

**Minutes of the Meeting**  
**COMMITTEE ON LOCAL GOVERNMENT FINANCE**  
**January 26, 2016**  
**9:00 a.m.**

The meeting was held at the Nevada Gaming Control Board located at 1919 College Parkway, Board Room #100, Carson City, Nevada, and video-conferenced to the Nevada Gaming Control Board located at 555 East Washington Avenue, Room 2450, Las Vegas, Nevada.

**COMMITTEE MEMBERS PRESENT:**

Marvin Leavitt, Chairman  
John Sherman, Vice Chairman  
Andrew Clinger  
Beth Kohn-Cole  
Marty Johnson  
Jim McIntosh  
Jeff Zander  
Jessica Colvin  
Mark Vincent  
Mary Walker  
Alan Kalt

**COMMITTEE MEMBERS ABSENT:**

**COUNSEL TO COMMITTEE**

Dawn Buoncristiani

**DEPT OF TAXATION STAFF PRESENT:**

Terry Rubald  
Kelly Langley  
Heidi Rose  
Penny Hampton  
Susan Lewis  
Bessie Wooldridge  
Janie Ware  
Christina Griffith

**MEMBERS OF THE PUBLIC PRESENT:**

<b>Name</b>	<b>Representing</b>
Darren Adair	City of North Las Vegas
Debbie Barton	City of North Las Vegas
Rhonda Garlive	City of North Las Vegas
Qiong Liu	City of North Las Vegas
Deborah Barton	City of North Las Vegas
Mark Mathers	Washoe County
Brenda Mathers	Washoe County
Tammi Davis	Washoe County
Jeff Church	RenoPublicSafety.org
Renny Ashleman	Las Vegas Valley Water District
Wayne Carlson	PACT
Anna Thornley	Nevada Taxpayers Association
Cindy Creighton	Nevada Taxpayers Association
Carole Vilardo	Nevada Taxpayers Association
Ron Dreher	P.O.R.A.N.
Lorinda Wichman	Nye County
Frank Carbone	Nye County
James Eason	Nye County
Byron Kunzi	Nye County
Tim Sutton	Nye County
Kim Lara	Nye County
Pam Webster	Nye County
Dwight Lilly	Member of the Public
Bebby Lilly	Member of the Public
Eunette Gentry	KPVM TV
Herb Melvoin	KPVM TV
Karen Scott	Esmeralda County
Justin Harrison	Las Vegas Metro Chamber
Rusty McAllister	Professional Firefighter
Gabriella Carr	Humboldt County
Fred James	Las Vegas Library District
Jeffrey Share	Clark County
Yolanda King	Clark County
Tom Baker	Henderson
Barbara Miller	Bank of America
Chris Mulkerns	Tonopah

**Item 1.** Roll Call and Opening Remarks

Chairman Leavitt called the meeting to order at 9:00 a.m. Roll call was taken and it was determined that a quorum for the Committee on Local Government Finance was present.

Jessica Colvin, Clark County Controller, was introduced and welcomed as the newest member of the Board.

**Item 2.** Public Comment

There was no public comment in Carson City, Las Vegas or on the teleconference.

**Item 3.** RECESS FOR ATTENDANCE AT REGULATION WORKSHOP

The Department of Taxation will hold a workshop on behalf of the Committee on Local Government Finance to receive input on proposed language changes to the Nevada Administrative Code Chapter 354, as follows:

Proposed regulation relating to local government finance; amending NAC 354.660 by revising provisions relating to the amount of budgeted ending fund balance not subject to negotiations with other local governments or employee organizations and to conform to changes made to NRS 354.6241(3) by SB 168(2015)

Terry Rubald, Deputy Executive Director with the Department of Taxation, stated the Committee on Local Government Finance (CLGF) had discussed whether there was any interest in amending NAC 354.660 at its meeting last October. It was decided there would be a small change made to conform the NAC to the changes enacted this last session with SB 168.

Section 2; subparagraph 3 of SB 168 states "For any local government other than a school district, for the purposes of chapter 288 of NRS, a budgeted ending fund balance of not more than 25 percent of the total budgeted expenditures, less capital outlay, for a general fund: (a) is not subject to negotiations with an employee organization; and (b) must not be considered by a fact finder or arbitrator in determining the financial ability of the local government to pay compensation or monetary benefits."

NAC 354.660 currently says the ending fund balance not subject to negotiations is 8.3% of budgeted expenditures, less capital outlay. It is not entirely consistent with the 25% of budgeted expenditures, less capital outlay, for local governments other than school districts.

Rather than rewrite the entire paragraph, the department is recommending the phrase, "except as otherwise provided in NRS 354.6241; subsection 3", which is the NRS that was amended by SB 168 being added. This way, the 8.3% remains for all situations except for the one changed by SB 168.

Mr. Sherman noted when he first started looking at the proposed amendment to the regulation, he found it necessary to look up SB 168, look at the bill, and then crosswalk the language in SB 168 to the regulation in the proposed amendments. His personal preference would be to have the amendment more directly incorporate the requirements of SB 168 regarding fund balance so it is very clear.

Ms. Walker specified SB 168 was a long and hard fought battle that was completed in the last few days of the session. They tried to change it regulatorily to increase the 8.3% and had an atom bomb go off with the unions.

The language in SB 168 is very clear because it only pertains to the general fund and those local governments except for school districts. The school districts were left out of the fund balance portion because they are already guaranteed through the school distributive account. They do not need a large fund balance because they have the state, which helps them keep financially sound in difficult situations, and are held harmless when there are declining revenues. Local governments do not.

Perhaps one of the things to alleviate Mr. Sherman's concern is to have a letter from the Department of Taxation that could explain this in more layman's terms and not in legal terms.

Mr. Clinger agreed with Mr. Sherman's comments. Due to the provisions that are now in NRS with this regulation, there really is no practical application because you are going to go back to what NRS states. This section in NAC was obviously put in place when you did not have those provisions in NRS. It is confusing to leave the current regulation the way it is now that you have a statute that says something different.

Ms. Kohn-Cole said it is important to point out this is the budgeted ending fund balance, not the ending fund balance. Referencing it this way is simple and makes sense. Both the NRS and the regulation are available to the general public. You have to watch how it gets reworded to ensure it is not mixing anything up. You cannot get rid of it because the school districts are still at that 8.3%.

She recommended leaving it as is. The concern with the union members is they don't like the 8.3% and 25%, but it is the law. By referencing it, it is what exists.

Mr. Vincent stated he would support any language that would make the NAC clearer upon first reading. It only takes a few more words to do that.

Mr. Sherman stated a letter from the Department of Taxation would be important in the initial stages to help a reader in trying to apply that or they end up in some kind of arbitration. The letter will eventually go into history whereas this regulation stays. He feels inclined to try to craft a regulation that is clearer.

Mark Mathers, Washoe County Budget Manager, agreed with Mr. Sherman's and Mr. Clinger's comments that this creates some confusion. He inquired as to the practicality of having two different tiers of fund balance standards. How would it be workable for a county, a fact finder, or an arbitrator so you will have a 25% general fund balance, 8.3% for special revenue funds that receive property taxes, and possibly a third tier. You will not have any standard for special revenue funds that do not receive property taxes.

Chairman Leavitt asked Mr. Mathers if he is suggesting the existing regulation be amended to agree with the new statute so every fund would be subject to the same provisions as SB 168.

Mr. Mathers said that is one public policy option available. There are other public policy options. Having two or three different tiers interjects some confusion into how do we apply it.

