Minutes of the Meeting
COMMITTEE ON LOCAL GOVERNMENT FINANCE
February 6, 2015
9:00 a.m.

The meeting was held at the Public Utilities Commission located at 1150 East William Street, Hearing Room A, Carson City, Nevada, and video-conferenced to the Public Utilities Commission located at 9075 West Diablo Drive, Suite 250, Las Vegas, Nevada.

COMMITTEE MEMBERS PRESENT:

Marvin Leavitt, Chairman
John Sherman, Vice Chairman
Alan Kalt
Andrew Clinger
Beth Kohn-Cole
George Stevens
Jeff Zander
Jim McIntosh
Mark Vincent
Marty Johnson

COMMITTEE MEMBERS ABSENT:

Mary Walker

COUNSEL TO COMMITTEE

Dawn Buoncristiani

DEPT OF TAXATION STAFF PRESENT:

Terry Rubald
Kelly Langley
Heidi Rose
Bill Farrar
Penny Hampton
Susan Lewis
Janie Ware

MEMBERS OF THE PUBLIC PRESENT:

Name	**Representing**
Greg Titus	Bank of America
Al Kramer	Carson City Treasurer's Office
Tom Grady	City of Fallon
Darren Adair	City of North Las Vegas
Ryann Juden	City of North Las Vegas
Sandra Morgan	City of North Las Vegas
Jeffrey Share	Clark County
Gerry Eick	Incline Village GID
Michael Ramirez	Las Vegas Police Department
Carole Vilardo	Nevada Taxpayers Association
Ron Dreher	PORAN
Jeffrey Church	Reno Resident
Janet Houts	Storey County Resident
Michael Sullivan	Town of Pahrump

1. Roll Call and Opening Remarks

Chairman Leavitt called the meeting to order at 9:02 a.m. Kelly Langley, Supervisor, Local Government Finance, Department of Taxation, took roll call. Chairman Leavitt stated there was a quorum.

2. Public Comment

Jeffrey Church, resident of the City of Reno, came forward for public comment. He stated he is a concerned citizen and runs a website renopublicsafety.org. He had some handouts which were submitted to the Board. He expressed concern about the City of Reno finances and the debt from both bonds and OPEB's. The latest CAFR is up. The debt is up, the OPEB debt is up and the City of Reno just decided to give the police force a

1.3% pay raise over the previous contract. For the record, he did misspeak at a city council meeting where he said it was $1,000 a month. It is $1,000 a year, but it sets the tone for the other agencies. He is asking the Board to look at this. There are two different tax ballot measures, one for police and one for fire at about $14 million a year. Instead of going to that purpose, it goes into the General Fund. He is asking the Board to look into this. He has some suggestions in his handouts related to the takeover of government agencies as well as NRS 288. Regarding the City of Reno bond presentation, it rated the City's bond ratings in the various A categories. He does not understand this. A newspaper article from 2011 stated the bonds get junk ratings. He is not sure of the total accuracy of the bond presentation with regard to the bond rating being in the A categories.

Janet Houts, a Storey County resident, came forward for public comment. She thanked the Board and the staff of Local Government Finance on the request she made in August of last year. She hopes to get continued support.

Member Vincent stated Member McIntosh just joined the meeting.

Chairman Leavitt welcomed Member McIntosh.

Member Johnson stated that before we go on to the next agenda item, he would like to disclose that he owns bonds that were issued by North Las Vegas. He believes it would preclude him from making an objective decision on any action that we would take today.

Member Kohn-Cole recused herself in connection with discussion for North Las Vegas.

3. FINANCIAL CONDITION REPORTS BY THE DEPARTMENT; CONSIDERATION AND POSSIBLE ADOPTION OF RECOMMENDATIONS AND ORDERS

a) For Possible Action: Discussion and Consideration of City of North Las Vegas Financial Condition

1) **Report by City on current year financial status, including revenue, expenditures and cash flow analysis;**
2) **Report by City on FY 2014 CAFR;**
3) **Report by City on status of litigation having fiscal impact, including Writ of Garnishment by 5th & Centennial, LLC et al;**
4) **Report by City on plan to alleviate financial difficulties currently experienced by City, including legislative requests if any**

Bill Farrar, Budget Analyst, Local Government Finance, Department of Taxation, stated one of the counties that he works with is Clark County. Included in that would be all of the cities and local municipalities. In regard to the City of North Las Vegas, we have had ongoing communication with them and a lot of communication about the status of their reports. They have been responsive when we have asked them for things. They will let us know they are working on it and will have it to us by a certain date. The biggest problem we have had with them is filing things on a timely basis.

Dr. Qiong Liu, City Manager, City of North Las Vegas, came forward. She stated that Darren Adair, Finance Director was with her today. They appreciate the opportunity to be here today. They have accomplished a lot over the last year, especially since they met with this Committee last time. Because of the limited staff they have, they are really struggling to meet some of the deadlines. They submitted an extension.

Chairman Leavitt stated we asked some time ago about having documents related to cash flow and cash balances. He is aware of the staffing difficulty and in trying to get the audit report, but it is important that we have the reports on cash flow and cash balances. Chairman Leavitt asked if they would make a real effort in the future to submit those on a timely basis.

Dr. Qiong Liu responded yes.

Darren Adair, Finance Director, City of North Las Vegas, stated that last year when the public accounting firm, Piercy, Bowler, Taylor and Kern issued their report, there were no adjustments to their financial statements. There was only a material internal control weakness finding that they were understaffed. Shortly after that finding, they lost three of their key financial people. It took about six months to hire new quality people. That was right around the end of the year. They believe that although the timely information is good, it needs to be accurate information. This past week, they presented their audited financial statement, the CAFR, to the City Council. The CAFR is done and will be on the website within the next couple of days. The findings of the audit showed one minor adjustment and the same material weakness that has to do with staffing. Regarding cash flows, the Department has been willing to give us about a 60-day window to close our monthly books and then provide a cash flow statement. This was before Mr. Farrar. The cash flows have generally indicated that the City has the cash flow to meet its obligations. It was the forecasting that was of concern. They have continued to do that, working closely with the Department, letting them know when they were not able to provide the monthly cash flow statements inside the 60-day-window. The last one they submitted was at the end of September. Now that the CAFR is completed, in the next 30 days they will provide the Department cash flows up until the 60-day window.

Chairman Leavitt asked if they could provide a balance and cash in the General Fund at the end of each month, on a quick basis. That would be better than waiting several months to get the information, even if they are not able to do a cash projection over several months.

Darren Adair responded that he would provide this. Once they balanced their budget last year, they did not anticipate any cash flow challenges during the current year. The Department asked about a potential cash flow challenge they might have from the North 5th Street settlement. Their City Attorney has joined them. She can speak to that at the appropriate time. The position of the City, right now, has been the cash flow has not created any challenges for them to make any payments or anticipated debt service payments. All of those funds are reserved for the appropriate payments and they do not anticipate any payments through the remainder of the fiscal year with from the cash flow standpoint. If they had needed to put all of the $6.3 million in the North 5th Street and Centennial settlement, it would have potentially created a cash flow problem by the end of the fiscal year.

Chairman Leavitt stated, for the purposes of putting it on the record, he would like to ask a few questions regarding the CAFR. He asked if the CAFR showed any violations of statute or regulations as it relates to financial matters.

Darren Adair responded that it does not. One of the things this Committee was interested in in the past pertained to the ending balance in the General Fund. During the year, the City Council lowered the General Fund minimum balance to 6%. It was still above the 4% minimum under the statute. At this time, the CAFR results in an $8.1 million ending General Fund balance, which is 7.2% if you exclude outgoing transfers, and 6.3% if you include outgoing transfers. They often refer to it with the outgoing transfers because those transfers relate to debt service. The 6.3% is just barely over the minimum level was they were trying to maintain.

Chairman Leavitt asked if they had any funds anywhere in the CAFR that show deficit fund balances at the end of the fiscal year.

Darren Adair responded that there are none reported specifically in the CAFR. There is a group of their 700 funds that are reported in a group. Those funds pertain to liabilities for benefits. There is one fund that even in the prior years since 2011 had a significant negative balance as high as $5 million. That fund should normally represent reserves for anticipated payouts. In 2011, they had a number of exit packages for people during the reductions in force that put a big hit on that fund. Overall, the self-insurance funds still remained in the black and in compliance, but that specific fund was underfunded. They are working to restore that fund to at least a zero balance with the goal of someday getting it to a positive reserve. They have made some headway in that at the end of the year, but it still remains with a negative balance of about a million and a half.

