

**MINUTES OF THE JOINT MEETING OF THE
SENATE COMMITTEE ON REVENUE
AND THE ASSEMBLY COMMITTEE ON TAXATION**

**Seventy-sixth Session
April 28, 2011**

The joint meeting of the Senate Committee on Revenue and the Assembly Committee on Taxation was called to order by Chair Marilyn K. Kirkpatrick at 1:11 p.m. on Thursday, April 28, 2011, in Room 4100 of the Legislative Building, Carson City, Nevada. [Exhibit A](#) is the Agenda. [Exhibit B](#) is the Attendance Roster. All exhibits are available and on file in the Research Library of the Legislative Counsel Bureau.

SENATE COMMITTEE MEMBERS PRESENT:

Senator Sheila Leslie, Chair
Senator Steven A. Horsford, Vice Chair
Senator Michael A. Schneider
Senator Moises (Mo) Denis
Senator Mike McGinness
Senator Joseph (Joe) P. Hardy
Senator Elizabeth Halseth

ASSEMBLY COMMITTEE MEMBERS PRESENT:

Assemblywoman Marilyn K. Kirkpatrick, Chair
Assemblyman Harvey J. Munford, Vice Chair
Assemblyman Elliot T. Anderson
Assemblywoman Teresa Benitez-Thompson
Assemblywoman Irene Bustamante Adams
Assemblyman John Ellison
Assemblywoman Lucy Flores
Assemblyman Ed A. Goedhart
Assemblyman Pete Livermore
Assemblywoman Dina Neal
Assemblywoman Peggy Pierce
Assemblyman Lynn D. Stewart
Assemblywoman Melissa Woodbury

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STAFF MEMBERS PRESENT:

Susan Scholley, Chief Principal Research Analyst, Research Division
Gayle Rankin, Committee Secretary

OTHERS PRESENT:

Jeffrey Fontaine, Executive Director, Nevada Association of Counties
David Fraser, Executive Director, Nevada League of Cities and Municipalities
Katy Simon, County Manager, Washoe County
Lisa Gianoli, Washoe County
Don Burnette, County Manager, Clark County
Yolanda King, Director, Budget and Financial Planning, Clark County
Michael Rebaleati, Recorder/Auditor, Eureka County
Alan Kalt, Comptroller, Churchill County
Ted Olivas, Director, Administrative Services, City of Las Vegas
Mark Vincent, Chief Financial Officer, City of Las Vegas
LeRoy Goodman, Mayor, City of Fernley
Mel Drown, City Treasurer/Finance Director, City of Fernley
Fred Turnier, Acting City Manager, City of Fernley
Dan Musgrove, City of North Las Vegas
Al Noyola, Acting Finance Director, City of North Las Vegas
Cadence Matijevich, City of Reno
Kevin Knutson, Interim City Manager/Director, Office of Management and
Budget, City of Reno
Gino Martini, Mayor, City of Sparks
Shaun Carey, City Manager, City of Sparks

CHAIR KIRKPATRICK:

We invite Jeff Fontaine from the Nevada Association of Counties to come up.

JEFFREY FONTAINE (Executive Director, Nevada Association of Counties):

I have been asked to give a brief overview of the common elements of the information you have in front of you today in the spreadsheets for FY 2009-10 Budget Schedule A-1 and FY 2010-11 Budget Schedule A-1 ([Exhibit C](#), original is on file in the Research Library and [Exhibit D](#), original is on file in the Research Library) as well as those features of the county budgets that are unique to

specific counties. I understand 16 of the 17 counties submitted the financial information and as of this morning, Lander County submitted its information.

I would like to comment on *Nevada Revised Statutes* (NRS) 354, Local Financial Administration Law, also known as the Local Government Budget and Finance Act. This lays out the requirements for local governments in terms of the type of funds they are authorized to maintain and the procedures and time frames for adoption of their budgets and reporting their budgets. It also lays out requirements and procedures related to transferring funds between accounts and the restrictions.

The counties have the authority to establish general funds, which they all do. Certain special revenue funds for counties, such as indigent funds, library funds, specialty court funds, capital project funds and debt service funds would be established based upon the needs of the individual county. Counties are also authorized to establish enterprise funds for individual enterprises, such as solid waste management, water and sewer services, internal service funds and also certain types of fiduciary funds, such as pension and other employee benefit funds and private purpose trust funds.

While all the counties may be authorized to establish these funds, with the exception of the general fund and capital project funds, you will see it depends on the size and the needs of the counties in terms of the type of funds they have. The revenues that flow into those funds include property tax, Consolidated Tax (CTX) Distribution, licenses and permits, and charges for services. These are the major source of general fund revenues. The [Exhibit C](#) and [Exhibit D](#) spreadsheets show how these are allocated among the activities. Specific or unique revenue sources, some of which you are going to hear about today, include land sales and Net Proceeds of Minerals Tax.

I would like to make some comments regarding the revenues. The information you have is a snapshot in time. As you will hear from all the counties, revenues are declining, including property tax revenues. The property tax caps at 3 percent and 8 percent were put in place in fiscal year (FY) 2005. This has helped stabilize revenues. Because of the continuing and sharp decline in assessed valuation, some counties are now experiencing an actual decline in property tax revenues.

Another area of concern for most county governments is the reduction in federal grants and payments. These include Payments In Lieu of Taxes (PILT)—which all counties receive and benefit mostly rural counties—and payments for geothermal rents and royalties on federal lands. The PILT payment funding authorization expires in FY 2012.

The geothermal revenues were proposed to be diverted to the U.S. Department of the Treasury the last two years. We have worked hard with our Congressional Delegation and with the congressional delegations in other states to get those revenues replaced as they are always in jeopardy. There is a strong interest at the federal level to reduce the deficit, which makes me concerned about reductions in the Community Development Block Grant program and Federal Aviation Administration grants.

On the expenditure side, common among all the counties are the mandated requirements for services, including indigent medical care, indigent defense, district courts, long-term care and elections. Clark County and Washoe County have additional mandated requirements.

There is also a difference among the counties in terms of the types of services they provide. Clark County and Washoe County are full-service counties. They provide municipal services and public health services for their district health departments. Some counties have a role in operating hospitals. When you look at these charts and hear from the counties, you will see this is an indication of the sign of the times.

Relating to the demand in services, there is an increasing demand for social services at the county level, and there is a decline in demand for building permits at the county levels. The counties have made adjustments to reflect that reality. With regard to this information, a lot of questions were asked about how to provide this information and what was being looked for. In some counties, commissioners provided the information; in other counties, county managers or budget personnel provided the information. I urge you to consider this when you are comparing this information. One example is when we look at the number of full-time employees, are we looking at full-time, seasonal or part-time positions? Please look at this information and keep it in mind.

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CHAIR KIRKPATRICK:

Did each county do it differently? Some of the salaries seem high. Do we need to ask the counties what they included?

MR. FONTAINE:

That is one example we may want to clarify. Some counties submitted information and then later, they submitted amendments. To make sure we are comparing apples to apples, this is an area to go back and look at.

SENATOR LESLIE:

Has there been any discussion about redrawing the counties into regions, especially in the rural areas? Two counties have very low populations.

MR. FONTAINE:

This has been a political hot potato with a lot of discussion about regionalizing services across the county lines.

SENATOR LESLIE:

That may be the best way to approach this and start there. There is a lot of duplication and extra government bureaucracy by having counties with small populations. It is time government operated differently.

SENATOR MCGINNESS:

Some of the school districts I represent are Esmeralda and Nye Counties that share professionals and transportation issues. The Lyon County Police and Sheriff share. There is a lot of cooperation by necessity. I do not want to see a line drawn arbitrarily around Mineral and Esmeralda Counties putting them in with Nye County. You would triple your problem.

DAVID FRASER (Executive Director, Nevada League of Cities and Municipalities):

I have distributed a handout ([Exhibit E](#)) to the Committee. I do not intend to go through every page. I will cover some of the pages; if you want additional information, I will be happy to go into more detail.

On the first page, [Exhibit E](#) identifies the League of Cities. The second page shows you some of the budget cuts taken by our cities. When I say we understand you are struggling, we mean it. We are struggling with the same circumstances. This chart depicts how those struggles are falling out in the

four largest cities in the State. In North Las Vegas, there is a 33 percent reduction in its budgets since FY 2008 and FY 2009. Each of those cities have cut hundreds of positions. It is difficult financially, but operationally, it puts a burden on the remaining employees.

The bottom slide on page 2 of [Exhibit E](#) shows what services the cities are responsible for. You can see these are local services. The county is tasked with more regional services, and the cities provide more localized urban-level services. If you live in a city, you will pay a county rate and a city rate of taxes. Our residents are county residents and residents of the State. We recognize while we provide different services, we all provide them to the same people. Our constituents need our services.

Page 3 of [Exhibit E](#) breaks down those expenditures. About two-thirds are for public safety and public works. The lower chart shows you the revenue sources. About two-thirds of those come from CTX and property tax.

Page 4, [Exhibit E](#), shows that proportionately, the City of Elko has the same thing. The proportions are similar in revenues and expenditures regardless of the size of the city. The bottom of page 4 identifies the three types of revenues that cities create. General purpose can be used for any purpose within the city charter or allowed by general law. Special purpose revenues are restricted to specific purposes, either by statute or by the terms of a grant. Enterprise funds come from the provision of utilities. The remaining pages of [Exhibit E](#) go into specifics, using our five largest cities. This gives you a good idea of overall numbers; our five largest cities comprise 95 percent of the total dollars Statewide. We use those as an example of Statewide figures. I can talk more specifically about any of those revenues.

On page 10, [Exhibit E](#) shows that CTX and property tax are down 18 percent and 16 percent. I know these same drops hit the State. I spent some time earlier in the Session with the Assembly Government Affairs Committee comparing where the city revenue and the State revenue come from. There are similar revenue streams, and a lot of those revenues come from the same place.

ASSEMBLYMAN LIVERMORE:

On page 5 of [Exhibit E](#), you talk about general purpose revenues and charge for services. How do you define that charge for service? Who pays that?

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MR. FRASER:

A charge for service would be when you receive copies of something at the library or admission to the swimming pool. It would not include a charge for service for your water bill. That would fall under the enterprise fund.

ASSEMBLYMAN LIVERMORE:

My question is centered on the enterprise funds and the charge for services in municipal government using general purpose money and general purpose services. It is called a corporate allocation. You allocate against the utilities that pay for the municipal services. Are you familiar with that?

MR. FRASER:

I am not sure I am following the question.

ASSEMBLYMAN LIVERMORE:

When you get your water bill, it is perceived you are paying for the utility and the cost of operating the utility, including the commodity and the manpower. A municipal government charges a corporate allocation to operate its internal governing board and its internal departments, such as human resources and finance. Is that part of this charge for services?

MR. FRASER:

No, that would not be. In the cases where that occurs, it would be the enterprise funds.

ASSEMBLYMAN LIVERMORE:

That is occurring. I want to make you aware that full disclosure needs to be some part of the process.

