MINUTES OF THE
SENATE COMMITTEE ON REVENUE

Seventy-sixth Session
February 24, 2011

The Senate Committee on Revenue was called to order by Chair Sheila Leslie at 1:12 p.m. on Thursday, February 24, 2011, in Room 2134 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.

COMMITTEE MEMBERS PRESENT:

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

COMMITTEE MEMBERS ABSENT:

Senator Michael A. Schneider (Excused)

STAFF MEMBERS PRESENT:

Russell Guindon, Principal Deputy Fiscal Analyst
Joe Reel, Deputy Fiscal Analyst
Brenda Erdoes, Legislative Counsel
Gayle Rankin, Committee Secretary

OTHERS PRESENT:

Heidi Gansert, Chief of Staff, Office of the Governor
Julia Teska, Budget Division, Department of Administration
Jeff Weiler, Chief Financial Officer, Clark County School District
Joyce Haldeman, Associate Superintendent, Clark County School District
Mark G. Stanton, P.E., Chief Capital Projects and Facilities Management Officer, Washoe County School District
William E. Roberts, Ed.D., Superintendent, Nye County School District; Nevada Association of School Superintendents

Martin Johnson, Financial Advisor, JNA Consulting Group
Ben Zunino, Superintendent, Eureka County School District

CHAIR LESLIE:
Our presentation is an overview and discussion of the revenue in the Governor's budget that is a transfer of excess reserve funds into the Distributive School Account (DSA). Our focus for the Committee and those here today is on the revenue side. We are not going to get into the DSA and how the money is spent. The concern is the analysis regarding the amount of money in the reserve bond accounts that are in the Governor's *Executive Budget*. Please help us understand what these mean and where the money comes from. I am not concerned with how the Governor intends to spend it, but how we are getting this money and how those revenues are accounted for in the budget. We will start with the Governor's Chief of Staff, Heidi Gansert. We will also hear from two urban school districts, and Dr. William Roberts is present representing the school superintendents.

HEIDI GANSERT (Chief of Staff, Office of the Governor):
I want to explain how we evolved this account. When we started to put the budget together, we recognized the Local School Support Tax portion was $440 million less than in the prior biennium. We looked for money and reserve accounts. We were trying to find where we could help school districts help themselves, given the different sources of taxes, tax funds and savings accounts. In the past, money has been taken out of the capital account in Clark County, and we recognized these capital accounts have budgets for maintenance and new schools. In these capital accounts, we noticed transfers going out to a bond reserve account. There are two accounts for school districts that have bonds, a capital account and a bond reserve account. The bond reserve account is required statutorily to be 12 months or 10 percent of interest. It is set aside as a bank with no bond proceeds, and it is not required by a vote of the people. It is a statutory requirement, and nothing in the bond covenants require this reserve account. We looked at that and thought maybe this is something we can use.

Looking at the numbers, we focused primarily on Clark County School District. We called the superintendent and asked him to come to Carson City, and he brought some of his staff and met with our staff. We started talking about using this money in this account. This is not the capital account, so Clark still has spending programs for construction. We asked for $400 million; it sounded like there was a possibility of that, but we needed to look at the other school districts—that was suggested to us. In the end, we thought we would be able to use $300 million. At the end of fiscal year (FY) 2010, the reserve account was $479 million in Clark County School District. In the capital account, there was another $700 million. We looked to that fund, and our intent was to put that money on the books plus another $125 million from the other districts.

We researched and learned that 12 of the 17 counties had general obligation bonds with no covenants that require a reserve. The reserve is only there because it is required statutorily via a bill in 1997. We could allow the school districts to use their own money to get more dollars into the classroom. That is the way this is structured. The money from these bond reserves would lower the reserve requirement to 50 percent of what it is now. The school districts could use that money in the school district of origin to offset cuts or to add money to the classroom. We also devised a trigger so that when the Local School Support Tax (LSST)—which is the sales tax exceeds the Economic Forum projections, the LSST automatically goes back to the school district of origin. It could go back to the reserve or it could be a rainy day fund. It is statutorily required but neither part of the covenants nor bond proceeds. The people voted for the bonds, but they did not vote for the reserve account. Therefore, it is this piggy bank sitting out there.

Clark County is not at 50 percent like the other school districts. We looked at a flat $300 million, and we based that $300 million on conversations we had with the Clark County School District. We were looking at some public documents provided to us in December that had to do with the debt service fund and the capital projects fund.

CHAIR LESLIE:
How much is in the budget?

MS. GANSERT:
There is a total of $425 million; $300 million comes from Clark County School District and $125 million from the other counties. If we focus on Clark County and the capital project funds, we did not change any of the budgeting, and we also looked at the debt service fund. A variety of taxes go in the capital fund. There is Governmental Services Tax, which is part of your vehicle registration fee; donations and grants; Real Property Transfer Tax; room tax; rental facilities; e-rate reimbursements; investment income; and sale of property. Out of that

fund is a transfer to the bond reserve. The bond reserve has pieces of those funds, but it also has property tax, other local taxes and local sources of investment income. A variety of streams go into Clark County School District that end up in this bond reserve account.

CHAIR LESLIE:
Do you have a list of the other school districts and how much is coming out from each district to make up the $425 million?

MS. GANSERT:
The Budget Division has that.

JULIA TESKA (Budget Division, Department of Administration):
We have given that to the staff. Those are what we are trying to reconcile because of a disparity with our original projections and the projections based on the response from the school districts.

CHAIR LESLIE:
Was it a disparity or a disagreement?

MS. TESKA:
I will say a disagreement.

CHAIR LESLIE:
Could you please explain? Two people are here who were at your hearing this morning. Most of us have not heard this.

