesn't particularly square with your tally on the City of North Las Vegas Exhibit "B".

Chairman Gibson: He doesn't count interest as the debt as a whole.

Mr. Lynch: In addition to that the special assessment interfund warrants payable, \$861,000.00. We do not consider this a debt if we owe it to ourselves, and we have on Exhibit "B" tried to reflect exactly where we stand and show that there is a six month improvement picture also.

Assemblyman Hilbrecht: What I wanted to do is reconcile at least these first four figures of Mr. Nickson's with yours in Exhibit "B" and I guess the interest items are the principal difference. That is not approved interest, right?

Mr. Lynch: Projection on the schedules which we list in our C.P.A. audit report for the next 25 years. In addition, on the last page of this same communication where comparisons are made with our total assessed valuation, and on fund debt -- it gets up to 12½ million and our legal debt limit is \$20,767,200.00 and will go up next year. That's down here at the bottom of Exhibit "B".

Now, referring to the second paragraph on the last page of this, I understand Mr. Andrus and Mr. Nickson have resolved, and I stand ready on any other questions that you may have with regard to it.

We did receive from our North Las Vegas delegation an exhibit which you have in your folder which was prepared by the Tax Commission for the use of the legislators. Exhibit "N" -- it gives a comparison with some of the other cities in the state. I don't know about the accuracy of the other figures, but when we added up the per cent of debt service and the per cent of general fund in this particular calculation we came out over 100%. We went back and tried to reconcile the figures, and the total appropriation budget of the City of North Las Vegas for the fiscal year that we're in now. It shows a total appropriation of \$2,697,415.00. However, if you're really trying to find out about our general fund operations, you would have to recognize the fact that \$322,469.00 of that is simply monies which are owned by the utility system and are put over into the general fund, and then the general fund pays the bonds for that utility operation. It's a bond transaction which is just to comply with the fact that they are federal government bonds, and do not really affect our general fund operation. We've taken that off the total appropriations. We've also taken off of that 21,000 which is cash balance reserve for utilities which has been in the general fund and has been sitting there for at least 10 years that I know of, because it was required by an old bond issue back at least 10 years ago.

When we get down to the figure of what is actually our general fund appropriation for the city, on the debt service, we did our best to figure out where the \$1,256,412.00 came from because the only debt service that we have on the tax rolls was the result of a tax rate, present budget of .7567 for debt service, and that yields \$393,341.00 which is directed to the general fund debt service of the City of North Las Vegas. This figure apparently includes our utility debt service of \$342,469.00 which represents the monies that we have deferred for payment from the public employees retirement board. The true debt service for the City of North Las Vegas for this fiscal year is \$393,341.00 or 16.9% which compares favorably with other percentages evidenced by other jurisdictions.

Mr. Nickson: This was the official audit for the City of North Las Vegas. It was handed to me personally so I would have it in advance. Later a second copy was received by the Nevada Tax Commission under a letter dated December 23, 1969, and signed by Mr. Weiss. These are the only documents that we have in the Tax Commission pertaining to the audit that was required by statute for the fiscal year 1967-'68. These documents are required no later than 31 December, 1968.

This document includes several pages discussing North Las Vegas and the structure of the city. We then had a letter from Bingham, Hulse, Andrus & Associates, certified public accountants, dated August the 26th, 1968, addressed to the Honorable Mayor and City Council of the City of North Las Vegas. This is their official audit report. The page subsequent begins with the Roman numeral I, on the general fund balance sheet, then continues through page 55. There are no comments pertaining to this booklet. Mr. Andrus saw me before lunch and gave me a copy of the audit that he gave to the City of North Las Vegas which contains some six pages using Roman numerals, which immediately followed his forwarding letter.

Chairman Gibson: It appeared by this accounting procedure that the funds are all co-mingled. How do you maintain your ledger on any particular assessment district fund?

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Mr. Lynch: Actually, I think Mr. Andrus is more qualified to give you an objective answer here.

Chairman Gibson: Could you comment on that?

Mr. Andrus: At the time of the audit report they did keep separate, to a certain extent, the various accounts under a trust fund, but in one bank account. If you will look at our recommendations in the Audit Report, Roman numeral VII, we did make recommendations to separate this, and I understand from Mr. Weiss that this has been done -- although we haven't had a chance to check it out. When this is done it will enable us to separate these things according to good governmental accounting principles.