ASSEMBLYWOMAN NEAL:

You presented to the Assembly Taxation Committee this past February, and the document you gave to us today has no changes. What are the updates?

MR. FRASER:

The document has components from both the presentation I gave earlier to the Assembly Taxation Committee and the Assembly Government Affairs Committee. If you look at both documents, most of what is here came from one of those two. Some of the information here relates to FY 2009 and

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FY 2010 money, and some relates to FY 2011 budgets. Most of this information is provided for the benefit of the Senate Revenue Committee.

CHAIR KIRKPATRICK:

I want to start with Washoe County. I hope you can explain some of the titles.

KATY SIMON (County Manager, Washoe County):

I have Lisa Gianoli with me today. As our lobbyist and former Budget Manager, she will go over the details on our handout ([Exhibit F](#)). We have provided you with a summary on what we have done. There are some things I would like to highlight. We have cut \$123 million in spending in four cycles that has resulted in our current FY 2011 budget being at FY 2005 levels. We have cut 725 employees, which is 16 percent of our workforce.

CHAIR KIRKPATRICK:

I would like you to go over these sheets, [Exhibit C](#) and [Exhibit D](#).

Ms. SIMON:

I am going to let Ms. Gianoli go through each of the categories. She prepared the information we submitted.

LISA GIANOLI (Washoe County):

I will start with the FY 2009-2010 summary information on page 1, [Exhibit C](#). The ending fund balance as a percent of revenue is 40.7 percent. Keep in mind that some dollars are either restricted special revenue funds or voter-approved overrides, such as the Child Protective Services fund. We imposed a 4-cent ad valorem tax for this fund, which is \$14.4 million of the total. There is also \$31 million in the Truckee River Flood Project, which equates to an 8-cent property tax. The restricted special revenue funds are made up of grant monies or funds earmarked for a purpose, either statutorily or by ordinance.

SENATOR HORSFORD:

We will have to change State statute to implement the Governor's budget cuts. Just because it is by ordinance, it should not be off the table. Can you highlight some of those and how much the reserve account for restricted special revenue funds is for ordinance-related versus those that are not?

MS. GIANOLI:

On page 27, [Exhibit C](#), the largest amount of \$23.7 million is a statutory item for flood control. The \$14 million in Child Protective Services is a voter-approved override of 4 cents of property taxes. That fund also has federal dollars leveraged through our joint arrangement with the State in Child Protective Services. The significant \$23.7 million in the Truckee River Flood Project is an 8-cent tax. The second to the last item of other restricted special revenue is for those things we have compiled together that are either grant funds or specific. An example is the Assessor's Technology Fund. I can give you the specifics of what that includes.

CHAIR KIRKPATRICK:

Are any of these voter overrides about to expire?

MS. GIANOLI:

No, those are all permanent.

CHAIR KIRKPATRICK:

This primarily makes up your 40 percent ending fund balance?

MS. GIANOLI:

Yes. Would you like me to go back to the summary page and go through the benefit area? Ms. Simon can help to explain this. In FY 2009-2010 we had positions being eliminated and employees terminating. We had buyouts and accrued leave that had to be paid, and that situation skewed these numbers.

MS. SIMON:

Fiscal year 2009-2010 was a dramatic reduction year for Washoe County. We terminated 105 employees and had to pay accrued vacation and sick leave. Those were voluntary terminations. In addition, we had to lay off another 90 employees. We had to pay for the accrued benefits of vacation and sick leave. We also did some retirement incentives to get higher paid employees to leave. We had to recoup a two and a half times requirement of salary. That is all in the benefits amount of money. It inflated our normal benefit cost in that year.

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CHAIR KIRKPATRICK:

In FY 2010, your 40 percent reserve went down to 12 percent for the next fiscal year? I am trying to get a bird's-eye view in a short time frame with your budget.

MS. GIANOLI:

On page 22, [Exhibit D](#), you can see the ending fund balance for Child Protective Services is projected to end at \$7.3 million. The Truckee River Flood Project is down to \$2.3 million. Other restricted special revenue funds are down to \$293,000. A lot of that is timing on those.

CHAIR KIRKPATRICK:

Can you give us a bird's-eye view of where you are for the next biennium?

MS. SIMON:

For the next year, we have lost about \$2.5 billion in assessed value in two years. The deficit for us next year is \$33.5 million before any of the impacts of the Governor's proposals [Exhibit F](#), page 2. The Governor's proposed budget cuts would add \$25 million to the \$33.5 million deficit. To show you the magnitude of this, \$33.5 million is another 11 percent on top of cutting \$123 million. We have a multipart plan for addressing the \$33.5 million. We will be requesting \$13.8 million in concessions from our employees. All nine of our employee unions have given wage and benefit concessions voluntarily that equaled \$9.5 million this year. We are also getting \$10 million in operating cuts from departments that have been cut severely. We have to use another \$10 million of fund balance to balance the \$33.5 million. In order to prepare for the possibility of additional cuts, we are going to a fundamental service review in every department and have raised private donations to help us fund this project. We have 60 services that are shared or regionalized, and we are taking a closer look at this.

ASSEMBLYWOMAN BENITEZ-THOMPSON:

When we talk about the \$10 million in operational cuts coming from different departments, can you tell me any prioritization or direction you have given to any departments? How are those cuts going to work out?

Ms. SIMON:

In 2003, we began a project of prioritizing our expenditures. We used citizen surveys and a citizen committee to do that. Since then, we have been adjusting our budget based on those priorities. Public safety gets the highest priority. Second priority is judicial, health and social services. The third priority is the general government functions that provide the services and support to the other functions. The fourth priority is parks and libraries that have been cut by 50 percent during these budget cycles.

We have done a similar prioritization, but we have reduced the scope. We have defined our departments by core services that must be provided by mandate, support services to support those and then noncore services. Counties have very few noncore services. Community development planning is not a mandatory service for us to provide. Those services will be cut more. Public safety and social services are core.

ASSEMBLYWOMAN NEAL:

What areas are you looking to privatize and what is the cost benefit? How does cutting the community development program affect your economic development planning?

Ms. SIMON:

We will not eliminate community development planning. We still have people doing applications for development review in the unincorporated area where we provide planning services. We work closely with the Economic Development Authority of Western Nevada and provide support. We are expanding a project called managed competition.

We will be training employees to prepare bids to compete for service provision in the functions we provide. We have included our employee associations in that process and have been looking at best practices nationally. We have privatized functions in the past, including janitorial service and landscaping maintenance, and the District Attorney privatized process service this past year. We do not enter into those lightly, and we look at the cost benefit before we go into it. We hope to validate through this process that our employees are competitive and provide high quality work for a good value and a reasonable cost to the public.

ASSEMBLYMAN ELLISON:

One thing concerning me with the counties involves the unfunded mandates of shared services from the State down to the counties. Have you taken any of these into consideration? What are the impacts?

Ms. SIMON:

We have taken the previous cuts into account. We have not budgeted the \$33.5 million deficit we are facing for next year. This does not reflect the impact of the Governor's proposals because they have not been done yet. We will have to make additional cuts to allow for those proposals when they are enacted.

CHAIR KIRKPATRICK:

I want to clarify two things. Does this include the budgets of your quasi-public agencies such as the Regional Transportation Commission (RTC), the water authorities and all of those different entities? Did your employee salary submission include part-time and full-time positions?

Ms. SIMON:

The RTC is a separate entity with a separate budget and process. It is not included here at all. The Truckee Meadows Water Authority is a separate district, but you do see the Department of Water Resources, which is the unincorporated portion of water service provision within Washoe County. That is included on page 49 in [Exhibit D](#). The full-time employee count is one area we are trying to true up. We think there may be some issues between part-time and full-time positions. Although we eliminated positions, some entities have kept those positions on the books, and they are vacant. We have eliminated all of those, but some numbers may be slightly skewed.

We also reflected a transfer to our other postemployment benefits liability. You will see it in FY 2010-2011 of more than \$14 million. We have been diligent about socking money away for that future liability. Many local governments have not done that. That added a future liability of \$14 million.

CHAIR KIRKPATRICK:

I want to invite Clark County to come up.

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DON BURNETTE (County Manager, Clark County);

I have Yolanda King with me today. She is the Director of Budget and Financial Planning. Mr. Fontaine spoke about the handouts before you and mentioned the fact that in some counties, the data was furnished by county managers and in other counties, it was provided by finance staff. For the record, I had no part in providing Clark County information. That is why I have Ms. King with me today.

CHAIR KIRKPATRICK:

Could you go through the same format as Washoe County.

YOLANDA KING (Director, Budget and Financial Planning, Clark County):

I would like to start off with an overview of the county finances—where we were two years ago and where we are today. I would like to provide the information included in the Clark County budget in terms of the quasi agencies and what makes up those numbers.

Two years ago, Clark County started out with a \$200 million imbalance between the revenues and the expenses. Through a series of budget reduction plans and keeping vacant positions open, not filling positions and eliminating positions, we are at \$100 million imbalance between the revenues and the expenses. Clark County held a public hearing last night to talk about our third reduction plan that we hope—through the approval of the Board of County Commissioners—will reduce the \$100 million down another \$40 million when we file the final budget. As we file the tentative budget, which was due to the state on April 15, we had a 4.6 percent general fund balance.

Our goal is to increase the fund balance. We are concerned about having a 4.6 percent fund balance in terms of having cash on hand for day-to-day operations. We are hoping to bring the fund balance amount up to \$100 million. Our general fund budget is \$1.2 billion. It may seem like \$100 million is a lot of money, but to an organization as large as ours that has a \$1.2 billion expenditure budget, that is close to 9 percent as a reserve. We have seen our property tax revenues and the general fund decline as much as 20 percent. Right now, we have about 1,500 vacant positions, which is a 20 percent vacancy rate. We have had a number of cost reduction meetings since May 2008. The format presented to you is an actual format given to all the governmental agencies and is filed in our budget documents.

This budget for Clark County includes in the summary the budgets we file on behalf of other quasi agencies. The numbers on pages 8 and 9 in [Exhibit C](#) include Clark County general operating expenses and revenues; the Regional Flood Control District, the Las Vegas Metropolitan Police Department (LVMPD), the Clark County Health District and the Clark County Detention Center. That gives you an idea of the other agencies included in these numbers. There are other enterprise funds accounted for that have large budgets, specifically McCarran International Airport and the University Medical Center.

On the main summary page for Clark County, page 1 of [Exhibit C](#), the total sources are \$6.4 billion. That is the total Clark County budget, which includes Clark County departments and quasi agencies. The other revenue line item is \$1.5 billion. That is made up of any revenues received from the quasi agencies. A number of capital funds included in the county budget are dedicated to the Master Transportation Plan. That is a catchall for revenues outside of property tax. About six or seven funds in the budget collect property tax. That would be our general fund. We have the indigent fund and cooperative extension, and LVMPD has a property tax included. That is what is included in the property tax revenue line item. The Consolidated Tax revenue line item is from our general fund. Most of the funds that note revenue are in the other revenue line item, and it is the bulk of the enterprise as well as the capital funds.