Ms. Walker is opposed to expand the 8.3% on the other funds or the school district because that is not the intent. The agreement with the school district was 25% for the other local governments and their general funds. The school districts would retain the 8.3% so they would not see a diminishment of the protection they have with the one month ending fund balance.

Mr. Sherman agreed it would be a prudent move to take out what is currently in NAC 354.660. That would cause more complications than it would potentially solve.

Mr. Clinger clarified he was not suggesting this be applied to school districts or to other funds. There needs to be clarification though because parts of this NAC as proposed right now are in conflict with the NRS. Clarifying the language could clean it up so it comports more with the NRS.

Ron Dreher, representing the Peace Officers Research Association of Nevada, commented it needs to be clarified better than what it is because this one little change will probably be misinterpreted a lot when they go to fact-finding at arbitration.

Rusty McAllister, representing the Professional Firefighters of Nevada, concurred with Ms. Walker. There were no discussions during the legislative session in the moving forward of this bill with regards to changing the dialogue or changing the numbers for all the funds. The number was purely a 25% ending fund balance for the general fund to get rid of all of the budgeted amounts of the other funds.

As for removing the language in 354.660, the word "budgeted" in the language "budgeted ending fund balance" is an important word and should not be removed from your current NAC.

By clarifying the language, you get rid of a lot of the gray area and make it a lot clearer for an arbitrator or a fact finder to say this is what the statute says and this is what the NAC says.

Ms. Walker requested Mr. Dreher and Mr. McAllister to be involved if additional changes are going to be made just to be sure the intent of the law is not being changed.

Ms. Colvin asked if there needs to be any clarification if this is intended to be just unrestricted fund balance.

Ms. Kohn-Cole's answer was no. That would change the whole intent.

Chairman Leavitt suggested establishing a subcommittee.

Ms. Rubald said a subcommittee has already been established. Mary Walker is the chair and Mr. Clinger is on the subcommittee.

Ms. Walker offered to expand the subcommittee to include Ms. Kohn-Cole and Mr. Sherman.

Ms. Kohn-Cole and Mr. Sherman both agreed to be on the subcommittee.

#### **Item 4. RECONVENE REGULAR MEETING**

Chairman Leavitt closed the workshop and reconvened the regular meeting of the Committee on Local Government Finance.

There will be additional meetings with the subcommittee for NAC 354.660. Mr. Sherman and Ms. Kohn-Cole will be added to the subcommittee with the intent they will report back to the full committee any changes that they see fit in this particular proposed regulation.

**Item 5.** Adoption of Permanent Regulations, LCB File No. R078-15, Administration of Trust Funds  
The regulation updates and clarifies existing provisions relating to the administration of trust funds for future retirement benefits of local government employees, including the nature of the trust fund for purposes of appointing qualified persons to a board of trustees; establishing certain circumstances in which the Committee on Local Government Finance ("CLGF") is required to approve an investment plan; and authorization of CLGF to waive the \$100,000,000 minimum market value upon application by a local government for good cause shown.

Ms. Rubald stated this hearing is to consider LCB File Number R078-15 and was properly noticed 30 days ago. The proposed regulations were the subject of a subcommittee meeting that was held on August 18 of last year, as well as a workshop that was held on October 27 during the last CLGF meeting.

The Department of Taxation also made a concerted effort to determine whether this regulation was likely to impose a direct and significant economic burden upon a small business or restrict the formation, operation or expansion of a small business. No comments were received from small businesses. These regulations only affect the administration of trust funds operated by local governments and do not have an impact on small businesses at all.

During the workshop, Mr. Ashleman from the Las Vegas Valley Water District commented they were pleased with the draft as written and would like it to go forward.

The primary intention of these regulations is to clarify that approval is needed from the CLGF only when a trust having an asset value of \$100,000,000 or more wants to invest in equity securities.

If the trust is going to invest in a PERS retirement benefit investment fund, the CLGF approval is not needed. This issue is addressed in the regulation in section 2; subparagraph 2, where it gives exceptions to when an investment plan must be approved by CLGF. If the assets of the trust fund qualify to be invested pursuant to NAC 287.790 and if the Board of Trustees desires to invest outside the RBIF stocks or equities, then the CLGF would approve a plan.

The second issue addresses the makeup of the board members of a trust fund. A five member board, including two members experienced in the equity securities market, is currently required if the trust fund has assets of \$100,000,000 or more.

A request was made to have a five member board only when the trust fund invests in equities. The experience in the equity securities market is not necessary if the trust fund does not separately invest in equities. In that event, a three member board would suffice, even if the total asset value was over \$100,000,000. This issue is addressed in section 1; subparagraph 1(c), which provides that if any of the assets of the trust fund will be invested in stocks or equities, the governing body shall appoint five persons.

The third issue concerns whether the \$100,000,000 asset benchmark requiring an investment plan and approval by the CLGF to invest in securities may be waived for a trust fund that has less than \$100,000,000 in assets. The proposed regulation provides for a waiver of \$100,000,000 benchmark if there is a demonstration of an ability to manage a trust fund of \$100,000,000 or more, or managing a pension fund outside of PERS that is \$100,000,000 or more. This issue is addressed in Section 3; subparagraph 3.

Ms. Colvin expressed concern with section 3; paragraph 5. The language was not added to allow another organization that wants to pool with a trust. If a smaller organization were pooled into another OPEB trust, the investments in that pool trust would only be able to be invested into the PERS investment fund rather than expanding to include investments under NRS 355.170. It limits the availability of those smaller organizations to participate in an OPEB trust. They would have to go ahead and set up their own if they wanted to have investments pursuant to NRS 355.

Mr. Sherman stated the deliberations on the initial regulation pertained to the idea that if a bunch of small local governments get together and create this pool, the policy choice made is because the nature of the combining governments are still relatively small. The assessment was that the level of sophistication would not necessarily be there. It would not be prudent to aggregate four, five or six small local governments into one pool that would exceed the threshold and then allow that pool to invest in stocks.

There are circumstances when large local governments that have a trust could exceed \$100,000,000 if there are entities that are governed by that larger government entity, say general improvement districts (GID). Members of the GID board are the same as a county commission board. They can go to this larger trust to make it work.

The decision was to not allow that option explicitly to be able to meet that \$100,000,000 threshold with numerous local governments pooling their money. That was a definite policy decision that was made and discussed when the original regulation was written.

**CHAIRMAN LEAVITT ENTERTAINED A MOTION ON AGENDA ITEM 5. A MOTION TO APPROVE WAS MADE BY MR. SHERMAN. MS. WALKER SECONDED THE MOTION WHICH PASSED UNANIMOUSLY.**

**Item 6. 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 the following matters:
    - a) FY 15/16 Final Budget, including revenue, expenditures, cash flow analysis and scheduled debt repayments;
    - b) Results of FY 14/15 Audit
    - c) Report on the potential effects of AB 1; SB1, SB2, and SB3 of the 29th Special Session on the financial condition of the City.

Ms. Kohn-Cole recused herself from any discussion regarding North Las Vegas.

Mr. Johnson disclosed he owns municipal bonds issued by the City of North Las Vegas for their water and sewer enterprises. It is a small amount of his portfolio and should not impact any decisions the committee may make.

Chairman Leavitt asked if the City of North Las Vegas was current on all obligations such as accounts payable, any debts, payroll obligations, or any other related areas of concern. He also wanted an update on the current multi-year plan and long-term deficit situation.

