

**MINUTES OF THE MEETING
OF THE
ASSEMBLY COMMITTEE ON GOVERNMENT AFFAIRS**

**Seventy-Fifth Session
February 18, 2009**

The Committee on Government Affairs was called to order by Chair Marilyn K. Kirkpatrick at 8:02 a.m. on Wednesday, February 18, 2009, in Room 3143 of the Legislative Building, 401 South Carson Street, Carson City, Nevada. Copies of the minutes, including the Agenda ([Exhibit A](#)), the Attendance Roster ([Exhibit B](#)), and other substantive exhibits, are available and on file in the Research Library of the Legislative Counsel Bureau and on the Nevada Legislature's website at www.leg.state.nv.us/75th2009/committees/. In addition, copies of the audio record may be purchased through the Legislative Counsel Bureau's Publications Office (email: publications@lcb.state.nv.us; telephone: 775-684-6835).

COMMITTEE MEMBERS PRESENT:

Assemblywoman Marilyn K. Kirkpatrick, Chair
Assemblyman David P. Bobzien, Vice Chair
Assemblyman Paul Aizley
Assemblyman Kelvin Atkinson
Assemblyman Chad Christensen
Assemblyman Jerry D. Claborn
Assemblyman Ed A. Goedhart
Assemblywoman April Mastroluca
Assemblyman Harvey J. Munford
Assemblywoman Peggy Pierce
Assemblyman James A. Settelmeyer
Assemblywoman Ellen B. Spiegel
Assemblyman Lynn D. Stewart
Assemblywoman Melissa Woodbury

COMMITTEE MEMBERS ABSENT:

None

GUEST LEGISLATORS PRESENT:

None

STAFF MEMBERS PRESENT:

Susan Scholley, Committee Policy Analyst
Scott McKenna, Committee Counsel
Denise Sins, Committee Secretary
Olivia Lloyd, Committee Assistant

OTHERS PRESENT:

Laurie L. Carson, Commissioner, White Pine County Board of Commissioners, Ely, Nevada
Karen Rajala, Coordinator, White Pine County Community and Economic Development, Ely, Nevada
Norman Frey, Vice Chair, Churchill County Board of Commissioners, Fallon, Nevada
Brad T. Goetsch, County Manager, Churchill County, Fallon, Nevada
Alan F. Kalt, Comptroller, Churchill County, Fallon, Nevada
James P. Ithurrealde, Chair, Eureka County Board of Commissioners, Eureka, Nevada
Michael Rebaleati, Recorder/Auditor, Eureka County, Eureka, Nevada

[The roll was called. There was a quorum present.]

Chair Kirkpatrick:

We will not be meeting on Friday, February 20, 2009. I would like to invite White Pine County to come to the witness table.

Laurie L. Carson, Chair, White Pine County Board of Commissioners, Ely, Nevada:

[Spoke from prepared testimony ([Exhibit C](#)). Also distributed a packet with various items ([Exhibit D](#)).]

I should note that the Public Utilities Commission of Nevada (PUCN) has recently approved the Great Basin transmission line. We are pleased to see that moving forward.

[Continued with prepared testimony.]

I should note that the Great Basin National Park Class II designation was done in 1986.

[Continued with prepared testimony.]

Chair Kirkpatrick:

May I ask a question? Mr. Goicoechea and I were on this Committee last session and we appreciate your coming back. One of the things we heard last session was that you were just starting the negotiations with Southern Nevada Water Authority (SNWA), and it was tense. How did you get to where you are today?

Laurie Carson:

I did not sit on that committee. We have been able to negotiate a payment in lieu of tax agreement, which pays the county's portion of the real property transfer tax, and \$10,000 to cover the loss of sales taxes. We did sit down with them to do that. That also includes the motor vehicle fuel tax and government privilege tax loss, because over 70 percent of the ranch property in Spring Valley is now owned and operated by a tax-exempt municipal entity.

Karen Rajala sat in on those meetings, so I can let her go ahead and speak to that if it is okay with you.

Chair Kirkpatrick:

Yes. I just think it is great compared to where you were two years ago.

Karen Rajala, Coordinator, White Pine County Community and Economic Development, Ely, Nevada:

In working with Southern Nevada Water Authority on the payment in lieu of tax package, we were able to negotiate the payment of the county's portion of the real property transfer tax but not the state's portion. The Southern Nevada Water Authority is paying that directly to the county and has paid that from the date of the purchase of the ranch. On the other tax revenues, SNWA presented us with a proposal for \$10,000 per year to make up for the loss of revenue.

In our analysis for the Spring Valley water hearings, we conducted an economic survey of the value of the agricultural production in Spring Valley, and that was somewhat challenging because none of the data was broken down by valley. It was as accurate as we could get it. Based on that analysis, Spring Valley generates about 25 percent of the agricultural production and economic output from agriculture in White Pine County. In terms of tax revenue, that would have been approximately \$35,000. We talked to SNWA: they have agreed that we can revisit that agreement on an annual basis, and they will consider looking at some of the other loss of revenue that we have incurred. For example, a municipal entity is not eligible for landowner elk tax, which has generated a tremendous amount of revenue through guided hunts and services in each of our valleys. We are losing a fair amount of revenue just because of that level of tourism being brought into the county. We have a long way to go in working

with them to identify those specific impacts and build those into the payment in lieu of tax agreement.

Laurie Carson:

One thing that has come before the County Board of Commissioners is that there is competition in regard to the agriculture part, where they are competing in the same market with the hay growers in our area.