The information for full-time equivalent (FTE) comes from a taxation form that all governmental entities use. They have asked for the full-time equivalent. That would include all of our full-time employees as well as part-time employees. Because we report for the other quasi agencies, the FTE numbers for the agencies are also included in the counties. That is because their revenue and expenditure information is noted above in the sources and uses.

CHAIR KIRKPATRICK:

Could you tell us where you will be for FY 2010-2011 and FY 2011-2012?

MS. KING:

In FY 2010-2011, we are coming in at 1 percent or 2 percent above projections in property taxes and CTX. Revenue for property tax is about what we projected. I am speaking of the general fund now. Other funds, specifically the Master Transportation Plan funds, have special dedicated taxes such as the motor vehicle privilege taxes or supplemental gas taxes. We are on track with

what we have budgeted. We have seen a greater decline in those types of taxes over the last couple of years as well. For FY 2011, we will come in at budget and have at least a 10 percent fund balance. However, in FY 2011, in order to meet that fund balance of 10 percent, much is coming in from a capital fund. This one-time money has been infused into the county general fund to get us through FY 2011 until we can look at further reductions through the general fund and departments to balance the revenues and expenses. Approximately \$70 million is coming into the county general fund to get us through FY 2011.

For FY 2012, we filed a tentative budget that included a 4.6 percent fund balance. It does not include any one-time money because we told the organization the fix is over multiple years. Therefore, we have gone through a series of budget reductions in order to balance the revenues and expenses. Between the 4.6 percent fund balance and budget reductions we presented to our board last night, that brings it up to an 8 percent fund balance. The tentative budget we filed does not include any of the Governor's cuts. Clark County is projecting approximately \$88 million of a fiscal impact over the biennium.

SENATOR HORSFORD:

Under the Metrics section in [Exhibit C](#), page 1, and [Exhibit D](#), page 1, can you explain the unreserved ending fund balance for FY 2009-2010 and FY 2010-2011?

MS. KING:

The difference is that FY 2009-2010 shows actual revenues and expenses. The information for FY 2009-2010 comes directly from the audit statement that only reports the actual expenditure in those particular funds or in the county funds. When you look at the FY 2010-2011 information, FY 2009-2010 does not include ongoing projects that will take multiple years to complete, specifically, capital-type construction projects. The audit statement does not outline money set aside or reserved for these ongoing projects. If we have a beltway project budgeted at \$100 million as a capital project that may take three years to complete, the audit only reports what was spent on that project; it does not lay out remaining money left to be spent on that project. Although it appears there is a large unreserved balance in FY 2009-2010, the balance declines in the FY 2010-2011 budget because the budget accounts for the outstanding project encumbrances. Eventually, it will catch up in the audit

statement. It is based on what has been spent, not what has been reserved for future expenses.

SENATOR HORSFORD:

Thank you for the explanation. What is the difference between the reserved ending fund balance versus the unreserved? Why would it not be booked under reserved because it is an obligation for a project that may not have been expended? I would consider it a reserved expense.

MS. KING:

The way the accounting is laid out on the audit side, all the debt service funds have a reserve balance because you receive dollars in to issue debt in their reserve. Some accounts payable due might not be paid yet. There is not a line item that reserves for future budgeted projects.

SENATOR HORSFORD:

In FY 2009-2010, an unreserved ending fund balance of over \$2 billion was reduced to \$406 million in FY 2010-2011. What was that?

MS. KING:

The FY 2009-2010 numbers are based on actuals and the way the audit is presented with certain items considered reserved. The FY 2010-2011 numbers are based on the budget document, not the actual audit statement. In the budget document, because we know projects are ongoing for multiple years, we budget for those dollars in the actual budget document, so everything that is budgeted does not fall to fund balance. If you have all your expenditures budgeted, whatever is left can fall to fund balance. In our capital funds, we budget a zero fund balance because we want the full authority to spend what is available.

SENATOR HORSFORD:

I am not clear on this. What expenditure between FY 2009-2010 and FY 2010-2011 caused the reduction in your unreserved balance to go from over \$2 billion to just over \$400 million?

MS. KING:

The capital construction projects.

SENATOR HORSFORD:

That means it was unreserved and not for the purpose of financing debt for other related projects—typically with bonding, this is in your discretion as a county to spend. It did not have obligations other than those you set as a Commission in county management. What was the priority of spending that amount of money on capital, rather than having that flexibility available for operations and support of programs?

MS. KING:

Many of the capital funds in the county budget are not discretionary. Various Master Transportation Plan capital funds are within our budget. The same thing can be said for the Clark County Flood Control District. Dedicated sources of revenue that come in and fund those particular projects are not discretionary dollars to use for operating purposes. They are nondiscretionary because of approval by voters or through legislation whereby we have to dedicate those revenues if it is for master transportation. In the case of flood control, a sales tax is dedicated for flood control. Dedicated dollars come into those capital funds, and we cannot take those dollars and move them into the operating fund.

SENATOR HORSFORD:

Why would that be under the unreserved category and not the reserved category? Unreserved in my mind means not obligated or committed. Unreserved means something different. Help me understand that please.

MS. KING:

I am trying to dig deep down into my accounting background. Based on the *Governmental Accounting Standards*, those policies dictate how you report your expenses or reserves. No such reporting policy says if you have future obligations for capital projects, then you note that as reserved. They are considered unreserved in the audit statements.

CHAIR KIRKPATRICK:

You are going to have to stay today and give us a tutorial. It seems frustrating on our part trying to help you with the projected cuts. How do we help you if it does not appear clear what is there and what is not with your funds?

MS. KING:

I understand the frustration in trying to understand reserve and unreserved. That is the challenge I have when you have two separate documents, one being the audit statements and one being the actual budget, to explain the differences between those two. One in particular is reserve versus unreserved.

CHAIR KIRKPATRICK:

You explain it so easily when you have those meetings on Channel 4 in Las Vegas. We need to allocate our money so the State does not take it; that is pretty clear. But on [Exhibit C](#) and [Exhibit D](#), how are we supposed to help you understand that we need an idea of what is unallocated in layman's terms?

MS. KING:

A simple way to look at the funds in Clark County is that a handful of funds are discretionary, meaning you can take those dollars and you have discretion to do what you may. In the majority of those funds, revenue has been dedicated to carry out the purpose behind those funds given to us. A number of funds within Clark County are not discretionary. When I say not discretionary, I go back to the example of your Master Transportation Plan funds, meaning they are not discretionary because a revenue is dedicated for that particular purpose and we cannot take those dollars and use them for whatever purpose. Another example would be the Department of Aviation. Federal law prohibits us from taking those dollars and using them for general operating purposes of the County. Those are some examples of where I view nondiscretionary funds that cannot be shifted to the general operation of Clark County. Does that help?

CHAIR KIRKPATRICK:

That is much clearer. As you transfer services, one thing I learned from the Twenty-sixth Special Session is we utilized your funds within the indigent care, then we created a mechanism to where you could not actually borrow from something else or prioritize because you did not have that legislation. Are there any instances like that if you had discretionary dollars and the State gave you some services, it would prohibit you from using them as the situation we created for you in that Special Session? You could get back to me on that. That is an important question because if you have few discretionary dollars and have to prioritize, there must be a mechanism to make sure you can prioritize rather than saying we cannot do it because we do not have the capability.

MR. BURNETTE:

It is the opinion of me, my staff and the Clark County Board of Commissioners that we have the discretion to bring in resources from all the funds that Ms. King spoke about and move them into the general fund to help avoid the cuts we have to make—specifically, the \$40 million in cuts we have to make before we adopt the final budget in order to reduce the deficit down from \$100 million to \$50 million. We do not have that discretion with our own budget let alone to contemplate the cuts being proposed in the Governor's budget.

ASSEMBLYWOMAN BENITEZ-THOMPSON:

I struggle to understand how you define unreserved versus reserved. If this were an accounting mechanism and a process by which everyone used the same accounting standards, then we would see that reflected across the board from every county. I am not seeing something that looks standardized. I am seeing an anomaly in these numbers. Looking at this, I am struggling with what is considered an acceptable accounting practice and where you put those funds.

ASSEMBLYWOMAN NEAL:

I need you to connect the dots for me. I have a two-part question. You stated you did a one-time infusion of capital fund project money into the general fund in order to reach your 10 percent or 4.6 percent? Is that what you said?

MS. KING:

The infusion of capital money occurred in FY 2010-2011.

ASSEMBLYWOMAN NEAL:

If you did that, is the money in the unreserved ending fund balance for FY 2009-2010 of over \$2 billion a part of what was left in the capital fund money and how much of it was shifted over? I need to know where the money is or how much money we are talking about. I do not understand how you can take and shift the capital fund money. Part of your conversation seemed to be that maybe you do not have this full power? Is that discretionary? You can shift the capital fund money that is part of the unreserved?

MS. KING:

We have discretion with a handful of funds. We were able to shift dollars from one fund on the county side where we do have discretion, meaning no specific

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revenues are coming in and dedicated to certain projects. The remaining \$2.1 billion are for nondiscretionary-type funds we were not able to do that with. Where we had discretion to transfer the dollars from one fund, we did.

ASSEMBLYWOMAN NEAL:
How many capital funds do you have?

MS. KING:
It is probably between 15 and 20.

ASSEMBLYWOMAN NEAL:
What budget reductions were suggested yesterday and to which departments?

MS. KING:
When I speak of budget reductions and when I speak of the imbalance between revenues and expenses, I am speaking of the general fund. The general fund is where we have a majority of our departments and is the general operating fund of the County. Any operating taxes or CTX we receive go into that fund. The nongeneral funds are all of the capital, the special-type funds where we receive dollars dedicated for a specific purpose. They come into those funds and are used for that purpose. This is the reason they have their own separate funds. We would not throw all the capital dollars that have a dedicated source of funding into the general fund. We have separate funds with the revenues coming in so we can account for how we spend those revenues.

CHAIR KIRKPATRICK:
We are going to make a request which might help the process.

SENATOR HORSFORD:
I would like to make a request on the FY 2010-2011 balance of \$406 million. How much of that is discretionary? Of the nondiscretionary areas, are they not discretionary because of an ordinance, statute or some other dedicated source? I will ask the same of everybody who has anything in their unreserved ending fund balance.

ASSEMBLYWOMAN BUSTAMANTE ADAMS:
When I studied accounting principles in school, this one section was so difficult for me to understand. I could not apply common sense to it, but I know we

have to adhere to national standards. For the record, I appreciate your trying to explain this to us.

CHAIR KIRKPATRICK:

Ms. King, we will be following up with more questions. Can Eureka County please come up?