Darren Adair, Director of Finance for the City of North Las Vegas, answered the city is current on all of its obligations, including PERS.

In January 2014, the first seven year forecast was produced for presentation to this committee. In that forecast, the model projected a \$152,000,000 structural deficit over the seven year period of time.

After the concessions and settlement of the lawsuit with the employee groups in the fall of 2014, the City of North Las Vegas forecast its first revision which projected the structural deficit through 2021 would be about \$74,400,000 at that time.

There have been two updates since then but they have not officially been released. The first forecast, assuming it could be maintained without an increase through 2021 or under a no-growth staffing model, was based on current staffing. It was projected to be approximately \$22,000,000 through 2021. \$20,000,000 of that would be that first year of the reduction of PILT.

The second model was based upon the response from the department heads across the city about the minimum staffing that would be required to support the 5% year-over-year growth that was included in the model through 2021. These projected staffing needs were heavily scrutinized. As a result, the updated seven year financial forecast would project \$107,600,000 structural deficit.

These two models are dependent upon some of the decisions and actions of the city council. Based on the continued efforts, it is expected that somewhere between \$22,000,000 and \$107,000,000 is where the city will ultimately be able to report and revise its seven year forecast through 2021.

Chairman Leavitt asked if they would need to have a legislative change to eliminate the provision regarding how to financially handle the reduction in the enterprise fund payments into the general fund, which is required under current law.

Mr. Adair responded they have until 2021 to reduce their dependency. He does not see a way the city can reduce costs to a point it can sustain a reduction of \$25,000,000 a year by 2021. The city was actively involved in seeking out businesses for its Apex Industrial Park and other parts of the city. LBG was able to

bring Faraday Future to the Apex Industrial Park along with the incentive package that was approved in the special legislative session. It is a \$175,000,000 infrastructure financing proposal wherein the state would back those bonds.

These seeds being planted out in Apex Industrial Park will be able to reduce the city's dependency on that subsidy from its wastewater and water enterprise. The city will be able to demonstrate to the legislature and this body that progress is being made financially on the recovery of the city.

In the Governor's Office on Economic Development's forecast, which was produced and provided to the legislature at that special session, there is a discussion of the direct and the indirect revenues that could reasonably be anticipated as a result of Apex and the continued expansion and absorption of the space there. He believes they will need to go back to the legislative session to discuss a plan to combine the reduction of the PILT and the progress the city is making in the industrial park.

Chairman Leavitt asked if their current plan has the ability to put away money to make the big increase in debt that will be coming up. He also asked if the city would be able to pay those bonds and related interest when those come due.

Mr. Adair replied that under both of the two forecasted seven year summaries mentioned earlier, the city is capable of paying that increase in debt service. In 2017, that debt service increase goes up \$1,400,000 related to the North Las Vegas Library District bonds. In 2018, it jumps up around \$4,300,000 for a cumulative \$5,700,000 that relates to its general fund and obligations.

Chairman Leavitt commended the effort made to improve the city's financial condition. With the number of staff being reduced, it seems to be really substantial to the point where it is very difficult in the long term to provide the normal level of services associated with a municipality.

Mr. Adair replied the observations are very accurate. When the forecast was put together in 2014, it was believed the staffing pattern of the city was at a minimum level. Under the direction of the current city manager, Dr. Qiong Liu, they went through the departments again looking for efficiencies and ways to restructure or combine groups of people in order to find synergies. They had efforts to increase revenues through business licenses and medical marijuana. They went through all the existing purchasing and contractual relationships and reviewed each of those to try and have a reduction. The way the budget was balanced this last year according to that seven year forecast, there would have been a 7% deficit to address. The city has balanced the budget without any deficit.

This was accomplished largely through continued reduction in staffing: about another 72 employees for the city. They were not layoffs. As the people naturally attritioned from the city, the city re-evaluated the criticality of their responsibilities and did what they could to adjust them. That leaves the city in the current situation that is very thin and probably sustainable if the city was not in a position for potential growth.

Chairman Leavitt inquired if there were any instances where the auditors report on noncompliance with regulations through statute has been released.

Mr. Adair responded there was a period of time when the city was very close on a couple of those but is in compliance with all of those regulatory requirements. The city met its minimum general fund ending balance minimum of 8%. It exceeded that by just a couple of percentage points and there was no negative fund balances in the CAFR to report.

As part of the normal audit, there is a summary of findings from the city's auditors that vary in degree. None of those rose to a level to result in a qualified opinion or in any penalties to the city from any of its grant funding. Most of those findings related to a period of time when the city did not have adequate staffing to oversee some of its reporting and accounting functions and primarily had to do with reviewing procedures and putting

controls in place. The city is working with the auditors to address a plan including additional staffing to resolve those areas.

Chairman Leavitt asked Mr. Adair to explain the financial effect from the legislative special session that occurred to consider a project in the Apex area of North Las Vegas.

Mr. Adair pointed out the legislation was primarily to support the attraction of Faraday Future and the incentives that were put in place out there. Those incentives required a contribution from the city, state, and county in the form of abatements. As a result, those three agencies and the school district will not see some of the otherwise normal tax revenues that they would see for 10 to 15 years depending on the particular tax.

Short term, the city does not see any immediate financial relief coming from that area. The financial obligations would be staffing related but minimal. Long-term, the city believes this is obviously part of the key solution to getting the city back on its feet. The legislation is very specific that the city controls the application process and the ultimate approval. The disbursements go through the Governor's Office on Economic Development.

In a conversation Mr. Adair had with one of the bond rating agencies, they were concerned about how the financial guarantee that was mentioned in the legislation on the city's part would impact the current bondholders. That is the city's commitment behind the landowners.

The landowners obviously are the first defense behind the SID's and the KIA obligations funding those bonds. The city has a guarantee behind those land and property owners ahead of the state. That guarantee is nontraditional in the sense that it only commits the city's uncommitted funds in any particular year. Beyond that, the state would take responsibility.

Although the financing details have not been ironed out completely, the bonds, up to \$175,000,000 of infrastructure bonds, would be low risk during the first couple of years there is capital interest funds available. In the event the payments did not materialize from the landowners or the project and the city was not able to or did not have any uncommitted funds, the state is going to reserve a certain amount of the funds. The state would then have a period of time to make up those cash flow shortfalls while both the state and the city worked with the landowners to rectify the situation.

Mr. Kalt noticed the workers comp section in the MD and A of the audit says, "As a result, the cost to the city for disability or death benefits to claimants under these statutes could very well cause a significant financial hardship over a short period of time." This is cause for concern.

The notes on page 65 in the financial statements show some progress in reducing liabilities under workers comp. The liability in the three year period of the claims liability ending balance was reduced from 6.4 to 3.5. He wanted to know what type of long-term funding mechanism is in place to address the heart-lung coverage and what the projected liability is associated with that so that it does not have a material impact on the city.

Mr. Adair replied the footnote that was included in the MD and A is a concern that has to do with the potential increase of the workers comp claims. The heart-lung claims are an extension of this. As the city's workforce continues to cycle through, the number of individuals that would be covered under that insurance or liability protection is going to be large.

Under the insurance stop loss provisions for the city, the insurance carriers are starting to specifically identify the workers comp coverage that is related to the first responders that include heart and lung. The amount of stop loss they are willing to cover or insure is being pushed out further and further. This last year has shown an increase of the city's responsibility to cover that liability by \$1,000,000.

The plan to address this is to try and create as safe a work environment as we possibly can. They are actively working with the fire and police departments to institute fitness programs, counseling, health, welfare seminars and other programs. The hope is this will result in less claims rather than more.