[Continued with prepared testimony.]

Chair Kirkpatrick:

Does anyone have any questions?

Assemblywoman Pierce:

Is the wind energy project moving ahead?

Laurie Carson:

Yes, it is. They anticipate coming onboard in 2010.

Assemblyman Aizley:

I would like some more information about the transmission line. I understand it links north and south grids, is that correct? Or, is it just to distribute the power generated in White Pine County?

Karen Rajala:

There are actually two different transmission lines being discussed. The White Pine Energy Station has purchased the rights to the Idaho Power transmission right-of-way permit, which will connect from Twin Falls, Idaho, to close to Las Vegas, Nevada. This will allow a north-south route. We have a representative from White Pine Energy Associates with us today who can answer specific questions on that transmission line. The environmental assessment has been completed. The environmental impact statement was completed on that project some years ago by the Bureau of Land Management, and the PUCN has recently granted the permit for that transmission line to proceed with construction.

The other transmission line is the line proposed by NV Energy that was originally proposed in conjunction with the Ely Energy Center. That transmission line has, as part of its goals, the ability to connect the southern and northern portions of their resources so that they can transmit power back and forth depending on need.

Assemblywoman Spiegel

I have two related questions. First, I am wondering about the unemployment rate in White Pine County, and second, how are you being affected by the mortgage and foreclosure crisis?

Karen Rajala:

The unemployment rate in White Pine County is somewhat lower than the statewide and national averages. We were at 4.2 percent, and we have increased to almost 5.2 percent at this point. What we need to work with in White Pine County, as in all rural mining counties, is that when jobs are lost, people move away. Historically, we do not have a large unemployment rate.

We have not had issues with foreclosures. Our most critical issue has been the ability to provide affordable workforce housing for employment. We have lost positions with some of our local and state entities and the recent layoffs in the mines.

Chair Kirkpatrick:

I have a question concerning the 150-megawatt project. I want to make sure we pursue every possibility to help your community grow. Do you have a development agreement with the energy companies, or what do White Pine citizens get in this project or any renewable project?

Karen Rajala:

In terms of the wind energy project, it is being processed as an environmental assessment. That means both the public and the cooperating agency portion of that project are much more limited than in an environmental impact statement (EIS). We are sitting in and working with the different agencies on that analysis. There is a chart in your packet ([Exhibit D](#)) that shows the tax revenue and the anticipated tax revenue of the two coal plants and the one wind energy plant. The impact on the community in terms of jobs and tax revenues is much larger for the coal plants than for a renewable energy plant. We have not worked on a specific mitigation agreement with Spring Valley Wind Energy. As we progress with their process, we will be working with them to realize those tax revenues as well as local job generation.

Chair Kirkpatrick:

I support what you are doing, and I hope that Nevada comes together and gets the best opportunities for our state for the long term. I met with many of these people who are talking short-term, and I hope we can work on long-term results as well.

Assemblyman Bobzien

Are you engaged in any conversations to set up some sort of infrastructure for training and for job development, so that the long-term maintenance at the site would be performed by White Pine County citizens? I can see some technical workers being needed long-term; it strikes me as a missed opportunity if those jobs could not be developed in White Pine County. Do you have such plans?

Laurie Carson:

That is a big goal for our county. We want to keep our children home and to have them be able to compete with the technology.

Assemblyman Bobzien:

Are you in discussions with the school districts to focus on career and technical education?

Karen Rajala:

We have been working with the companies as well as the school district and Great Basin College. I participated in the school district's career and technical education committee so that we can continually track where we are with their programs. We have also worked with Great Basin College in terms of the renewable program. There is a "windsmith" education program that is available, and we would like to institute it at Great Basin College to provide that kind of training, not only for White Pine County projects but for projects throughout eastern Nevada.

Assemblyman Bobzien:

I would hope you are working with the developer, too, to make sure of that integration.

Chair Kirkpatrick:

Are there any other questions? We sent out a survey in early summer. Did you send that back?

Karen Rajala:

I believe we did respond to that.

Chair Kirkpatrick:

My hope is that with every economic development throughout the state we could get everyone in one room and come up with a plan that works for Nevadans.

At this time we are going to invite Churchill County to the witness table.

Norman Frey, Commissioner, Churchill County Board of Commissioners, Fallon, Nevada:

I am one of three county commissioners in Churchill County. My background is agricultural. I have been involved with water issues around northern Nevada for many years. Also with me is our County Manager, Brad Goetsch. Brad came to us from the Naval Air Station in Fallon, Nevada. He has been a fighter pilot all over the world and landed in Fallon as the Commanding Officer. Upon his separation from the military we hired him as County Manager to replace Bjorn (B.J.) Selinder, who had been our county manager for 27 years. Mr. Selinder jokes that he came to Fallon, had a flat tire, and never left. Also with us today is our County Comptroller, Alan Kalt. Alan is from Montana. We distributed to the Committee our "2006-2007 Performance Report" ([Exhibit E](#)) and our "2008-2009 Performance Report" ([Exhibit F](#)). Both of these reports deal with our heritage and our renewable resources in Churchill County. There is also contact information within these reports.

Our population is about 26,900, which is about 1 percent of the state's population. We are small but have several amenities that you generally find in the larger urban areas. We have one main population center, the City of Fallon, that is governed by the mayor and three city councilmen. The City of Fallon has approximately 9,200 people who reside within the city limits at this time. Churchill County has almost 5,000 square miles of area, 87 percent of which is federal land. We have a good working relationship with the managers of those federal lands.