MS. TESKA:
When we put the numbers in from the request for information we sent to the school districts earlier this month, they are significantly lower than the projections we did during the Governor's recommended budget process that were based upon the most recent financial statements. We are still trying to come up with the exact reconciliation. The biggest disparity is in Clark County.

CHAIR LESLIE:
How big?

MS. TESKA:
I will let the Clark County School District speak about that. Based on what they were saying this morning, they do not think they have money available.

CHAIR LESLIE:
Instead of $300 million, they have zero?

MS. TESKA:
Yes, that is what the District was attesting to this morning. This has been provided to the staff that does the DSA, and we can forward you a copy.

CHAIR LESLIE:
Could you provide us that analysis and a chart that shows how you get to $425 million by school district?

MS. TESKA:
The worksheet shows our initial projection. There is a comparative one the District provided as well as the District's responses.

MS. GANSERT:
For the debt service, we were looking at the District's numbers from FY 2010 and FY 2013. For the capital account, we were looking at FY 2006 through FY 2013 as far as what existed around December when we were putting these numbers together.

CHAIR LESLIE:
Have you had a chance to see what was presented this morning and think about how that works?

MS. GANSERT:
There was discussion this morning, but I have not seen any documents, just discussion about money.

CHAIR LESLIE:
There seems to be a lack of documents on this particular issue. It is getting hard to follow.

SENATOR HORSFORD:
Assuming the Clark County School District numbers are accurate and the funds are not available as the Governor's Office proposed, what then?

MS. GANSERT:
We do not believe those numbers are accurate. We are going to work with the districts to reconcile. I cannot give you a number for this. We based it on what existed in FY 2010 to FY 2013. That is how we came up with our numbers. We are going to have to spend time reconciling.

SENATOR HORSFORD:
This information was provided by the districts to the Budget Division in early February. It has been three weeks since the Clark County School District provided the information. Clark is the main one because of how much money would be diverted from the District. How was the budget submitted without that analysis done first since you have known for three weeks about a $326 million discrepancy? Why has there not been a reconciliation?

MS. GANSERT:
We did the analysis and used Clark's documents to put this budget together. We asked the Superintendent for Clark County and his staff to come and meet with us on January 7. We had discussions about whether this money would be available. We looked at not touching the capital account because we did not want them to have to change their construction plans. We understand employment is associated with that. We have talked to bond counsel and legal counsel. Assemblywoman Debbie Smith has a bill that talks about using more money, going down to 25 percent rather than 50 percent of the current funds set aside.

SENATOR HORSFORD:
Clark County is the only one with this fund. Mrs. Smith's bill is different because it affects every county except Clark. Clark County's money is used for bond payment for the voter-approved bond, but my question is regarding the reconciliation. The placeholder number our fiscal staff has is $300 million, whereas the other school districts have specific amounts with the formula basis that shows their balance, expenditures and debt service. There is a formula for how those districts arrived at those specific amounts. For Clark County, it is a flat placeholder of $300 million. Where is the analysis of the $300 million?

MS. GANSERT:
I am looking at the Clark County School District Debt Service Fund (Exhibit C) and we can provide this. It does not fall in the 50 percentile. The ending fund balance on June 30, 2010, was $479 million. That is a one-year balance. Fiscal year 2011 is $361 million. According to the records as of December, this works. If you look at the revenue forecast we have received subsequently, it drops by $100 million a year. We have a combination of revenue forecasts plummeting. There is this decline, everybody expected a decline, but when you look at the numbers now, they drop. That drives these numbers lower. When I talk about these numbers and the ending fund balances, this is after revenues come in with principal and interest, purchase services and bond issuance costs taken out. The net is still $479 million at the end of FY 2010 and $361 million at the end of FY 2011.

SENATOR HORSFORD:
Were those numbers provided to our fiscal staff before the hearing today? If not, then why?

MS. TESKA:
This specific document was not, and I apologize for that. I do not have this document, but I will get it to your staff.

SENATOR HORSFORD:
The point is that we have to rely on the information received from the districts. That is what has been financially reviewed from a revenue projection standpoint. I do not understand how this can happen after three weeks of a discrepancy. I contend there is a budget hole of at least $326 million, based on the information we have been provided. In the event the funding is not there, what will the consequence be? Will the Governor want to make further cuts in the DSA, or will alternatives be offered to replace or replenish that hole of $326 million?

MS. GANSERT:
These were provided to me by the Budget Division. We will make sure you get these. We want to reconcile the numbers before we address a potential shortfall.

SENATOR HORSFORD:
If what the districts are telling us is true, this budget hole is bigger than the cut already proposed for Kindergarten through Grade 12 and could result in another 7.5 percent reduction to the DSA.

CHAIR LESLIE:
We need to resolve the discrepancies quickly. Is it possible to do this next week?

MS. GANSERT:
Yes, that is possible.

CHAIR LESLIE:
We may have you come back to the Revenue Committee and explain the analysis. Are you aware there could be tax implications at the local level, such as property tax increases or other kinds of tax consequences, especially in Clark County?

MS. GANSERT:
When we put this analysis together, we did not have that discussion because we believed the money to be available. It is news to us that there may be an issue with this because we thought there was an understanding the money was available.

CHAIR LESLIE:
If it is not, that is another aspect regarding the Governor's position about "no new taxes." If this is going to cause a property tax increase at the local level, that is not consistent with his philosophy.

MS. GANSERT:
There are a lot of moving parts to the budget. Things could change by then as far as the unemployment interest we may not be paying the federal government—we have $67 million there, the Medicaid caseloads and the Economic Forum is coming in. Education and funding education is a priority of this Governor. We have this piece to begin with because we were trying to put every dollar possible into the classroom. That is why the money would be spent in the school district of origin. That is why we have a trigger to replenish the LSST instead of repay it.