Chairman Leavitt concluded the discussion of North Las Vegas. The next topic of discussion was the Nye County financial condition.

**Item 6. FINANCIAL CONDITION REPORTS BY THE DEPARTMENT; CONSIDERATION AND POSSIBLE ADOPTION OF RECOMMENDATIONS AND ORDERS**

- b) For Possible Action: Discussion and Consideration of Nye County financial condition:
  - 1) Department introduction /explanation of exhibits
  - 2) Report by the County on the following matters:
    - a) Revenue and expense forecasts for FY 2016; status of ending fund balance of the General Fund; and plans to increase the fund balance;
    - b) Preliminary management report on excess expenditures, deficit fund balances, and internal control problems;
    - c) Status of medium term obligations;
    - d) Status of inter-fund loans and/or transfers to General Fund;
    - e) Financial status of Northern Nye County Hospital District; status of loan from Nye County to Prime Care Nevada, Inc.
  - 3) Department Analysis and Discussion of Possible Fiscal Watch Status for:
    - a) Nye County
    - b) Northern Nye County Regional Hospital District

Ms. Rubald stated last October, this body postponed further discussion on the financial condition of Nye County and the Northern Nye County Hospital District in order to give Nye County a chance to collect information and prepare a report. In the meantime, the department has continued to research the county and hospital district's financial conditions. She reported as follows:

The county has been struggling with financial issues for a number of years. The issue of internal controls has been occurring for some time. The county came before this committee in 2012 or 2013 to explain the internal control weaknesses that were reported in the fiscal year 2012 audit. Internal controls are still an issue in fiscal year 2015, including significant deficiencies in untimely bank reconciliations and failure to apportion investment income monthly. Other problems were failure to timely deposit money collected by a county officer, timely submitting monthly statements of cash balances to the Nye County Commission, and an uncompleted capital asset inventory.

With regard to treasurer reports to the Nye County Commission, the number of days between the date of the report and submission to the Nye County Commission has been reduced from an all-time high of 383 days in 2014, to 81 days in October 2015; which is still 51 days too long.

The second issue is expenditures in excess of appropriations. The 2014 auditor's report indicated violations of NRS 354.626; expenditures in excess of appropriations, and also 354.290 1(a), which requires the county auditor to audit apportionments made by the county treasurer, which also was not done.

Exhibit 13 shows a serious amount of over expenditures has been going on in public safety and emergency management since at least 2004. The county's response to this violation was "the monitoring of budget performance is ongoing and information is provided to department managers to ensure expenditures stay within budget limits." Unfortunately, the same violations occurred in 2015 that occurred in 2014 and 2013.

The county pursued the over expenditure violations by bringing the matter to the attention of the Attorney General's (AG's) Office. The AG's Office declined to prosecute the county sheriff, whose office was responsible for many of the over expenditures, because the statute requires willful violation. The AG's Office did not find that the violations were willful.

A new sheriff has been elected and installed on January 7, 2015. However, the fiscal year 2015 auditor's report lists the over expenditures in a number of departments. The auditor comments that due to turnover in the finance department, the procedure for augmenting the budget was not finalized and filed with the Department of Taxation, thus causing the budget expenditure violations. It appears some of the problem is a matter of adhering to the appropriate financial processes.

Starting last August, department staff had a number of discussions with Nye County regarding the financial conditions. As of last September, there were 9 of 27 conditions that had a positive indication for severe financial emergency. The law says the department is to determine the extent of the problem. Staff has spent the last few months doing this and hopefully today the county will give more information regarding the severity of the conditions.

The next issue is several transactions between the PETT emergency fund and the general fund. Exhibit 2 shows a letter the department sent to the auditor dated November 10, 2015. The letter discusses a number of transactions that appear to be inter-fund loans to the general fund funded by the Emergency Endowment Fund, also known as the PETT emergency fund, made between May of 2014 through April of 2015.

In November, it was unclear whether the transactions were loans or transfers. In either case, the loans or transfers were not approved in a public meeting and no resolution granting the loans was made by the Nye County Commission. When this matter was previously brought to the attention of the county staff and recommended passage of resolutions correcting the omission, the matter of considering the resolutions was placed on the agenda of the Nye County Commission on September 1, 2015. For some unknown reason, approval of the resolutions was withdrawn from the agenda and no corrections were made.

NRS 354.6118 requires the governing body to determine at a public hearing there is a sufficient amount of money available for the loan, the money is not restricted as to its use, and to provide the terms and conditions of the loan. NAC 354.290 also has a number of requirements regarding temporary inter-fund loans, not the least of which is a requirement for the adoption of a resolution authorizing the loan, and to notify the department when the loan has been repaid. This has not been done.

The auditor discussed the inter-fund loans in the fiscal year 2015 auditor's report in Exhibit 3. He also describes the transactions as inter-fund loans and notes the county management was advised by legal counsel that temporary cash adjustments to manage cash flow did not constitute an inter-fund loan or transfer.

Some of the county commissioners believe the emergency endowment fund providing the loan was somehow exempt from the public process. The department believes this is not the case. A total of \$1,850,000 was transferred from the PETT emergency fund to the general fund in 2015. The matter of whether the general fund needs to repay the emergency fund is a moot point because on October 6th, the Nye County Commission abolished the PETT emergency fund which made the loans to the general fund.

The fourth issue is about whether the local government has borrowed money or entered into long-term lease arrangements without following the provisions of NRS. The 2014 fiscal year auditor's report indicates the county did not follow required procedures to enter into the new non-funding lease purchase agreement for equipment. The county's corrective action plan states the matter would be corrected but the department did not receive any documentation correcting the matter.

In fiscal year 2015, the county again did not follow procedures for engaging in a MTO. This time the county requested department approval after the lease purchase agreement was executed. The department acknowledged receipt of the request, but the standard policy is neither to approve or deny a request that has already been entered into. The county's procedures appear to be improving, as the department currently has received a medium-term obligation request in advance of execution by the county.

The fifth issue has to do with the general fund ending fund balance. Exhibit 11 has page 22 from a fiscal year 2016 budget approved by the Nye County Commission on May 18, 2015. The budgeted ending fund balance of the general fund is \$483,383, which is about 1.4% of the prior year's expenditures.

NAC 354.650 (1) requires if the ending fund balance in the general fund has been budgeted for less than 4%, the local government shall provide a written explanation to the department that includes the reason for the low ending fund balance and the manner in which the local government plans to increase it. The county has not complied with that requirement and the department has received no discussion or plan on how the county intends to improve this condition.

The 2014 audit indicates the actual ending fund balance for the general fund was \$3,700,000 in 2013 but only \$622,000 in 2014. The 2015 audit indicates the actual ending fund balance is a little over \$1,500,000, which is 4.6% of the actual expenditures for the 2014 fiscal year. There were operating transfers into the general fund, including the \$1,800,000 from the PETT emergency fund. Had the loan and transfers not been made, the general fund would have ended fiscal year 2015 with a large negative ending fund balance. There is very little room for unexpected events like the write-off of a bad loan connected with the hospital.

Exhibit 16 is a report by the county finance staff to the county commissioners on the status of the general fund and budget update from last October. The effects of the tax cap are shown on page 94 and the percentage change in property tax revenue is shown on page 95. Page 100 is a graph showing negative revenue over expenditures for both the 2014 and 2015 fiscal years. On page 104, the projected ending fund balance for fiscal year 2016 is \$78,892 and a fiscal year 2017 projected ending fund balance of negative \$1,835,246.

