

**MINUTES OF THE
SENATE COMMITTEE ON REVENUE**

**Seventy-sixth Session
March 3, 2011**

The Senate Committee on Revenue was called to order by Chair Sheila Leslie at 1:12 p.m. on Thursday, March 3, 2011, in Room 2134 of the Legislative Building, Carson City, Nevada. The meeting was videoconferenced to the Grant Sawyer State Office Building, Room 4412, 555 East Washington Avenue, Las Vegas, 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 Michael A. Schneider
Senator Moises (Mo) Denis
Senator Mike McGinness
Senator Joseph (Joe) P. Hardy
Senator Elizabeth Halseth

STAFF MEMBERS PRESENT:

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

OTHERS PRESENT:

Andrew Clinger, Director, Budget Division, Department of Administration
Craig Hulse, Government Affairs, Washoe County School District
Mark Stanton, Chief Capital Projects and Facilities Management Officer, Washoe County School District
Jeff Weiler, Chief Financial Officer, Clark County School District
Pat Zamora, Nevada State Bank Public Finance
Joyce Haldeman, Associate Superintendent, Clark County School District

CHAIR LESLIE:

We have a presentation today from Andrew Clinger, Director, Budget Division, Department of Administration, on securitizing a portion of the Insurance Premium Tax.

ANDREW CLINGER (Director, Budget Division, Department of Administration):

I gave several exhibits to the Committee this morning. The first one is the Presentation to the State of Nevada, Update: Monetizing Insurance Premium Tax Revenues ([Exhibit C](#)). I will give you an overview of this document. Goldman Sachs provided this information. We were looking at different revenue streams that could be monetized, including unclaimed property. In discussions with the State Treasurer's Office, the staff felt if we were going to do this, we should use a better revenue stream than unclaimed property. We came to the conclusion to use the Insurance Premium Tax.

Page 1a, [Exhibit C](#), gives some points on the marketability and what the rating agencies perceive when they look at this sort of transaction. The first thing they look at is a history of revenue collections and the impact economic downturns have on those revenue streams. The Insurance Premium Tax is relative to our other streams of revenue. Relative to sales tax, Modified Business Tax and some of our other taxes, it is more stable but not completely stable. It has declined as the others have, but not to the degree of some of the other revenues. Rating agencies look at the diversity of the base of the tax when they are looking at monetizing sources of revenue. They also look at the term, which is how long you are monetizing the revenue stream. The longer you go out, the more difficult it becomes to forecast the revenue. They look at precedence—has this been done in other states, has it been done before or are we treading in new territory. Finally, they look at the coverage compared to the debt service requirements. We are looking for coverage that is two and a half times the debt service requirements. As you can see, the Insurance Premium Tax provides four and a half times the coverage, which is well above the level the rating agencies and the market like to see. Insurance Premium Tax has a strong history of collections, and the current revenue stream can generate \$190 million that we have included in the Governor's *Executive Budget*. There is a precedent for monetizing Insurance Premium Tax assessments.

CHAIR LESLIE:

Do we have to do this for the full \$190 million, or is it a line of credit as we did the last two bienniums where we would only take what we needed?

MR. CLINGER:

The line of credit was something we could draw down as needed. This case is a little different because you have to go to market. It is not something where you can wait and draw down a portion. You can wait to enter into the transaction; it is not something you have entered into at the beginning of the year. It is something we can put on the books, monitor our revenue collections and determine whether they are exceeding forecast or we need to go to market. You would have to do it all at once. You could go to market and do a lesser amount than authorized.

CHAIR LESLIE:

How much lead time do you need? If we needed it in June, how soon would you have to prepare?

MR. CLINGER:

At least 90 days. You have to go through a process with the bonding documents. I am not a bond expert, so if someone else says it is going to take 120 days, I would defer. In my experience of issuing regular general obligation bonds, there is a time period you have to go through as you put together official statements and meet with the rating agency and underwriters.

Page 2, [Exhibit C](#), provides some history on the Insurance Premium Tax. It is a 3.5 percent tax on insurance premium income covering property or risk in the State of Nevada. In fiscal year (FY) 2010, that revenue stream generated close to \$234 million, which represented 8 percent of the 2010 General Fund revenues. You can see the history in 2008; it was almost \$257 million. While it has declined, the severity has not been the same as we have seen with sales tax and some of our other collections.

Page 3, [Exhibit C](#), shows a history of the tax collections. You can see the peak in FY 2007 and the declines in FY 2008 and FY 2009; then revenues are flat.

Page 4, [Exhibit C](#), provides information on the monetization. We chose a five-year monetization for this revenue stream. There are other alternatives. When you look at a five-year option, the total interest is 2.7 percent. The average annual debt service over that period of time is \$39.3 million.

CHAIR LESLIE:

Does it cost \$209 million to get the \$190 million?

MR. CLINGER:

This includes \$18.2 million in capitalized interest. The way this is structured and proposed in the Governor's *Executive Budget*, the payments do not start until 2014. There is capitalized interest up front. The \$18.2 million represents that portion. The difference between the \$209 million and \$190 million is the interest capitalized in the beginning. The total interest cost now is \$24.3 million. You will see that when we get to the debt service schedule in the back of this document, [Exhibit C](#).

CHAIR LESLIE:

Did everyone understand this chart?

MR. CLINGER:

Page 5, [Exhibit C](#), assumes a seven-year payback. The main difference is the time; it lowers the annual required debt service. You end up paying more in interest. The total cost of interest is 3.17 percent. On a five-year payback, the total interest paid is \$24.3 million, and on a seven-year, \$34.7 million. There is a fairly significant difference between a five-year and seven-year monetization.

CHAIR LESLIE:

The four-year monetization is in the Governor's budget?

MR. CLINGER:

We were assuming the five-year monetization.