MICHAEL REBALEATI (Recorder/Auditor, Eureka County):

I have prepared testimony ([Exhibit G](#)). Over the past 28 years, I have witnessed several volatile economic cycles directly related to the price of gold. During the early part of the first decade of the twenty-first century, the price of gold was under \$300 per ounce. During this same time, the State and most other counties were financially benefitting from a very prosperous time. Eureka County was not prospering at the same time. We had to cut 20 percent of our workforce. We made substantial cuts and rode out the low price of gold. The title of J. Patrick Coolican's April 26 article in the *Las Vegas Sun* stated "Once the gold is gone, so is the source of revenue." This directly reflects what Eureka County is all about and why I have worked for 28 years in developing a long-term financial plan for Eureka County. We know the gold reserves will run out or the price of gold will once again fall. When either of these situations occur again, my long-term financial plan will give our taxpayers time to economically survive.

SENATOR HORSFORD:

I appreciate the framing of the discussion, and I appreciate your position. I represent one of the poor Senate districts in the State. I know about underserved communities and what they experience and have experienced during the economic times. There have been a lot of questions about why only Clark County and Washoe County are part of the Governor's approach in trying to balance the State's budget. If we are all one state, where is the shared sacrifice? Many of us represent the southern part of the State. Just as you are an exporter of sales tax, Clark County has been an exporter of revenue to subsidize a lot of functions in northern Nevada government. By subsidizing the State, the State subsidizes a lot of other counties. That is a fact. Eureka as an exporter of sales tax is also a fact. There is a record amount of Net Proceeds of Minerals Tax, and there are 1,600 residents in your county. Help me understand why only Clark and Washoe Counties should be asked to contribute to the State's budget shortfall through the diversion of the 9-cent property tax when

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Eureka County has a 222 percent ending fund balance in FY 2010-2011 on [Exhibit D](#), page 1? That was as a percent of revenue. We are trying to maintain funding for education, keep our colleges open, provide for senior protective services and mental health care. I see that amount of increased revenue as a percent, and I need some help as to why this should not be part of the solution.

MR. REBALEATI:

You are talking about the 9-cent property tax and the shared tax rate. First of all, nobody has ever approached us. That is part of why I am here. If you want to approach us, we are more than willing to entertain a shared sacrifice. I have been working on this large fund balance for 28 years. I am the architect of this balance strictly because we know when the gold goes away, there is nothing else. We will have to survive on that for a long time. That is why I keep referring to the long-term financial plan. I want this to be reviewed. You can drill down into our budgets as deep as you want, and I have an explanation for all of it. I can tell you how we are stretching our money, how we are reserving our money and how we are trying to plan for the future. Did that answer your question?

SENATOR HORSFORD:

It does. Thank you for your honesty and willingness to be at the table and part of the discussion in a way that allows every part of our State to help meet the needs of our people together. I appreciate you being here and for your participation.

ASSEMBLYMAN GOEDHART:

We commend you and your county for your long-term approach to budgeting. It is always a temptation in government, when you have few good years, you hope they keep going on and would like to put as much money out there as possible. You have gone through some lean times. I have learned a great lesson. When times are good, do not spend everything you have. I see on [Exhibit G](#) that 68 percent of all Net Proceeds are sent to the State General Fund. Is that correct?

MR. REBALEATI:

Are you referring to the Net Proceeds of Mineral Tax?

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ASSEMBLYMAN GOEDHART:
Correct.

MR. REBALEATI:
Yes.

ASSEMBLYMAN GOEDHART:
I always heard it was about 50/50. I am surprised to see it is that high. The 68 percent goes directly to the State General Fund?

MR. REBALEATI:
Yes, I can explain. Our combined rate is approximately \$1.60. Out of the \$5 rate, \$3.40 goes to the State General Fund. The school rate is approximately 75 cents and the county general combined rate is .8458 cent. We have some other smaller districts. Our tax rate is approximately \$1.77, and \$.17 of that goes to the State debt fund.

CHAIR KIRKPATRICK:
Is that because you are not at the cap on your rate?

MR. REBALEATI:
No, not even close. That is why more money is going out to the State. You have to understand the very conservative nature of our taxpayers.

CHAIR KIRKPATRICK:
We do.

MR. REBALEATI:
We fill the room during the budget process when we try to raise the rate 1 cent.

CHAIR KIRKPATRICK:
How are you planning to have those dollars available for the future?

MR. REBALEATI:
My main focus is on infrastructure and taking care of the infrastructure. Everything is relative as far as expense. When we have large water and sewer expenses or we have a plan to take care of the infrastructure down the road, we are setting aside money specifically for water and sewer. It has been a big

focus of ours. We have three water districts in Eureka County, and we are in the process of putting in an arsenic treatment plant. In the other part of using the future money, we are helping to build infrastructure for housing we will need in the next couple of years for the upcoming mine. New workers will be coming in also. We have a housing shortage now. I can go down the list. We continue building reserves so we can maintain the structures we have been building. We have been replacing and restoring the buildings in our possession. We are trying to be a good steward of the monies we have.

CHAIR KIRKPATRICK:

Within your budget, did you include the quasi-public agencies such as the three water districts?

MR. REBALEATI:

Yes, I included those in the special revenue funds. I listed them in one line item. I can break them out in detail. When this request came out, it was a little confusing in FY 2009-2010 and FY 2010-2011 if you wanted the budget figures or the audit figures. I can give you details of all the funds.

CHAIR KIRKPATRICK:

Where do you propose going in FY 2011 and FY 2012?

MR. REBALEATI:

We are going to spend close to \$11 million on the infrastructure to help create the housing area for the new mines coming into our community. This should be in the next two to three years. Everything else is status quo. I did put in the FTE for full-time positions. I did not include casual or part-time jobs. I do feel for the rest of the State, but we have not had to make any cuts. We are very open about that.

SENATOR LESLIE:

I appreciate your candor. The rural people tell you straight what is happening. This discussion reminds me of the corporations in our State that always say, times are good. You cannot tax us now because times are good. When times are bad, they say you cannot tax us now because times are bad. The State subsidizes you when the price of gold is low. When the price of gold is high, you build up this savings account to help yourself when times are low. The time

now is to work together. We have citizens in the urban areas who are suffering, and the Governor's budget is taking more money out of those areas.

While times are good, you are about to open a new mine, build housing and grow in Eureka County. It does seem like the time we need to have more shared sacrifice. I appreciate the discussion. The Governor may not have asked, but we are going to ask. You can convey that to the Eureka County Commissioners. We would appreciate a discussion. We do not want to destroy Eureka County, but we do want some shared responsibility. We look forward to working with you.

MR. REBALEATI:

We want candor. We want to be sitting at the table and be part of the discussion. Our biggest fear is something that might happen in the last 24 hours of this Session that ends up in a very large bill with Eureka County contained in the middle of it. Before 1988, we were subsidized by the State, especially in the sales tax. We were in the guaranteed portion. When the gold revenues started coming in the late 1980s, we became an exporter and we have had little State subsidy since then. We understood that when we petitioned to get out and go to an export county.

ASSEMBLYWOMAN NEAL:

We had our county presentations earlier in the Legislative Session. I recall you did not have a broadcast system or radio, and Internet was only in the library. I am confused on how mining is participating with Eureka County.

CHAIR KIRKPATRICK:

Let me clarify this. Within the Assembly Committee on Government Affairs, we asked everyone to come in, and we consistently heard from the rural counties how they could not provide basic infrastructure such as radios, different things for jails or schools. This was across 15 counties. Those of us in southern Nevada have a hard time understanding why you do not have these things if you have this infrastructure and these available dollars. When I have to tell seniors within my district they cannot have medication because that subsidy is gone, it is a hard balance for us to explain to our constituents how you do not have a lot of the basic necessities. An example is \$3 million is set aside in the Governor's budget for broadband. Some of these counties could up their rate and pay for it themselves. I vote for that in Clark County. Can you help us understand that part?

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MR. REBALEATI:

These are the questions I want to clear up about Eureka County. We are not going to participate in the broadband. We do not need that money. We have a comprehensive network system that I helped develop along with the information technology manager for Eureka County. We are trying to tie into the State system. That is part of the confusion. We need to be at the table because we are not in the same condition as the other rural areas. We are not asking for that money. We do not apply for it.

CHAIR KIRKPATRICK:

That is helpful for us to hear. One reason why Senator Leslie and I talked about doing a public hearing so we could have these discussions is because at the Twenty-sixth Special Session, we did not do it that way. This is better to have you people at the table.

MR. REBALEATI:

We struggle with services, such as trying to get a doctor. We subsidize our clinics 100 percent. They would not exist if we did not have the clinics in Crescent Valley and Eureka. We built the clinics, and we subsidize them. It is hard to get doctors there. Sometimes we do not have one. We are 120 miles from Elko, which is the closest trauma center. We struggle to get those types of services, but we are supporting them. Even though we can subsidize and bring them in, it is still hard to get the services. Did that answer your question?

ASSEMBLYWOMAN NEAL:

It did. How do your major industries participate in helping you?

MR. REBALEATI:

They participate, and they do help. The mines are our partners, and they always have been; they help when they can and when we ask.

SENATOR HORSFORD:

I appreciate you being here. I personally want to invite you and other members to participate. I also want to commend the people of Eureka County. As fiscally conservative as you may think they are, the fact that you invest \$32,343 into the 237 students of your County while meeting these other basic infrastructure needs and vital services for the people shows you can be a conservative and also meet the needs of the people you represent. Maybe I can come out to

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Eureka and meet some of those people who understand the value of those services.

MR. REBALEATI:
I would love to have you.

CHAIR KIRKPATRICK:
I want to be clear. I need everybody to get us the same information Senator Horsford has asked for. Churchill County can come up now.

ALAN KALT (Comptroller, Churchill County):
I would like to explain the Governmental Accounting Standards Board Statement (GASB) No. 54 that talks about the new ending fund balance. This addresses some of the confusion. In this upcoming year, all governmental entities are required to distinguish between what is restricted, committed and unassigned within the fund balance. If the funds are restricted, it means laws on the books physically restrict how those resources can be used. Committed is a designation the governing body, the Board of County Commissioners, could use on those funds. Unassigned funds are unreserved under the old school methodology.

Governmental entities such as Churchill County have to follow the Governmental Accounting Standards and generally accepted accounting principles. These professional standards talk about the different types of funds: general funds, special revenue funds, debt service funds, enterprise funds and internal service funds. Special revenue funds are different colors of dollars. I cannot take RTC gas tax funds and use those to pay for law enforcement to operate the jail. Those are legally restricted special revenues that must be spent for the improvement of roads. I wanted to give you a better understanding of the terms restricted, committed and unassigned as well as the fund structure.

Churchill County is an exporting county. We export our CTX revenues. We have shared the sacrifice through the years. I joined Churchill County in 1992, and we were just done with fair share. In the FY 1990-1991 Legislative Session, Churchill County was damaged and financially hurt. We were on the brink of severe financial difficulty because of errors within the numbers used in that calculation. The County suffered the slings and arrows of those errors in the numbers reported. The Legislature allowed us the ability for makeup revenues under A.B. No. 104 of the 66th Session. In Churchill County, we share in the

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sacrifice and the unfortunate privilege of having to additionally tax our citizens on the Governmental Services Tax, property tax, sales tax and Real Property Transfer Tax to make up for the deficit going back to FY 1990-1991.