Ms. Kohn-Cole asked how the opening fund balance compared to the actual on the budget.

Ms. Rubald did not have this information.

Ms. Walker asked if there was enough knowledge and staff about what the laws are.

Ms. Rubald said she believes there has been some turnover. It comes down to a failure to communicate on a lot of these things. She continued:

The Hospital District was created by resolution number 2015-17, which was adopted on May 29, 2015. The resolution describes the geographic area in the district and also says the provisions of NRS 450.550 – 450.760 relating to County Hospital Districts are hereby adopted.

The Nye County resolution 2015-20, which levies the property tax rate of 20 cents for the hospital district, is Exhibit 21. The tax rate was carved out of the Town of Tonopah's tax rate and applies to properties in Smokey Valley, Gabbs, Manhattan, Round Mountain, and District 5. The hospital district's tax rate does not apply to properties in Pahrump, Amargosa, the various Beatty local governments, or District 9.

The hospital district's budget for fiscal year 2016 was adopted on May 29, 2015, in a public hearing by the Nye County Commission. Page 6 of the budget shows available resources of \$298,962 and expenditures for services and supplies in the same amount.

In 1969, the Nye Regional Medical Center and the Russell Joy Medical Clinic were constructed in Tonopah. The hospital was owned and operated by the Nye County Hospital District. In August 1999, after severe financial emergency had been declared, the original hospital district was dissolved. The hospital continued to operate under the direction of Prime Care Nevada, a Nevada nonprofit corporation.

On December 13, 2013, Prime Care filed a bankruptcy petition under Chapter 11. The bankruptcy court entered an order approving a settlement agreement between Prime Care, Nye County, and other lenders in November 2014. Prior to the conclusion of the bankruptcy and settlement of claims, the Nye County Commission extended financing to Prime Care from a special revenue fund identified on the July 2014 agenda as the Health Endowment Fund. The total amount loaned to Prime Care by Nye County was \$2,445,000. The loan was a long-term loan with a 2% interest rate for a 20 year term. The Commission approved the loan and a loan agreement was executed on July 21, 2014 between Nye County and Prime Care.

The minutes of the Nye County Commission says Prime Care was currently operating the hospital. The board was setting up a hospital district to help fund that as agreed to in the bankruptcy proceedings.

The minutes also show county staff stated the plan of reorganization of the bankruptcy of Prime Care stipulated the hospital district would be set up for debt service on the loan that the county made for the acquisition of the hospital. The purpose of setting up the hospital district and the taxing area would be the basis of the debt service on that loan. The tax was to serve as collateral for the loan. This was done in advance of a creation of the hospital district.

A number of observations were made about that loan in the department's letter to the auditor. The basic concern was whether the loan could be considered an investment permitted under Chapter 355. Chapter 355 lists a number of investments and loans in which a governing body of a local government may invest. A loan to a third party private nonprofit entity for operations of a business is not listed.

The auditor's findings for fiscal year 2015 states there appears to be no statute that expressly authorizes a local government the ability to loan money to a private nonprofit entity under Chapter 355. The hospital closed on September 4.

Whether the loan was an investment subject to NRS 355 may be a moot point because the auditor states in his report that Prime Care became insolvent in August 2015. They were served with a notice of default on the loan indicating intent to accept collateral securing the debt which was estimated to be a little over \$700,000. The loan receivable was reported on June 30, 2015, at \$727,883. The PETT Health Fund and the remaining balance, about \$1,700,000, have been reported as an uncollectible loan to Nye County. The hospital district did not assume the debt owed to Nye County or there has been no resolution and public hearing to that effect.

The hospital in Tonopah is the only hospital in 100 miles. The Nye County Commission has been concerned about providing access to medical care to the citizens in northern Nye County. Exhibits 23, 24, and 25 show the Nye County Commission, sitting as the Hospital District Board of Trustees, have been considering a proposal from Renown Health Care to provide remote medical services and may be imminently signing a professional service agreement.

Renown will provide telemedicine, primary care, urgent care, and imaging services. Level-one service is expected to lose approximately \$50,000 to \$100,000 annually. Level-two service for primary care is expected to lose up to \$100,000. Level-three service is expected to lose between \$200,000 and \$300,000 annually.

Renown's proposal is to use hospital district revenue to support losses. The draft of this agreement commits the district to subsidize Renown for any deficits in the operation of the facility. It is unknown which level of service the Nye County Commission will agree to but the potential for subsidizing losses already appears to exceed the amount of the current budget of the district, even if it is legal for the hospital district to use revenues for this type of operation.

The services proposed by Renown are limited in that not all of the services of a hospital will be provided. NRS 449.012 defines a hospital as an establishment for the diagnosis, care, and treatment of human illness including care available 24 hours each day from persons licensed to practice professional nursing who are under the direction of a physician and also services of a medical laboratory and medical, radiological, dietary and pharmaceutical services. This may be a problem because NRS 450.660 3(c) states the property tax imposed by the district may only be used for the purpose for which it was raised.

The attorney general advises the scope of the hospital district's authority is limited to establishing and maintaining a hospital. There are other medical facilities that are not hospitals but the hospital district only has the authority to levy a tax to operate a hospital. Based on the information in Exhibits 24 and 25, it does not appear Renown is going to offer services compatible with providing a full hospital. The care will not be available 24 hours and it does not appear they will provide the pharmacy, laboratory, or dietary services all required by statute for a hospital. Though Renown may be offering necessary medical care to a community with no local access, Renown is not providing a hospital. If that is correct, the district may not use tax revenue to pay Renown's contract.

Pam Webster, Nye County Manager, commented they had included information at the beginning to demonstrate Nye County has been severely financially impacted over the last few years, both with reductions in revenue and the required reductions in expenditures. Assessed valuation ad valorem revenue, consolidated tax revenue, and total general fund revenues has been challenging. As a result, 82 positions have been eliminated through PERS buyouts, attrition, position elimination, and reductions in services.

They have looked at closing one of the jail facilities in Tonopah. The animal shelter has been closed and the natural resources representation has been cancelled. The senior nutrition program is no longer being subsidized. The cooperative extension budget, juvenile probation budget, and planning and zoning department budgets have been reduced. Extreme steps are being taken to respond to the reduced challenges in revenue.

As reported earlier by the Department of Taxation, the movement of the remaining money from the endowment health fund will significantly move the ending fund balance. The Board of County Commissioners took that action last year. There will be a potential deficit again in FY 2017 of \$2,200,000 due to fiscal year 2017 reduction of net proceeds from the revenue levels, anticipated increases in expenditure for collective bargaining unit agreement, and medical premium increases. The deficit will be addressed at the Board of County Commissioners meeting on February 2, 2016.

There was a major staff turnover in May of 2014 prior to the budget hearing. The comptroller left abruptly with no notice. Along with that loss went all knowledge of the budget preparation and control of where the documents resided. At the end of June, a budget augmentation meeting was held where the Board approved the budget.

With staff turnover and a new comptroller coming in, Ms. Webster neglected to send the proper documentation to the Department of Taxation regarding that augmentation. The budget in the 2015 fiscal year report indicates the originally approved budget, as was reported by the Department of Taxation. The debt service indicates the five-year plan that is required for their 9-11 system indebtedness, which has been submitted.