Page 6, [Exhibit C](#), shows you a comparison of the two options. The first section on the left-hand side is the five-year; the section on the right-hand side is the seven-year. Total interest cost of 2.7 percent versus 3.17 percent. The debt service requirements are below. The total interest paid is not shown; it is \$24.3 million under the five-year option and \$34.7 million under the seven-year.

Page 7, [Exhibit C](#), has the considerations that need to be taken into account. As I stated earlier, you are looking for two and a half times coverage on those bonds. The Insurance Premium Tax provides four and a half times. If we monetize the Insurance Premium Tax collections and they come in above the Economic Forum forecast, you can take that excess and apply it to the monetization, which would shorten the life cycle. The debt service requirements are the floor and you can go above if the revenue stream comes in higher. We would be pledging 100 percent of this revenue stream in the future. The only

requirement is to make those debt service payments, and the residual would come back to the State.

The final page of [Exhibit C](#) details bond debt service and coverage. The top section is the five-year, which is what we have proposed. You can see in FY 2014, the annual debt service requirement is \$53.5 million. The unused revenue is \$190 million. The Insurance Premium Tax revenue will be flat from FY 2013 to FY 2017. That is not realistic. Those will be growing in the future. If revenues exceed the Economic Forum forecast, we could accelerate the debt service requirement based on that difference. One hundred percent of the revenue is pledged, and the unused revenue would continue to flow into the State General Fund.

CHAIR LESLIE:

It says Goldman Sachs on this report. Are we contemplating going with that firm or are you to do a Request For Proposal (RFP) to see who else is out there?

MR. CLINGER:

We could do an RFP. Goldman Sachs helped us put this idea together. That does not mean an endorsement, and it will be doing the deal on our part.

CHAIR LESLIE:

Do you contemplate doing an RFP?

MR. CLINGER:

We would want to do that to see what is the best deal.

CHAIR LESLIE:

We are planning to do this by July 1?

MR. CLINGER:

This would not have to be by July 1. We would need statutory changes in place in order to make this happen by July 1. This could happen in the second half of FY 2012.

CHAIR LESLIE:

Why is this a better choice than the line of credit?

MR. CLINGER:

The line of credit has some risk. We heard from local governments; some of the local governments pulled out of the Local Government Investment Pool because of a misconception that we were somehow taking their money. There is some risk. There is a limit to what you can do on the Local Government Investment Pool, depending on the balance in the account. The most we could draw out of the line of credit is \$145 million.

CHAIR LESLIE:

Not enough money there. Now, with everything else we are doing to the counties, they will take their money and run as quickly as they can.

MR. CLINGER:

If the counties pull any funds out, that lowers the amount available. It is more secure with this structure than with the Local Government Investment Pool.

CHAIR LESLIE:

The other thing that bothers me about it is what happens two years down the line. Are we going to have a \$190 million hole to pay back—or are you assuming the economy will recover and we will not have to do this kind of maneuvering again?

MR. CLINGER:

Part of what we are looking at is for the economy to recover, based on the numbers we are seeing on sales tax collections and, to a lesser extent, gaming. We have hit bottom on the sales tax collections, and growth continues. We are not getting back what we lost because when you lose 47 percent on sales tax, you do not get it back. We are not getting back to where we were at the end of FY 2005. We anticipate the economy will grow over the next two years and we will not have a \$190 million hole.

SENATOR SCHNEIDER:

I have some concern with this because you are banking on a recovery. Mr. Clinger acknowledged gaming is flat, and I do not think it is coming back. The heavy sales tax came from construction, and it is not coming back. With what is happening in the Middle East, the oil prices are going to zoom. That will severely affect our gaming. This is risky. We have three months left of Session, the Middle East is melting down and speculators are driving the oil sky high,

which impacts Nevada more than any other state. I am really hesitant about spending money we do not have by getting in debt more.

CHAIR LESLIE:

A lot of us share that concern. What is our interest rate on these bonds?

MR. CLINGER:

The total interest cost is 2.7 percent. I am not sure what the actual coupon rate would be, but it is less than that. The total interest cost is 2.7 percent.

CHAIR LESLIE:

Does this restrict any ability we have to change the Insurance Premium Tax for the four-year repayment? Does that mean the Legislature cannot do anything to the Insurance Premium Tax?

MR. CLINGER:

If the Legislature wanted to raise the rates, I am sure you could do that. Being at four and a half times coverage, rating agencies are looking for something along the lines of two and a half. As long as we did not hamper that coverage, they are looking at four and a half.

SENATOR HORSFORD:

Has this been reviewed from a legal standpoint? I am concerned about the debt we are committing to future Legislatures beyond this biennium. Was that reviewed or analyzed from a legal perspective?

MR. CLINGER:

I do not have an Attorney General's Opinion. It is similar to what was done with the Local Government Investment Pool in the current biennium. The source of where we get the funds is different.

SENATOR HORSFORD:

Are you dedicating five years of revenue? We only budget for two years. You are committing the 2013 Legislature to honoring this bond covenant in order to get the money now. I do not think we can commit a future Legislature to that.

MR. CLINGER:

It was the same on the Local Government Investment Pool that anticipated a four-year payback. The Local Government Investment Pool option put in for the

current biennium bound a future Legislature with those payback requirements. It was a four-year, 25 percent payback requirement each year.

SENATOR HORSFORD:

I recall what we did in 2009. The difference is we did not commit future revenue sources. Had we done the line of credit and drawn down money in that biennium to cover our expenses, we would have planned to pay it back over four years with language that said we would pay it back faster if we had the money. The difference here is you are taking a future revenue source, which is not projected. The Economic Forum numbers have not projected these future revenue sources beyond what we have available to us in this biennium. That is where there is an issue; we are using a revenue source beyond what the Economic Forum has authorized us to use. That is my question.