Chairman Leavitt asked, if given the fact they have a negative fund balance, do they anticipate having any cash payment requirements out of that fund in the near future that will put them in difficulty

Darren Adair responded that they do not. They use vacancy savings to address unexpected decreases in cash flow. In the prior year and in the current year, they created a Critical Hire Committee whose task is to evaluate every position that is open to determine the criticality of filling it. There are a couple million dollars of vacancy savings which they use to address the potential of these kinds of things and legal settlements. The City has been running on less-than-adequate staff in some areas for a short period of time. At the end of this year, they hope to take some of the vacancy savings and begin the process of hiring some positions which they feel are necessary. However, the resolution and settlement of the legal case has used up much of that vacancy savings and will do so for the next two years.

Chairman Leavitt asked, for the year ending June 30, 2014, what effect in the financial statements they give the 5th Street liability.

Darren Adair responded that because of the timing of the settlement agreement, which was reached in December 2014, and their CAFR was not completed as of December 2014, the full amount of that settlement was properly accounted for as a restriction in the fund balance, and it shows up as a transfer out of the general fund and a transfer in the related insurance or legal liability settlement fund for the full amount less the interest that is associated.

Chairman Leavitt clarified that they transferred cash out of the general fund as of June 30, 2014, in an amount sufficient to fund that entire settlement.

Darren Adair responded that to be technically accurate, the cash had not moved as of June 30th, but there was a transfer representing that movement of cash. The financial statements were as of June 30th, but they were not aware of the settlement until December. The settlement is properly reflected in the financial statements in its entirety.

Member Vincent asked where their staffing situation is today versus when they were at their peak. He asked how much their full-time staffing is down.

Dr. Qiong Liu responded that they are down about 1,000 employees, about 40%.

Member Vincent asked Mr. Adair if in the fund with the deficit balance, it was vested leave.

Darren Adair responded that particular fund would include those benefits.

Member Vincent asked if reductions in force were the only way to continue to balance the budget into the future, you are going to have significant issues as you move forward, not the least of which is the PILT transfer. He asked how much more they could cut and still sustain services if that was their only option. Oftentimes a reduction in force is the only option for a local government. A staff reduction of 40% is a huge number.

Dr. Qiong Liu responded that fortunately they do not see that as an option. Since last time they met with this Committee, they have not only sustained the staffing that they have but have actually grown in certain areas just to meet operational service needs. If you look at the seven-year forecast that Mr. Adair provided previously, looking at the last five or six years up to 2021, they are really only looking at a 7% cap that to bridge the gap. They have a lot of countermeasures and believe they can achieve that goal without cutting staff.

Darren Adair added that he put together the seven-year forecast the first time back in January 2014. Even when they forecasted the deficit and tried to lay out a plan for growth, the forecast did not include any growth in staffing. That is inherently a weakness -- to make the assumption over seven years that they were going to grow the City by 3% a year over the next seven years or roughly 25% cumulative over the next seven years to try and work out of the situation. Staffing is a challenge. What Dr. Liu is referring to is that they have taken the option to focus on trying to create synergies between departments and functions, looking for efficiencies. There are challenges throughout the City as they address this because they do not have adequate staffing in all of the levels. They are focusing on the strategy that Dr. Liu referred to, of hiring back in the most-critical areas of the City that will generate revenue and/or critical services to the employees or to the citizens where possible.

Member Vincent asked if in addition to having to absorb the 5th and Centennial, in this fiscal year, they also had an increase in debt service requirements. Regarding the 2006 bonds for the building, they had a step up in principal and interest payments in FY 2015.

Darren Adair responded that there was an increase. The impact of the debt service changes during the current year was not overall significant. Where they do become a challenge is in 2017 and on through the balance of that seven-year projection they put together. That is about a $7 to $8 million increase. That represents a recurring contractual obligation of the City for some considerable period of time, which has not yet been financially addressed, but it is still about 18 months to two years away.

Member Vincent stated it will have to be addressed at some point.

Darren Adair responded yes, absolutely.

Member Clinger asked for clarification that Mr. Adair provided a seven-year forecast to this Committee last January.

Darren Adair responded yes, it was actually last year, January. It was the first one that was prepared and then they also provided an updated one in September.

Member Clinger asked, based on their current conditions and the lawsuit, what the forecasts look like today.

Darren Adair responded that they updated the seven-year forecast based on the current events, but have not published anything. They tried to roll any new information into the seven-year forecast in order to consider the impact on the ongoing short-term and long-term obligations of the City. The North 5th Street settlement has consumed and will consume what they were hoping to gain from the operational efficiencies in vacancy savings. In any one year, the full amount would be very significant, but spread over three years, it is accomplishable with the vacancy savings. The challenge that Mr. Clinger is referring to, of the increase, and Mr. Vincent was referring to, the increase in debt service, would still need to be resolved. In his opinion, it will not be able to be resolved reasonably while maintaining minimum services for the City through staffing and through staffing reductions.

Member Clinger asked Mr. Adair if he had an estimate at this point in time of what those deficits look like based on this updated information moving forward. He asked if Mr. Adair knew what the unreserved ending fund balance will be for FY 2015, at this point.

Darren Adair responded that for FY 2015, it is their goal to get back to 8%. When they got the concessions and settled the outstanding litigation with their employee bargaining groups last year, they believed it would balance the budget for two years. The unexpected thing was the settlement, and it basically consumed all of the positive lift they were getting from the internal efficiencies.

Member Clinger stated the ending fund balance is a critical piece of cash flow moving forward. Without an 8.3% ending balance, it makes it difficult to manage cash on a month-to-month basis. You need an 8.3% ending fund balance as your target. Member Clinger asked what the plans were with the 5th Street settlement moving forward, and what has been done so far.

Dr. Qiong Liu answered, regarding what they have done so far, that they have done a lot from the efficiencies standpoint both organizationally and operationally. They are looking at the redundant services or redundant staffing. That really resulted in significant savings, such as certain services that were duplicative services were provided in Public Works as well as Utilities. They combined the two and were able to not only maximize the current staffing capability as well as use the resources to get reimbursement by putting those people on CIP projects. The major difference between Utilities and Public Works is outside funding for projects such as infrastructure, roads, drainage, etc. They are able to use those resources for reimbursement. That action alone resulted in about $2 million in savings. This is reflected in their report. Additionally, they are looking at the outside funding to offset some of the financial gaps they were facing. They are aggressively pursuing grants and also donations. They were able to secure a SAFER grant to hire 13 police officers. Those 13 police officers are now in the academy and will be in service in six months. By using federal grants, they do not have to pay for the first year, and they have matching funds for the second and third year. They are using planning or construction grants or donations. They are able to provide some much-needed improvements near older, mature areas, and in the outdated parks and amenities. They also have people that need to establish small business practices. By doing this, they are able to increase productivity, increase output and enhance services without additional staffing and without additional expenditures. Lastly, they established a standard of performance measures. By breaking down the walls, barriers or silos among different departments, they really see the synergy and collaboration. That outcome was that they were able to absorb the $3.5 million settlement for 5th and Centennial in addition to the vacancy savings they were able to accumulate.

Darren Adair added, regarding the 8% ending fund balance, they certainly took seriously the guidance that they received last year on this subject from the Committee. They had some significant discussions with their counsel as they contemplated temporarily going down to 6%. They recognize that 6% is not something they could maintain. Recognizing that finances are cyclical throughout the year, they knew the low point they were always budgeting for was 8%. Due to the concessions in the settlement they had with their collective bargaining group, they knew there was going to be a period of time the City would be below the 8%. They recognize they cannot stay there and are striving to fix it. To address recurring contractual obligations, there are really only two things they can do. This would be a recurring contractual revenue that can be counted on a recurring basis to offset one of those kinds of expenditures, or the reduction in another contractual recurring-type expenditure. They do not have many of these types of expenditures.

Member Clinger stated that their largest contractual obligation as a municipality is their labor agreements.

Darren Adair agreed.

Chairman Leavitt asked where they were on their current contract, when they expire and if they are in negotiations now.

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Sandra Morgan, City Attorney of North Las Vegas, stated they currently have two collective bargaining agreements that expire on June 30, 2015. That is with their firefighters, International Association of Firefighters and with their Police Supervisors Association. The other two collective bargaining agreements are with Teamsters Local 14 and the Police Officers Association. Those two expire June 30, 2016 and were extended for two years as a part of the overarching settlement involving the fiscal emergency resolution litigation that they resolved in May of last year. They did receive two requests to bargain for the two contracts that expire this year, but official negotiations have not yet begun. They are currently working on getting those bargaining units the requested financial information they requested. They are very optimistic that those two organizations understand where the City is financially. Hopefully, they can get some new contracts for the next year.