The remaining two bonds are on the jail in Pahrump. With the diminished general fund balance, there were significant cash flow challenges due to the fact 25% of the revenue comes in the last month of the fiscal year. During the year money was moved to cover cash flow with the intent of moving it back. It was advised that this was a balance sheet adjustment. It was not done to augment the revenue or budget. It was a balance sheet transfer as a receivable and a payable. It did not constitute the requirement to comply with the loan reporting. There were never behind-the-scenes budget augmentation or budget increases that were not approved by the Board. It was remedied with dissolving the endowment fund and moving that money into the general fund on a committed basis to ensure there is no problem going forward.

Chairman Leavitt stated the statute was put in place to handle situations within the state when governments are in severe financial emergency. The list of things in statute that represent a severe financial emergency fit this situation. Continued violations of the provisions of the statute are unacceptable. The statutes need to be followed for your own protection, the protection of the controller, and everyone existing in the county.

Ms. Walker thanked Ms. Webster for her honesty. With a severe financial emergency type of situation, part of what is looked at is being able to provide the resources to help. If Nye County is willing to work with the Department of Taxation to correct these things, everybody together can make things better. The department has tools that local governments don't necessarily have.

Chairman Leavitt asked Ms. Rubald if the department is looking for advice from the committee as to whether Nye County should be placed on fiscal watch.

Ms. Rubald replied yes. Considering the information brought forward today, a lot of the issues relate to adhering to process. Since the budgeted ending fund balance is so low and there has been an unexpected large write-off of bad debt related to the loan to Prime Care that is concern for the financial condition of the county. It is a concern that the proposed agreement with Renown is going to use the hospital district resources to be supplemented and might be in excess of the amount of tax being raised.

Fiscal watch is the monitoring of a local government. It also enables the county to ask for technical financial assistance, which would be taken to the Tax Commission. The department would travel to the county to assist them with whatever technical things they want. The county cannot ask for technical financial assistance unless the department writes a letter saying there is a fiscal watch going on. The committee's opinion is being requested about whether this should be done.

Mr. Sherman agreed the fiscal watch is a necessary first step under the new legal regime. It seems the problem escalated because the attempted solutions caused additional problems. The concern is that Nye County will continue to engage in activities that are not permitted by law in an attempt to fix their very serious problems.

Ms. Kohn-Cole asked if the Department of Taxation would have a monthly cash flow analysis and where the county is presently at in regards to their current expenditures.

Amy Fanning, Nye County Controller, replied they would provide a cash flow analysis to the department. As of December 30, 2015, the sheriff's office and all departments are on target with the budget.

Mr. Johnson stated it really seems like the issue here is not understanding and bad advice. Hopefully this problem gets rectified in doing this fiscal watch.

Dwight Lilly, resident of Pahrump and Nye County, commented he has spent about three years honing through county books and financial reports, sent hundreds of e-mails, and had personal conversations with county management, commissioners, and the Nye County District Attorney. It appears there is no out other than to apply to the state to get relief for the public because of the mismanagement of finances of Nye County.

Many members of the public feel they are being put to a test to the point that their property values and assets are affected. As a retired resident, he cannot afford to have a county mismanaged to the point where it no longer exists. It is essentially a ghost town of a ghost county.

Mr. Lilly requested to have a letter he wrote read into the minutes.

"August 18th, 2015. To Terry Rubald, Nevada Department of Taxation. This is a formal request to you and the Taxation Department of Nevada to investigate Nye County for violations of NRS regarding transfers of funds and other financial improprieties as yet to be determined. Below is a letter sent to the county officials this morning. As noted, I had to wait to get your e-mail address before sending this to you.

I have spent two years trying to get Nye County to obey the NRS as far as county finances are concerned and sadly, I must now turn this to you at the state level in order to enforce state law. I've had written and verbal conversations with the County Manager and County Commissioners. I've met with them, ignoring and stonewalling. Angela Bello was our district attorney for the county and she also wears a hat as a legal representative of the county, so she has a client responsibility that precludes her and prevents her from pushing the state to get involved unless, of course, the County Commissioners ask her to intercede and take action against their actions and those of their staff.

As I've stated in our phone call, I want to 1) stop further violation; 2) order an audit of the county finances; 3) take legal action against those of the county responsible for these violations; 4) uncover what other violations may have taken place. After my investigation, I don't have faith that the audit the county has taken is a true representation of the county finances. The state attorney general will need to get involved in such matters. It may be necessary, including but not limited to, the open meeting violations.

As a county resident and concerned citizen, I expect the state to step in and take such action needed to make the taxpayers whole and establish sound financial practices to prevent a reoccurrence of these violations. Believe me when I say I have tried handling this on the county level but have met with no success. I'm more than a little concerned that the county may end up under State of Nevada control due to severe financial problems related to the misappropriation of county funds and possible fiscal improprieties by county staff.

Thank you very much for agreeing to look into these allegations. I realize that you have already advised our DA on how to proceed with the inter-fund transfer. The state attorney general will have to deal with open meeting violations. If you need any information from me or there is anything I can do to help, please contact me and await conclusion."

Mr. Lilly stated there was an inter-fund transfer date with the funds used to buy early retirements for a number of county employees several years before this. An open meeting was held at the time of that transfer. There was a resolution made by the Nye County Commissioners and it was handled appropriately under NRS. It is hard to believe that everybody involved here has suddenly lost their memory on how to do inter-fund transfers.

His request is to let the state to take control of the county.

Mr. Sherman explained the notion of fiscal watch was included in AB 54 of this last legislative session. It is restructuring the role of the committee, the Department of Taxation, and the Nevada Tax Commission as it relates to financial fiscal issues or problems of local governments. There is now a tiered approach to dealing with fiscal problems at a local government level. Fiscal watch is the first step, technical financial assistance, and then severe financial emergencies.

He asked Ms. Rubald to clarify the various tiers, what they are designed to do, and what authority the department has under each of these.

Ms. Rubald explained that fiscal watch is a low-level monitoring of the finances. The expectation is there would be greater cooperation and exchange of information. This allows the county to ask for technical financial assistance. The way the law used to be was the county could ask for it without there being a basis for a poor financial condition. Now there has to be some sort of financial condition that has to come before you can ask for the technical financial assistance. The idea is to provide advice on how to proceed with meeting all of the requirements of NRS and NAC.

Severe financial emergency is a long and involved process that requires findings by this body. The first step is to get an action plan from the county or the local government for the department to analyze and present to the committee. The committee decides whether that action plan is sufficient and monitors the action plan. If it doesn't look like it is working, the committee begins the process for a takeover of the management by the state. It also involves the Nevada Tax Commission.

Fiscal watch is sufficient in this case because it seems like a lot of the problems would go away if all the processes are adhered to. The county just needs a little time. It does not make the low ending fund balance go away so the committee may wish to pursue a higher step for that. The action plan can be focused on through the budget season to bring to the committee. The committee would help monitor and give advice before a big step is taken.

Mr. Sherman said he has gone through AB 54 and does not see where it is a requirement of this committee to pass or approve a motion to put a government under fiscal watch.

Ms. Rubald replied she is asking for an indication from this body that this step is appropriate.

Lorinda Wichman, Nye County Commissioner, stated she was the chairman of the board when a number of these things took place. There is a systemic problem that has helped create this in Nye County. Some of the individuals that created this problem were elected officials. The Board of County Commissioners has no enforcement over other elected officials. The county was over budget 9 of the 12 years under the watch of one specific sheriff. Other employees took a \$1,000,000 of cuts in their unions and daily activities, and simply turned it over to the sheriff because they went over budget.