MR. CLINGER:

I understand what you are saying and you are right. We are in the Local Government Investment Pool line of credit without dedicating a specific source to pay it back. We have not identified a specific revenue source, but we did identify that it would be paid back out of the State General Fund, at least partially. We did plan to use a portion of the debt service account to pay it back.

SENATOR HORSFORD:

Can you get a legal opinion on this to see if we can legally do it?

MR. CLINGER:

We will ask for a legal opinion from the Attorney General.

CHAIR LESLIE:

Have you submitted the draft language to the Legal Division for review? Is this coming in a bill draft request (BDR)?

MR. CLINGER:

A budget BDR was submitted last Friday. It is one of the 83 budget bills.

CHAIR LESLIE:

Brenda Erdoes has it now. We will ask her to review it for that element.

My final question is more philosophical. I remember the line of credit. A lot of us struggled with that because it did seem like we were using it as a method to cover the gap but committing future revenue. This plan feels like it goes one step further where we are actually taking out a loan. We are going to the bank, getting a loan and using it to pay the rent. Is there not a better way to find revenue to pay for the services that we need, rather than taking out a loan? Why should we do this?

MR. CLINGER:

This was not an ideal choice. This was our last choice. We went through and looked at the level of cuts that could be made in the Governor's budget. The Governor wanted to protect some areas. We did not want to hamper the economic recovery with increased taxes. This is the best solution because we are trying to protect the economy of the State and the services we provide.

CHAIR LESLIE:

I am not sure I agree, but at least we understand the proposal.

SENATOR MCGINNESS:

The [Exhibit C](#) overview on page 1a under precedence says, "if other states have monetized the same revenue stream." Have other states done this, and have they used insurance premium taxes?

MR. CLINGER:

Based on the information we received from Goldman Sachs, they said there was precedence for this. I am not sure if another state has done what we are proposing to do; we can ask Goldman Sachs that question.

SENATOR MCGINNESS:

According to that report, we are not plowing new ground here?

MR. CLINGER:

No. In Goldman Sachs opinion, we are not plowing new ground. There is precedence for this type of structure.

CHAIR LESLIE:

Has our state ever done anything like this that you can recall?

MR. CLINGER:

Not that I am aware of. This would be new to us.

CHAIR LESLIE:

This is new for us and precedence-setting, which troubles me too.

SENATOR HORSFORD:

Where is the repayment for this? Why is there not any money in this biennium? On the finance side, I did not see any money going to pay the interest or the principle at all in this biennium. Why is that?

MR. CLINGER:

If you look at the last slide in [Exhibit C](#), there are two tables, one covering the five-year and one covering the seven-year option. Looking at that table, you can see the reason no payments are included in the upcoming biennium budget because that debt service does not start until fiscal year 2014.

SENATOR HORSFORD:

We do not need the money this biennium to balance the budget?

MR. CLINGER:

The money is deposited under this structure. We have included it in the *Executive Budget* with \$190 million deposited into the General Fund in FY 2012, but the payback does not begin until FY 2014. That is part of the reason for the capitalized interest.

SENATOR HORSFORD:

We will pay a higher interest rate because we will not start making the payment on what they are loaning to us for two years? If we started making that payment in FY 2012, we would have a lower interest rate.

Mr. Clinger:

It would lower the interest cost.

SENATOR HORSFORD:

Do you have that modeling?

MR. CLINGER:

We can get that modeling. You can run as many scenarios as you want. We can ask for a model that has the \$190 million coming in FY 2012 with repayments starting in FY 2013.

SENATOR HORSFORD:

I do not like this concept. From a fiscal standpoint, if we take a line of credit on loan and wait for two years before we start paying back, we pay a higher interest and origination cost.

MR. CLINGER:

Looking at it from a cash flow standpoint—what is needed in FY 2012 and in FY 2013—and beginning that payback in FY 2013, you have to monetize more than \$190 million. That makes the payback. The way the budget is structured, we do not have the resources in FY 2013 to make those paybacks.

SENATOR HORSFORD:

You do not have the money or the revenue?

MR. CLINGER:

We would have to borrow more to begin the payback.

SENATOR HORSFORD:

How did you arrive at the \$190 million figure?

MR. CLINGER:

It is based on need and the desire to restore a lot of the proposed cuts made by the agencies. We felt that was a level where we could not cut any more from the *Executive Budget*.

SENATOR DENIS:

We have had discussions in other meetings where we talked about bond ratings changing because of the flux of what is going on now. If our bond rating changes, does that impact this at all? Will we end up paying more interest?

MR. CLINGER:

If our bond rating did change, it could impact the cost of a structure like this.

Senate Committee on Revenue
March 3, 2011
Page 12

SENATOR DENIS:
It could go up then?

MR. CLINGER:
If our credit rating went down, we could end up paying more.

SENATOR HARDY:
If we lock in an interest rate, it is not locked in?

MR. CLINGER:
Once you lock in, you are locked in. I was referring to if between now and then our bond rating received a downgrade, it could change the cost of what is presented here today.

CHAIR LESLIE:
If we securitize the money, do we have to spend the proceeds in the year we do that, or can we bounce it forward? How does that work?

MR. CLINGER:
There are certain restrictions on that. You cannot issue bonds to carry a reserve. You do have to spend down those funds.

CHAIR LESLIE:
Are these tax-exempt bonds?

MR. CLINGER:
I am not sure. I would assume they are, but I am not sure.

CHAIR LESLIE:
I would like to take any public comment on this before we move to the second item. Any comments here in Carson City or in Las Vegas? No public comment. We will move to the second item. This is an update with Mr. Clinger regarding the Governor's recommendation to transfer excess reserve funds from the school districts into the Distributive School Account. Mr. Clinger has a presentation for us.