CHAIR LESLIE:
Nice job avoiding the question. The next presentation is from Clark County School District with Jeff Weiler and Joyce Haldeman.

JEFF WEILER (Chief Financial Officer, Clark County School District):
I have a document entitled "Capital and Debt Service Fund Balances" (Exhibit D), which was provided to the budget staff for the Governor's *Executive Budget*. We also responded to a Legislative Counsel Bureau survey last week with similar information.

In 1997, the Legislature created a capital program for Clark County. We went to the voters in 1998 with the authority to issue bonds against the property tax. We were authorized a portion of room tax and Real Property Transfer Tax (RPTT). There are two primary pots of money. There are the capital funds, which are primarily bond proceeds. We issue and sell bonds in the public markets. A bond is like a mortgage for your home; it is similar as we have to pay the principal and interest payments. The bond proceeds go into the capital fund, and we have room tax and RPTT going into the capital fund. There is the debt service fund. The property tax goes into that account, which is $.5534. We also transfer a portion of room tax and RPTT needed to pay the mortgage for those bonds into the debt service fund. That is all that is deposited in that account. We can only spend the money to pay the principal and interest payment on the mortgage. This is the mortgage bank account. We have capital proceeds in one, which are all bond proceeds.

We are still completing those projects. At the beginning of the year, the balance was approximately $600 million, and it is going down significantly as we authorize projects. In the earlier part of our program, it was new schools. We have completed all of our new schools. Now it is major renovations to schools, modernization such as replacing the heating, ventilation and air-conditioning, roofs, electrical wiring and the local area network system. It is also for other capital expenditures such as computers, servers and other technology used in the classrooms. We cannot use it for operations without legal authority. We can only spend the debt service reserve on paying back our bonds.

Part A on page 1 of Exhibit D includes the legal restrictions. On page 2 of Exhibit D under part B, the debt service fund balance, the green bars on the left in the chart represent the revenue coming in each of those years: the property tax, room tax and the RPTT. The red bars on the right are the debt service, which is the mortgage payment we have each year. The red bars are bigger than the green bars because of the big decline. If you went back about three years, you would see the green bars were higher than the red bars. The genesis of the debt service reserve requirement goes back to 1997. It was set up to require us to have the next year's mortgage in the bank. The idea was that if the revenues did not sufficiently cover the mortgage, the money would be there. The blue area is the debt service reserve with the dollar amounts that we project right now. As of the end of last year, we had $479 million in there. The reserve requirement was $411 million, so we had some excess. By the end of this year, we project it will be down to $475 million. If you cut it off at FY 2012 or FY 2013, there is money in there. You have to look beyond FY 2014 and FY 2015; by FY 2016, we will have depleted our debt service reserve. If we were to go out of business at the end of this year, there is money there. If we were not obligated to pay any mortgage payment for the next 10 to 15 years, then there would be money there. Technically, you could say it is there. The problem is if $300 million is taken, by the end of 2013, the account starts going negative, which obviously cannot happen. We have no ability to go into a deficit condition like that. What ends up happening is one of two things. Either the property tax rate has to be increased to cover the debt service or the other alternative would be to refinance the mortgage and extend it out 10 to 15 years, pushing the principal and interest payments out into the future. We also have other implications noted on this report. The other bill referenced earlier, was about reducing the reserve requirement to allow districts to use any excess reserve for capital purposes. We did not believe we had excess reserve, but we know we need it over the next five years. We support the concept, but could not take advantage of these monies because of our economy.

Our revenue projections are down significantly from a few years ago. Property tax values are way down, the room tax and Real Property Transfer Tax are half of what they were in 2006. In our projections for next year, we have taken into account the data from the Clark County Assessor which projects our property tax revenues going down 10.5 percent next year. From FY 2013 on, we assume no growth. Anytime we have issued bonds, we tend to show flat revenue because we want to be very conservative. This situation would have been a lot worse if we had used more aggressive revenue projections going back many years. We are very conservative. If there is a turnaround, property values will come up. As you may be aware, those property tax increases will be abated. We certainly hope for a boom again and values to go up, but we cannot build our future forecast based on that.

CHAIR LESLIE:
This is very helpful for me.

SENATOR HORSFORD:
I want to start by going back in history to the question on the 1998 Clark County ballot. For the new members and people who may not recall, A.B. No. 353 of the 69th Session was something that former Senator Jon C. Porter and former Assemblywoman Chris Giunchigliani worked on, and I was involved on this bond issue as a volunteer. I will read an excerpt from the brochure explaining Question 2 to the voters:

> On November 2, 1998, Clark County voters will be asked to approve Question 2, the school bond property tax freeze. Passage of Question 2 will allow the district to issue bonds until June 2008, as long as the payment of those bonds will not increase the tax rate now assessed property owners. Over a 10-year period of time, this tax freeze will generate up to approximately $2.5 billion. These funds, combined with revenue sources created by the Nevada State Legislature in A.B. No. 353 of the 69th Session, will finance a $3.5 billion long-term school construction and renovation program. The bonds can be used only for the construction and equipage of new schools and bus yards, the renovation of existing schools or the purchase of land. The funds cannot be used to pay administrators, teachers or other nonconstruction related costs.

Was that the question approved by voters in 1998?

JOYCE HALDEMAN (Associate Superintendent, Clark County School District):
That Question was approved by the voters. I wrote the brochure on this Question, and a question most often asked as we took it to the voters was, “How do I know this is not going to be used for teacher salaries?” This was included in the brochure as a promise. The law that accompanies this is very specific and backs this up. The money was to be used for school construction, bus yards and items identified in the Question.

SENATOR HORSFORD:
This voter-approved Question included the statutory portion which the Governor’s Chief of Staff and the Budget Division just referenced as parts of a whole. That was the question the voters determined.