Churchill County became a nonguaranteed county, and the numbers indicate it was in our financial interest to be a nonguaranteed county. That decision was made by our elected officials. Within those calculations, we did not have all the taxable sales of the major retailers. There was a Clark County grocery chain, and those numbers were included. In 1989, we had a geothermal company that built a plant, and it was a one-time expenditure. We had three major one-time sales, two of which were errors, one of which was a one-time sale that happened in Churchill County. That was added to our base with the assumption we would have taxable sales consistent with that level. In subsequent Sessions, Legislators did correct the problem that Churchill County experienced by allowing us to do makeup revenues. We have a supplemental Governmental Services Tax, property tax and Real Property Transfer Tax.

CHAIR KIRKPATRICK:
Is that different than what everyone else pays?

MR. KALT:
That is correct.

CHAIR KIRKPATRICK:
Does that come from within your cap or outside the cap?

MR. KALT:
That is within the cap. The property tax rate is 2.19 cents. If you go back to the formula and the numbers provided by the Department of Taxation on the makeup revenues we are allowed, that rate is up by 28 cents. We do not have the capacity to impose that. We have maintained the 2.19 cents for the last eight years. We have not been able to phase out the supplemental Governmental Services Tax. We need this additional revenue to supply the mandated services.

CHAIR KIRKPATRICK:
If you have a 38 percent ending fund balance for FY 2010-2011, as shown in [Exhibit D](#), page 1, that seems pretty good.

MR. KALT:

In the special revenue funds, which are the funds for specified purposes in [Exhibit D](#), page 7, that is what those balances are. If we were to turn to our general fund, our ending fund balance is within the recommended levels the Department of Taxation recommends, between 4 percent and 8.7 percent. We have included capital projects in that number for this year. Churchill County and Lyon County worked together because we wanted to build a juvenile detention facility. The funding was moving forward, but we lost it. We put money aside from greater than anticipated revenue to build the facility. The facility is built. We spent \$3.4 million, and we are going to have a grand opening and start to use the facility for its intended purpose. The ending fund balance number has been steadily going down as we move forward on planned capital projects that do not have any assistance from the State. Continuing the shared sacrifice, under S.B. No. 1 of the 25th Special Session, Churchill County was impacted and provided the State \$4.2 million of additional revenue as it relates to geothermal rents and royalties when the \$7 million cap was eliminated. We were able to share \$4.2 million with the State. Like other counties, we have contributed to the Indigent Accident Fund.

Over the last three years through the Commission on Economic Development, tax abatements have been granted for geothermal projects in the amount of \$6 million. When we submitted this, we used the information on schedule S-2 on the Department of Taxation forms. Under FTE, there are the subtotal for total general government and the big total, which included the enterprise operations. The 271 FTEs included the number of employees at our enterprise operation. However, we used schedule A-1 as recommended in the budget schedule that did not include the wages. Our FTE number is overstated; the real number is 195 FTE. We submitted that to Russell Guindon, Principal Deputy Fiscal Analyst. When we compared our numbers to others, it did not seem right and that was the reason for that calculation.

CHAIR KIRKPATRICK:

Is there anything Churchill County can do to help with the State's problem?

MR. KALT:

I would like to point out that Churchill County has seven operating geothermal plants and has never received an abatement. They entered into cooperative agreements to buy us fire trucks and ball field lights. One of the fire trucks was

bought with geothermal money. That is a source of revenue. If the geothermal plants are required to pay taxes, that money could be used for shared services at the State and local level.

CHAIR KIRKPATRICK:

Do you want us to tax geothermal different than the Net Proceeds? I am confused. They are on the same structure as mining. Are you saying they already do their fair share?

MR. KALT:

I am saying several new plants are scheduled to be built. Churchill County is blessed with an abundant geothermal resource. A lot of research and development has taken place. Companies are finding the steam. The laws on the books allow them to get sales and use tax abatements. The money does not go to the Local School Support Tax or to the State to support education. The tax rate not being collected is the rate for public transit to support transportation. The Basic City-County Relief Tax is not being collected because it is being abated. Those monies do not come to Nevada or the local governments to fund those necessary services.

CHAIR KIRKPATRICK:

We are done with that conversation. I have been trying to work with you for a long time. I do not think that is productive at this time. I have tried to work with Churchill County for four sessions. I try to protect the rural areas. I have to keep telling my constituents it is a shared sacrifice. If the only option Churchill County has to offer is geothermal, this conversation is done.

MR. KALT:

We are at the \$3.64 combined rate for the city. We have partnered with the local governments and the State on health care and social service efforts to provide some assistance. We believe in one Nevada. We are willing to step up and help where we can.

SENATOR MCGINNESS:

Churchill County is saying if we keep abating the taxes, these industries should pay more money to do what they should.

SENATOR HORSFORD:

We need to have that discussion for all industries. We need to have a moratorium on all corporate incentives and sunset them with a review. We are doing the sunset on boards and commissions and have it all reviewed. We are trying to go a new way in a new economy, and things on the books are abating taxes away from schools, public safety, local governments and vital services at the State level. Before this Session is out, we may have to freeze everything and have everything under review so we can determine what to move forward with. I hope we can work together and come up with something. As the shared sacrifice goes, corporate entities that have been benefitting through these incentives have to go without until our kids get what they need.

CHAIR KIRKPATRICK:

I want to be clear. I will send out a new e-mail and ask for different information. This is very detailed, and we are looking for basic information. When you submitted the information on the full-time employees, did you include the part-time employees?

MR. KALT:

That is not correct. We took the information in the statistical section within the Department of Taxation prescribed form, and schedule S-2 has total general government employment. The next line item talks about utilities, hospitals, transits, airports and others, and then there is a total. In our haste, I grabbed the total number. The total wages related to utilities, hospitals, transit and airport are not contained in schedule A-1; they are in schedule A-2, which is proprietary and nonexpendable trust funds. By picking the total, I overstated the number of employees in general government. I should have put the total general government number, which does include part-time and seasonal employees and an FTE mathematical calculation.

CHAIR KIRKPATRICK:

Where do you see your projected revenue in FY 2011-2012?

MR. KALT:

I used a technical term by telling our Board of County Commissioners, with all due respect, it sucks. We are struggling. The revenues are down. We started our budget mitigation efforts in October 2007. The departments are telling me it is the death of a thousand cuts. We are doing reduction in staff. We have had

furloughs for the last two years, no general adjustments and insurance modifications. The sad part of this is reading the local newspaper and seeing county employees' names in the foreclosure section in the public notices. They are feeling the pain too.

CHAIR KIRKPATRICK:

I am going to call up the City of Las Vegas.

TED OLIVAS (Director, Administrative Services, City of Las Vegas):

I am joined today by Mark Vincent, our Chief Financial Officer, and Councilman Ricki Barlow, who is in the audience. As Ms. Neal mentioned earlier, we did give a presentation on our budget to the Assembly Taxation Committee. We talked about our town hall meetings, budget discussions at each of our council meetings and working with our unions and layoffs. We are not covering that today. We need to talk about the information provided on the spreadsheets [Exhibit C](#) and [Exhibit D](#). Mr. Vincent is going to work from that.

MARK VINCENT (Chief Financial Officer, City of Las Vegas):

I would like to point out differences between us and the other cities. The most obvious one is that we fund our share of the Las Vegas Metropolitan Police Department (LVMPD) through a contribution that looks like an expenditure different than labor. It looks like a services, supplies and other charges expenditure. We outsource our police services to the LVMPD. With us, the labor and benefit component of our budget looks smaller than it would as a percentage of other cities. Our average compensation per employee based on the statistics provided in our budget is fairly comparable or maybe less than some of the other cities. The mix is different. The reason for that is we treat paid absences of our employees as a fringe benefit, not as a salary. The mix between the labor and the fringe benefit is different

On the summary sheet, the sources and uses for governmental funds is an accounting term that came about because of GASB No. 34 several years ago. It combines a lot of funds together, including our capital projects fund, special revenue fund and some internal service funds. The summary schedule has all those together. I noticed when we got here that the City of Las Vegas did not reflect any reserved or unreserved ending fund balances on the [Exhibit C](#) and [Exhibit D](#) spreadsheets, and I cannot tell you why. In our general fund categories, CTX and property tax revenue constitute over 60 percent of our

revenues; other revenues are the usual license fees, franchise fees and some charges for services, court fines, forfeitures and other expenditures.

In our operating transfers in, \$11 million of that comes from our fire safety initiative property tax override of 9.5 cents. That portion supports staffing the fire stations we built using the fire safety initiative. It also includes some one-time money from our capital projects fund and from our internal service fund which we use to help cover our deficit. When you go over to the uses for those, there are transfers out for debt service and for the golf course debt service.

Given a lot of discussion about some of our special revenue funds, a few are earmarked or restricted due to either statutory restrictions or other; those are the 1 percent room tax for transportation, the gas tax for our roads and the 9.5-cent fire safety override. We created a fiscal stabilization fund, using money from capital projects we delayed or eliminated and fund balance reserves we had in some of the internal service funds.

CHAIR KIRKPATRICK:

If the State was to give you some services, would any specific assessments have to be adjusted or any legislation have to be changed to accommodate that?

MR. VINCENT:

Do you mean if we are being asked to take on additional services?

CHAIR KIRKPATRICK:

Correct.

MR. VINCENT:

I have not given that much thought. It would depend on what those services were and to what magnitude. We have been working this problem since 2008. While we have some healthy fund balances in the general fund and have cut 20 percent in dollars and staffing to date, we are still looking at a potential \$15 million to \$20 million structural deficit going into FY 2012. We hope to maintain some concessions and the flat labor contracts and to grow ourselves out of that. We are looking at a 9 percent drop in property tax revenues for FY 2012. Because of the fact that Las Vegas has a negative growth for the CTX formula until FY 2016, we do not see anything but cost of living increases

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in our Consolidated Tax Distribution. There may be some services we can absorb.

CHAIR KIRKPATRICK:

We have made significant changes to our economic development and hope local governments will to use it wisely toward dollars that will generate Modified Business Tax and sales tax dollars. I do not want to give you services without good stuff. The economic development plan is pretty good. For the first time, the local governments are a key player, and they can make some key decisions to help all of us.

MR. VINCENT:

It does in the formula, as I mentioned.

CHAIR KIRKPATRICK:

It does in the formula. Everybody benefits if one business opens anywhere in the State. We can agree to disagree, and we could agree to not give economic development to local governments too.

MR. VINCENT:

If the city had more tools and the ability to help ourselves with economic development, that would be a plus.

CHAIR KIRKPATRICK:

When we do redevelopment, we freeze a lot of service dollars for a long period of time, which impacts the counties. The counties provide the basic services, and I try to find different tools. Are there any additional tools the cities can use to help with their deficits?

MR. VINCENT:

We could use some relief in the structured tax revenues, such as property taxes. With respect to the redevelopment agency, we are looking at ways we can do things with the school district. We are trying to take a broader look at what we can do with the resources we have that benefit the larger community.