MR. CLINGER:
Yes, I do. It is entitled, Executive Budget Office, School District Debt Service Analysis ([Exhibit D](#)).

I will proceed to page 2, [Exhibit D](#). This is an ongoing analysis. We are still looking at the numbers in a lot of the school districts. Some of the numbers I present to you today for Washoe County School District are going to change. This is part of the process in flux. I have put together a presentation on Clark County School District and Washoe County School District. On page 2, I want to point out one of the proposals included in the Governor's *Executive Budget*. We have submitted a BDR for this. It is our recommendation these funds be replenished with any excess Local School Support Tax (LSST). Typically, the LSST reverts back to the State. We are recommending any excess LSST funds either replenish these debt service funds or go back for capital improvements at the district level.

CHAIR LESLIE:

Please explain page 3, [Exhibit D](#).

MR. CLINGER:

Based on our analysis, \$319.3 million in these debt reserves can be transferred within those Districts to operating funds.

CHAIR LESLIE:

We are \$106 million short from the \$425 million that was in the budget?

MR. CLINGER:

Correct. Our original estimate was \$425 million. That was based on the School Districts' financial statements and some representations we received at the time. As things have changed and as we have done more analysis, this is where we are. These numbers are still changing. I do not see them dropping by millions, but there are some changes. I know of changes in the Washoe County numbers already. The figure for the other districts could change also. I do not see it going away. We have done enough work to this point; we are within this range.

CHAIR LESLIE:

What is your plan to make up the shortfall? We will assume it is \$106 million.

MR. CLINGER:

One of the things we are considering is the deferral of the unemployment insurance interest. We have included \$66.3 million for the interest payback. We are constantly updating our caseload numbers. We have an Economic Forum

meeting in May. Please refer to the Silver Sage ([Exhibit E](#)). It has year-to-date collections on revenue and year-to-date on sales tax for the State. We are \$16 million ahead of forecast. When you look at the LSST, we are \$16.5 million ahead of forecast. Once we get to the May Economic Forum, those numbers will change based on where we are today.

CHAIR LESLIE:

By law, we have to have a balanced budget before May 1. You have to make some decisions before that.

MR. CLINGER:

If we made changes every time, we would be changing often. Caseload numbers will come in lower than what is included in the *Executive Budget*. We are not submitting any formal budget amendments to the budget until we know those caseload numbers and the May Economic Forum numbers.

SENATOR HORSFORD:

When does the federal fiscal budget start and when will it be approved for the \$66.3 million of unemployment insurance interest? You are betting on the federal budget approval, and President Barack Obama's recommendation to delay the interest payment. Based on the new elected Congress, this may not pass its threshold. What is the time frame for when the \$66.3 million would be decided by the federal budget?

MR. CLINGER:

It is difficult for me to project when Congress will act on that. It is something we will have to evaluate as we see that proposal move through Congress.

SENATOR HORSFORD:

This is for the October 2011 federal budget. It is not approved until July or August. How can you plan for a decision you have to make when the federal budget will not be approved by the time we adjourn? That is a leap of faith.

MR. CLINGER:

We have to evaluate this at the time. We will not make a decision on this until May. Hopefully, we will have a clear indication of what is to happen.

SENATOR HORSFORD:

The Governor's budget is not balanced and will not be until May?

MR. CLINGER:

If we had an Economic Forum today, our budget would be balanced.

SENATOR HORSFORD:

That is not what we have and you know that. We have a Forum in May. According to your position, the Governor's budget will not be balanced until May?

MR. CLINGER:

I do not think any of the budgets will be balanced until May. We will not know the new Economic Forum forecast until May.

SENATOR HORSFORD:

Mr. Clinger, you presented a budget. The proposal you made for the \$425 million of sweeps from the school reserve funds does not work. If we go off the revision, utilizing another revenue source to help shore that up, it is an amendment to the initial proposal. You are still short \$106 million today. We are in the fifth week of the Session, and you are telling us we will not have a response from the Governor's Office on what to do about it until May.

MR. CLINGER:

There are many moving parts on this. The caseload numbers, the unemployment insurance interest, the revenue.

SENATOR HORSFORD:

The unemployment interest will not be done before May and definitely not likely until July or August. We will put that \$66 million aside. You are counting on this money, based on the federal budget process.

MR. CLINGER:

We want to wait and see where the caseload and revenue numbers land. That impacts the decisions we have to make. To assume we stick with the forecast done in December and use that for recommendations for further reductions does not make a lot of sense until we know what happens. Changes are coming. We know we have a definite date in May.

SENATOR HORSFORD:

Is this the Governor's position?

Senate Committee on Revenue
March 3, 2011
Page 16

MR. CLINGER:

This is the Governor's position.

SENATOR HORSFORD:

I am extremely disappointed. The State cannot wait until May to make decisions about how we fund education, mental health care and public safety, based on a recommendation the Governor made. There is a hole in the budget. We cannot wait until May. You know the decisions that have to be made by this Legislature. You know the huge budget deficit. You know the other major issues that need to be decided. We are being told we will not know what our options are until May. We are not offering constructive solutions now; we are going to wait?

CHAIR LESLIE:

I am not sure you can do that legally. I am going to ask the Legal Division to review the law about the Governor presenting a balanced budget. There is always some flux with the figures. I know how it works and so do you. I do not recall having a hole this size and waiting until May. We will get a Legal Division opinion.

On page 3, [Exhibit D](#), can you provide some detail of your analysis to our staff on the other school districts? I understand this is an estimate. We would like to see what they are. Can you provide it in a spreadsheet by fiscal year?

SENATOR MCGINNESS:

We are always waiting for the Economic Forum forecast in May to put the finishing touches on the budget.

SENATOR HORSFORD:

With all due respect, we are not going to wait until May for the Legislature to make their final decisions and to balance the Governor's budget. It is supposed to be presented to us as a balanced budget the day after his State of the State Address.