Our taxable sales for 2008 were \$194 million, which is down from previous years. One of our biggest increases in production is our geothermal. Churchill County is the home of five currently operating geothermal plants. We have a nameplate capacity of about 160 megawatts, which is enough geothermal energy for 500,000 people. Three quarters of that energy is exported to California. Currently we have five new plants being built. We look at our county as being the "green energy capital" of the State of Nevada. Two other plants are making modifications and increasing their capacity at this point in time, that being Desert Peak off Interstate 80 and the Magma Energy Corp. plant at Soda Lake. Magma is also considering bringing its headquarters for the United States to Churchill County, which would be a great boost to our economy.

Churchill County is primarily a rural agriculture atmosphere. We have 45,000 acres of agricultural production, primarily alfalfa. We have 23 dairies in production, varying in size from a few hundred cows to several thousand cows. We are a close-knit community. Some of the events we have each year are the Country Fair and the Cantaloupe Festival. We have Christmas festivities on

Maine Street and a wonderful small-town atmosphere. People in our community are involved. When something happens in a negative sense, people come together and help each other out.

We had a recent canal break in Churchill County after the one in Fernley. The farmers came together and worked with the Bureau of Reclamation, and within one week we had the canal back up and running.

We are the home of Naval Air Station Fallon (NAS Fallon). The Top Gun training program was moved up from Miramar to Fallon. In the last few years we have been bringing 50,000 people through Naval Air Station Fallon for training. Everyone who went into the Gulf War or Afghanistan for the Navy came through NAS Fallon. It is considered to be the state's largest single hotel chain with its capacity to handle people on a short-term basis. It is also home of the Naval Strike Air Warfare Center and the Navy Fighter Weapons School.

We have an Insurance Services Office, Inc, Class 1 (ISO-1) volunteer fire department. It was the first volunteer fire department in the United States to get an ISO-1 rating, which means that you have the capacity to respond to fires within the City of Fallon and the close surrounding areas. We also have a Western Nevada College campus. We have recreational opportunities at Sand Mountain; there could be 20,000 to 30,000 people there on a holiday weekend. We have the Stillwater Wildlife Management Area and other wetlands areas. We are proud that they are an integral part of the Pacific flyway, and we work very hard to protect those areas for the benefit of future generations.

Brad T. Goetsch, County Manager, Churchill County, Fallon, Nevada:

There are three large industries in Churchill County. The first is agriculture, which is a multimillion-dollar industry that is growing. There is NAS Fallon, which brings between 40,000 to 50,000 people a year to the area. Many of them stay for a month or two during their training. Some are just in for a week-long class. They fill our hotels and motels and use our restaurants and our facilities. Natural resources are the "third pillar" in Churchill County. The natural resource in geothermal is what mining is to many of the other rural counties in Nevada, and it really is a form of mining, mining of heat. That is the most rapidly growing portion of the economy.

We have eight major companies that are operating and a number more that are in the process of coming to Churchill County. Some of those are international companies. We have companies from Spain and Norway that are in the county now looking at projects, and many of the United States energy companies are there.

Kennametal and CMC Joist & Deck are our biggest local industries. They employ about 800 people between them.

Mr. Frey mentioned that we have the Western Nevada College campus. It is one of the campuses that grew this past year. We have Banner Churchill Community Hospital and our own communications company.

Western Nevada College works with our local industries and with the renewable energies in teaching welding classes and other kinds of industrial and technology training. They are currently working with the geothermal companies to build a course on drilling, because drilling and exploration are some of the biggest things going on. A number of the geothermal companies have spun off smaller industries, such as cement companies or other construction entities that work out of Churchill County.

Our county has a fiscally conservative history, and our current three commissioners are continuing that history. We have a philosophy that developers and the people who come to the community should contribute to the community. The developers have developed our infrastructure, water, and sewer. Rather than bonding, we had the developers come forward with the money, and they developed our infrastructure in roads and our utilities. The geothermal companies also contribute to the community. We have an overlapping tax rate at \$2.80 in the City of Fallon, but the rest of Churchill County is at the \$3.64 cap right now. We are dependent on property taxes and sales taxes, much of that from the geothermal industry, for our operations. Our total 2009 general fund budget is approximately \$17 million.

At the special session earlier this year, \$6 million was taken from the expected geothermal rents and royalties that were to come to the county and were diverted to the state. That is about one third of our general fund. Our total combined budget is approximately \$56 million annually. Our county is operating in a second year of budget mitigation mode. We saw challenges coming. Our board took action to reduce staff and to reduce expenses between 10 and 15 percent, starting two years ago. We have frozen hiring and "gapped" about 12 percent of the positions in the county over those past two years. We are looking at continued measures in that direction as we manage the challenges that are coming with the economy.

Planning natural resources and natural resource development is a big part of our future, and managing and investing in water resources is what we are dependent on. Churchill County is 100 percent dependent on the water that runs down the Carson River and the Truckee River. We get very little water from precipitation, so we are dependent on those surface waters that come to

us. We have developed some processes, transfer of development rights, and water resource protection plans to help us manage water and ensure that we continue to have recharge, so that the over 8,000 wells in Lahontan Valley continue to have access to groundwater.

We have recently gone into the water and sewer business. The developers have helped us develop that. We have two new sewer plants and a new water plant with the capability to serve more than 7,000 homes. We currently are serving fewer than 1,000 homes on those systems and are poised for growth when it comes in the future.