SENATOR HORSFORD:

Can you tell us if the unreserved ending fund balance is discretionary or nondiscretionary? If nondiscretionary, may ordinances, statutes or related things

be changed to free that up? You said that you had reasonably hefty fund balances despite the reductions and concessions taken. Can you explain that comment?

MR. VINCENT:

In FY 2011, we cut \$51 million from our budget. Because of other management controls put in place, we will underrun that by another \$15 million. That \$15 million will go to our fund balance and help us as we roll into FY 2012. We know we are not out of the woods. We believe we have a 5 percent structural deficit to deal with. The fund balance will allow us to manage through that over another year or two. The State and cities have suffered through this. Our board dropped our fund balance reserve policy from 12 percent to 10 percent—even though our actual fund balance did not hit at 10 percent or below. That was a contributing factor to our bond rating downgrade. The bond raters do watch that as an element of our fiscal stability and credit rating.

SENATOR HORSFORD:

In FY 2009-2010, you had both a reserved and unreserved ending fund balance; in FY 2010-2011, it is depleted.

MR. VINCENT:

I do not believe it is depleted. That is an error. We will update the information.

CHAIR KIRKPATRICK:

On your employees, did we include everybody?

MR. VINCENT:

Yes, FTE are included in the partial counts for the summer program part-timers.

CHAIR KIRKPATRICK:

I want to have the City of Fernley come up.

LEROY GOODMAN (Mayor, City of Fernley):

I have Fred Turnier with me; Mr. Turnier is our Acting City Manager. I also have Mel Drown with me; Mr. Drown is our Financial Officer.

We have 57.4 FTE employees; 51 of those positions are filled, and the remaining 6 positions are frozen. That is down 30 percent from two years ago

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when we had 71 full-time positions. In the past three years, our operating property tax revenue assessed valuations have gone from \$755 million to \$448 million, resulting in a property tax drop of \$1.1 million.

MEL DROWN (City Treasurer/Finance Director, City of Fernley):
I will go over the summary of combined sources and uses for governmental and expenditure trust funds on [Exhibit C](#).

CHAIR KIRKPATRICK:
Did you break down the specific services and the dollars?

MR. DROWN:
Our general fund is approximately \$3.8 million in expenditures, and we will submit a final budget to the Department of Taxation with revenue projections in the budget of approximately \$4.6 million. Our plan is to transfer \$800,000 to our enterprise fund. Our services in the general fund include planning, building, animal control, vector control, finance, information technology, city clerk, city attorney and a part-time municipal judge. We do not provide or pay for police or fire services. Lyon County provides the police services and the North Lyon County Fire District provides fire protection. Our fund balance is \$363,000 of designated reserved fund balance and the general fund has \$800,000 of undesignated fund balance, which represents approximately 20 percent of our operating cost. The fund balance has accumulated in the last three years. In FY 2011, we may have a slight surplus.

CHAIR KIRKPATRICK:
Could you get us a breakdown on these numbers and expenditures?

FRED TURNER (Acting City Manager, City of Fernley):
We will get that to you.

CHAIR KIRKPATRICK:
We have your operating revenue and expenses, but it is not broken down on the voter overrides and the information we need in order for us to help.

MR. DROWN:
Our CTX for FY 2010-2011 is \$150,000 [Exhibit D](#), page 2. Our property tax revenue is budgeted at \$1.4 million and the remainder of our revenue budget is

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in excess of \$1 million which represents franchise fees, business licenses and miscellaneous revenues.

CHAIR KIRKPATRICK:

I am looking for what some of the other cities did. A portion of the money from CTX goes to social service programs and other areas. We are trying to drill in on the specifics.

MR. DROWN:

The \$150,000 of CTX money we get is part of the total revenue that pays wages, benefits, services and supplies within the general fund.

CHAIR KIRKPATRICK:

Could you get it in writing so I can look at it later?

MR. DROWN:

We will be glad to do that.

CHAIR KIRKPATRICK:

Where are you headed for FY 2012?

MR. DROWN:

For FY 2012, we are budgeting \$133,000 in CTX and \$1.8 million in property tax. We are raising the property tax rate from 35 cents to 54 cents. We are also raising our franchise fees. Our franchise fee and business license revenue will approximate \$1.2 million.

CHAIR KIRKPATRICK:

If the State were to give you any additional services, are there any hindrances within ordinances or legislation for unintended consequences?

MR. TURNER:

It would depend on the type of services provided. We would look at every service proposed and what impact it would have on ordinances and core services the city provides.

CHAIR KIRKPATRICK:

That is why the other list would be helpful for us to see. We would not want to give a city a service it does not offer and expect it to perform an implementation. Implementing a service is expensive.

MR. GOODMAN:

Fernley is a blue collar community. We have some good industry. Mr. Guindon made a comment concerning features unique to the revenue and expenditure side. It is unique because the City of Fernley receives nothing in CTX compared to everybody else. This is a problem for us. We do not have a lot of expenditures. We have parks and streets that come from the 9-cent RTC tax. Other than that, we do not provide a lot of things that most cities do because we do not have the money, even though we have a population of 19,368. When you look at these other budgets, we do not have the money or the personnel to do these other things. We are looking to increase our property tax. This increase does not equate to the full value because of the tax caps. We are looking to grow. We have several industries looking at us. We get impacted by the Tahoe-Reno Industrial Center in Storey County. We have a great number of people who live in Fernley and utilize the services, but we do not get the property tax of those big box stores in Storey County. It impacts us severely.

SENATOR HORSFORD:

We all serve the same constituents. People do not care nor do they differentiate where the service comes from, whether it is local or State government. We all have to balance our budgets, unlike the federal government. We are in this together. There are 237 taxing districts in Nevada with a total of \$16 billion worth of local spending throughout all of those entities. Compare to the State budget at the 2009 level of \$6.8 billion, General Fund only, add the nongeneral fund, federal money and transportation, and it is up to \$14 billion or \$15 billion.

My point in raising this is we need to transform the way we spend money. I am hearing the same thing. We cannot provide these services because we do not have adequate revenue or staff. If they are a larger city or county, they have provided things that maybe they should not be providing. That is the position we are in as a state government. There are functions we cannot do because we cannot afford to do them. Other functions are constitutionally required; we have to prioritize. When are we going to look at the total spent?

It is fascinating that we are having this discussion. This was requested information. I know it is reported at the Department of Taxation, but we had to request this information from local government in order to have this presentation today. I have served in the Legislature since 2005, and this is the first time we have had a comprehensive presentation on what local government spends and how they spend their money. The fact that there is \$16 billion of local government spending—and we have spent four months focused on every detail of the \$6.8 billion of the State budget—shows you we have our focus out of whack. Everything needs to be on the table. We need to look at consolidation of services, we need to look at consolidation of counties, look at breaking down these boundaries. If the quality of life is not being provided to our constituents, then we are missing the boat and not meeting our obligations.

Local governments are subentities of the State. This is a policy decision. Some municipalities are on the brink of financial disaster. If they cannot meet their obligations, the State has to take it over. How are we supposed to do that when we cannot balance our budget and fund the constitutional obligations in education, mental health care and public safety? It is a requirement if it occurs. I appreciate this opportunity to finally get a comprehensive report from local government on the \$16 billion of spending at their level. It has raised more questions than it has answered.

I hope we can follow up with the participation of elected local government leaders and management to figure out how we move forward. Local government is critical. They are our partners. They do the services and public safety. All the things the presentation outlined are important functions that need to be done. It concerns me when I hear, "Well, we are not going to be able to do that." What kind of quality of life are we providing for the people of our State?

ASSEMBLYMAN ELLISON:

You said you had 20 percent in operation. What is your ending fund balance and what percentage is that?

MR. DROWN:

Our ending fund balance in the general fund of over \$1 million is made up of two components. We are holding \$300,000 of restricted fund balance for deposits—in some cases for developers, in other cases to finish small projects. The undesignated fund balance amount is approximately \$800,000.

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ASSEMBLYMAN ELLISON:
What enterprise funds do you have?

MR. DROWN:
We have two enterprise funds. We have a wastewater treatment plant and a water treatment plant.

CHAIR KIRKPATRICK:
If you are going to transfer \$800,000 from the enterprise funds, how does that work?

MR. DROWN:
We are doing everything we can to budget a surplus which would provide us with the ability to make an operating transfer to the water treatment fund. It has a significant amount of outstanding debt. The user fee revenues from water billing and miscellaneous revenue does not provide enough income to pay operating costs and debt service.

CHAIR KIRKPATRICK:
The enterprise fund is a tax increase to the rate payer. It gets transferred into the general fund and it is used as a cost allocation for someone sweeping the floor. I want to know whether you are putting this in the general fund—increasing the fee to pay the debt service and putting this in the general fund. Is there a payback plan to that fund?

MR. TURNER:
We are doing this differently than other cities in the State. Our water enterprise fund has a structural deficit of about \$2.1 million that we have to pay off. Our water fees are not covering that now. Through salary savings and freezing positions in the general fund, we are transferring revenue into the enterprise fund, not the other way around, from the enterprise fund to the general fund. You may have seen it that way in other jurisdictions.

CHAIR KIRKPATRICK:
The sewer treatment plants are a bigger expense than we can afford to pay back across the State.

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SENATOR HORSFORD:

I just said we all balance our budget. You said something that made me challenge that thought, and it is what the Governor proposes to do in his budget. You are borrowing from your operating fund to use that money to service debt. That is not a balanced budget. You should have the money to pay off your debt and meet your operating costs. This shifts the burden and creates long-term deficits for future Legislatures. This sounds like what these local governments are doing. This is not fiscally prudent.

MR. GOODMAN:

We are in talks at City Council meetings to impose a flat rate assessment on the water users to help pay for that bond. This debt on the water bond was for a water treatment plant for arsenic elimination as per the federal government. Six or seven years ago, the federal government said "you will do this." The City Council agreed to do it, and then the economy tanked. It was predicated on growth. These are the ways we are looking to do this. Our reserve fund and the water fund are rapidly diminishing. If we do not make the bond payment and we default on the bonds, the insurance company comes in, pays the bonds, takes over the water treatment plant for the City of Fernley and imposes whatever rate they would like for the residents of Fernley to pay for the water.

Senator Horsford, I liked your comments. The City of Fernley is willing to come to the table as an equal partner with everybody else to discuss all alternatives to Nevada's problem. We need to work together and do whatever we can to resolve this. We are tickled to come here today to present to the Committee. We are pleased and honored to be included.

ASSEMBLYMAN LIVERMORE:

I am looking at the total compensation per employee in FY 2009-2010 and FY 2010-2011. The average cost for the same amount of employees in FY 2009-2010 is \$57,690 on [Exhibit C](#), page 2, to an average of \$76,382 on [Exhibit D](#), page 2. Why is there a 20 percent increase in employee costs?

MR. DROWN:

The increase is attributed to two things: medical costs and Nevada pension increase costs.

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ASSEMBLYMAN LIVERMORE:

That would reflect in the benefit component, not in the average wages and salaries per employee. That is \$13,000 per employee.