MR. CLINGER:

On page 4, [Exhibit D](#), is an outline of the underlying assumptions used in our analysis for Clark County School District and Washoe County School District. We use the same property tax forecast we use for the State's debt capacity. The group to participate in this is my office staff, the legislative staff, the

Department of Taxation and Treasurer's Office staff. We use the forecast for the operating property tax we use in the School Districts and for the State's debt capacity, which also relies on property tax receipts. It is a consensus forecast; it is not something the Economic Forum does. For the purposes of the analysis we did for Clark County School District and Washoe County School District, we will use that same forecast as we analyze all the other school districts.

CHAIR LESLIE:

Can you provide our staff an Excel spreadsheet that shows the projections for property tax, room tax, Real Property Transfer Tax and the Governmental Services Tax (GST) for Clark County so we can evaluate your numbers and make sure we can get the same numbers you have?

MR. CLINGER:

Yes. I have sent your staff a PDF version and I will send them an Excel version.

The second bullet on page 4, [Exhibit D](#), is regarding the Clark County room tax and the Real Property Transfer Tax. For those two revenue sources for FY 2011, FY 2012 and FY 2013, we used Economic Forum numbers as the basis for coming up with those forecasts. The Economic Forum forecast is not county-specific, but we use those underlying numbers to come up with the forecast that we utilized in our analysis for the Clark County room tax and the Clark County Real Property Transfer Tax portion.

Page 5, [Exhibit D](#), shows the remaining revenue assumptions we used in our analysis in FY 2014 through FY 2020 for the room tax and the Real Property Transfer Tax. The Economic Forum does not forecast those years. We used what we believe is a conservative estimate on revenue of 2 percent per year. We also included the GST, which was not included in the original proposal we put forward, and we used a 2 percent growth rate.

SENATOR HORSFORD:

What would the shortfall have been without the GST portion? What would the availability of funds have been?

MR. CLINGER:

If you look at page 6, [Exhibit D](#), the last bullet point shows the amount of funds that we assume transfer to the GST fund, \$124 million. We based our initial

estimate on financial statements and representations made at the time, and we agree with them. This is a different proposal than what we initially put forward. We had to make those changes because our assumptions have changed. We are adapting our recommendation based on those changing assumptions.

SENATOR HORSFORD:

With that same thought, this happens in every budget cycle. Proposals are made, initial projections are offered, and we work with the fiscal staff and play with numbers. As that issue is identified here with the capital reserve fund, you are bringing us a different proposal back, which is fine. I appreciate it, and I am glad we were able to get this down so we can address this early on. You brought us a solution that addresses all but \$106 million of the problem. You knew you had this hole that needed to be fixed. You came up with some constructive ideas, but you are still short \$106 million. Why have you not looked at other viable options? Waiting for the federal government to bail us out is not it. Why can we not see any viable options as you have presented these to us?

MR. CLINGER:

There is a big difference between a \$300 million or \$400 million shortfall and a \$106 million shortfall. At this range, with the changes in the Economic Forum and the caseload, that item can be addressed once we get those new proposals, without having to make radically different proposals.

SENATOR HORSFORD:

That is not fair to us as Legislators. We look at our schedule with our finance staff and see budget closings in April. We do not have time to wait for the Economic Forum. Economic Forum is used at the end of the process to make final, last-minute, minor adjustments. A \$106 million hole in the Distributive School Account (DSA) is not minor. Constitutionally, we have to move the DSA bill first. I cannot do that with a \$106 million hole. I cannot wait until May to begin that process. We will not have enough time to get done what needs to get done. It is not our responsibility to present a balanced budget, it is the Governor's responsibility. You brought us some suggestions that address part of the hole created from your proposal, but you did it for all except \$106 million. What can we get before May, similar to the options you are presenting to us now? We cannot wait until May.

CHAIR LESLIE:

That is the directive of the Committee. I understand if you are not prepared to answer that question today, but we are expecting an answer.

On page 6 of [Exhibit D](#), is that 100 percent of the Clark County GST?

MR. CLINGER:

On page 6, Exhibit D, the GST is related only to Clark County. A separate page deals with Washoe County. The \$124 million does not assume transferring all the GST. There is \$5 million a year that is not transferred. Approximately \$25 million a year in GST revenue is projected, and we are recommending \$20 million a year be transferred.

CHAIR LESLIE:

Why are we transferring GST? Are you taking the GST, putting it in the bond reserve account and then taking it out?

MR. CLINGER:

We are recommending over a two-year period to transfer \$232.2 million from the debt service fund to the District's operating funds. The \$124 million comes in from the GST fund and transfers to the debt service fund over a period of five years. You cannot transfer the \$120 million within the current biennium.

CHAIR LESLIE:

Why not transfer it directly to the operating fund? I do not know why we are taking that extra step? Is there a legal reason?

MR. CLINGER:

You would not be able to get the \$232.2 million in the current biennium if you transferred the GST to the operating fund over FY 2012 and FY 2013. That is being used to meet the debt service requirements for the school district.

The other bullet points on page 6, [Exhibit D](#), do not anticipate an increase in the School District property tax rate, which is 55.34 cents. This analysis and recommendation does not propose changing that. It also does not assume a refunding or a restructuring of the District's bonds. We used the debt service schedules provided to us by the District as we went through this analysis. I know of discussions around the refunding or restructuring of the debt. I want to make it clear to the Committee that the \$232.2 million does not assume that

happens. The last bullet is the transfer of the GST into the debt service account to help meet those obligations.

SENATOR HORSFORD:

You say it does not increase the property tax rate. From the initial proposal, it either extends the term of the bond—which is an increase because it is a longer payment of property taxes—or increases the property tax rate. Does this extend the time before that happens, if the revenue projections for the bond payments as you project them versus how the School District has modeled it do not come in, and the District is forced to make the payment? If the District does not have the available revenue, does this delay it to four or five years from now? Is the net effect going to be a property tax increase?