We received federal funding for a Dixie Valley water study. Dixie Valley is just east of Lahontan Valley. It has a fairly good groundwater resource, we believe. We are currently studying that resource with the state engineer and looking at the potential of bringing that water to the Lahontan Valley, where the population is.

There are five operating geothermal plants. There are four new plants in the works, with a fifth proposed in the immediate future. We have 11 new leases taken this last lease period on other new sites, and we have 19 additional sites proposed that have been submitted to BLM. Geothermal has also the potential to work with solar projects. If you match geothermal with solar, it brings a unique capability in renewable energy. Thermal-solar, which heats up oil or salt and produces energy through turbines, can be built in conjunction with geothermal and become a baseload capability. Instead of heating the liquid just during the sunny hours of the day, with a little help from geothermal the system can keep that liquid heated and end up being a baseload capability, rather than just have peakload, daytime capabilities. We have a number of solar projects being proposed in the county at this time.

We continue to invest in agriculture. We think that is important to the community in the future. We are working on diversification into crops such as grapes and vineyards. We have teff, which is a grain that is grown in Africa now being grown in Churchill County, and 100 percent of that crop is bought before it is even planted by people on gluten-free diets and by restaurants that serve African foods.

We also have agri-tourism as a growing business. We have the dairy industry. All of our dairies are growing in Churchill County. That helps not only Churchill, but also Pershing, Lyon, and Douglas Counties.

Assemblywoman Pierce:

What do you think the capacity on geothermal is?

Brad Goetsch:

We have been told by the industry that we are less than 20 percent at this time. They have talked about 5,000 to 6,000 megawatts of potential production in the future. Over the next five years there will be more than 300 exploratory wells drilled in Churchill County. That would be over one half billion dollars of investment by industry coming into Churchill County to develop geothermal in the next five years.

Assemblywoman Pierce:

Is the market Nevada and California?

Brad Goetsch:

The main market is California. California pays a premium price because they need the green energy credits. Nevada has not been set up with the transmission lines to serve Nevada. The transmission lines are the number-one biggest need to let the industry develop in Nevada and Churchill County.

Assemblywoman Pierce:

But they need transmission lines to get this to California, right?

Brad Goetsch:

That is correct. There are some that exist now, and we are rapidly exceeding their current capacity. There are a number of small transmission lines being built by the industry in Churchill County, and there is a proposed main line that will run from Interstate 80, between Lyon and Churchill Counties, south. That Vulcan Power project is before the PUCN at this time. Approving that line is extremely important to both Churchill and Lyon Counties and to all of northern Nevada.

Norman Frey:

And, more importantly, the transmission lines are necessary for the development of our geothermal resources for the future. The transmission line we particularly need is a main north/south power line heading down to Las Vegas so that the State of Nevada can take advantage of the energy resources that we already have.

We also have some hydroelectric power that is generated at Lahontan Dam. It was designed as a Bureau of Reclamation project to sustain the community of Fallon and the surrounding areas.

Assemblywoman Pierce:

I have a question regarding teff. Is it a crop that uses a lot of water?

Brad Goetsch:

No. It is not a high-water-using crop. It uses about the same as any other small grain that we have traditionally grown in Churchill County. We do have a small vineyard in Churchill County that uses about one quarter of the water that alfalfa and small grains would use. Churchill Vineyards produces some nice wines right now.

Chair Kirkpatrick:

I see you have \$22 million abatements for a project. Can you walk me through the process of how we determine how many jobs we get and how we determine the benefits? The formula does not seem to be true data.

Norman Frey:

I will answer the general part, and then my comptroller, Mr. Kalt, will come up because he knows those numbers. The abatements are not bad. We like to use those to attract industry. We can bring in Microsoft, or a manufacturing company, or companies like Commercial Metals Company (CMC) Joist that are going to provide jobs which pay above the average wage rate and bring us a good number of jobs that have benefits. They could have built in California or New York but came here because of the incentives. As far as companies looking at gold mining, silver mining, geothermal mining—where they have to come to where the resource is, and we have the only such place in the world—those abatements are not necessary to attract the companies. Abatements are necessary for solar power because they could go to Arizona or New Mexico.

With geothermal, we have seen that the biggest income the county gets, and really the state gets, is from the sales and use tax. If we abate that tax up-front, the company can make millions or billions of dollars in the lifetime of its well and plant, and not pay that sales and use tax up-front to the state, county, and schools. That would be a real harm to the county. We build roads for those companies, operate colleges to educate their workers, provide social services, and provide schools for their children. The companies may provide very few jobs, and those provided are lower-paying.

Today's geothermal plant can be operated from Italy. They hire from 8 to 12 people once construction is done. But the operation of the plant is remote, from a computer. It is not a big employer.

Chair Kirkpatrick:

I see Nevada as being the opportunist in this process. We are not all together as a state. We export more than can benefit Nevadans. Is that not true?

Norman Frey:

That is true. In Churchill County we have three turbines on hydropower, and we have these five operating geothermal plants. We use about 34 megawatts of power in the county annually. We are making 160 megawatts and soon will be making over 200 megawatts. We will always grow in solar and geothermal. We need to find a way to benefit this state from the energy it produces and from exporting that energy. We need some way to tax that exported energy, or to build our own transmission lines and charge a wheeling fee for that energy leaving the state. We need to be careful how we plan and manage for that renewable energy use in the future.

Chair Kirkpatrick:

My constituents are constantly seeing more solar and more renewables, but they do not understand why their power bills have not gone down. I will be curious to see your formula.