Chairman Leavitt asked about transfers from the enterprise funds into the general fund. He asked if in the current year and in anticipation of next year, if they are going to keep the transfers at the same level.

Darren Adair responded that at one time, the City was transferring about $40 million a year from the enterprise fund into the general fund. When the statute came into place putting a cap on this, the City was at about $32 million. In the last year, they have gone through these and identified the qualifying expenditures and transfers which could be classified as funds being transferred for franchises, general overhead, or property-related taxes. The result of that, reflecting in the year-end CAFR, is a reduction of the $32 million that was presented from the previous year down to $24 million. This $24 million represents what they have yet to reduce before 2021 in order to come into compliance. The solution for this is the term the Mayor used in this State of the City Address: “Grownomics.” The City's only real source to address a reoccurring-type transfer of this size would be to increase the revenues associated with growing the city. The City has focused very heavily on three primary areas: The residential area up in the north part of town, the Park Highlands area, the 2,500 acre master planned community, the commercial area between the northern part of the City's current build and the speedway off of I-15 and 215 and the Apex area. These areas represent the long-term solution for reducing the City's reliance on the General Fund's reliance on PILT. In the short term, their primary focus is going to be their contractual obligations under the debt instruments. If they do have some excess, they plan to apply that towards PILT. They plan, based upon the success of this growth in the outer areas, to lay out a plan out before this Committee for reducing PILT. They will come back and report later about this.

Chairman Leavitt outlined the future challenges. They must get past the negotiations so they know where they stand with expenditures. There is a big debt service increase coming. There is the eventual diminishment of the transfers coming in from the enterprise funds. Based on current conditions, they are able to operate right now on their current revenue. The three areas he just mentioned are right now without a solution. Chairman Leavitt asked if they anticipate seeking relief from the Legislature regarding the 2021 deadline and the transfer situation.

Darren Adair responded that they are first going to focus their effort on growing the City. They would like to show a positive trend towards reducing the PILT. Their plan is to come back to this Committee and the Legislature at some later date and show a pattern of growth and a reduction in the PILT. If necessary, at that time, they would ask for a reasonable extension based on a realistic plan.

Chairman Leavitt stated that he appreciates the efforts being made by the City North Las Vegas.

Ryann Juden, Executive Government Affairs Liaison, City of North Las Vegas, stated that going to the Legislature for PILT relief at this time is not necessary. They do have plans for numerous Legislative sessions. This session they are going to the Legislature to look for opportunities to restore some local governance power to the City so they will be able to be a little more nimble as they work through some of their issues. One of their primary goals this session is to find opportunities to use state bonding ability to help them put the waterline out at Apex. They currently have meetings with multiple developers. They are not asking for the state to cut them a check to build any infrastructure out there. They are simply asking for help with their bond rating. The full faith and credit of North Las Vegas is really the full faith and credit of the State of Nevada. Their legislative strategy right now is not looking specifically at the PILT. As the Mayor has stated, they can strategically look to grow themselves out of many of the problems that have been reoccurring in North Las Vegas.

Member Clinger commended the City of North Las Vegas on the work they have done so far. He understands the difficulty that they face.

Chairman Leavitt stated he wanted to discuss the agreements and settlements related to the lawsuit on the 5th Street condemnation situation. He asked what they have done, what the agreement says, what is paid so far and what is left to pay.

Sandra Morgan stated that on or about December 18, 2014, the City Council approved a signed settlement term sheet with the land owners involved in the 5th and Centennial litigation. In that specific case, the plaintiffs did file a claim for precondemnation damages and inverse condemnation, but the Nevada Supreme Court found that the inverse condemnation claim was not ripe. The actual judgment was for precondemnation damages only. The actual judgment that was ordered and affirmed by the Nevada Supreme Court was around $4.2 or $3 million. However, they had the issue of pre-and-post-judgment interest that, based on interpretation, could have ranged anywhere from an additional $2 to $3 million. The ultimate settlement was for $6.3 million dollars. A payment of $1.5 million dollars was made to the landowners on October 10, 2014. That payment was made after a stay was denied by the Nevada Supreme Court, and that prompted them to actually engage in mediation. The mediation initially was unsuccessful, but they were ultimately able to resolve this about two months later. An additional $1 million was made in December 2014. There are two remaining payments to be made to the landowners to fulfill the stipulated judgment, and that is a payment of $1.9 million on July 1, 2015 and a payment of $1.9 million on July 1, 2016. The settlement did not address simple payments. It addressed the City receiving the necessary right-of-way on North 5th Street in order to extend all the way to 215. Part of that agreement includes the landowners agreeing to dedicate 75 feet of right-of-way in front for North 5th Street. They would work together, assuming the landowners submit a development plan to the City of North Las Vegas.

Chairman Leavitt asked what source of fund they are going to use to make the July 2015 and July 2016 payments.

Darren Adair responded that those funds will be set aside, as part of the settlement agreement, in an interest-bearing account, locked or restricted, until those dates. The source of those funds was the vacancy savings the City has recognized through December 31st of this year.

Chairman Leavitt asked if that was vacancy savings in the general fund or in numerous funds.

Darren Adair clarified it was vacancy savings in the general fund.

Chairman Leavitt confirmed that it was clear that we need the cash flow statements. At least, give us a cash number.

Darren Adair responded that they are committed to doing that. They will get caught up and provide them to the Department within the next 30 days. They watch the cyclical cash requirements of all their funds very closely. Mr. Adair also wanted to add, regarding the morale of staffing, that the City has a group of people that are tremendously committed. In some cases, they are working for less than what the market would offer them and putting in hours that are substantially more than would otherwise be expected of them.

Darren Adair stated he is grateful for this body and the time you take to allow them to come before you, present this information and get your guidance. They also appreciate the time outside these Committee meetings that many of you have spent mentoring them and answering questions.

Chairman Leavitt stated we appreciate the staff being in attendance to offer support and the work they have done under very difficult conditions.

Dr. Qiong Liu stated she concurred with Mr. Adair's closing statement. They appreciate this opportunity.

3. FINANCIAL CONDITION REPORTS BY THE DEPARTMENT; CONSIDERATION AND POSSIBLE ADOPTION OF RECOMMENDATIONS AND ORDERS

b) For Possible Action: Discussion and Consideration of City of Reno Financial Condition

1) **Report by City on current year financial status, including revenue, expenditures and cash flow analysis;**
2) **Report by City on overall debt status, debt service schedule;**
3) **Report on FY 2014 CAFR**

As the City Manager of the City of Reno, Member Clinger recused himself from the discussion. Member Kohn-Cole also recused herself from the discussion.

Robert Chisel, Director of Finance and Administration for the City of Reno, came forward to present the City of Reno's financial condition. He stated in the packet is the current year financial statements through December, a report of overall debt and the 2014 CAFR. The City of Reno, like many governments, experienced great difficulties during the Great Recession. Current revenues are at about 2005 revenue levels, while their expenditures are at 2014 rates. They have 500 less employees than they did in 2008, while the needs and demands of the City services have increased. However, due to the hard work of the City staff and the City Council, they have made tremendous progress in their financial condition. The Council has continued to focus on fiscal issues and strategies from lean budgets to approving budget-guiding principles. Some items to note for FY 2014, as you go through the CAFR, is their financial position has stabilized. The General Fund and the Sanitary Sewer Fund are the largest funds for the City, collectively representing 55% of the City's total expenditures. The General Fund ended 2014 with a balance of $12.2 million. This has resulted in the ending fund balance at 8% of expenditures for 2014 up from 3.4% in 2011. Revenue growth in the General Fund was primarily fuelled by an 8% increase in consolidated tax and an increase in franchise fee collections. Those helped to offset the 26% decrease in federal grants that the City was receiving for both the Reno Fire Department and the Reno Police Department. The Sanitary Sewer Fund had a 7% increase in operating revenues with most of that growth from the sewer rate increase they implemented in October of that fiscal year, and a January commercial billing increase of that fiscal year. The Sanitary Sewer Fund experienced a decrease in operating expenses primarily due to the rebalancing of the Truckee Meadows Regional Water Reclamation Facility (TMRWRF) with the City of Sparks. Total debt has also decreased from $648 million in 2009 to $544 million at the end of FY 2014. That is a $100 million decrease during that period of time. The City has also established a Stabilization Special Revenue Fund per NRS 354 and an OPEB Trust Fund. The City is continuing to focus on unfunded liabilities such as OPEB and Heart-Lung, and is paying attention to the growing capital needs of the City. For OPEB, the City has made progress to negotiate contracts to reduce the future OPEB benefit, and staff is working on a plan for a process to begin funding the liabilities instead of relying on the continued pay-as-you-go method. For capital needs, the City has formed a strategic team to refine, prioritize and identify needs and develop a plan for funding those needs. The City is focusing on financial stability with an eye on preparing for the future. They still face many challenges and difficulties. There are still many challenges and difficulties that they face. They still have a fairly large debt portfolio. They have a $226 million unfunded OPEB liability and a $40 million unfunded Heart-Lung liability. They are resource constrained, particularly with staffing. Their staff is doing a tremendous job with 500 less co-workers, and their capital needs continue to grow. They are in a far better place than just three years ago when they first appeared before the CLGF.