MR. CLINGER:

No, this does not anticipate an increase in the property tax. It does not anticipate extending the time the bonds are paid, which would fall under a restructuring. There are two primary differences. The growth assumptions we used for property taxes are first.

SENATOR HORSFORD:

Your projections on revenue do not match the District's projections on revenue; therefore, the District says it has to increase the property tax rate if this money is diverted.

MR. CLINGER:

The District says that. This is not my forecast. It is a forecast we come up with jointly for property tax. I want to make that clear.

SENATOR HORSFORD:

The District has professional financial staff who do this. The District has a fiduciary responsibility to its elected board and says its revenue assumptions do not match yours. Who are we supposed to believe?

MR. CLINGER:

They do not match. I would like to believe our revenue assumptions developed jointly with the Treasurer's Office, Department of Taxation and your staff. We all participated in this process and have financial expertise. The State Treasurer is responsible for the debt in the State of Nevada, and the same forecast I have

used here is the forecast they are relying on to project the State's debt capacity.

SENATOR HORSFORD:

Can we get a side-by-side comparison of those two revenue projections? I am not an expert. If there are huge discrepancies between the two, and one says it could result in a property tax increase in Clark County and yours say it will not, we have to agree on which one is right. What is the State's Consolidated Bond Interest and Redemption Fund balance?

MR. CLINGER:

We project we will be down to a 30-day reserve in our Consolidated Bond Interest and Redemption Fund.

SENATOR HORSFORD:

What is the balance?

MR. CLINGER:

I am not sure of the number. I can get it for you. The assumptions we made for Clark and Washoe Counties took their debt service accounts down to a 30-day reserve, and that is the same point where the State will end up.

SENATOR HORSFORD:

Let us talk about that from a fiscal prudence standpoint. We are using these creative financing approaches to meet our basic expenses. We draw down all but 30 days of our reserve. We have eight months to a year of reserve. We need to think ahead. We need to plan for our future. We cannot live paycheck to paycheck, and that is the next paycheck. If the money does not come in, what does the District default?

MR. CLINGER:

If those revenues came in lower, that would force a property tax increase in Clark County. It has an obligation to make on the debt service on those bonds.

SENATOR HORSFORD:

You plan to take the reserve balance down to 30 days for the Clark County School District, and you say that may happen at the State level. If your revenue projections are not right and the District's are, and it cannot make its bond payment, it will automatically trigger a property tax increase in Clark County.

MR. CLINGER:

It would. Our modeling takes them down to a 30-day reserve. The 30-day reserve occurs in 2016; that is the low point. For Washoe County School District, it is 2013. The Districts will not be at a 30-day reserve forever; it is a low point and grows out from there.

SENATOR HORSFORD:

But it is still living paycheck to paycheck. If the revenue does not come in that month, the bills do not get paid, and in this case, the property tax goes up.

MR. CLINGER:

The 30 days in Clark County School District is \$30 million. It is not a small amount of money. Our revenue would have to be off significantly to go through all of that money and trigger a property tax increase.

CHAIR LESLIE:

We do not have a great history of revenue projections over the last eight years. It is scary.

MR. CLINGER:

Page 7, [Exhibit D](#), gives a table and representation of the three revenue sources other than property tax. The GST is green, the Real Property Transfer Tax is purple and room tax is blue. You can see the figures from the Economic Forum for FY 2011, FY 2012 and FY 2013 on the room tax and Real Property Transfer Tax. After that, we used a 2 percent growth rate for the revenue sources.

Page 8, [Exhibit D](#), is a graph of the inflows and outflows into the Clark County School District debt service account. You can see the green represents the reserve. In FY 2016, the ending fund balance hits a low point of \$29.7 million. In FY 2017, it goes up to \$59 million, in FY 2018 it goes to \$70 million.

CHAIR LESLIE:

We are now talking about 30 days, which we thought was six months on the reserves. Are you going to give us new information on the 30-day charts?

MR. CLINGER:

We can supply this information to your staff.

Senate Committee on Revenue
March 3, 2011
Page 23

CHAIR LESLIE:

We have been working on the six-month charts. This is the 30-day proposal?

MR. CLINGER:

This is the 30-day proposal.

CHAIR LESLIE:

Does this meet the statutory requirement of school districts keeping 50 percent in reserve?

MR. CLINGER:

Not necessarily. The school districts cannot issue bonds until they have met the reserve requirements. If the reserve requirements are three months and they are drawn down to a 30-day reserve, they would not be able to issue any debt until they have a 90-day balance in that reserve.

CHAIR LESLIE:

We need you to come back with a new plan.

MR. CLINGER:

This does represent the 30-day plan. The only thing missing is the further analysis we need to do on the other districts. I have some new information from Washoe County School District today in the reserves. We need to work through those items and make the changes. The basic concept is not going to change.

RUSSELL GUINDON (Principal Deputy Fiscal Analyst):

Just to make sure I understand this with the Committee, we will have language change from one year to 12 months and 10 percent to 5 percent. The new BDR language would be reserve balance of one year or 10 percent, whichever is less. The original proposal was six months or 5 percent, whichever is less. Will we have language that says it will be 30 days or some percent, whichever is less? Do we need statutory language to require that?

MR. CLINGER:

They had a concern about dropping the reserve level down only temporarily. That puts them in a similar situation where they have to raise those reserves back up. I would like to discuss that with the School Districts. I know their answer, but depending on how that comes out, we would probably amend the BDR.

Senate Committee on Revenue
March 3, 2011
Page 24

CHAIR LESLIE:
That is the BDR at the Legal Division?