The only recourse the Board of Commissioners had was to turn that over to the AG's Office because it was obviously in violation of NRS. They could not prove willful intent. The following year, he was over again and simply left office. There is no enforcement.

There is a one-term assessor living in Pahrump. Somehow the tax base in Pahrump was reassessed and some individuals' assessments and taxes are now 45% less than what they were. There is no recourse.

This is the third hospital to go down in Nevada and the 28<sup>th</sup> or 29<sup>th</sup> to go down since Obamacare. This is a legislative issue. NRS 450.630 says "We shall". It doesn't say, "We may," or "We might," or "We can contemplate". It says, "We shall carry out the spirit and the intent of the entire NRS" and that is to provide services.

A 58-year-old woman was lost to pneumonia because she knew there was no hospital in Tonopah. What the county is trying to do with Renown is exactly what everyone in the frontier community or the outlying areas will be faced with. A 10 or 12 bed hospital cannot provide 24-hour care when you have to employ 53 people to do that with an average of 3 patients a month throughout the year.

On February 2, 2016, the professional services agreement with Renown will be on the agenda. It does not appear this committee agrees this is a model that has to be used to provide those services to the people.

There is 24-hour attention because you can pick up the phone and call 9-1-1 to get a volunteer EMT. Technically there is a hospital located on Highway 95. The hospital district was set up to operate all services of the hospital. An ordinance was put in place. There is \$673,000 a year coming in to help provide those services. There is no debt at this point. The mechanisms to transfer the debt to the hospital district have not taken place because it is unknown what is happening here today. It is important to get medical services to these people.

She has had conversations with Assemblyman James Oscarson because of his familiarity with the medical industry and asking for a BDR to change that. That does not solve the problem for February 2, 2016. Guidance is needed to do what is on the agenda.

Ms. Walker asked if they have worked with the Nevada Rural Hospital Partners to talk about potential legislation to clarify that law.



Jamie Eason, Prime Care of Nevada, stated they have been working with Nevada Rural Hospital Partners since May 7, 2014. There is the Pershing County Hospital District, which is a critical access hospital. The extended care facility in Tonopah was eliminated in 2011-2012 when the former owner abolished that program.

The 24-hour coverage volunteer EMTs are working with the test site, the mines and local government. They are taxed. They announced on January 1, 2016, they will no longer provide ambulance service. There is a group in Bishop trying to support that. Flight for Life is helping, but technically, there is no coverage.

In 1999, this same group with Nye County made the decision to transfer that hospital and sell it to a nonprofit. The Department of Taxation allowed that debt to be paid off for the next 10 years and it sunsetted in 2008 and 2009. That was operating debt accumulated when DTax and Nye County were running that hospital prior to 1999. Prime Care turned it over to Nye County and everybody made a poor decision with who it was turned over to.

They are starting all over to provide medical services in central Nevada. The only entity that has stepped up to help is Renown. St. Mary's, Banner and Desert View Hospital all declined to give assistance. Renown came up with a new health care model. It is going to hemorrhage the money. That is why the district was formed to subsidize that health care.

750,900 cars go up and down Highway 95 annually. Highway 6 and 95 are the deadliest highways in Nevada. That hospital is critical.

The discussion has been what is best for the community at hand. What is being presented will not work. The community has to accept it. The reason Tonopah is ready to accept it is because they have nothing. To rebuild that facility in Tonopah does not make sense. The owner who had the hospital before separated all the assets. The people's hospital was Nye County. It was Nye County who put up all the money, funded the beds, and funded the construction of those walls. The goal was to keep all the assets intact and bring in a real health care provider. This is what the model is being restructured to.

Chairman Leavitt stated there is nothing that can be done today to resurrect the hospital. The most that can be done is what the department has recommended.

Ms. Wichman replied that she is going to do everything she can to champion that model through. Members of the community are dying. One accident on Highway 95 or Highway 6 will bring financial ruins because they cannot pay the liability on that.

Mr. Eason clarified when the hospital budget was submitted last year for the hospital district, the only revenues they had access to out of the ad valorem package was the property tax side. The true revenues are closer to \$700,000 where it was predicted to be. They did not try to circumvent anything. They worked with the Department of Taxation and county staff to come up with the best solution.

The only way you can save the health care in rural Nevada is with a hospital district. The revenues are there. The only thing Nye County was obligated to do is take their endowment funds that were set up by the Board of County Commissioners many years ago with the Yucca Mountain or the PETT money to shore up shortfalls for these types of occasions. Those were the funds used. The guidelines being followed is what this body structured in 1999 with the repayment of the Bank of America loans to pay off the first debt the hospital had.

Frank Carbone, Nye County Commission Chairman, stated they will cooperate to the best of their abilities. Their team did the best they could with the tools and money they had. Nye County is the 28th poorest county in the states and the poorest county in Nevada.

**CHAIRMAN LEAVITT ENTERTAINED A MOTION ON AGENDA ITEM 6. A MOTION TO APPROVE WAS MADE BY MR. SHERMAN. MR. KALT SECONDED THE MOTION WHICH PASSED UNANIMOUSLY.**



For Possible Action: REPORTS ON REGULATORY MATTERS

- a) Subcommittee report on reconsideration of LCB File No. R010-13 -- Heart-Lung Liability
- b) Discussion and Consideration of establishing subcommittee to determine whether regulations should be considered related to GASB Statements 68, 74, and 75.

Mr. Sherman stated the subcommittee had a thorough and detailed discussion about this. Senate Bill 168 had some fairly significant changes in the heart-lung benefit. The subcommittee voted unanimously to withdraw this regulation and reconsider it in two or three years once the provisions of it have some time to play out.

Mr. Dreher corrected Mr. Sherman. The discussion was on Senate Bill 153, not 168.

There was no further discussion on agenda item 7(a).

Ms. Rubald identified item 7(b) as a continuation of what was discussed last time. The committee had wanted to wait until there were some audits and things to look at to see how people treated the GASB Statements. She asked if they wanted to pursue a subcommittee at this time.

Chairman Leavitt asked if audit reports were available that include this.

Mr. Sherman replied they do for GASB 68 but not 73, 74 or 75. They should probably wait until these have been fulfilled. It should be known that GASB 74 and 75 were noted in the financial statements for the City of North Las Vegas. The latter one is anticipated to have a fairly significant fiscal impact.

**Item 8. BRIEFING TO AND FROM THE COMMITTEE ON LOCAL GOVERNMENT FINANCE AND LOCAL GOVERNMENT FINANCE STAFF**

- a) Report on audit extension requests

Kelly Langley, Supervisor of Local Government Finance, stated the majority of the annual audits from the local governments have been received. Less than 25 are still outstanding. The bulk of these asked for an extension request. This extended the date until January 31. Two have an extension into early February.

Lyon County School District has not submitted their audit and has not requested an extension. Last year's audit was not received until March 13. The budget analyst working with Lyon County has inquired as to where the audit was. They are hoping to be able to provide it to their board in early February and submit it after that. The concern was the fact it is a school district and their deadline is 30 days prior to other local governments.

Chairman Leavitt commented it may be appropriate to mail a letter to the governments that are not taking this requirement seriously. The letter could state there was a discussion at the CLGF about their noncompliance with statute regarding the audit report. It can include what is expected from them to give added impetus to do something with it.

He inquired if the audit reports show a lot of violations of statute or other general concerns.

Ms. Langley replied the few that she has been able to review so far have a lower number of violations than last year.

There was no further discussion on agenda item 8(a).