Norman Frey:

On Friday, I toured the new plant at Salt Wells. They tell us it will require two plant operators and two plant maintenance people to operate that plant. That is for a 30-megawatt plant.

Chair Kirkpatrick:

Where are the benefits for Nevadans?

Norman Frey:

We must be careful that a solar project does not come in and make big profits today, as they build the plant, and then walk away from it. We could be left with an environmental disaster. These are some of the things I think the Legislature could help with. We do not want to be the state of "no." We need the amenities to deal with this.

Chair Kirkpatrick:

I think we need to be careful, but it could be a way for rural counties to stabilize their income.

Norman Frey:

A solar plant will employ people for approximately six months following the construction, and then it can be run remotely by someone out of state. The industry has asked us how much level ground do we have, are we willing to

contribute land and water, and what kinds of incentives will we give them. Our question back has been, what are the community and the state going to get from the plant when it is completed? If they get abated for the first five years, and then they are done, and the county does not get the sales and use tax portion, they will pay a simple property tax. That would be all we would get. The state has an opportunity, before solar takes off, to set up that structure that will ensure benefits to the state and the community.

Assemblyman Bobzien:

I was interested to hear there is one geothermal company that is considering moving its headquarters to Nevada. We need to make sure that the technical people are trained in the community and employed by those companies.

Norman Frey:

I am pleased that you, as elected officials, are asking those kinds of questions. There are two companies, Enel Geothermal and Vulcan Power, in our community that are hiring local people to be on the drilling team. They have gone to Western Nevada College and asked them to institute a class that trains young people so they can go into that industry. Enel Geothermal has talked about working with the Nevada universities and Massachusetts Institute of Technology (M.I.T.) to make a study on integrating solar and geothermal and do it in Churchill County. We are looking for the manufacturing of solar cells in Churchill County.

Alan F. Kalt, Comptroller, Churchill County, Fallon, Nevada:

I would like to very quickly walk you through Enel North America's sales and use tax abatement ([Exhibit G](#)) that was approved in September 2007 by the Nevada Commission on Economic Development. What they proposed to that Commission was the company's \$117 million investment in Nevada, and specifically in Churchill County. The Churchill County tax rate is 7.25 percent. Of that, 2 percent goes to the state. That 2 percent is not eligible for abatement. The state was able to retain that 2 percent. Enel was approved for an abatement of 5.25 percent on that \$117 million investment. That equaled \$6.1 million. They created 12 jobs with an average pay of \$59,618 per job. What we did was give them \$512,000 per job created as an abatement. Doing the math on that, they can pay those employees for 8.6 years from the money that was given to them as an incentive to come to where the resource is.

We negotiated a side agreement with Enel and were able to get \$1.7 million, which is approximately 1.75 percent of what the sales and use tax would have been. We were criticized for trying to enter into this agreement with them. We have a sales and use tax policy that our Board of County Commissioners has adopted that addresses what we are looking for in geothermal development.

Last summer, Senator Ensign, Commissioner Frey, and I went to the Steamboat plant. During that tour we saw how plants can be operated by computer and from far-off locations. So job creation is an issue. There are significant financial impacts to Churchill County during the development and construction phases, but long-term we will receive rents and royalties, because it is on public lands, and property taxes, but we are concerned about how those formulas and the financial impacts affect us.

We were criticized for not understanding the geothermal business. We took some classes to develop a greater understanding of how it works. The most significant risk that the company has is to find the resource. As County Manager Goetsch said, they are going to drill 200 holes, at nearly \$1 million per hole. Once they find the resource, they have a renewable resource that they are able to use to generate power. Enel's plant, which was developed in Italy over 100 years ago, is operating more efficiently and more effectively today in producing power. They have not had to reinvest in buying oil, natural gas, or coal to create energy. They are using and mining that existing resource.

Our county has struggled with the idea of whether we need to provide state and local incentives for an industry when the resource is here. There are other areas within the western United States that have geothermal resources. Right now, through the federal energy bill, there are significant federal incentives that are provided to the geothermal industry. Our argument is that perhaps we do not need to provide those incentives at the state level.

If we look at the abatement that was approved, our local school support tax lost \$2.6 million. Actually, the state, through the distributable account, paid the school district and had to make up that money from other sources. It does make sense to provide incentives for new businesses. However, as they develop and they mature, perhaps it is not the best economic use of our resources.

That is a quick overview on just one plant. If we look at the sale of the leases that just occurred in August, \$28 million was invested by the geothermal industry in the State of Nevada, of which \$15 million were leases in Churchill County. Vulcan Power purchased two leases, and they are preparing an application to the Nevada Commission on Economic Development. If those abatements are approved, our local school district's entire one-year budget would be abated. We believe there is a time and a place for abatements, but perhaps the geothermal industry has matured enough that it is not necessary to offer abatements in states where the resource resides. It is very similar to a gold mine, which receives no abatement.

Chair Kirkpatrick:

Please provide copies of your report to the Committee.

Assemblyman Settlemeyer:

I would like to better understand Senate Bill No. 1 of the 25th Special Session. Could you explain how the land leases are supposed to work?

Alan Kalt:

There were \$28 million in leases. Fifty percent goes to the State of Nevada, 25 percent goes to the local government in which the natural resource occurred, and 25 percent goes to BLM, the federal government, to support the geothermal development. As County Manager Goetsch indicated, there are many leases they want to continue to develop, and there is an extensive process they need to go through. Of that \$28 million, \$14 million went to the State of Nevada. The state keeps the first \$7 million, and of the excess amount, the state retains 25 percent, and the remaining 75 percent is distributed to the local government in which the resource is located. Of that 75 percent, the local school district gets 25 percent, and the county retains 75 percent. The school has to spend it on extraordinary repairs and maintenance of their facilities and building sites. The money does not go into operations.