Vice Chairman Sherman stated he appreciates what the City has accomplished so far. In the packet it shows a budgeted debt service payment of about $2.6 million, but about $1.7 million dollars in property taxes. This is clearly something that is not sustainable. He asked what the City's plans are to resolve the mismatch between property tax revenue and the debt service requirements of the redevelopment agencies.

Mr. Chisel responded that there is a settlement agreement for the RDA that guarantees a minimum funding level for an increment through 2018 at $2.8 million. That is 16 making up that difference. The increment is not at the level they need it to be currently, but as they see progress and development in the downtown core, whether it is new construction or sales of existing buildings, that increment increases. They hope to continue to increase that increment. The RDA is an area of concern. Right now, they are good through 2019 in cash flow analysis for the bonds. They will have to watch it as they go forward.

Chairman Leavitt asked where they stand with property tax in comparison to where you were before the recession.

Mr. Chisel responded that property tax was down. Their property tax for the general fund is about $43 million. They have not recovered, and 3% cap on property tax increases or 8% for commercial, it is going to be difficult as they go forward.

Chairman Leavitt asked if they are currently growing in assessed valuation. He asked how they compare the next fiscal year to the current fiscal year.

Mr. Chisel stated they have seen growth in assessed valuation. In 2014, it was $2 billion and $2.2 billion in 2015. There is still the abatement.

Chairman Leavitt stated the problem is the property tax cannot grow at the same level as assessed valuation anymore. He is not sure what, if anything, the Legislature is going to do about that, but it is a serious situation. The property tax has been forced down to such a low level, it is going to be almost impossible to get back to where we were.

Kelly Langley stated she made an error and pointed to the wrong number. For the City of Reno, the assessed valuation has gone from $6 billion to just under $6.4 billion. It does reflect growth.

Mr. Chisel stated most of it is being abated.

Member Vincent stated this is not a unique problem in local governments. It affects the school districts, it affects the state and it affects a lot of special districts. He wishes the Legislature would look at that formulaic structure as it relates to the cap. In Clark County, there are 3% caps for both commercial and residential because of the mathematics of the formula. It will take us another ten years to get back to the abated peak from 2008.

Member Kalt added that one of the other challenges to gronomics is the tax abatements that are provided for the development of bringing projects and those businesses would not be paying the same level of property tax as existing businesses.

Chairman Leavitt stated we have a situation related to business property where assessed valuation and taxes are based on revenue and expenditures of the organization. In a bad year, it drives it way down.

Vice Chairman Sherman stated that growth comes with cost. More people and businesses increase the demand for services. One must be careful how you grow, the structure of your growth and the impending cost.

Member Kalt asked if they had an opportunity to put money into a special revenue fund for civilization operations in the OPEB Trust.

Mr. Chisel responded unfortunately, not yet. They will be presenting some plans to the City Council as they prepare for next year's budget cycle.

Jeffrey Church came forward for public comment. He stated he runs a website, renopublicsafety.org. He spoke earlier in general terms. There is no money being put into the trust funds, and they did give a 1.3% pay raise to the cops in spite of the financial situation. At the August meeting, he put all of the information on record regarding the two ballot measures. Chairman Leavitt responded that it would be covered at the next meeting. He stated, "The Committee takes notice of this information. Rest assured we will be looking at this one." Mr. Church believes this is referring to the two ballot measures. For the record, Mr. Church read Fire Ballot Measure R3. "Show the City of Reno we authorize to levy an ad valorem property tax at a rate to be determined each year by the City Council not to exceed 7.15 cents per hundred dollars of assessed value for the period commencing Fiscal Year 1998 to and including Fiscal Year 2027 for the purpose of improving fire protection in the City by hiring additional firefighting personnel and providing facilities and equipment therefore in the cost of operation and maintenance therefore." Mr. Church stated that Item 7 refers to Code 100, special revenue funds that have to be accounted for individually. If this is not a special revenue fund, he would like to know what is. There are two different funds that are going into the general fund that are supposed to be for purposes of staffing for police and fire, which have fallen below the mandated levels. At the last meeting, he also submitted the Nevada Attorney General Opinion dated April 15th, 2011. It refers to the Clark County police issue but is identical to the Reno police. It indicates the officers funded under the act must be at least the same number of officers that were funded and supported prior to the Act. He believes that is a misappropriation of taxpayer money. If this is correct, then the City is looking at a very substantial loss of $14 million to the General Fund. He is asking the Committee to take notice, take action and request a legal opinion.

Chairman Leavitt asked Mr. Chisel if he received an audit report recently. The auditors have the responsibility to comment on your legal compliance and financial compliance. Chairman Leavitt asked if there were any violations of statue.

Mr. Chisel responded that there were no violations of statute. He also stated that the overrides for police and fire have been and are going to the police department or fire department as required in the bond or as required in the voter-approved override.

c) Report by Incline Village General Improvement District (IVGID) regarding potential conversion of Community Services & Beach Enterprise Fund to Special Revenue Funds

Kelly Langley stated Incline Village GID is seeking our approval to convert their Community Service Enterprise Fund and Beach Enterprise Fund to a special revenue fund classification. This would become effective July 1, 2015 and would be reflected in the proposed budget for FY 2015-2016. In the exhibit packet is an accounting example of how the funds would be converted using the audited balances from June 30, 2014. She had a discussion with the external auditor to ensure they are satisfied and approve of this proposed transaction. They have provided confirmation based on their understanding of the facts and circumstances. They believe the activities of the Community Service Fund and the Beach Fund, while appropriately accounted for as enterprise funds in the past, could qualify for use as a special revenue fund, capital project and debt service fund, accounting in accordance to GASB 34 as well as GASB 54. Due to the additional oversight this Committee has had recently on enterprise funds and the transfer of funds out of enterprise funds, Ms. Langley requested the Director of Finance and Accounting, Gerald Eick, come forward and explain the potential conversion from the enterprise fund to the special revenue fund.

Gerald Eick, Director of Finance and Accounting, Risk Management and Information Technology, Incline Village General Improvement District, thanked the Department staff for their assistance, insight and guidance as he developed the report that was submitted. The Incline Village General Improvement District sees this as the opportunity to adopt a more appropriate generally-accepted accounting principle relative to their current situation. Their Community Services and Beach Funds would be more appropriately accounted for as special revenue. He identified in the report several matters on financial impact. He strongly emphasized that they do not intend for any net position of either fund to go anywhere else but from one to one. In other words, the Community Services Fund, as it presently is stated as an enterprise, would remain intact as a special revenue fund. The same would be the case for the Beach Fund. The funds will be moved from enterprises where they use full accrual accounting to governmental fund types where it is modified accrual. He has included, for the Committee's review, a template to demonstrate they can take every number from an audit report, provide an audit trail, something that is both reviewable by the public as well as their auditors, getting from the enterprise type of accounting to the governmental-type accounting, and then conversion from that fund level to the government-wide. This is a way of proving that no net position will be moved or lost in this conversion. The second item of responsibility is to address the outstanding bond issues. There are two bond issues that are shared by the Community Services and Beach Funds relative to activities in the past. There should be no consequence to these bond issues. Both were issued by the District as a whole. In those documents, there is no specific statement of a particular debt service fund or any reserve requirement. There is a commitment for the revenue by maintaining these funds and activities intact. The District believes the repayment will remain in place. These bonds will remain the obligation of both the District and those particular funds. This Committee, since 2012, has had the issue of central services cost allocations. It is something that their District does have as a way to allocate costs relative to accounting and human resources to all funds of the District. Their enterprise funds have received allocations and made payments for those services under Subsection C of NRS 354.613. The District will continue to have an enterprise fund in its utility. Therefore, this central services allocation plan will remain intact, and the amounts that were previously identified for community services and the methodology used will also remain intact. There should be nothing in these formula changes that suddenly becomes an added burden to their remaining enterprise fund. He has shown their charges and facility fees are in their report. They adopt the standby charge under NRS 318.201. They identify components of those fees specifically for venues, and not only just for venues in general, but capital debt service and operating. This will enhance the ability of their constituency to understand their financial statements.