MR. DROWN:

During FY 2009-2010, there were significant increases as a result of individual positions as well as a reorganization plan that took effect July 1, 2010. We picked up the Public Employees' Retirement System increase for the employees. I can get you some better information.

ASSEMBLYMAN ELLISON:

Is the depreciation schedule for the wastewater included here? Eventually, you are going to have to rip this out; it is getting old.

MR. DROWN:

We are not able to fund depreciation.

CHAIR KIRKPATRICK:

The City of North Las Vegas can come up now.

DAN MUSGROVE (City of North Las Vegas):

There has been a lot of great questions and statements today. Based on your questions today, regarding the monies and how things are broken out, we will work hard to make sure we give you the information in the proper form. I appreciate the last statement by Senator Horsford about bringing us all together and talking about the roles of State, counties and cities.

With so many new Legislators in the body, it is a good way to understand what functions we all have. Cities are much different than the relationship between the State and the counties because so much of what the State and counties do is similar. It does not mean we do not all have a relationship because things we do still serve the same constituents we have. When you talk to us about what things we could do to help you, you have to look at this list because this is where our expertise lies. This is where our funding streams go.

If we are looking at shared services, what are the things we do? We have State roads that go through the City of North Las Vegas. Do you want us to take on the law enforcement responsibilities of those State highways? That is

something in our influence. When you look at parks, is there a state park in the City of North Las Vegas? We are in a position now where we are downgrading what we do at our parks. We are having trouble keeping swimming pools open. The partnerships we have with the school district in allowing soccer and Little League to use the fields are typical.

As we think about the big issues we all share, I want you to look at our expertise. We are glad to participate and help the state.

AL NOYOLA (Acting Finance Director, City of North Las Vegas):

On [Exhibit D](#), page 2, in the contingencies other than transfers out, there is a \$12.8 million credit that represents a timing issue. When we were in the process of filing the budget and also trying to shore up our budget to cover that deficit, we were allowed to put in a credit. Since then, we were able to capture most of that with the budget reduction plans that the City of North Las Vegas completed. We are \$1 million short, which the ending fund balance will cover in this year. This page is based on the budget submitted. The metrics show the ending fund balance of 14.3 percent. That is representing all the fund balances, both general and special revenues. We are looking at the ending fund balance in the general fund at 4.4 percent in our review ([Exhibit H](#)), page 7.

Under the total compensation per employee on [Exhibit D](#), page 2, you see the figure \$95,361. That figure has been updated to \$91,000 as a result of the budget reduction plan. The CTX Revenues budgeted at the beginning of the year are approximately \$32.2 million. That represents approximately 25 percent of the general fund revenues. Of operating transfer in to the general fund, \$32 million is PILT, [Exhibit H](#), page 4. Listed in red on [Exhibit D](#), page 6, is the space holder of the deficit we were facing at the beginning of the budget. At the time we submitted the final budget, we had not completed the plan on how to achieve that; since then, we were able to achieve nearly all of it.

CHAIR KIRKPATRICK:

The PILT money is in jeopardy of being lost. North Las Vegas has increased its budget with additional PILT money. How does that work?

MR. NOYOLA:

In December 2009, our local board heard a presentation on the enterprise fund and the movement of the PILT monies from the enterprise fund to the general

fund. The local board decided they would freeze any future increases to that money until such time we can go forward with a proposed formula in which we charge for government services we provide to the utility fund.

MR. MUSGROVE:

I can answer the question. Clark County was talking about the federal PILT. This is the ability we have to move PILT payments within our own budget where you move charges from the enterprise fund to the general fund because of services the general fund provided to the enterprise fund. The County was talking about getting federal dollars because so much of its land is federal versus local; Clark County receives tax dollars from the federal government.

CHAIR KIRKPATRICK:

Who gets the tax dollars from Nellis Air Force Base?

MR. MUSGROVE:

It is not in North Las Vegas.

CHAIR KIRKPATRICK:

Regardless of that, how did your budget increase from year to year? In FY 2010-2011, you said you were going to use \$32 million; in FY 2011-2012, you said you were going to use \$35 million.

MR. NOYOLA:

In [Exhibit H](#), page 4, there is a transfer of \$35 million, and the \$32 million represents the PILT transfer from the utility fund to the general fund. The remaining \$2.5 million is coming from a separate fund we use to provide monies to purchase vehicles. We moved that money to the general fund along with some miscellaneous monies.

CHAIR KIRKPATRICK:

Why does PILT transfer the same when some of it should be under miscellaneous?

MR. NOYOLA:

Yes, it could have.

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CHAIR KIRKPATRICK:

It is not consistent. It is a misconception on PILT; PILT use in the 17 counties is different than the way North Las Vegas does it. You are one of the cities we have to be concerned about taking over. What do we do? We need to prepare for the cities that are in trouble.

MR. NOYOLA:

[Exhibit H](#), page 5 represents the general fund expenditures for FY 2012. This tentative budget has not been approved by our local board. In FY 2011-2012, we have a general fund expenditure of \$129 million. The built-in assumption is that the general fund will come up with an additional \$20 million in expenditure cuts. There is a deficit of \$20 million in order for us to maintain a 6 percent ending fund balance in the general fund. Our board has the policy to maintain a general fund ending fund balance of 6 percent. An additional revenue fund also shows a deficit for next year of \$2.6 million on [Exhibit H](#), page 8, that we have to include as part of a budget reduction plan to ensure a balanced budget for the next fiscal year.

ASSEMBLYWOMAN NEAL:

On page 4 of [Exhibit H](#), the charges for services for FY 2010-2011 went down for FY 2011-2012. Why was that?

MR. NOYOLA:

Page 4 of [Exhibit H](#) shows charges for services for FY 2010-2011 at \$24 million. Most of that represents revenues we received for prisoner board of inmates we house for federal government and local. We have found the federal government has been decreasing the number of inmates it houses at our facility; because of that, there is a substantial drop in revenues. Originally, we budgeted \$21 million. We will be budgeting \$3 million in federal prisoner board revenue and other local revenues dealing with federal and local inmates.

ASSEMBLYWOMAN NEAL:

On page 5 of [Exhibit H](#), transfers to other funds in FY 2010-2011 have a significant increase in FY 2011-2012. Where is the money going in FY 2012?

MR. NOYOLA:

Are you speaking of the transfers to other funds where I show \$5.5 million in FY 2010-2011? In FY 2011-2012, part of that transfers to other funds is

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\$8.7 million in debt service and \$387,000 for a grant contribution to the Community Oriented Policing Services from the U.S. Department of Justice.

CHAIR KIRKPATRICK:

Where is the \$20 million going to come from? That is a lot to do when you have laid off employees. You have a 77 percent vacancy rate in police and fire. What are your thoughts on where that is to come from?

MR. NOYOLA:

It is a daunting task. We intend to scour all the budgets and revenues to see where to do that. We are in the process of putting together budget reduction plan No. 3. It is still in draft and has been reviewed or approved by our local board. We are planning to provide a budget reduction plan to our local board for approval no later than May 18—the same time our final budget gets approved for FY 2012.

CHAIR KIRKPATRICK:

You submit the preliminary budget on May 18, but you still need to find \$20 million between May 18 and July 1.

MR. NOYOLA:

On May 18, our local board will approve the final budget as presented and approve the recommended budget reduction plan. Immediately following that approval, management will exercise the plan. If there are layoffs, we start that process immediately after the approval.

CHAIR KIRKPATRICK:

Do you have a plan for where the \$20 million is to come from?

MR. NOYOLA:

That plan is underway and in draft format. We will be looking at a significant amount of layoffs.

CHAIR KIRKPATRICK:

If we go home and unforeseen challenges in your numbers do not mix, we could not take you over in the middle of an interim and then have to come back and additionally cut. We need some certainty before we go home that this is a real budget.

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MR. NOYOLA:

On May 17, our board will vote on the proposed budget reduction plan. They are all aware we have a deficit that we need to address and provide a balanced budget to the State by June 1.

MR. MUSGROVE:

I can assure you North Las Vegas is here to stay. We will deal with the hard challenges ahead of us and do the best we can to service our citizens. There may be things that we have to get used to doing without. We may have services we cannot afford to do now. With regard to the essential services we have a responsibility to provide to our citizens, our elected Council will step up and make those decisions. It is premature for us to lay it all out for you today because we are working on a solution, and our elected officials have not had an opportunity to step up and make those decisions. You will have an answer before you leave this Session that we can do the job, and we will do it. That is our responsibility. We are shooting for a 6 percent reduction, which is well above what the Department of Taxation looks at as a problematic situation.

ASSEMBLYWOMAN NEAL:

How many more additional layoffs are you looking at? Have you projected the sales tax impact with the new energy company in North Las Vegas?

MR. NOYOLA:

It is premature to estimate the number of layoffs. Our board has to lay out our priorities in terms of services we provide to our community. I cannot give you a specific number today. Any number is significant because when any of our employees leave, the services we provide will drop. I do not have the information on the economic impact on your second question.

ASSEMBLYWOMAN NEAL:

As I listen to the testimony, it is clear we made choices when we knew we could not afford to do certain things or spend money. We projected on future revenue that does not exist. We cannot project and authorize money to be spent based on a future event. When you spend what you do not have, there is always a risk. What is going to happen differently with our choices dealing with spending in the cities and counties? You could not afford certain decisions you made before the recession hit. You projected money that did not come in.

MR. MUSGROVE:

The State, counties and cities have gone through this same exercise. Take the special sessions you have had as a legislative body; we have had to do those on a weekly basis. We meet two times a month. We can do it as part of a regular Council meeting. We just talked about our third wave of cuts. We thought we were in a better position three or four years ago. We might have been slow to react. We have been working with our employees to figure out a way we can mitigate the decreases in revenue, the changes in depreciation, the loss of sales tax, CTX and property tax.

We are trying to react as effectively as we can with the least effect on our constituents and our employees. That is why we are hesitant to throw out a number of employees to be laid off. They are listening to this and wondering if they will be out of a job next week. We want to mitigate that as much as we can and let our elected officials make those hard decisions. We are trying to develop a long-term plan to make sure we do not put ourselves in this position again.

CHAIR KIRKPATRICK:

We will have to have a separate hearing to be sure the cities are taken care of before we go home. I cannot figure out how you can transfer capital dollars into general operating funds for operations. How does that work?

MR. NOYOLA:

The capital assets fund for the purchase of vehicles is provided by the general fund. Because of that, we can transfer back to the general fund. Dollars are assigned there in order to pay for depreciation of vehicles, so when it is time to purchase vehicles, we would have the monies. At this point in time, we are not purchasing vehicles. We are using every available dollar we can under NRS to shore up the general fund.

CHAIR KIRKPATRICK:

Reno can come up. I want to focus on where you are, what responsibility the State has and the bond payments.

CADENCE MATIJEVICH (City of Reno):

I have with me today our Interim City Manager and Director of our Office of Management and Budget, Kevin Knutson.