MS. HALDEMAN:
We refer to it as a three-legged stool. That was the way we sold it. We had a visual that showed three legs to the stool, and all three of them came together for the revenue source.

SENATOR HORSFORD:
Despite the fact that some—including the Governor—will suggest we are all under dire circumstances—and since Clark County is not building a school a month, the Governor wants to transfer $300 million from this reserve. The fact that this was voter-approved and the commitment was made on both parts along with the third part, would that be a violation of the voters' understanding at the time, and what would happen to voter confidence if we were to allow this precedent to occur now?

MS. HALDEMAN:
It is for that reason I am opposed to this transfer of funds. Myself and my colleagues were the people out there talking about this issue. In 1988, there was a previous bond issue where a number of schools were promised, and a smaller number were delivered. They delivered the same number of classrooms, but in a smaller number of schools. We had a difficult time overcoming that perception. The people were angry about feeling the promise was not fulfilled. We were adamant about trying to repair voter confidence and make sure we delivered what was promised. People look at Clark County and think the growth period has come to an end. They think we no longer have construction needs. That is not true. Our schools are an aging group of schools, and the needs of our older ones are so dramatic. I can look at those of you who are from southern Nevada, and every one of you has schools in your district in need of ongoing renovation. The bond oversight committee has identified $4.9 billion worth of renovation that needs to take place over the next ten years. Those are identified projects. If we had the money, if we had gone to the voters to extend the revenues, we would continue with the building program as we speak.

One of the impacts Mr. Weiler talked about is if you decided to lower those bonds by extending the debt out. That means as long as you have extended that debt, we would not have revenue to use for renovations or any kind of school construction—regardless of voter approval—unless we ask for a property tax increase to generate more money. On the school board agenda tonight in Clark County School District, there is a page full of people who have signed up to come and talk about the need for a new gym in Moapa Valley. They need that renovation in terms of equity, and they are wondering why we are not building a gym for them. We have many schools that have many needs. We have schools that need new air-conditioning. We have schools that should be torn down. We made that promise to the voters. It was not new schools to meet growth, it was ongoing renovation needs. With the decline in budgets, we have cut maintenance so much recently that deferred maintenance is causing serious problems in these schools.

SENATOR HORSFORD:
There is $4.9 billion in ten years' time for maintenance and refurbishing. We have new schools in southern Nevada, and we have some schools that are old. This campaign is because of the part of this that goes to build and refurbish older schools. There are schools in my district that if they do not have this money, I do not know how the roof gets repaired the next time it rains or when it is 100 degrees outside and no air-conditioning. I do not know how a child is supposed to learn in that environment. If this is what the voters said they wanted, it is a violation to take this approach.

Mr. Weiler, could you explain in more detail the implication if these funds committed for bond payment are taken, assuming they are there. Your two options are to either extend the term at a higher cost with a noneconomic benefit or increase property tax. Can you explain what each of those approaches mean as far as cost and who will pay the cost of an increased property tax?

MR. WEILER:
The property tax rate is $.5534. We project we would need to raise it as much as 20 cents or 0.75 percent for several years; the variable is what those revenues will be in those years. The statutes allow for that increase. The bond covenants rely on the ability for that to happen. We would have to do a refunding if we do not raise the property tax rate. We have to refinance our mortgage and make it a longer mortgage; instead of it ending in 2023, we would extend it out ten years. Property owners would be paying property tax longer for no additional capital capacity or new schools. Under the current circumstances with the reserve the way it is, we will use it all up, but we would not have to raise property taxes or refinance.

SENATOR HORSFORD:
I need the record to be clear. By property owners, you mean both residential and commercial property owners. And the issue on the revenues is because we have the cap in place at 3 percent and 8 percent. Property values cannot appreciate more than that going forward, so if they were to increase, they can increase no more than 3 percent or 8 percent per year. That is part of the restriction on how fast those revenues can grow.

MR. WEILER:
Yes.

MS. HALDEMAN:
One reason this is such a concern for us is this is a one-time fix for the state budget. This is not ongoing revenue that can be used in the biennium. You will start out with another hole in the budget in next biennium. This one-time fix for the State would be a long-time problem for Clark County School District.

CHAIR LESLIE:
That is a very good point.

SENATOR MCGINNESS:
You indicated you are looking at a new gym in Moapa Valley and some roof repairs. Do you have a list of those projects that have been put off?

MS. HALDEMAN:
Yes, I have a list. I will be glad to provide that to the Committee.

SENATOR HARDY:
I went to a Moapa Valley track meet, and people there pointed out that the lights over the football field did not need as many bulbs because people in the rural areas can see better in the dark than people in downtown Las Vegas. That is the service they are used to in Moapa Valley. The participation is more in Moapa Valley than some places.

How much of the revenues from outside the 1998 bond are in your debt service or in your capital reserve? Have we broken it down or is it only from that bond money?

MR. WEILER:
The only money that has gone into the debt service reserve is property tax, room tax and Real Property Transfer Tax. Back in mid-2000, we did not need the room tax and Real Property Transfer Tax, so we kept that in the capital account to fund capital needs. On the capital side, it is room tax, Real Property Transfer Tax, a portion of the Governmental Services Tax and some interest earnings. We could give you a further accounting.

SENATOR HARDY:
Is it fair to say some monies were not part of the three-legged stool?

MR. WEILER:
In the overall capital budget, the biggest difference is the Governmental Services Tax. In most years, it was used for portable classrooms, moving portable classrooms and other minor fixes at schools. It is about $25 million a year, but it used to be more.

SENATOR HARDY:
Do you have some accounting we could see on that? Did we have more money go into either one of those accounts from the taxes we did in FY 2003?

MR. WEILER:
We will investigate and get back to you.