Vice Chairman Sherman stated there are constraints on how much a local government can transfer from an enterprise fund to a general purpose government fund. He asked if they were concerned about taking some activities out of their enterprise fund that would fall under these statutes.

Gerald Eick responded that their focus was really on the definition of special revenue. They also recognize that this Committee's concern could be about the cost allocation plan or the transfers.

Vice Chairman Sherman stated he appreciates the concern for the appropriate fund classification of these activities. He is not aware of the role of this Committee in approving or disapproving a fund classification of any particular activity in the local government. This is the prerogative of the local government.

Gerald Eick stated they could not find anything specific regarding asking permission of this Committee, but it appears this Committee has oversight. They would like comments or advice.

Chairman Leavitt asked if they are making transfers right now over and above the allocated transfers based on their plan.

Gerald Eick responded that they are not and none are contemplated after this change.

Member Kohn-Cole commented that she noticed the fund balance will be about 50% of the expenditures because it is $6 million and annual expenditures are $12 million. She asked if there was an intent to decrease. Now they have accumulated quite a bit of fund balance.

Gerald Eick stated they got to this point because their political body of trustees has been deferring a number of capital items. They have had them charge fees to accumulate resources for future investments and capital items. They anticipate all of those resources in that fund will remain and be used to meet those capital requirements and not be transferred to other funds. Whether their political body chooses to reduce fees is hard to say. In October of last year, they made their last bond payment on one item that is a component in determining the fees. In current discussions, there is some indication they would consider dropping their fees slightly since they have less debt service. This is despite the fact that they had us defer a $3 million purchase until they paid off the bond.

Member Kalt stated he appreciated Mr. Eick's proactive approach and the material he put together. He agrees this is not the Committee's prerogative, but promoting transparency is important. It is going to be easier for those reading the financial statement to understand this as a special revenue fund versus the enterprise fund. They are clearly in compliance with GASB 34 and 54.

Chairman Leavitt stated the agenda is such that we will not be taking any motion on it. He asked if they had any other reasons for doing this other than good accounting.

Gerald Eick responded that he simply feels it is good accounting. He is excited about the opportunity to demonstrate to their constituency what is going on at a functional level.

Terry Rubald introduced the new Director of the Department of Taxation, Deonne Contine.

Chairman Leavitt welcomed Ms. Contine.

Deonne Contine stated this is her third month. She was the Chief Deputy for Chris Nielsen and has been with the Department for the last few years. Prior to that, starting in 2008, she served as a Senior Deputy Attorney General representing the Department.

4. CONSIDERATION AND APPROVAL OF REPORTS REQUIRED BY NRS 354.613(6)(b)

a) For Possible Action: Report by Department on transfers from Enterprise Funds by Counties and Cities during FY2014 pursuant to NRS 354.613(6);
b) For Possible Action: Consideration and approval of report to the Director of the Legislative Counsel Bureau for transmittal to the Legislature pursuant to NRS 354.613(6)b

Kelly Langley stated NRS 354.6136 requires the Department to provide the CLGF a copy of each report submitted. The Department has not received any reports during this past year, and therefore, the attached letter satisfies that requirement. She prepared the attached letter for signature because NRS 354.613 requires the CLGF to report on or before January 15th of each odd-numbered year its finding to the Legislative Counsel Bureau (LCB). This letter, should you sign it, will satisfy that requirement as well.

Terry Rubald clarified that the CLGF does needs to review and approve the report.

Vice Chairman Sherman moved to approve the report with a second from Member Kalt. The motion carried.

5. CONSIDERATION AND APPROVAL OF TRUST FUND INVESTMENT PLAN BY LOCAL GOVERNMENT PURSUANT TO NAC 287.788(2)

Clark County OPEB Trust

Terry Rubald stated the Clark County Treasurer should be in attendance to explain this. The actual NAC is in the exhibit packet on Page 142. It is a list of requirements for the investment plan that will be presented today. It appears to her that most of these requirements have been met.

Member Stevens recused himself. He stated he was one of the trustees of fund.

Rick Phillips, Investment Advisor, FTN Financial Main Street Advisors, came forward. He stated he was the Investment Advisor for the Clark County OPEB Trust. In setting up the investment plan, the primary goal was to have most of the assets into the Retirement Benefit Investment Fund (RBIF) trust that is run by the PERS group. The plan is set to dollar cost those funds in over time so not all of the money goes into the stock market at once. That is the general part of the plan. They will help invest the short-term moneys as those moneys will dollar cost average in. He believes it is about $45 million that will go in this fiscal year, and the first transfer took place in January. He believes it was $4.5 million dollars. That goal is to put enough in each month just to dollar cost average that in because as soon as the RBIF people receive that money, they invest it in the equity market, primarily. It is about a 70% allocation to the equity market. It was felt it would not be wise to put that in all at once.so it will be dollar cost averaged over time. The other approximately $40 million is invested in short-term nature just to have the liquidity to go into the trust fund over time with the RBIF allocation.

Chairman Leavitt stated with a goal of 7.5%, they are not going to do that on interest earned on investments anyway.

Rick Phillips stated they wish we could in the fixed-income market, but that is definitely not the case.

Vice Chairman Sherman stated it has been about seven or eight years since this Committee created the NAC related to OPEB Trust and the Legislature passed the companion statute. This request is not lining up with his understanding of the intent of the Administrative Code. As he understands the trust document investment plan, the OPEB Trust will only invest in equity securities and only through the retirement benefit investment fund.

Rick Phillips stated this is correct.

Vice Chairman Sherman asked if, to the extent which the trust has operated in cash, the trust will avail itself to investments otherwise allowed in Chapter 355, 355.170, specifically, the fixed income ten-year-or-less maturities.

Rick Phillips stated this is correct.

Vice Chairman Sherman stated when this was being crafted, it is his recollection that the intent of Administrative Code was if an OPEB Trust was created and has $100 million or less in assets, the only thing it could invest in would be the RBIF or with securities that are allowed in NAC 255.170. They would not need an investment plan approved by this Committee. If the trust had in excess of $100 million in assets and wanted on its own to invest in equities securities, they would have to come up with an investment plan that this Committee would have to review. This Clark County OPEB Trust Fund is the first trust fund coming to this Committee with this issue when there are other OPEB Trusts out there that are doing the same thing. Vice Chairman Sherman asked the Committee if they wanted to revisit this issue for clarification.

Chairman Leavitt thought this might be appropriate. We could approve this one today and then revisit this to see if there are others. We could either change the regulation, clarify it or inform them.

Vice Chairman Sherman stated if the Committee takes the position that it is required under our current interpretation of NAC to give Clark County OPEB Trust an okay, then we are going to have other OPEB Trusts that are not in compliance.

Dawn Buoncristiani, Deputy Attorney General, State of Nevada, stated it is not a decision for her to make because these are the Committee's statutes and regulations to interpret. There are certain times when you may exceed your authority. If this is a jurisdiction question, she can look into it and get back to the Committee. If it is a matter of how you are interpreting the statutes, then that would be for the Committee to decide.

Vice Chairman Sherman stated that when looking at NRS 287.017(g), one might think the Committee's approval is needed to do this, but that is absent the context of other elements or sections of the code.

Dawn Buoncristiani stated she can give legal advice if this is a matter of interpretation that all sections should read in harmony so that one does not leave another one null and void. If you are wondering about setting precedent, the rule in Nevada Supreme Court case law is that you are not bound by a precedent. If you decide you want to do something, you can say it is not setting precedent.

Vice Chairman Sherman stated this may be the way to go and then visit this again.

Chairman Leavitt clarified that if we approve them today, it would not necessarily mean the others that do not have our approval yet are out of compliance.

Dawn Buoncristiani stated that should be made really clear.

Vice Chairman Sherman moved to approve the Clark County OPEB Trust Fund request for approval of their plan. As part of this motion, we recognize that this approval does not set precedent regarding other OPEB Trusts, and there may be another motion later on future business. There was a second from Member Clinger.