Mr. Lynch: Mr. Andrus, how many bank accounts do we have?

Mr. Andrus: As I understand -- one of our auditors told us -- you have about 22 bank accounts now, a substantial increase from what you had before.

Mr. Weiss: Last year there were about 14 accounts.

Mr. Lynch: To answer your question, Mr. Chairman, you can see the accounts are not co-mingled and the degree of separation has been increased.

Assemblyman Lingenfelter: I look at this audit -- on page 7, here -- and according to this, if I'm not mistaken the special assessment was in this trust fund, the sewer was in this fund. All these monies actually were in this one fund referred to as the trust fund.

Mr. Lynch: They were during the fiscal year that this was audited. Yes. But on the informal recommendation of Mr. Andrus, these have been separated now.

Senator Dodge: You didn't find anything irregular about this, did you?

Mr. Andrus: No, other than the question which we raised on the transfer of the bond fund.

Assemblyman Getto: The G. O. bonds that were sold to the sewer district, when were they sold?

Mr. Lynch: 1963 and 1964.

Assemblyman Getto: And you said in the special study that this would not become feasible until when?

Mr. Lynch: Current volume increase about 1975.

Assemblyman Getto: There's a question in my mind as to why they sold bonds in the projected construction of the sewer district this far ahead, on something that wasn't feasible for 12 years anyway.

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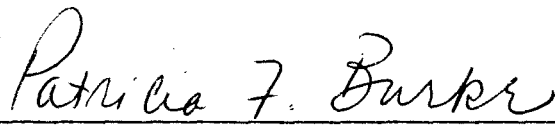
Assemblyman Hilbrecht: Clay, you referred to the fact that you had flexibility in the event the City of Las Vegas changed the effluent treatment rate to the City of North Las Vegas. I gather from the findings of your auditor that this is not a realistic capability -- you don't have the capital funds available, if the City of Las Vegas were to materially change the rate.

(At this point in the transcription, tapes available for the Committee secretary's machine were exhausted and it was necessary to use those of Mr. E. Newton of the Nevada Taxpayer's Association. As this is written, the N.T.A. machine used to transcribe their tapes is broken and verbatim transcription is impossible. When repaired, this portion will be added.)

The balance of the secretary's notes (which involve the end of this hearing) show some brief questions from Committee members as to bond rates. Senator Farr stated to Mr. Lynch that it seemed to him that the law had pointed the direction in which to go, but he (Mr. Lynch) seemed to have taken another direction. Chairman Gibson spoke of the disaster of this type of action and said he felt that SB-26 was only the first of various actions the Committees would be required to take in this matter. It was pointed out that Mr. Nickson had reaffirmed the amount of the North Las Vegas debt and at this point, Mr. Lynch again drew attention to Exhibit "B". Various Committee members requested a legislative audit and Chairman Gibson said that this, as well as other possibilities of action would be looked into.

There being no further business, the meeting was adjourned.

Respectfully submitted,



Patricia F. Burke,
Committee Secretary

A RESOLUTION OF THE NORTH LAS VEGAS CHAMBER
OF COMMERCE, URGING A FULL AND COMPLETE AUD-
IT AND DISCLOSURE THEREOF OF THE FINANCIAL
CONDITION AND FISCAL POLICIES OF THE CITY OF
NORTH LAS VEGAS.

WHEREAS, there have been numerous accusations against our present City Administration and

WHEREAS, the most recent accusations have been levied by our State Officials and


WHEREAS, until the present time these have been ONLY accusations and

WHEREAS, our present City Administration have assured us that the financial and fiscal affairs of our City are in sound condition and that these accusations, are and have been, in error and

WHEREAS, we believe, to determine the facts and in the best interest of the Citizens, Businessmen, and Taxpayers of the City of North Las Vegas, and especially the members of our North Las Vegas Chamber of Commerce, that a full, complete, and impartial Audit and disclosure of the financial affairs and fiscal policies of our City is in order,

NOW, THEREFORE, be it resolved, the North Las Vegas Chamber of Commerce urges a full and complete impartial audit of the Financial Condition & Fiscal Policies of the City of North Las Vegas be instituted immediately and full disclosure of the results thereof be made.

ADOPTED, this 25th day of January 1969,


Ivan B. Cannon, President
North Las Vegas Chamber of Commerce

Attest 
Gene Echols, Managing Director
North Las Vegas Chamber of Commerce