SENATOR HARDY:
I have been before the Bond Oversight Committee of the Clark County School District as a city councilman looking at the refurbishing of older schools. One of the attitudes in the Committee is the limitation to capital improvements as in buildings and brick and mortar. We made a request to get books newer than 1955. They recognize there is more in the bond than in capital buildings. What qualifies for a “capital expense” in today’s world? Are we talking computers, books? Do we have an accounting of the capital fund showing where it has gone before and in this fiscal year? I was in a Boulder City Community Education Advisory Board meeting recently, and we were talking about improving the classrooms with computers and other things. Do we know how much has gone to buildings and enhanced learning capabilities and where that money was coming from in the bond—or the parts of the three-legged stool—so we have some idea where the money is currently going?

MR. WEILER:
Yes, sir.

SENATOR DENIS:
When you go to FY 2018 on the chart of Exhibit D, the property, room and transfer taxes start to go down. Where does that come from?

MR. WEILER:
That is the year where our principal and interest start to go down; therefore, the rollover process in the law is when those start going down, the property tax starts to decrease. If we did not issue any more bonds, the property tax would go down to zero, the room tax and RPTT would still be collected unless something changes.

SENATOR DENIS:
Does the tax rate go down?

MR. WEILER:
Yes. If we did not issue any more property tax bonds, it would go to zero, which is how it was designed.

MS. HALDEMAN:
That assumes we do not go back to the voters for approval to extend the bond.

SENATOR HALSETH:
I received a letter from a school in Senator Horsford's district that said the ceilings were leaking. I was concerned and wrote back to have staff members let me know when to come tour the school and hear their concerns. I have not heard back from them. I would be interested to take a tour of that school and any schools that have those problems. I have three children who attend public school in Clark County. Education is important to me. If we do have leaking ceilings, that is a huge concern to me because it is not just what the children are learning but their environment.

Have you gone out to the community to see if anybody is willing to donate funds to do renovations?

MS. HALDEMAN:
No, we have not done that. We have community partners who help us, but not on this. If they looked at the list, they would probably run the other way. We had to condemn a building at one of our schools and bring in portable classrooms so we could continue with the program. The building is in such bad shape. I could show you pictures of what we have done to keep the building from tumbling over. We have serious needs to address.

SENATOR HALSETH:
I would love to come and tour those schools and team up with Senator Horsford and take a look to see how we can help.

CHAIR LESLIE:
What is likely to happen if this proposal went through in terms of raising the property tax or refinancing? Would the Clark County School Board do that?

MR. WEILER:
The chart on page 3 of Exhibit D shows the scenario we would face. When we develop the budget for FY 2013, we would have to propose a tentative budget in April 2013. This situation would no longer have the revenues. The debt service reserve would be depleted, and we would have to recommend an increase in the property tax rate or refinance.

CHAIR LESLIE:
Who would you recommend an increase to? The School Board?

MR. WEILER:
The School Board would ultimately have to do that. It would go to the Department of Taxation, and they would verify the numbers. We have been with our bond counsel several times on this issue to make sure we understand the mechanics.

CHAIR LESLIE:
The authority to raise that tax is part of the statute that allowed you to create this. It is neither the Legislature’s or Governor’s choice; it would be up to the Clark County School Board members, and they have these options. Are there other options?

MR. WEILER:
Those are the options we have. It was set up that way to give security to the bondholders, and it is part of the bond covenants. They knew when we sold the bonds, that in a worst case scenario, we had the reserve. They also knew of the ability for us to legally raise the property tax. We did not anticipate that happening.

CHAIR LESLIE:
That is the final safety net for the bondholders?

MR. WEILER:
Yes, it is. Ultimately, we would potentially default, which is very serious.

CHAIR LESLIE:
So it is a serious alternative?

MR. WEILER:
Yes, our ratings were analyzed by three bond-rating agencies. Two of the agencies downgraded our bonds.

CHAIR LESLIE:
When did that happen?

MR. WEILER:
Just this week. To be fair, they rate our bonds on a number of factors. This was one of the factors. It is dependent on the underlying revenue picture. A lower bond rating means we will pay more in interest when we issue bonds, which we are not doing right now. But if we were to issue more bonds in the future, we would have to pay more interest. The lower your bond rating goes, the harder it is to sell bonds. When you drop below an AA rating, you fall off the radar for a lot of the big investors. We are still at an AA rating.

CHAIR LESLIE:
Can you estimate how much of a factor this situation was in that?

MR. WEILER:
If we went out to the market now, we could give you an answer. We are not issuing new bonds now. It is not possible to say. It will go up maybe 0.2 percent.

CHAIR LESLIE:
The last question I have is the reconciliation. Ms. Gansert described this as a piggy bank. I do not want to say somebody is raiding the piggy bank, but money in the piggy bank is going to get less and less regarding the reconciliation we are talking about. How much can safely be taken?

MR. WEILER:
Going back to the first chart on page 2 of Exhibit D, we would say none. If we were just looking at this point in time, just this year and did not have any future debt service, that would be a different discussion. We have debt service going out for quite a few years, and it is being depleted.

CHAIR LESLIE:
I am puzzled what the reconciliation is about.

MR. WEILER
I do not know.

SENATOR HARDY:
When property tax goes up $.20, does anybody get close to the $3.64?

MR. WEILER:
The highest rate in Clark County is now $3.44, so yes.

SENATOR HARDY:
Different entities are pushing at different levels. That is one of those moving parts in the budget. When I look at the bond rating factor, it seems like we are in a market right now where the bond interest rates are changing. Has the bond rating been established different than an AA?

MR. WEILER:
It went down by one notch. We are an AA minus. Different agencies have different numbering systems. We are on negative outlook on all of them, which means we could be downgraded in the future. They are keeping a close eye on us.