Member Kohn-Cole stated she understands the concept for the investments and trying to put them in over time, but they are not in compliance with investing the funds in accordance with NRS 287.017. We are making a motion that they can do it, and she is not comfortable with that.

Vice Chairman Sherman stated NRS 287.017 authorizes OPEB Trusts to invest in RBIF.

Member Kohn-Cole stated it says if it is under $100 million that is where they have to put the money.

Vice Chairman Sherman stated they could put it in two places, the RBIF, or they could invest it on their own.

Member Kohn-Cole stated under normal criteria.

Vice Chairman Sherman stated under the maturities, ten years or less fixed income. They can already do that under NRS 355.170.

Member Kohn-Cole stated she was very supporting of setting up OPEB Trusts, but is concerned we are making a motion that is not in compliance with the NAC.

Vice Chairman Sherman responded that when reading the NACs, he could see where there might be at least two interpretations. The key thing is that we have assurance. He read their trust documents that this trust is not going to independently, outside of RBIF, invest in equity securities. That would cause him a great deal of concern. Local governments already have the ability to do fixed income, ten-year or less maturities, under NRS 355.170. He does not want to stand in the way of them doing this. They met the threshold, in his mind, that their investment plan is in accordance with the other trusts that have been created around the state.

Member Kohn-Cole stated that it is not necessarily in compliance with NAC.

Vice Chairman Sherman responded that this is why we want to say this does not set precedent. At a future date, we will look at this particular issue in NAC.

Member Kohn-Cole stated she is not comfortable with this.

The motion carried.

6. BRIEFING TO AND FROM THE COMMITTEE ON LOCAL GOVERNMENT FINANCE AND LOCAL GOVERNMENT FINANCE STAFF

(a) Report by Department on 2015 Local Government Summary Fiscal Report as prepared for LCB
(b) Report by Department on Churchill County School District 3rd Year of Decline in General Fund Ending Balance, pursuant to NRS 387.3045;
(c) Report by Department of completed mergers:
  1) Douglas Paramedic District and East Fork Fire District;
  2) TMWA acquisition of Washoe County Division of Water Resources and South Truckee Meadows GID;
(d) Gold Hill and Virginia City conversion completed to become County Special Revenue Funds
(e) Report on audit filing status

Kelly Langley stated the staff has put together a statewide summary report for the counties, cities, and school districts. Years earlier, it was done by LCB on legislative years. It provides the governmental activities resources as well as the expenditures for the counties, cities and school districts. It also provided the fund by function resources. You can see 2011-2012 actual and 2012-2013 actual. 2014 is the expected, and 2015 is the budget. This is just informational.

Chairman Leavitt stated we are generally starting to see some improvement. We are seeing revenue growth consistently throughout the state. The main concern is the property tax has not come back and will not come back for a long time under the existing law.

Kelly Langley commented that the report also shows the visual graphs. It is a large volume, but if anyone wants one, we would be happy to provide a paper copy. For the Legislature, Applied Analytics is putting together a very large report, so all of this information has also been provided to them. This eliminated a lot of information having to be provided by the individual counties, cities and school districts.

Member Kohn-Cole thanked the staff, and stated this is exceptional.

Member Kalt stated he really appreciates the assessed value information.

Kelly Langley moved on to Item 6(b) regarding Churchill County School District. At the last Committee meeting, we mentioned that we knew Churchill County School District was in the third year of decline, and we were just awaiting the notice. We have received the formal notice.

Chairman Leavitt commented it is interesting they have a decline in school population.

Member Kalt stated in their community, a charter school has grown significantly, and they are going to expand again. They are going from the public school system to a charter school so the school district enrollment is going down. Another trend in their community is with Naval Air Station Fallon. They are not seeing as many of the families being deployed. The service person may come, but the spouse and children may not.

Vice Chairman Sherman asked if the school district has managed it so they are able to reduce their costs.

Heidi Rose, Budget Analyst, Department of Taxation, responded that it appears they have reduced their costs.

Chairman Leavitt asked if there was cause for concern.

Heidi Rose responded that she does not see a problem at this time. Their ending fund balance is still at an acceptable level, above 4%.

Kelly Langley went on to Item 6(c) regarding completed mergers. This is for information only. The Douglas Paramedic District and the East Fork Fire merge has been completed. Truckee Meadows Water Authority's (TMWA) acquisition of Washoe County Division of Water Resources and South Truckee Meadows GID is complete.

Kelly Langley stated information on Item 6(d), Gold Hill and Virginia City, will be provided at a different meeting.

Regarding Item 6(e), the report on audit filing status, Kelly Langley stated we are awaiting annual audits for the following entities: North Las Vegas, Elko County, Elko County School District, City of Elko, Carlin and Lander County School District. The delay has been related to the Kafoury merger, and due to the shortage of staff and the reassignment of caseloads, the Department is working with all of these entities. We are expecting to have audits delivered by the end of February.

Chairman Leavitt asked if they requested approval for not filing on time.

Kelly Langley stated they requested and have been granted extensions. The primary reason for this was the merger. It was not the local government.

Member Zander stated he is the Superintendent of the Elko County School District. They did provide draft financials for the auditors in a timely manner. Unfortunately, he hired the partner in charge of their audit for the past 22 years to become the CFO for the school district. There is a letter he is going to forward to from Bob Hagen of Kafoury Armstrong explaining the situation. He has guaranteed that Lander County's audit document will be through peer review by February 15th and will be presented to the Board of Trustees on February 24th.

Kelly Langley continued that Lyon County School District is outstanding. They have a new account system which created some delays. It was reviewed by their commission last week, but we have not received an update. Winnemucca Convention and Visitor's Authority did receive an extension, and we should be receiving that this month. The Town of Tonopah has some issues regarding the More Cops tax issue between Tonopah and the County. Our staff had a meeting with the town manager last week. She believes they are going to be able to proceed from there and receive it by the end of the month.

Chairman Leavitt asked if any of these entities are ones we have had perennial problems with that have a new excuse every year.

Kelly Langley stated that she did not believe so.

7. DISCUSSION AND CONSIDERATION OF REGULATORY MATTERS

(a) For Possible Action: Report by Department on legislative bill drafts
(b) For Possible Action: Discussion and Consideration of regulatory or other guidance to Department regarding appropriate use of special revenue funds and enterprise funds
(c) For Possible Action: Update on Subcommittee on Definition of a Local Government

Terry Rubald stated AB 54, which has to do with the procedures on severe financial emergency, is scheduled to be heard by the Assembly Government Affairs Committee on Monday, February 16th at 9:00 a.m. This bill is brought forward by the Department. She would like input from the CLGF as she reviews some of the sections within the bill. Section 1 is intended to address organizational issues of the Committee. It updates the reference to the appropriate appointing authority for the school boards, and it allows for re-appointment of the members, provides for election of a chair and vice-chair, the number of meetings to be held annually, definition of a quorum and compensation for per diem allowance and travel expenses. The Department serves as staff to a number of boards and commissions, and this is the only volunteer board that does not receive a per diem and travel allowance to attend a meeting. We would like to correct that inequity. The remaining portion of the bill addresses existing processes involved in assisting financially-distressed local governments and clarifies certain responsibilities and duties of the Department and others during a period of severe financial emergency. Section 2 is the section with all of the different definitions. One is the definition for basic functions. That term is used later in Sections 3 and 9, which amends NRS 354.705 about what the duties of the Department are under severe financial emergency. One of those duties is to determine the total amount of expenditures necessary to allow a local government to perform basic functions for which it was created, with priority given to public safety and the maintenance of roads and highways. Local governments may do a lot of things for their constituency, but if the Department takes over, the priority is to continue to deliver basic functions, and if necessary, would have to look at cutting non-basic functions. It is so important then to have a definition for basic functions. There is also a definition in the section for fiscal watch. It is basically monitoring the conditions of the local government. The term fiscal watch is used later on in Section 6, and it is intended to update the concept of technical financial assistance. It allows the Department to categorize governments that may meet one or more of the conditions of severe financial emergency, but the degree or the depth of the financial problem is not as serious as severe financial emergency. If the Department has placed a local government under fiscal watch, then the local government would be allowed to request technical financial assistance by passing a resolution requesting such assistance from the Nevada Tax Commission (NTC), which is the head of the Department. This section also has a definition for technical financial assistance as services provided by the Department to a local government, including helping them develop budgets, reviewing contracts, analyzing cost allocation, and so on. Unfortunately, the way this was drafted also has the Department conducting audits, but the original draft was intended to allow the Department to arrange for audits and not conduct them. That will be a friendly amendment that the Department would want to make to that definition. Another friendly amendment the Department is considering is removing the definition of local government in Section 2, Subparagraph 7. It seems that it would cause a problem to define a local government differently than what is already in NRS 354.474. We have also received a request from a bond guarantee company to include a definition of holder, which would be defined as including trustees, guarantors, insurers and other credit enhancers, including without limitation letter of credit banks. The purpose of adding the definition of holder would be to clarify the scope to which notice would be given and presumably ensures that all critical parties are part of the proposed solution for municipality in distress. In prior meetings, the issue came up about withholding funds from distributions made by the state to local governments when those local governments fail to file reports and statements or are otherwise noncompliant. NRS 354.665 provides that a

CTX distribution may be withheld until the report is received. The discussion was that some entities might not have a CTX distribution. They might receive something from property tax or net proceeds. This amendment provides for withholding for those tax types as well. Similarly, Section 5 provides for withholding of CTX if there is a failure to keep up with the payment that is due to the public employees' benefits program. It would allow withholding from property taxes or net proceeds tax there also.