MR. CLINGER:
That BDR is at Legal. All of them were submitted last Friday.

CHAIR LESLIE:
We need to prioritize this particular issue and understand how big the hole is. I am getting nervous that the \$106 million is more than that. We all need to keep working on this.

MR. CLINGER:
Page 9, [Exhibit D](#), is Washoe County School District. Based on the same assumptions using the property tax forecast, unlike the Clark County School District, Washoe County School District does not have room tax or Real Property Transfer Tax funds. They have property tax and the GST fund. Based on our modeling and using that consensus forecast for property tax in a conservative 2 percent forecast for the GST, we estimate the ability to let the District utilize \$60.6 million from the debt service fund for operating purposes. This neither increases the current property tax rate in Washoe County nor assumes a refunding or restructuring of District bonds. It does assume the transfer of \$6.7 million from Washoe County School District GST Fund.

CHAIR LESLIE:
Do we have a list of the projects that Washoe County will be unable to do if we take the \$6.7 million?

MR. CLINGER:
I do not have a list. We did ask Washoe County School District for that yesterday. They have not supplied a formal list.

Page 10, [Exhibit D](#), is a table representing the projected GST from FY 2011 through FY 2020.

Page 11, [Exhibit D](#), is a chart showing the fund balance in green, revenue in blue, and the principle and interest on bonds in purple. You can see the fund balance hits a low in 2013 of \$4.2 million and grows from there.

SENATOR HORSFORD:

Does the amount being transferred from debt to the operating fund cover the amount proposed to be reduced from the DSA for each of those Counties? There is the base level reduction of 5.2 percent. Beyond that, this was supposed to replenish what would be additional cuts to the DSA. Does this do that based on what was proposed initially with the \$425 million for the portion of the dollars available here?

MR. CLINGER:

The number we are talking about includes the \$425 million that is in the Governors *Executive Budget*.

SENATOR HORSFORD:

We have a hole of \$106 million, which means the cut went from 5.28 percent to something else until you fix it. Does this \$60 million in Washoe County and \$232 million in Clark County fully maintain the rest of that 5.28 percent reduction?

MR. CLINGER:

It does with the exception of the \$106 million.

CHAIR LESLIE:

It is a tortuous way to get there. We will open it for public comment and to the School Districts.

CRAIG HULSE (Government Affairs, Washoe County School District):

When the Governor originally came out with this proposal, I took it to our Board of Trustees who opposed the original idea of lowering the bond reserve to 50 percent and sweeping the funds for the General Fund. That would sweep \$25 million from the Washoe County School District. The update is \$60.6 million. I want to show you how much worse of an idea the new proposal is than the original.

We testified the original proposal was not supported because these voter-approved property tax dollars were meant for capital construction. It was not to affect our bond rating, raise taxes or require us to refinance. We do have some concerns with those in the new proposal. Marty Johnson is available in Las Vegas as bond advisor if you have questions. This will affect our bond rating, drawing it down to our low point in FY 2013. The GST dollars in

Washoe County are earmarked for emergencies. We have \$650 million in back projects. We have some old schools, boilers break down, heating systems out, roof replacements need attention. The GST is set aside for these emergencies.

We do not have bonding capacity using the Governor's budget assumption until FY 2016, and we do not have money set aside right now to cover those emergency expenses if this proposal moves forward. We have \$11.5 million set aside of project savings from lower construction costs over the last few years. We have proposed to do a Districtwide security upgrade that would add a single point of entry in all the schools. It would add perimeter fencing, and we have allocated this. If this proposal goes through, we would have to halt that security project and set aside the \$11.5 million for emergencies that the GST would be used for the next two years. This proposal would not allow us any bonding capacity until FY 2016, using the Governor's budget assumptions. There is not enough margin for error in the proposal.

CHAIR LESLIE:

Would you agree that it is mostly the emergency projects? Is your list of pending projects still applicable to this new situation?

MARK STANTON (Chief Capital Projects and Facilities Management Officer, Washoe County School District):

That list of \$650,000 is what we anticipate using in any future bonding capacity. The GST funds are used for emergency breakdowns so we do not have to take bond funds that have been allocated. When a boiler fails, we need to get in and replace it immediately. That is the purpose of this funding source.

CHAIR LESLIE:

It is the list you provided to me, plus the emergencies.

MR. STANTON:

That is correct.

JEFF WEILER (Chief Financial Officer, Clark County School District):

We share concerns similar to what Washoe County has pointed out. The numbers we are looking at are a little different from those we saw yesterday. We had about a 30-hour reserve, at least it has gone up to 30 days, but we are not sure what the difference is. The shortfall yesterday was \$90 million, and now it is \$106 million. We would appreciate more information to see the

differences. The revenue assumptions the Governor's staff is using are estimates. Ours are estimates. Our concern is if we used those particular revenue assumptions to issue bonds now and we had to go to the Debt Management Commission in Clark County, we would get a lot of scrutiny and perhaps not even an approval to issue bonds. We are also concerned about the GST tax balance as well as future revenues being taken. They are leaving about \$5 million a year in GSA tax of a total of \$25 million so at least we know we will get some of that. We have some of the same concerns as Washoe County. It is for emergencies and classroom modifications. We have looked at some of the other budget issues and what we might have to do in terms of our general fund budget. We may have to make the classes smaller. We may have to do the opposite of that if we have to increase class sizes or if class size reduction is not funded at the original level.

CHAIR LESLIE:

We do have a handout called Budget Facts ([Exhibit F](#)). This covers a lot of the same issues you just spoke of.

SENATOR HORSFORD:

So I am clear and accurate—in Washoe County and Clark County, what is the current amount of need in the capital area? Clark County has a five-year plan?

MR. WEILER

We have a ten-year plan identified at \$4.9 billion. The next five-year need is \$2.2 billion for renovation and modernization, assuming no new construction or growth.