CHAIR LESLIE:
Let us go to the Washoe County School District. We have Martin Johnson and Mark Stanton. First, we will allow Ms. Gansert to speak.

MS. GANSERT:
I now have these documents your staff copied for me. Part of it is from the Comprehensive Annual Financial Report, (Exhibit E), and shows the expenditures in the capital account this year and shows where the District plans to spend the money.

MARK G. STANTON, P.E. (Chief Capital Projects and Facilities Management Officer, Washoe County School District):
In 2002, Washoe County voters approved a program for Washoe County School District to manage a ten year school facility improvement program through the authorization of a rollover bond program with an estimated $600 million available through November 2012. It is similar to the program Clark County has talked about, but there is some uniqueness. I would like to have Marty Johnson, our chief financial advisor, explain the details.

MARTIN JOHNSON (Financial Advisor, JNA Consulting)
I am the financial advisor for Washoe County School District. Washoe County School District has a rollover that was put in place in 2002. The rollover, as approved in A.B. No. 353 of the 69th Session, has changed a little over time. In 1997, the expiration date was June 30, 2008, as set by statute. In the 1999 or 2001 Session, we changed that to a ten-year time frame, and that is what Washoe County did in 2002. The voters approved the levy of a tax rate the District had at that point in time of 38.85 cents. That property tax revenue goes into the debt service fund and is used to repay the bonds issued under this voter authorization. We have to demonstrate that we can repay the bonds within the revenues from that 38.85-cent tax rate. We also have to demonstrate that we have an amount in that debt service reserve account equal to or greater than the minimum requirement, which is next year's debt service. We are discussing changing that requirement from 100 percent to 50 percent. In order to issue bonds, they have to pass both tests.

In the current environment, it is not as easy as before, although Washoe County will not be drawing on the debt service fund balance to the extent of Clark County. Washoe County is in a position where the property tax revenues are very close to or equal the annual debt service it pays on the bonds. Taking this money out would eliminate the ability of the District to issue bonds that the voters have approved because we would not be able to meet that reserve account. In future years, the property tax revenue is going to go down and be lower than debt service, ending up below the 50 percent requirement. That result could happen with this.

SENATOR LESLIE:
Is there a legal impediment to doing that? What would happen?

MR. JOHNSON:
In order for the Washoe County School District to issue bonds much like the Clark County School District representatives talked about, they have to go to the Board of Trustees, the Bond Oversight Panel on school facilities and Washoe County's Debt Management Commission. The Debt Management Commission and the Board of Trustees have to find that the property tax revenues will be sufficient to pay the bonds. The balance in the debt service reserve account needs to be equal to or greater than the minimum requirement. If we cannot pass those tests, we cannot issue any bonds. There is a legal impediment. Even though the voter authorization will not expire until November 2012, if we cannot pass those tests, it does not matter, we cannot issue bonds.

CHAIR LESLIE:
I did not understand that before. What amount is the Governor suggesting come from Washoe County?

MR. JOHNSON:
Based on our rough estimates, the annual debt service for Washoe County School District runs close to $50 million. We need to have that amount in the account. Lowering it 50 percent would make it $25 million.

CHAIR LESLIE:
If that happened, Washoe County would not meet the test and would not be able to sell more bonds?

MR. JOHNSON:
Yes, it is likely that as a result of this, it would be unable to issue bonds for the necessary renovations. One thing I would like to point out that applies to most of the school districts: Clark County talks about a three-legged stool in terms of funding the capital program with property tax, room tax and Real Property Transfer Tax; the remainder of the districts have a one-legged stool. We only have property tax.

CHAIR LESLIE:
The voters would not be happy about it. I represent the urban schools and the old schools. Clark County thinks it has old schools. Washoe County has old schools.

MR. STANTON:
Our program will expire in November 2012. We estimate to have about $70 million available in capital renewal projects for the purpose of improving the learning environment in our schools. When the program started in 2002, we were chasing growth with new construction and new schools. In the last three years, we focused those funds on the renewal of our older schools. Washoe County School District consists of 93 schools of which 45 percent are older than 40 years, 26 percent are older than 50 years. We are now able to bring them close to current standards with new technology, replacing the floor coverings, furnishings, lighting and windows to make them a clean, warm and safe learning environments.

The approval of Assembly Bill 183 could potentially increase the amount of project funding to $145 million over the next three years. That does not match the $650 million need identified for Washoe County School District. It does provide a significant influx into meeting our voter commitment of maintaining older facilities through this rollover bond program. We have to look at the economic benefit that type of investment can make in our community. It can create or sustain 1,500 construction jobs as well as 900 jobs associated with the construction program through indirect influences such as material suppliers and monies the construction workers are spending. The $145 million equates to a $225 million influx into our community. Most important, the $145 million will impact all 93 of our schools in the District, improving the learning environment for the students. We estimate over the next 20 to 30 years, when those benefits provide a better learning environment, thousands of students will pass through those improved areas.

ASSEMBLY BILL 183: Revises provisions regarding the establishment and maintenance of a reserve account for payment of the outstanding bonds of a school district. (BDR 30-114)

The proposal provided by the Governor indicates we may not have any of that funding available to us through 2014. If so, that will greatly impact our construction program and ability to continue to improve our facilities. They will fall back into disrepair as they were prior to 2002 when we implemented this program.

CHAIR LESLIE:
Do you have a specific list of what would not happen with the renovations if this proposal is approved? I would like to know and am willing to bet that over 50 percent of it is in my district and important to my constituents. We have an obligation to the public to make sure they understand the consequences of this.

MR. STANTON:
Yes, I can provide this.

WILLIAM E. ROBERTS, ED.D. (Superintendent, Nye County School District; Nevada Association of School Superintendents):
I will be speaking for 15 rural county school districts. Marty Johnson is also our consultant and will assist me with this.