Vice Chairman Sherman asked if the withholding of property tax is an allocation by the Department for centrally assessed.

Terry Rubald responded yes.

Vice Chairman Sherman asked if the state could direct a county treasurer not to allocate locally collected property tax.

Terry Rubald responded that this is a very big hammer.

Vice Chairman Sherman stated that CTX is a big hammer, too. In a normal government, CTX and property tax could be in alignment and in some places CTX could be more.

Terry Rubald stated her thoughts had not gone this far. She stated a request for a friendly amendment was received from a bond insurer to limit any withholding such that debt service would not be impaired. This is probably doable. The concept would be that any withholding would not impair the service of debt. Section 7 provides that CLGF, upon recommendation of the Department Director, determines whether a condition of severe financial emergency exists after conducting one or more hearings. Then there are two additional conditions in the list of conditions triggering severe financial emergency. They include whether the ending fund balance of the general fund is less than 4%. The second one is if the FUTA tax is paid and up-to-date. The balance of Section 7 clarifies the procedures and due process that is necessary prior to declaring severe financial emergency. The Committee would take more of a role in making the recommendations to the NTC. That section also introduces the notion that contiguous local governments to a city being considered for severe financial emergency should be notified and be given an opportunity to be heard because they might be impacted by whatever is decided for that particular city. Section 8 amends the powers and responsibilities of the Department after severe financial emergency is declared. The Department, under this, would assume all rights and obligations of the local government under any collective bargaining contract. This presumably would give the Department the ability to negotiate all collective bargaining agreements, including existing ones, if that option is available in those contracts. This section also permits the extension of bond payments and changes in interest rates by exchanging existing bonds for new bonds. If the local government is involved in litigation and the plaintiff has asked the court for a Writ of Attachment, the Department could ask for a stay of that action during the pendency of the severe financial emergency. Later on, in Section 14, you will see that it specifies a Writ of Attachment must be stayed until the plaintiff has met with the Department to formulate a program for the liquidation of the debt owed. Then the Department has to formulate that plan within 60 days after meeting with the plaintiff. We received another friendly amendment to this section that would provide that when the Department meets with creditors to formulate a debt liquidation program that it includes holders, as that term was defined, and to negotiate with the holders in good faith. Section 8 also provides that the Department could suspend a collective bargaining agreement, if CLGF approves, until the Department's management of the local government ends. Finally, the section clarifies if a financial manager is appointed, that person is responsible to the Department rather than to the local government. That was to clarify that the Department is still responsible for the management.

Member Sherman stated there was a question when we were dealing with White Pine County and the Department's and the Committee's role in collective bargaining agreements. It appears Section 8-1(g) is trying to clarify that. If the local government is in that condition, the Department steps into the shoes of the local government. He has a question of the meaning in Subsection 2 that on approval of the Committee, the Department could suspend collective bargaining agreements. Does that mean that the existing collective bargaining agreements can be voided, and the Department is required to renegotiate those? Or does it mean that all of the procedures and requirements in Chapter 288, collective bargaining laws, no longer apply in this situation? The latter case would have some challenges because that is basically taking over and saying we are going to negotiate in total all of the elements that are required to right a failing government. But in this one case, we are going to have 100% percent of the authority to deal with one particular group.

Terry Rubald responded that since this legislation does not include any reference to bankruptcy, and we know that the bankruptcy courts are the only ones that can really break contracts, she suspects the second alternative is not what is intended.

Vice Chairman Sherman commented that he is not sure what suspend means. What do you put in its place if you suspend something? If you have a collective bargaining agreement that requires a 2% COLA in the ensuing fiscal year, can you say that no longer applies? Or can you say that you are not only going to suspend the whole agreement, but you are actually going to roll back paying benefits by a certain amount? It leaves a lot of unknowns.

Terry Rubald agreed and stated it should be the subject of some friendly amendments.

Chairman Leavitt stated the contracts involve a lot of things other than financial consideration such as health and safety, working conditions, etc.

Member Kohn-Cole stated she thinks it is identifying the bargaining units, and that is not fair. History will show that the unions, when there have been financial difficulties, have stepped up and opened contracts and negotiated concessions. Unless they have the right to suspend all existing contracts across the board, the Department should not have the right to unilaterally suspend a contract. She is also concerned about the non-fiscal issues within a contract.

Member Clinger commented that 85% of any municipality is salary and benefits. He does not know the legal side of this, but if the Department is taking over a financially distressed local government, there has to be some tool to deal with the pay and benefits issue

Vice Chairman Sherman stated that regarding collective bargaining agreements, there is a provision that you can have financial emergency re-openers. He believes whether or not you put them in your contracts is open. He is also discounting the fact that a new city council or county commissioner who does not like the collective bargaining agreement might suddenly design a fiscal emergency to get out of those. There has to be some ability to negotiate in a fair manner with the associations to help rightsize the local government because it is not in anyone's benefit for it to fail. He is stuck on the issue of contracts. He believes we need further discussion with Legislative Counsel on this point.

Member Vincent stated he wonders if the Department declaring a severe financial emergency and taking over the operation of the government would trigger a mandatory reopening so that it is a forced negotiation. Unless you can force them to come to the table, and it is very difficult to do that, there may have to be some other caveats with respect to the mandatory re-opener in terms of speed and the process. The reality is for local governments, the only option to cut costs is to cut personnel. When the City of North Las Vegas cuts 45% of the personnel, it becomes a public safety issue. At some point, you just cannot afford to cut.

Member Zander stated that rather than talk about the entire collective bargaining process, maybe we should focus on some sort of authority regarding reduction of force that might contradict what is actually delineated within those contracts.

Member Vincent stated we are probably going to have the same issue with this. In some cases, we saw collective bargaining contracts with some local governments where they had written into the contract that they could not reduce force because of other concessions. It is like all of the other non-wage and non-money provisions in the contract. They are still part of the contract.

Member Kohn-Cole stated she believes there is a statute requirement that includes a definition for a severe financial emergency in the contract when they would have re-openers on multi-year contracts. That already exists. So if they are in that financial position, that contract will expire at the end of the year.

Vice Chairman Sherman asked if that was a mandatory part of the collective bargaining agreement.

Member Kohn-Cole stated she believes there is a requirement for multi-year contracts, but she will have to double check.

Chairman Leavitt stated that since we are not going to write new language today, the best recommendation might be to have the Department visit with the Legislative Counsel to discuss possible legal issues and find some medium ground. He asked Terry Rubald to move forward.

Terry Rubald went on to Section 9. This requires the CLGF to oversee a plan of revenue enhancement and expense mitigation proposed by the Department. The plan prioritizes basic functions to be performed as opposed to all functions. If additional revenue is needed, the plan must also be adopted by the NTC. If the NTC revises the plan, then the revisions must also be approved by the members of the panel from the CLGF that participates in that process. Subsection 5 permits the levy of additional property tax at the next quarterly payment due date even if the taxes previously imposed are either partially or fully paid. That was a problem we did consider when we were in White Pine County. Although we did not actually impose a tax, something we were worried about was when could it be imposed. Would we have to wait until the next fiscal year when we really need the money right now? That is what this is intended to address.

Vice Chairman Sherman stated that in a situation with an entity in severe financial condition where it is determined that increased revenue is a component of the recovery plan, levying additional property tax as allowed by this would have a marginal or nonexistent impact.