**Item 8. BRIEFING TO AND FROM THE COMMITTEE ON LOCAL GOVERNMENT FINANCE AND LOCAL GOVERNMENT FINANCE STAFF**

b) For Possible Action: Request to investigate collection of revenues for Reno R-3 tax ballot measure from Jeff Church; Report and response by Department

Ms. Rubald indicated Mr. Church has made public comment on 3 different occasions regarding the accounting for revenue received from a voter override tax levy that was passed in 1996 for firefighting facilities and personnel in Reno. His comments may be seen in the minutes for August 28, 2014; February 6, 2015; and at your last meeting in October. She further stated:

He provided a letter from his attorney at the last meeting making a formal complaint to CLGF and the department to investigate both the taxing authority responsible for collecting revenues under the R-3 tax ballot measure as well as the agencies appropriating the R-3 tax revenues.

The department has responded to Mr. Church and his attorney with the letter and information that begins on page 316 of the exhibit packet. The department also consulted with the AG's Office.

Department staff reviewed the City of Reno's audits for the last five years looking for any reported material weakness or significant deficiency related to internal controls. The audit opinions for fiscal year 2010 through 2015 indicate that the basic financial statements are in order.

At the February 6, 2015 meeting of this body, the City of Reno reported on its financial condition. Mr. Chisel, the City's Chief Financial Officer, was asked if there were any violations of statute in the audit. He responded there were none. Mr. Chisel also stated the proceeds of all voter-approved overrides are directed to the fire or police departments as required.

The department's response to Mr. Church shows the budgeted revenue amount for the R-3 ballot measure commonly called the fire override. The revenue collected in fiscal year 1998 was \$2,399,992. That increased to \$5,177,557 in fiscal year 2010 and has since been declining to about \$4,400,000. During those same years, the budget for the fire department has had a similar trend of increasing and declining expenditures with the current adopted budget of \$41,400,000. The fire override revenue represents about 10% of the total budget.

In the letter to Mr. Church, it is discussed whether the fire override needed to be treated as a special revenue fund. Based on GASB's Statement #54 requirements, the department did not believe the City of Reno is required to establish a special revenue fund to account for the proceeds of the fire override.

The proceeds of the tax levy are restricted as to its use. That is confirmed in the fiscal year 2015 budget summary. The department also confirmed the City of Reno appropriately adopted the budget and reviewed the budget resolutions. Those resolutions are not part of the exhibit packet but are available should anyone wish to see them.

The deputy attorney general advised that AGO 2011-4 does not apply to the circumstances of Reno's ballot measure R-3. AGO 2011-4 references a bill passed specifically for Clark County relating to sales and use taxes, not to property taxes.

The department recommends there be no further investigation since a legal or accounting basis could not be found. The matter is being brought to the committee for final decision since Mr. Church requested an investigation by this body.

Ms. Kohn-Cole recused herself as to the City of Reno discussion.

Mr. Church expressed his appreciation for all of the hard work done by the department, as well as the excellent financial work under the leadership of Mr. Clinger and Mr. Chisel. However, he is requesting a legal opinion. He was sent to the attorney general who sent him back here. He filed a formal complaint through his attorney with the attorney general. They have nothing to show on what they did with the complaint.

The 1996 measure, along with the arguments in favor, promises the citizens of Reno additional firefighters and improved services. Reno is noncompliant with that measure and raises over \$4,000,000 yearly in taxes.

The ballot measure says hiring additional firefighters, the equipment and maintenance therefore will provide for improved fire protection coverage in all areas of the city. It will also shorten response time and expand fire protection services.

The only legal opinion issued by the attorney general referred to a Las Vegas measure. The intent of that would also apply here. The number of officers funded by sources other than the revenue received under the act must be at least the same number of officers as were funded and supported prior to the time the act became effective. Additional firefighters, equipment, and improved services were promised. Instead, there are less now than at the time of passage, 225 versus 192, and decreased services with the closure of two fire stations.

In 1998, under the city's CAFR, there were 225 firefighters at the time of passage. They are still being taxed \$4,000,000 for firefighters even though they are below that level. It is also noted that initially, it drew in about \$2,000,000. Today it is \$4,300,000. That figure is going to grow with the massive growth in annexation in Reno and expected annual increase in existing property.

Is there no limit as to how much they can take without compliance to the measure? The letter from the department seems to say Reno can simply add this money to the top, take money off the bottom, or use it for pay raises or whatever other purpose they want. If that is true, no ballot measure would have any validity.

Mr. Chisel's statements were made as a public comment and are untrue. There are no additional firefighters. The letter from the department states they have to use the money for the intended purposes. That is not the intended purpose. The citizens of Reno were promised in writing and voter intent in the ballot measure that they would get additional firefighters and improved services. The city has grown 30% to 50% since then, and is not getting what was paid for. Are they compliant with the law and does the law require you to use the money as you promised the voters you would?

Mr. Sherman replied the analysis provided by the Department of Taxation seems to hold merit. If the issue was of significant importance that a request to the AG's Office has not yielded an opinion from them on this specific case, then it may not be worth the effort to go any further than that.

There was no further comment on agenda item 8(b).

#### BRIEFING TO AND FROM THE COMMITTEE ON LOCAL GOVERNMENT FINANCE AND LOCAL GOVERNMENT FINANCE STAFF

##### c) Report by Department on 2016-2017 property tax abatement "tax cap"

Ms. Rubald wanted to give the committee a brief heads-up with regard to how the property tax cap will likely play out this coming year. The formula for the tax cap is a comparison of the 10 year moving average of assessed value in each county to twice the CPI. The CPI for the coming year will be virtually flat at .1%. The comparison of each county's average will be twice the CPI or .2%, which means virtually every county will be relying on the moving average rather than the CPI when the final analysis is done.

That average will be affected by several years of negative growth in most of the counties due to the recession and will tend to be low. If the tax cap for all property other than residential is less than 3%, residential property must also be capped at the lower percentage rather than the current 3%. This happened in 2010 when the CPI was negative and Mineral County had a 10 year moving average growth rate of 1/3 of 1%. They had to move all of their property to that tax cap including the residential.

There was no further discussion an agenda item 8(c).

BRIEFING TO AND FROM THE COMMITTEE ON LOCAL GOVERNMENT FINANCE AND  
LOCAL GOVERNMENT FINANCE STAFF  
d) Introduction of new Department staff

Ms. Langley introduced Betsy Woolridge as a budget analyst.

Ms. Rubald introduced Christina Griffith as an Administrative Assistant IV. She also announced Janie Ware is retiring and this is her last meeting.

**Item 9. REVIEW AND APPROVAL OF MINUTES**

For Possible Action: CLGF Full Meeting on October 27, 2015; CLGF Heart-Lung Subcommittee on May 29, 2014; CLGF Subcommittee on Definition of a Local Government on August 19, 2014.

**CHAIRMAN LEAVITT ENTERTAINED A MOTION ON AGENDA ITEM 9. A MOTION TO APPROVE WAS MADE BY MR. SHERMAN. MS. WALKER SECONDED THE MOTION WHICH PASSED UNANIMOUSLY.**

**Item 10. For Possible Action: Schedule Date and Review Agenda Topics for the Next Meeting**

Agenda items to be included on the next meeting are:

- North Las Vegas
- Nye County
- Hospital District
- SB 168

The next meeting will take place in May. A poll will be sent out to determine the exact date.

**Item 11. Public Comment**

There was no public comment.

**Item 12. For Possible Action: ADJOURNMENT**

The meeting was adjourned at 12:30 p.m.