SENATOR HORSFORD:

How many schools do we have in Clark County?

MR. WEILER:

Clark County has 357 schools.

SENATOR HORSFORD:

If these funds were taken in the manner proposed, how would you manage maintenance of those 357 schools?

MR. WEILER:

That would be a big challenge. We have had to reduce our budgets over the last few years and will have to do that in the General Fund. One of the areas we have had to cut back is major maintenance. The only improvements or fixes to heating, air-conditioning and roofs are taken out of our capital funds. We are lucky to have a capital program to date, and projecting forward, we do not have that. With this and including the GST issue, we are concerned about what ability we will have to respond to future failures and other issues.

SENATOR HORSFORD:

Was your bond rating reduced to a negative rating? What would this new proposal do to further hamper that bond rating?

MR. WEILER:

It would not improve it. It would continue to have negative pressure on that rating.

SENATOR HORSFORD:

It goes from negative to what?

PAT ZAMORA (Nevada State Bank Public Finance):

There are two parts to the rating. One is the rating for the school districts. They are: AA, AA minus and AA2. That is the base rating. That is the measure of the likelihood of default. Then an outlook is assigned to each of the ratings. Right now, all the outlooks are negative. That is a factor of right now; that outlook covers a two-year period. Because we are in the process of developing a State budget and District budgets, we do not know the outcome. That is why the outlook has gone negative.

SENATOR HORSFORD:

It is not the rating, it is the outlook that is negative. What is our rating in Clark County?

MR. ZAMORA:

The rating in Clark County is AA2 from Moody's, AA from Standard & Poor's, and AA minus from Fitch.

SENATOR HORSFORD:

Potential adverse impacts—either in the budget, the ability to pay your bonds or the sweeping of revenues—could downgrade the rating from those current levels to lower levels. These institutions are monitoring us right now from a negative standpoint based on the fact of the environment we are in and these things are being considered.

MR. ZAMORA:

Yes. That is accurate.

SENATOR SCHNEIDER:

All the schools in my district, east of Rainbow Boulevard between Rainbow and The Strip, are partially “at risk” schools. They have been pounded so hard over the last decade because of the amount of enrollment and the number of kids being bused into the district. There are portable classrooms at Elaine Wynn Elementary. The portables are in horrible shape; they are rattraps. They leak and are moldy. All the schools like that in my district have been used up. I cannot see taking this money and spreading it across the State when we cannot afford to have our kids go to school like this. The message to the Governor’s staff from me is to find some other way to balance your budget.

SENATOR HALSETH:

I have a lot of new schools in my district. In the last two years, my children attended a new school, and then a year later, another new school was built. Do you think it would help if you allowed parents to choose the school their children attend, even if it is out of their zone?

JOYCE HALDEMAN (Associate Superintendent, Clark County School District):

In Clark County, we have implemented school choice. For many years we did not have that opportunity because schools were so overcrowded. There was not a seat to offer somebody to choose. This last year, we had an online registration for every school that had any available seats, even if only two or three seats were available. It was online registration based on first-come, first-served, and thousands of parents took advantage of that. It was a successful program. To an extent, we have done that already. In a school district the size of Clark County, the number of seats available in schools was about 10, 20 or 30 seats. For hundreds of kids who are zoned to a particular school, it does not offer them much choice. We were not able to offer transportation for them. This choice was for families who could provide their own transportation.

CHAIR LESLIE:

Would you like to comment on anything you have heard this afternoon?

MS. HALDEMAN:

This plan does not address one of the fundamental flaws about the use of this money. When we went to the voters in 1998, we were specific about the purpose of this money. The proposals were all related to school construction, renovation and the upkeep of facilities. This takes it away. It goes from bad to worse. In addition to taking the revenue stream dedicated to this purpose, the State proposes to take the GST, a portion of which is also dedicated. The bond money is running out, the reserves are now to be used for something else and the GST money is gone. As we have emergencies, there is nothing left for us to take care of them.

I have a specific example. The Southeast Career Technical Academy (CTA) was our original CTA. It was a successful program. We modeled the other new CTAs after that program. Structural deficiencies in that school are so serious, we had to condemn the main building. We are trying to get the repairs made so we can make sure the kids have access to the popular classes there. That is happening to the older schools in Clark County. We cannot pretend that those things do not exist. We have to recognize there are revenue streams in place for this purpose.

SENATOR SCHNEIDER:

What does your bussing program cost right now? Do you have any idea?

MR. WEILER:

Our transportation budget is \$90 million a year with 40 percent for special needs transportation, meaning students in special education.

SENATOR SCHNEIDER:

And the price of fuel is going up now and putting more of a strain on that budget?

MR. WEILER:

Yes, that is of great concern to us. Every time it goes up a cent, that is a significant increase.

Senate Committee on Revenue
March 3, 2011
Page 31

SENATOR SCHNEIDER:

Maybe we should cut the bussing program budget, save the money for next year and hire teachers. It is not looking good now.

CHAIR LESLIE:

Thank you all for being here. I would encourage you to work closely with the Budget Division so we can get this resolved quickly. I do not have any other business to bring before the Committee today. This meeting is adjourned at 2:52 p.m.

RESPECTFULLY SUBMITTED:

Gayle Rankin,
Committee Secretary

APPROVED BY:

Senator Sheila Leslie, Chair

DATE: _____

EXHIBITS

Bill	Exhibit	Witness / Agency	Description
	A		Agenda
	B		Attendance Roster
	C	Andrew Clinger	Presentation to the State of Nevada, Update: Monetizing Insurance Premium Tax Revenues
	D	Andrew Clinger	Executive Budget Office School District Debt Service Analysis
	E	Andrew Clinger	Silver Sage
	F	Jeff Weiler	Clark County School District – Budget Facts