Terry Rubald asked Vice Chairman Sherman if he was referring to the abatement.

Vice Chairman Sherman responded yes. We may want to consider having this particular tax increase, which is limited in time, not be subject to the abatement laws.

Terry Rubald stated that this is what Section 15 does. It exempts any increase to property tax imposed as a result of severe financial emergency from abatement. Section 10 has a penalty if the local government official willfully fails to comply with requests of the Department, including removal from office and possible conviction of gross misdemeanor, and a finding of willful failure to comply would be declared by a district court. Section 11 provides for a two-year period rather than a one-year period to repay any amounts loaned from the severe financial emergency fund. The other amendments in that section are just a style change. We did receive a friendly amendment to amend NRS 354.721 Subparagraph 3(a). Right now, it says money in the severe financial emergency fund may be distributed by the Executive Director as a loan to a local government for the purpose of paying the operating expenses of the local government. The amendment would include not only operating expenses, but also debt service of the local government. It does not seem to be a bad amendment, but a two-year loan. She is not sure that it is going to help debt service, but it might.

Chairman Leavitt stated if we wanted to do that in debt service, it ought to be general obligations. We do not want to be paying redevelopment loans or revenue bonds on a service debt that is a general obligation of a municipality.

Vice Chairman Sherman stated in the event that the local government has to be dissolved, and they have debt obligations, we could have a provision whereby the geographical area of the local government that goes out of business can have some special levy to pay that debt. When you have a subunit within a county, the obligations may be taken over by the county.

Terry Rubald stated Section 12 amends NRS 354.723, which are the procedures that occur when a finding is made that severe financial emergency is unlikely to cease within the three years. It provides a process for transmitting the Committee's findings to the NTC and what the NTC does with it. This section makes the CLGF the driver in those circumstances.

Vice Chairman Sherman asked about Section 7, regarding the conditions of severe financial emergency and the ability to make a judgment as to the severity of those conditions.

Terry Rubald responded this is why the CLGF is being inserted. In the original language, the Department Director makes that judgment. It is amended that the CLGF would ascertain the severity of the conditions before going into severe financial emergency. Ms. Rubald thanked everyone for their comments. She added that there is a bill, AB 19, sponsored by the League of Cities, that would allow the budget timeframe to be on or before the current budget dates in May. We are a little concerned about this because we are already under a time crunch at the Department for reviewing the budgets. She will make comments at the Legislature.

Terry Rubald moved on to Item 7(b). She stated this is in conjunction with the report this morning from Incline Village, which was a good presentation regarding the proposed changes from going from an enterprise fund to a special revenue fund. This led her to want to poll the Committee to see if there is any interest in providing general guidance to all local governments about the criteria to be considered when trying to determine whether an enterprise fund or a special revenue fund should or should not be used. She included in the packet the current definitions of an enterprise fund and special revenue fund as well as NRS 354.612 and 613 about resolutions for establishing enterprise funds, etc. She has also included excerpts from GASB 54, which also describes special revenue funds. She has also given examples of what other governments have published. For example, the Minnesota State Auditor describes the circumstances that control whether an enterprise fund accounting is required. There is also an example starting from Washington State that describes special revenue funds and enterprise funds. Terry Rubald asked if the Committee believes the Department should issue a guidance letter that would be similar to these examples or whether the CLGF should engage in further regulatory work or just leave it alone.

Member Kohn-Cole suggested that it be left alone. She looks at a lot of different CAFRs and finds on these special revenue funds that the fund balance is reflected as restricted when most of the revenue that is generated in those funds comes from unrestricted resources. Even though the local government assigned like franchise fees to a road fund, that does not make those funds restricted. That is how the local government obviously is managing. They need to use those funds for roads. But if you look at all of those CAFRs, they show that those funds are restricted. And when you look at all of this, those funds are not restricted. They are assigned or maybe committed. She does not think they go to the highest level of law. She thinks the finance department puts the budget together, presents it to the council where it is approved, and they are using those franchise fees. She believes it is a sign, and it is across the board for most of the local governments.

Vice Chairman Sherman asked if in Member Kohn-Cole's audit work she would point out this discrepancy between assignment of funds going into a special revenue fund which does not meet the definition.

Member Kohn-Cole responded that as a finding, they just accept it. She is working for the unions. Most of her audits are more of special districts, so she really does not have that issue. But in her view, it is just wrong. It is complicated, and you may not want to address it.

Member Kalt added that from the standpoint of a staff CPA, the level of due diligence and the resolutions, the statutes, all the guidance required by their independent auditors is to true up their compliance with GASB 54 to the letter. To the intent of whether it is restricted, committed or assigned, he personally takes offense that local governments are not doing their due diligence. They are not providing that documentation to their auditors or their auditors are not doing the job. He does not believe it is a pervasive problem in local government financial statements.

Chairman Leavitt stated that on another matter, he wonders, as we approach this 2021 deadline as relates to enterprise funds, if this is going to be a conversion from an enterprise fund to something else so it will not come under the provisions of that statute.

Terry Rubald replied that she wondered if the Department should issue some sort of guidance letter to local governments.

Member Clinger stated he would be in favor of issuing some guidance.

Chairman Leavitt stated if there is a statute in place, and the local government comes up with a way to get around it, which occasionally we have seen, and then the Legislature gets upset and people like Ms. Vilardo get upset, and then they come back with legislation that is more onerous than the last one. He believes we should stop this before it occurs. He sees two alternatives, the Department could draft something, or we could get a subcommittee to work on this.

Terry Rubald stated that we could do a little bit of both. She could draw up a draft and have feedback from a subcommittee.

Chairman Leavitt stated this sounded good, and asked for volunteers.

Member Kohn-Cole, Member Kalt and Vice Chairman Sherman volunteered.

Chairman Leavitt stated Member Kohn-Cole could be the chairman of this subcommittee.

7. DISCUSSION AND CONSIDERATION OF REGULATORY MATTERS

(a) For Possible Action: Report by Department on legislative bill drafts
(b) For Possible Action: Discussion and Consideration of regulatory or other guidance to Department regarding appropriate use of special revenue funds and enterprise funds
(c) For Possible Action: Update on Subcommittee on Definition of a Local Government

Chairman Leavitt asked about the Subcommittee on the Definition of a Local Government.

Terry Rubald responded apologized that there was nothing to report. There has not been enough time to collect all the information that the Chairman has asked us to provide.

Chairman Leavitt stated we would defer that one.

8. REVIEW AND APPROVAL OF MINUTES
For Possible Action: CLGF Meeting – August 28, 2014

Vice Chairman Sherman moved to approve the minutes of August 28, 2014, with a second from Member Kalt. Member Clinger, Member Johnson and Member Zander abstained from the vote because they were not present at the last meeting. The motion carried.

9. For Possible Action: Schedule Date and Review Agenda Topics for the Next Meeting

Vice Chairman Sherman stated he has two items relating to OPEB. We need to look at NAC 287 to resolve the issue as to when the Committee is required to approve investments plan of an OPEB Trust. He has some thoughts he believes could be readily done assuming the whole Committee agrees it is only in the extreme case that the OPEB Trust will itself invest in equities securities that need an extra layer of oversight. He would like to have that done so we are clear on that. And two, GASB has issued two exposure drafts which he thinks are going to be put in the standards that replace GASB 43 and 45 that now govern OPEB Trusts and post-retirement health benefits. This is going to change the landscape of how local governments deal with post-employment benefits. He believes the implementation schedule is 2016, and there might need to be some statute changes in terms of accounting guidelines and budgeting regarding the creation of OPEB Trust. It might be beneficial to get ahead of that. It might be a many-year process to get that done.

Chairman Leavitt suggested we put this on the agenda for the next meeting.

Terry Rubald asked if Chairman Leavitt would like the local governments that were heard today to come back to the next meeting.

Chairman Leavitt stated the City of North Las Vegas definitely needs to come back. If we end up having problems with any of the financial reports, not getting them in, we need those people to come back.

Regarding the date of the next meeting, Chairman Leavitt stated he will be here on May 1st for an economic forum meeting. The date of Thursday, April 30th was chosen.

Vice Chairman Sherman stated that date would be good in terms of a legislative update, too.

10. Public Comment (See Note 2)
In consideration of others, who may also wish to provide public comment, please avoid repetition and limit your comments to no more than five (5) minutes.

There was no public comment.

11. For Possible Action: ADJOURNMENT

The meeting was adjourned at 12:09 p.m.