KEVIN KNUTSON (Interim City Manager/Director, Office of Management and Budget, City of Reno):

Over the past few years, the City of Reno has experienced more than average decreases in revenues ([Exhibit I](#)). Our CTX has gone down 30 percent. Our property taxes are down almost 20 percent, and we are projecting those to continue to drop over the next two years. In response to that, we have had to cut \$100 million or 25 percent of our budget over the past three years. We have done that through a number of ways. One of the ways we did it was by using one-time revenues from our reserves before we actually made cuts to our service level. Our reserve levels are down to the bare minimum of what we have to have by State law.

On staffing, we have gone from 1,600 employees down to 1,100. We have lost 506 positions or 31 percent of our workforce. We are heading into next year looking at an additional \$25 million in decreases. In March, we decreased our budget by \$14 million in anticipation of that and also to help us get through the rest of this year. This leaves us \$10 million to cut for next year. We are working with our bargaining units to look at reducing all salaries across the City by 7.5 percent, which would raise enough money for us to do that. In lieu of that, if we are unable to reach those agreements, we are looking at another potential layoff of about 70 to 80 people, which would take us well over a 30 percent decrease in our total staffing.

Some of the impacts we see from that are in our public safety area, which is more than two-thirds of our budget. We have a police department at approximately the same level it was in the mid-1980s, [Exhibit I](#), page 9. Our fire department is at the level it was in 1990 when we had one-half the population. Every department has decreased between 15 percent and 30 percent, depending on the department. We have tried to make the cuts less in public safety because that is one of the more important services we have. We have done this through a citizens group known as the Service Priorities Task Force, which helped us analyze the services and gave us information about where it thought the cuts should come first.

CHAIR KIRKPATRICK:

We tried to talk about consolidating some of those services, such as police and fire, so everybody could work together, and local government opposed it. I want

to focus on bond payments. Are you able to make those payments? If you are cutting all these services, how are you to continue forward?

MR. KNUTSON:

In the City of Reno, most of our bond payments are attached to specific pledged revenues, most of which were raised specifically for those bonds. In the case of the general fund, about 0.06 percent of our total debt is in the general fund. Most of it is in other funds. It is problematic. When we pledged the revenues, we assumed a certain amount coming in over the years; in most cases, there was plenty of coverage in those revenues when we first started. We have seen those subtly erode over the years. Because those are not attached directly to the general fund, we have had to go and negotiate with the underwriters, the banks and the people who hold those bonds to take less payments or to defer certain conditions within the bonds. So far, we have been successful and have had discussions with four banks. We have been able to live within our means on those. Less than 20 percent have secondary pledged revenue from the general fund. If we get into a situation where we could not afford to pay for the bonds, there would be little impact on the general fund at less than \$6 million.

CHAIR KIRKPATRICK:

If you cannot pay your bonds, it has to come from somewhere. If you do not pay your bill, somebody will come looking for you.

MR. KNUTSON:

Not necessarily. We pledged that revenue as the source to pay it. We are working with our bond holders to use that amount of money to make the payments. I do not expect any of those payments to go away completely; it is reduced from what it was before. Since there is no secondary pledge to those, they do not have a right to ask for any revenues. The Reno City Council could determine this is something they want to do, using other revenues to support them, but we are not at this time.

CHAIR KIRKPATRICK:

I heard recently that the City Council did talk about moving some dollars from one account to another to pay for bonds?

MR. KNUTSON:

That potential is always there and a policy decision the Council members could make. You might be referring to three different bonds they have discussed recently. Two are being paid for out of pledged revenues appropriate for those. One we are looking at to see if we can change out a lease or combine it with some other bonds. The only funds we have used out of the general fund are about \$2 million in CTX, which is secondary pledged revenue. That might be what you are referring to.

CHAIR KIRKPATRICK:

The \$2 million that came out of the general fund came from some services that constituents thought they were getting.

MR. KNUTSON:

Any funds that come out of the general fund directly impact our services.

SENATOR HORSFORD:

I have the same concerns about the financial picture. If you do not make your bond payments, you are a subentity of the state and bond holders can come after us. Because of that I am gravely concerned, as I am about some of the other entities in a similar situation. We need to follow up on these issues in a subsequent hearing to come up with solutions of possible legislative steps we need to take while we are in session. I do not want to come back here in November to bail out a city that failed to meet its financial obligations to a bond holder

On the Senate Legislative Operations and Elections Committee, I understand a city changed from opposition to support of an issue, and then it went to the council with further discussion where the Council basically trashed a legislative colleague and a person who represents that region. That is not the level of cooperation we should have as local and state partners. If a city's position is it supports something, it should work with the Legislators who are offering those proposals to make them happen rather than throwing up obstacles, which I hear continues to happen. I do not have enough time to listen to all these meetings, but I get reports. Some of those reports are not cooperative or solution-oriented, and they are not about fixing problems.

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When you cannot pay your bills, there should be no questions of why we should have improved representation through ward bills or more efficiency in other legislation we look to bring forward. I urge the City Council to focus on your problems and stop making members who represent that area out to be the enemy. They are not; they are there to work with their constituents to bring issues forward. I had to raise that while it was fresh.

CHAIR KIRKPATRICK:

Where do you stand with your credit rating on the bonds?

MR. KNUTSON:

Nothing has changed on the credit rating. We were put on a negative outlook about eight months ago. That has been lifted at this point. Whatever happens in the future will impact that. We are keeping a close eye on it.

CHAIR KIRKPATRICK:

You are working with Washoe County on some services. Would any other legislative tools be beneficial to help get you out of where you are?

MR. KNUTSON:

We have had a great deal of success working with Washoe County, particularly in building permits and business licensing. We are starting to talk to them about dispatch and looking at some of our internal services that are actually easier for us to handle because of the internal nature. Larger issues, like law enforcement across the area, still continue to be difficult for us.

ASSEMBLYWOMAN BENITEZ-THOMPSON:

Could you tell me what transfers out means? I am looking at FY 2009-2010 nonexpendable sources and uses and FY 2009-2010 local government debt service funds, [Exhibit C](#). Are those payments or reallocations?

MR. KNUTSON:

Reallocations. We have taken funds to pay for services in other areas. They were moved from one fund to another in support of activities in the downtown.

ASSEMBLYWOMAN BENITEZ-THOMPSON:

That is what we are seeing with the reallocating, sanitary sewer and debt service. Transfers out means reallocation?

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MR. KNUTSON:

There are charges we have put into these funds from the general fund to support finance, legal support and human resources.

ASSEMBLYWOMAN BENITEZ-THOMPSON:

Would that be for operating expense?

MR. KNUTSON:

Some of that would be. That is why I am saying I am not sure of the exact breakdown, but I can find out for you.

SENATOR LESLIE:

I agree. We need a separate hearing on the cities that are struggling to see if we need to do something before the end of this Session. Do you have an agreement with the Department of Taxation because of some problems and irregularities you are fixing? Could you confirm that? Could we get a copy of that for when we have the hearing so the Committee can review it? I would like to understand that agreement more clearly.

MR. KNUTSON:

Certainly. We have been in discussions with the Department of Taxation on a number of issues, and we have provided them with what we call a corrective action plan that outlines what steps we are going to take on that. In addition, we met before the Committee on Local Government Finance that asked us to come back with that plan to show our implementation and success. That Committee has also asked for a complete breakdown of our debt. Through that process we may give you more information that will help you understand our situation.

SENATOR LESLIE:

That would be wonderful.

CHAIR KIRKPATRICK:

That is exactly the kind of information we are looking for. It is a tough situation. I did some research into it. If the State does take you over, property taxes could go up to pay the debt. That is unfair because despite doing everything right all along, residents get dinged no matter what. If there is a better way to protect the residents, I am all for it.

SHAUN CAREY (City Manager, City of Sparks):

I did provide the Committee a three-page outline of the year ahead ([Exhibit J](#)). I find the City of Sparks to be financially stable in the year ahead in all areas, including redevelopment and Sales Tax Anticipated Revenue bond areas. We need to see the economy begin to grow. The City of Sparks development activity has fallen off 83 percent since 2007. The median value of a home has dropped by 54 percent.

Our budget and actions have become a focus on sustainability. We are no longer taking one-time measures. We are now taking permanent changes in our workforce, and we are proud of the concessions from our employees. We have had a significant loss of workforce. We are down to 35 percent of our workforce. We believe with our sustainability initiative, we have a plan that will sustain us through the prolonged recession.

The City of Sparks is willing to work with the State on service issues. We have had conversations with the other city managers. The translation has been difficult to date because we are looking for areas where we can take in duplicative operations and make a change in the area of the budget you wish. Our greatest area of overlap is in transportation issues.

As you know, with your funding scenarios, that is a different thing. The city managers do remain concerned in wanting the State to be stable. We are concerned about the services provided by Washoe County. We rely upon those in the cities, especially in social services and jails. We are all partners and want to put forth our efforts to remain good partners with our counties and State.

ASSEMBLYMAN ELLISON:

Where are you on your tax cap?

MR. CAREY:

We are 1.69 cents below the cap in the City of Sparks. I have chosen not to adjust that. As a clear policy direction, we felt that any additional tax burden would produce minimal revenues. A penny of property tax generates just under \$200,000. We felt it was better to work on the operational expenditure side, which we have diligently done over the last four years.

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We would appreciate opportunities to engage in the interim session with the legislative committees on looking at stability of local government revenues, particularly in areas of property tax and sales tax, so we can ensure the long-term fiscal health of Nevada's local communities.

ASSEMBLYMAN ELLISON:

Thank you. Where is Reno on your tax cap?

MR. KNUTSON:

We are within 2 cents of our cap. There has been no motion to make any addition to that at this time, and I doubt we will. We are close to the cap.

CHAIR KIRKPATRICK:

I appreciate everybody waiting until the end of the day. This has been done in the public process. We want to work together and provide the right services to constituents.

I want to commend the City of Sparks. You are in a much better position than you were at the Twenty-sixth Special Session. That gives me comfort.

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We will have a meeting after May 18. I will send out an e-mail to all of you who need to get me additional information. I would like to have it by Monday.

This meeting is adjourned at 4:41 p.m.

RESPECTFULLY SUBMITTED:

Gayle Rankin,
Committee Secretary

APPROVED BY:

Senator Sheila Leslie, Chair

DATE: _____

Assemblywoman Marilyn K. Kirkpatrick, Chair

DATE: _____

<u>EXHIBITS</u>			
Bill	Exhibit	Witness / Agency	Description
	A		Agenda
	B		Attendance Roster
	C	Jeffrey Fontaine	Summary of Combined Sources and Uses for Governmental and Expenditure Trust Funds FY 2009-2010
	D	Jeffrey Fontaine	Summary of Combined Sources and Uses for Governmental and Expenditure Trust Funds FY 2010-2011
	E	David Fraser	Nevada League of Cities Presentation
	F	Kathy Simon	Washoe County Budget History Fast Facts
	G	Michael Rebaleati	Eureka County's Presentation
	H	Al Noyola	Review of Local Government Budgets and Financial Conditions, City of North Las Vegas
	I	Kevin Knutson	City of Reno
	J	Shaun Carey	City of Sparks