Assemblyman Settlemeyer:

Is that a one-time payment?

Alan Kalt:

That is a one-time payment for what is called a bonus payment to acquire those leases. There will be future rents and royalties, assuming they develop a natural resource that generates power. That would be once those plants are built and are producing power. They paid that amount for the leases. There were over 32,000 acres of public land that were acquired. Some of those leases went for \$1,000 an acre. The lease is to let them go out and explore that section of land for the geothermal resource. Once they are up and running and producing power, there is a federal formula by which they will continue to pay mineral leasing on the generation of that power.

Assemblyman Settlemeyer:

Do you have any concept of what that breakdown of future leases will be?

Alan Kalt:

We have not had the opportunity to get those figures. We need to understand from the industry the power generation capabilities that they are expecting to generate. Once we get a better understanding, we will be able to have more information.

One of the concerns we have is that these can be changed by the federal or state governments. We would like to have used the money received for capital projects so that we could take care of ourselves, but the Governor did not sign the original bill.

That calculation needs to be made and looked at to define what the benefit would be for the counties and the state on an ongoing basis.

Chair Kirkpatrick:

I would like to follow up on Mr. Settelmeyer's question. The money you received was a windfall, and not in your budget, is that correct?

Norman Frey:

The Governor wanted us to use other funds to build a juvenile detention facility, so we were looking at the rents and royalties to gather funds to take care of some of our infrastructure needs.

Chair Kirkpatrick:

I wish the Governor had signed the original bill so that you could have used that money to build your facilities.

Norman Frey:

Our fear is that if this continues, it will hurt some of the smaller counties. With Senate Bill No. 1 of the 25th Special Session there was \$1.6 million removed from Esmeralda County, \$1 million removed from Mineral County, and hundreds of thousands of dollars removed from Pershing County. Facilities are needed throughout the state.

Chair Kirkpatrick:

I wanted to make it clear it was only a one-time removal of those funds. Hopefully, we can form some good legislation so that the rural counties can meet their own needs. There are continuing issues with the schools and a housing issue, especially in the rural counties. What happens after six months when the jobs disappear? I am looking at the bigger picture.

Norman Frey:

We would like to be contacted on these measures. During the special session it was our understanding that there would not be any testimony allowed. We only got word at the last minute that we could testify.

Assemblyman Goedhart:

I have a question on the tax abatements on renewable energy and how they impact the needs of the local economy in providing services. On this Salt Wells project in the report, was that a 30-megawatt facility or a 13-megawatt facility, as it says on page 6?

Norman Frey:

That was 13-megawatts. I thought during a tour we had that they said it was a 30-megawatt plant.

Alan Kalt:

The initial build is 13 megawatts, and they are proposing doubling that, so it would be just over 26 megawatts. You will hear both of those numbers in regard to Salt Wells. The hope is it will be close to 30 megawatts when it is completed.

Assemblyman Goedhart:

Okay. So, I am looking at the \$117 million initial project. Does geothermal get a 50 percent tax abatement such as solar does, or not?

Alan Kalt:

I am not sure about that.

Chair Kirkpatrick:

Depending on whom it goes through, the Nevada Commission on Economic Development says if you meet the criteria and you invest this amount, then you get up to 50 percent of your property tax abated for five years. Some people get a ten-year abatement.

Assemblyman Goedhart:

But if you took the \$117 million by the equalized value of 35 percent, it would be a \$40 million assessed valuation. Even with your 3.64 percent ad valorem tax and the 50 percent abatement, you are still talking \$1.5 million to \$2 million per year in property tax to the county. Is that correct?

The other argument is we now have a geothermal plant that is paying \$2 million a year, and we only have to provide services to educate the children of six employees. There are different ways of looking at it.

Brad Goetsch:

That is correct, and that is the way the industry will state it. You are talking about \$6 million to \$10 million up-front in sale and use tax abatement and a little over \$1 million a year in property taxes, and there might be a net proceeds

tax. Like the mining industry, even though gold is up to its highest level, they are expanding, but they are showing no net proceeds and cannot pay their tax bills because they have had to reinvest all their money. That sales and use tax up-front is really the best and biggest bite the state or the county is going to get.

The impact to the county is up-front. The permitting, the housing, the schools, and the roads and access initially are big expenses. Then, if they employ only a few people after the construction is done, the services are for a small number of people, but they still need to be provided with water and fire. Our biggest problem has been training enough emergency responders. We need their money to buy fire trucks and other things to service the industry and help them out.

The ongoing impact is not great.

Assemblyman Goedhart:

If we have the resource, we do not want to give away the "keys to the town." It is different than if we are trying to attract a type of industry or business that could be anywhere. In defense of some of these renewable projects, they do pay a substantial portion of property tax with not that many employees.

Norman Frey:

They are some of our largest property-tax payers in the County. Also, another area that is just starting to surface is in the Stillwater area, where we are having a lot of geothermal expansion. We are finding that once the permits are issued by the Division of Minerals and the Division of Water Resources, we also have individual citizens that rely on the artesian nature of some of this hot water to heat their homes and to provide water for livestock. We find there is no monitoring program to ensure that this resource is not being over utilized or that it is diminishing these other people's right to use this resource. We are setting up such a monitoring process. You can have problems when wells are being drilled. We had problems in the mid-1990s when we lost a well under production with a blowout. It was in the middle of the winter, and to see that much hot water coming out of the ground was a sight to see.