Churchill County has rollover bond 2008; Douglas County, rollover bond 2008; Humboldt County, rollover bond 2008; Lyon County, rollover 2006; Nye County, rollover 2006; Pershing County, rollover 2008; Storey County, rollover 2004; Washoe County, rollover 2002; and White Pine, rollover 2008. Current monies that would be impacted in each of the districts I spoke of are: Carson City, $2.3 million; Churchill County $1.7 million; Douglas County, $600,000; Lyon County, $4.5 million; Nye County, $5.8 million; Pershing County, $150,000; Storey County, $350,000; and White Pine County, $300,000. I ask you to consider what provisions will be made for the portion of the fund balance comprised of the prepaid Net Proceeds of Minerals Tax that goes away. Next year, there will no payment of Net Proceeds of Minerals Tax. What do we do then?

Specific to Nye County rollover bonds, in 2006 and 2007, we were all experiencing and trying to deal with massive growth at that time, and our facilities were underconstructed for computers and health and safety of the students. We passed a bond worth between $100 million and $125 million. Since then, we went into the process of trying to replace older schools and modernize some of our facilities. Pahrump in Nye County has two major construction projects—the only major construction projects in our County. We are building an elementary school for 650 students for $12 million that will be completed in June. We have a $28 million remodel at Pahrump Valley High

School where we are trying to model ourselves after the technical academies in Clark County. That is a $28 million job, and the first phase will be completed in December. We have just gone through the planning process with the community in Tonopah, which voted on this bond in 2006 to have new facilities and upgrades. We have an elementary school on the drawing board there and are ready to go out and sell the bonds but do not know what we can do now. That project is ready to go out to bid as a $12 million to $15 million job in Tonopah. We would like to have this start in June or July.

CHAIR LESLIE:
This proposal would prevent you from doing that? Can you explain that?

DR. ROBERTS:
The ability to pay our debt service is based on the amount of money we have in our debt service fund. In order for us to sell the bonds—we need to build this new school—we would have to sell them at a questionable bond rating. If Clark County's bond rating is going down, we are not far behind them. If we are not allowed to have the monies in our debt service fund, we will not be able to pay the bond payments on those projects.

CHAIR LESLIE:
It is on hold now and not going forward until this issue is resolved. If this proposal goes through, will the District not be building the new school in Tonopah?

DR. ROBERTS:
That is the discussion I will have with my school board members on March 1. My assumption is they will not want us to go out and sell bonds for a project we cannot fund. The voters approved that when we did bond sales.

CHAIR LESLIE:
They are not going to be very happy?

DR. ROBERTS:
I suspect not.

CHAIR LESLIE:
I am surprised Tonopah is building a school. Is their population going down? Is the school in bad shape?

DR. ROBERTS:
It is a replacement school. We have an elementary school built in the 1940s that does not meet the Americans with Disabilities Act (ADA). We estimate $5 million to upgrade and remodel; to build a new school is about $10 million to $12 million, depending on how we construct it. Do we upgrade this school that is already 40 years old or do we build a new one next to it, demolish the old one and upgrade as we go along? I received a text message today. We had a catastrophic boiler failure at Tonopah Middle School, which is associated with Tonopah Elementary School. That is a very costly repair. The money we will use to replace it will be from our capital funds.

SENATOR HORSFORD:
A lot of times we focus so much on Clark County School District and Washoe County School District because they are the largest districts, and the disproportionate rate on funding reserves comes from Clark County. Your testimony speaks to the implication of the severity of the impact. It will be bad for Clark County. We will not have air-conditioning when the weather is 100 degrees, and we have leaky roofs. Noncompliance with ADA is a serious issue, a life and safety issue. You could be denying access to a child with special needs; that should never occur in a country and state as free as ours. I appreciate you outlining the fact that the impact to rural Nevada is greater than, in some cases, our larger districts.

DR. ROBERTS:
Two schools in Pahrump are trailers made up of modulars without a kitchen. Those modulars are wearing out rapidly. They are part of this replacement school we are building and trying to rearrange the population. We are closing a school as well, due to the cost of salaries, benefits, heating, power and water.

SENATOR HORSFORD:
You touched on the Net Proceeds of Minerals Tax (NPOMT). That is a $60 million impact in addition to the money some of those local governments get in those counties. Can you repeat what you said about that issue? If we take all your reserves, if we cut all your funding and then two years from now you have nothing, what are you going to do then?

DR. ROBERTS:
The NPOMT is $1 million a year for us. I will let Mr. Johnson explain it.

MR. JOHNSON:
Nye County, along with a number of the other mining counties, receives NPOMT. With the change from prepaid Net Proceeds, those are now sitting in the debt service fund. Two things can happen. Until those amounts are verified, some portion of that is subject to a refund. It was said our NPOMT was to be $1 million, but it was $800,000. The district has to refund $200,000. In 2012, there will be no payment of Net Proceeds of Minerals Tax. If you look at a school district in a mining area and look at the property tax revenues, you see a very high number. In 2012, it will drop by whatever the NPOMT is. In 2013 it will go back up.

SENATOR HORSFORD:
This calls into question the whole approach on the revenue. If we have a potential hole of $326 million and you use the school districts' numbers of what they say may be available, the budget is not balanced. The issue of these capital reserves and the implications you are all talking about calls into question the insurance premium tax securitization. You bring up valid points about the prepayment of the Net Proceeds of Minerals Tax that is to be continued in the Governor's *Executive Budget*. We need to look at these and understand the implications because I did not understand what you said about the prepayment of Net Proceeds and the impact to local school districts in rural Nevada. We need to understand that before we can make any policy decisions.