Assemblyman Aizley:

I do not understand the geothermal process. Is the process one where water comes out of the ground and is then sent away? Do you have a way of collecting the water? Is the water good for agriculture? What do you do with the water?

Norman Frey:

The general method is a binary system. You have a production well that is drilled, they pipe the water a mile or more to the plant, and it will heat a secondary fluid. For instance, the one at Salt Wells is butane. So they run the hot water through a heat exchanger to heat the butane, the butane goes through the turbine, the turbine spins the generator and makes the electricity, and the electricity goes to the power lines. Then the water proceeds back to a reinjection well, generally in a shallower area and at a distance away from the production wells. That water returns over a period of time. That is a "farmer's representation" of how a geothermal plant works.

Brad Goetsch:

There is the binary plant and there is also the flash plant. The flash plants use hotter geothermal sources and actually consume a great deal of water, so there are some issues, like in the Dixie Valley study. We might have to look at that if we want water for potable water in the future, or do we want that water to be used for geothermal and renewable energy? There will be a trade off between renewable energy and potential potable water.

Norman Frey:

So, if we bring municipal water from anywhere near the geothermal plant, we do not want to have a negative impact on that water resource, just as we do not want to have a negative impact on the water resources that feed the geothermal in the Lahontan Valley itself.

Generally, there is no loss of water. The water goes out and the water comes back.

Alan Kalt:

If we look at the "2006-2007 Performance Report" on page 8, there is a picture of Desert Peak, the Ormat plant. It shows what the footprint looks like. If you drive through Washoe Valley, you can see the Steamboat plant. On the cover of the "2008-2009 Performance Report" you can see the new pipeline over at Stillwater and how it is blending in with the local environment. There are additional pictures on page 6 that were provided to us by Enel.

The County and the industry work very closely together. We have a cooperative group that works together, and they would be very happy to give tours. They are proud of the upgrades they have made.

I would like to quickly go through the rest of my presentation. The first page is "Enel NA Proposed Tax Abatement Analysis." The Salt Wells capital expansion they submitted was \$42.8 million. On the Stillwater capital expansion it was

\$74.4 million. The total taxable sales subject to abatement was \$117 million. You can see the county sales tax rate of 7.25 percent which I referred to earlier; the state's 2 percent is not subject to abatement, so the net is 5.25 percent. If you take \$117 million times 5.25 percent, you get the \$6.1 million. In their package that the company presented, they said they would have created 12 jobs with the average wage of \$59,618. You can see that I took the total abatement, divided by the jobs created, to get the abatement-per-job number that I provided to you. You divide that by the average wage of the people, and it will show how many years. We were not successful in the 2 percent negotiation. We got only 1.75 percent. What they are paying on the side agreement would be \$366,000 that was abated per job created.

The next page is "Churchill County Enel North America Tax Abatement Analysis." What this spreadsheet shows is the breakout of the sales tax components. Again, you can see the \$117 million, the state's 2 percent, which is retained by the state, and then the local school support tax (LSST) of 2.25 percent; the basic city-county relief tax (BCCRT) of .50 percent; and the supplemental city-county relief tax (SCCRT) of 1.75 percent. In Churchill County we have Assembly Bill No. 104 of the 66th Session make-up revenues of .25 percent, public transit of .25 percent, and for infrastructure development .25 percent. That is how we get to the 5.25 percent. If you take those percentages times the \$117 million, those are the tax dollars subject to abatement. There are various formulas of how those are allocated, and it is shown on this spreadsheet. It ties back to the cost per job abated. The schools are affected, as are the city, the county, and the water district.

Chair Kirkpatrick:

We talk about education, but what about the indigent care fund? You spend big dollars on that fund, right?

Alan Kalt:

The indigent medical fund we have is a 10-cent cap. Of that 10 cents, 1 cent goes to the sub fund, and 8 cents pays for long-term care. That leaves us 1 cent for indigent care. In our county that generates about \$45,000. We have to use resources other than property taxes to pay for indigent care within our community. Indigent care is indirectly funded through sales tax because that is a significant portion of our local government's tax revenue.

Chair Kirkpatrick:

I think of it as a more critical area, and I believe it is overlooked.

Norman Frey:

With that fund being swept or vacuumed out, it leaves the responsibility with the county to provide those services. It does not matter whether you are in Churchill County or Clark County. Those are funds that come to your hospitals to keep them alive. Pershing General is a hospital for health care needs along a good portion of Interstate 80. If you take just a little money away from them, they could go under.

Chair Kirkpatrick:

My point is, if Nye County were to lose those funds, they would come straight to Clark County for help.

Assemblyman Settelmeyer:

Can a county choose not to pay their portion of the indigent access fund?

Alan Kalt:

I do not believe so, because it is mandated that the county provide that service.

Assemblyman Settelmeyer:

My feeling is, if it were going to be swept again, why am I paying into it.

Alan Kalt:

Good question. The next page of the document shows that on August 5, 2008, BLM held an auction in Reno, and 35 lots were sold. We highlighted those sales that occurred and affected Churchill County. You can see that the bonus bid amount was \$27.99 million. This was for over 105,000 acres of public land. This shows the various bid amounts for different parcels of land.

At the bottom of the sheet there is a summary by counties. The Legislative Counsel Bureau said that the state would get an additional \$12 million through S.B. No. 1 of the 25th Special Session on the mineral leasing. If the state were to get an additional \$12 million, where did that money come from? There are significant other geothermal rents and royalties that are paid for operating mines. This shows Churchill County lost \$6.095 million of mineral revenues, Elko County \$1.588 million, Esmeralda County \$2 million, Humboldt County \$40,000, Lander County \$1.1 million, Pershing County \$81,000, and so on. That is taking a percentage of the values.

The last page shows just Churchill County. I circled the \$31,000, as I wanted to make sure you understood the magnitude of some of these projects from an exploratory phase. Some of these companies bought land from a defensive standpoint so that a competitor would not get into their resource pool. The 25 percent rents and royalties this year was \$3.2 million. This is new money.

However, one of the main focuses of our County Manager over the last four or five years is the economic development of geothermal resources. We have been working with the industry to make them successful, because if they are successful, we as a local government are successful. We need the right mix of small businesses, residential, and industrial. We need those plants because the amount of tax dollars they generate versus the demand of service for the geothermal industry is significant. As you know, considering housing and being a bedroom community to the metropolitan area, the demand for services for those homes and the revenue they generate is not enough. We need to have this mix.

Chair Kirkpatrick:

That was a very informative presentation.

James P. Ithurralde, Chairman, Board of County Commissioners of Eureka County, Eureka, Nevada:

[Read from prepared testimony ([Exhibit H](#)).]

Michael Rebaleati, Recorder/Auditor, Eureka County, Eureka, Nevada:

We are always on a roller coaster in Eureka County. We are on the opposite side of the current financial situation. The price of gold is over \$950 an ounce. Since 90 percent of our revenue is based on gold production, we are doing okay right now. Eight years ago, when the economy in the nation was rolling, gold was down to \$200 an ounce. In essence, eight years from now we might be in a totally opposite condition. We are strictly a mining community, and we do everything we can financially to plan for that. We are trying to structure our finances, so we are putting most of our money into infrastructure such as water, development, and other capital improvements. We are making plans to accommodate for the Mount Hope molybdenum mine. In two years we could be double in population, or we could be substantially lower. We are doing the best we can to accommodate all factors. We are doing fine. Like Churchill County, we received an award from the Government Finance Officers Association.

The thing that would affect our county the most is any change to the 1873 mining law and any change to the net proceeds of mines distribution. That is our lifeline.

Chair Kirkpatrick:

How do the deductions work on mining? Some of it is constitutional, and it was passed by the voters of Nevada.

James Ithurralde:

Mining is assessed by the Department of Taxation; the counties are not involved in the deductions.

Assemblywoman Pierce:

What is molybdenum?

James Ithurralde:

It is a mineral that is used for the hardening of steel. There is no request now for steel, so the price of molybdenum is down.

Assemblywoman Pierce:

Of the unincorporated towns, there was Crescent Valley, and what was the other town?

James Ithurralde:

Beowawe. It is an Indian name. I am not sure what it means.

Assemblywoman Spiegel:

You said in your comments that the population was 1,460 but you employ nearly 4,000. Are the 2,500 remaining employees living in other counties in Nevada, or do they come in from out of state to work on mining projects and go home on weekends?

James Ithurralde:

Most people live in Elko, Carlin, and Battle Mountain. There was an argument many years ago with Assemblyman Carpenter regarding the net proceeds. I told him, if he would give me his payroll, I would let him have the net proceeds. I never got a response from him.

Assemblyman Goedhart:

With the roller-coaster prices in commodities, especially as it applies to molybdenum, were they able to lock in some of those prices on futures? If not, it is unclear how they could move their proposed project forward.

James Ithurralde:

I am no expert on that, but I believe they have locked in some prices to some extent. Some of those major investors for that plant are steel producers in Korea and European investors. The foreign investments in this particular mine are very significant.

Assemblyman Goedhart:

You have a very beautiful community. I buy some hay from Diamond Valley, too.

Assemblyman Stewart:

I noticed that the University of Nevada, Reno is saying that the mines are going to dry up by 2018. Is that even possible?

James Ithurralde:

It depends strictly on the discovery of more minerals. I lived in Elko in the 1960s, and Newmont Mining said it had a ten-year life for its mine. Newmont is still going today because it keeps discovering more gold.

Assemblyman Stewart:

So you do not have a great deal of faith in this study?

James Ithurralde:

I would not say that. It all depends on the economy.

Chair Kirkpatrick:

Are there any further questions? I see none. Thank you for your presentations. Is there any comment from the public? I see none.

[The meeting was adjourned at 9:53 a.m.]

RESPECTFULLY SUBMITTED:

Pat Blackburn
Transcribing Secretary

APPROVED BY:

Assemblywoman Marilyn K. Kirkpatrick, Chair

DATE: _____

EXHIBITS

Committee Name: Committee on Government Affairs

Date: February 18, 2009

Time of Meeting: 8:02 a.m.

Bill	Exhibit	Witness / Agency	Description
	A		Agenda
	B		Attendance Roster
	C	Laurie Carson, White Pine County	Prepared Testimony
	D	Laurie Carson, White Pine County	White Pine County informational packet
	E	Norman Frey, Churchill County	2006-2007 Churchill County Performance Report
	F	Norman Frey, Churchill County	2008-2009 Churchill County Performance Report
	G	Alan Kalt, Churchill County	Proposed Tax Abatement Analysis
	H	James Ithurralde, Eureka County	Prepared testimony