CHAIR LESLIE:
That was helpful testimony. Are other rural school districts going back to their school boards now to plan on what to do? Is that information you can provide for us? We need to make sure the public understands the implications of this proposal.

DR. ROBERTS:
Each of the school districts has to prepare a tentative budget by May 15. The school districts are going through their planning phases now based on what they may receive. We are building our budgets based on the number we have been given from the Department of Education and the Governor's budget. We are moving forward with this, knowing all these other cases, but we do not know what we will end up with. In trying to plan for these, we have to notify employees by May 15 if they are going to be terminated. You can enforce two things in the collective bargaining: the lack of work or the lack of money.

CHAIR LESLIE:
I am interested in how that relates to the bond reserve to this proposal.

MR. JOHNSON:
In my position as financial advisor, I work with Carson, Churchill, Douglas, Humboldt, Lyon, Nye, Pershing, Storey, Washoe and White Pine School Districts. Those districts have voter authorization to issue bonds. Some of those districts still have the ability to pay as you go out of the revenues over and above the amount of debt service. Those that went to the voters in 2008 or 2010 have that option as well, so they can pay cash for things instead of having to borrow the money. I have been to some school board meetings such as Lyon and Douglas, and tonight I am going to Churchill. I have had conversations with the other districts I represent. Most of them are starting to put their plans on hold until we see how this plays out.

A number of these districts went to the voters in 2008. Carson City went in 2010 with the understanding it was to do capital improvement plans and bring older schools up to current standards. Those plans are now on hold until this is worked out. I have worked on at least 25 bond issues for school districts, from the largest like Clark County to the smallest like Eureka. The voters have an extremely long memory. The school districts have worked hard for a long time to get to the point where the voters are willing to trust them with their money. The voters trust the school boards to use their money wisely in the way it was intended.

One of our biggest concerns is that this redirects money. When one of the school districts needs to renew this idea, goes to the voters and says we would like to keep this going, what are the voters going to say? It may be a long time before we are able to get another bond issue passed in this State. That is the only mechanism that exists for capital facilities under Nevada law now.

DR. ROBERTS:
We owe it to our children in rural districts to have a quality education and facilities and structures as we do in our larger, more affluent communities. I was in Washoe County for 11 years; I was a principal at Incline High School and Reno High School, and now I have been south for nine years. I know Nevada. I have been a teacher, principal, athletic director, coach and superintendent. It is not equal. The kids in Gabbs, Round Mountain, Tonopah, Beatty and Panaca do

not have the same level of facilities we have in a lot of places. We are all trying to get there. We are going to our voters, telling them what we are trying to do and making educational opportunities available to all the children in Nevada, not just Incline Village or other places in Nevada. If you take away our ability to pay the bills we have asked the voters to approve and trust in us, it could shake their lack of trust in our organizations.

CHAIR LESLIE:
We will open up for public comment.

BEN ZUNINO (Superintendent, Eureka County School District):
I am a parent and a taxpayer in Eureka, Washoe and Nye Counties. We passed a bond in Eureka in 2004, and we promised the voters we would pay it off as soon as possible. Prior to that, there had not been a bond passed in Eureka since 1966. This bond was to refurbish our high school. The debt service fund was built up so we mitigate the impact should the taxes go down in Eureka County. Martin Johnson was our bond advisor and did an excellent job. We tried to build in a buffer so we did not have to raise the taxes. Had the taxes not come in, we would have had two options, as previously said. We would have to raise taxes or refinance. When you try to refinance and do not have the money to pay, it is not likely you are going to get a good rate. The concept of the piggy bank is not a small amount. It built up to $2 million. We told the taxpayers we would pay it back as soon as possible. As the price of gold went up, we were able to do that. Had we not, the taxpayers' memory would go well beyond the next bond we put out. We paid it off last year and told the voters.

If this law changes and the money that is 50 percent of the debt reserve fund goes into the general fund of the school district, does that mean from this point on it is deducted from the state obligation and the Distributive School Account? It is my understanding that this is what happens. They look at the amount of money in the debt reserve fund, take half of that and then reduce school funding by that amount with the idea that this law takes effect and then school districts can use that money to replenish the money taken from them. We received two years projected NPOMT a few years ago with the idea that in 2012 money would have been paid and only the difference or deficit would be made up. That is where we are now. I am referring to all the mining counties, not just Eureka. Things are going fairly well because of the price of gold and a small number of students, but we also know this is cyclic. We are saving the money we are getting now and building our infrastructure.

SENATOR MCGINNESS:
When you said taking the revenue would reduce your DSA by a certain amount, was that from the Governor's Office?

MR. ZUNINO:
No. I said I hope this does not become the standard. Once that becomes revenue to the school districts, DSA revenue is calculated to what you need, subtracting local revenue which includes NPOMT, LSST, etc.

SENATOR MCGINNESS:
I understand it. I was trying to find out the source.

SENATOR HARDY:
Is there a hold-harmless clause from year to year wherein you do not lose four years all at once?

MR. ZUNINO:
It used to be for two years, now it is for one year.

CHAIR LESLIE:
That is based on the school population?

MR. ZUNINO:
School population, yes.

CHAIR LESLIE:
We will close and adjourn this meeting at 2:54 p.m.

RESPECTFULLY SUBMITTED:

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Gayle Rankin,
Committee Secretary

APPROVED BY:

____
Senator Sheila Leslie, Chair

DATE:______________________________________

EXHIBITS			
Bill	**Exhibit**	**Witness / Agency**	**Description**
	A		Agenda
	B		Attendance Roster
	C	Heidi Gansert	Clark County School District Debt Service Fund
	D	Jeff Weiler	Presentation-Capital & Debt Service Fund Balances
	E	Heidi Gansert	Comprehensive Annual Financial Report