**Minutes of the Subcommittee Meeting**
**COMMITTEE ON LOCAL GOVERNMENT FINANCE**
**TYPES OF FINANCING GUIDANCE TO THE DEPARTMENT**
**September 26, 2016**
**9:30 a.m.**

The meeting was held at the at the Nevada State Legislative Building, 401 S. Carson Street, Room 2135, Carson City, Nevada, and video-conferenced to the Grant Sawyer State Office Building, 555 E. Washington Avenue, Room 4401, Las Vegas, Nevada. This meeting was also part of a teleconference.

**COMMITTEE MEMBERS PRESENT:**

Marvin Leavitt, Chairman
John Sherman, Vice Chairman
Marty Johnson
Mary Walker
Jeff Zander
Jessica Colvin
Alan Kalt

**COUNSEL TO COMMITTEE**

Peter Keegan

**DEPT OF TAXATION STAFF PRESENT:**

Terry Rubald
Kelly Langley
Keri Gransberry
Heidi Rose
Chali Spurlock
Christina Griffith

**MEMBERS OF THE PUBLIC PRESENT:**

| Name | Representing |
|---|---|
| Darren Adair | City of North Las Vegas |
| Amanda Schweisthal | Retail Association of Nevada |
| Linda Poleski | City of North Las Vegas |
| Rhonda Garlich | City of North Las Vegas |
| Brian McAnallen | City of North Las Vegas |
| Rebekah Holder | City of North Las Vegas |
| Savannah Rucker | Nye County Comptroller |
| Patti Lamo | Storey County School District |
| Lorinda Wichman | Nye County Commissioner |
| Jeff Fontaine | NACO |
| Allison Gorton | AT&T |
| Kim Laura | Nye County |
| Tami Davis | Washoe County Treasurers Office |

ITEM 1. ROLL CALL AND OPENING REMARKS

Chairman Leavitt called the meeting to order at 9:34 am. Roll call was taken and it was determined that a quorum for the Committee on Local Government Finance was present.

ITEM 2. PUBLIC COMMENT

There was no public comment.

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

**(a) For Possible Action: Discussion and Consideration of Nye County Financial Condition:**
**Report by the County on the following matters:**

1) **Status of the FY 15/16 Audit, Final Revenue and Expenditures, Cash Flow Analysis for Nye County.**

Ms. Kelly Langley with the Department of Taxation requested any parties representing Nye County to come forward. There were none in the South.

Ms. Savannah Rucker, Nye County Comptroller came forward and referred to the backup they submitted. She began with the FY16 Expenditures, attachment 4, showing that none of the functions are over budget. She mentioned that this is the unaudited report and they are fairly confident they will come in under budget for each of those functions.

Ms. Langley noted that Ms. Rucker was referring to page 10.

Ms. Rucker continued, on page 9, attachment 3. The Nye County Budget to Unaudited Revenue Report for FY16 and includes their million dollar augmentation for consolidated tax that was completed in June. She noted that even though they augmented a million dollars more the revenue came in about $450,000 higher than they anticipated which will give them a better ending fund balance for FY16 and a larger opening fund balance for FY17.

Ms. Rucker referred to page 7, the cash flow report. She stated they took the template provided to them and adjusted it a little as they have 60 days per GASB in using the modified accrual method basis of accounting to report revenues for the previous fiscal years. The first section for FY15/16 for July and August are revenues that were received in July and August but were for FY15/16. It does not have any effect on their budget for FY17, but it does affect their cash, so they included it. In July and August, significant revenues came in. The consolidated tax revenues came in for, she believes, May and June which helps the beginning cash flow for FY17. She noted their actual revenues for FY17 for July are relatively minimal, but their property tax bills go out in July, and usually they don't see their first payment until August, which is shown. They did receive three million in property tax payments in August, which helps their cash flow situation. They have not received CT tax revenue in FY17, however, if the trend continues, even if it mirrors FY16, they could be looking at $500,000 more in revenues. They budgeted conservatively. They don't have an augmentation plan yet, but if they forecast that out it looks pretty good for them.

This year, due to changes in legislature, they are not receiving net proceeds. She referred to the true up. May is the lowest month of cash. Their expenditures have been relatively even, and net proceeds were used in operating expenditures. PILT does come in the following month, which helps the cash flow for the rest of the year. Based on historical averages, about 25% of their revenues are in the final months of the year, May, June, July, and some into August. Even with that they see pretty steady cash flow throughout the entire year. They are projecting positive cash flow.

Referring to expenses, Ms. Rucker explained that they broke it out by functions. She notes that their benefits are really high in the general government function, which led her to investigate why. She found that they are about 80% in the general government function primarily because of the large retiree base that Nye County pays medical benefits for. It is not typical for benefits to be that high. Public Safety is higher as well, due to Police/Fire PERS. She added that two months of the year, payroll costs are higher, September and March, due to three payrolls in those months.

She notes they have been cutting costs across the board, including cutting out capital purchases. They have zero budgeted purchases in the capital fund. All of their capital is purchased through the capital ad valorem fund. Regardless of cutting these costs, there has been an increase in medical expenses and other payroll costs associated with doing business. Just this year, medical premiums went up 10%, which was about $330,000 of an increase. Even though costs are going up, they are still forecasting to be within budget for FY17.

Nye County has had interesting growth this year. Two abandoned housing subdivisions are coming back on line. Numerous fast food restaurants are planning to open, and they just got a Dickeys BBQ in Pahrump. They are expecting a China A Go Go soon, and she has heard they will be getting a Tractor Supply. They are seeing significant increases in the licensing and applications for medical marijuana sales, which is great for the economy and helps bring jobs.

Based on all of this, she thinks this year will be their bottoming out year, with no net proceeds. They are starting to see property taxes, and ad valorem continue to rise with property values continuing to increase. She thinks their overall economic growth for FY17 looks great.

Chairman Leavitt asked her if she was aware, of any potential violations of statute that could appear in the auditor's report. He noted that she had addressed the over expenditures, but asked if she was aware of anything else.

Ms. Rucker answered that she was not.

Chairman Leavitt also asked if she was aware of any employee salary increases that have not yet taken effect that may show in their expenditures.

Ms. Rucker again answered that she was not, but that they do have annual step increases and those are built into their budget forecast. She confirmed that she is not aware of any general increases.

Chairman Leavitt directed her to the treasurer's report, in the grants area where there is a cash deficit of about $235,000. She confirmed. He stated he assumes they must be making that up someplace.

Ms. Rucker clarified that how this fund functions is with most grants, Nye County incurs the charges, and then submits a draw down, and then they receive payment. Unfortunately they are a little backwards on this fund. She is unsure how else to handle grants that require them to expend before they can receive payment.

Chairman Leavitt noted he is aware that is the common way grants work. He assumes they must be borrowing funds from other funds to make the payments.

Ms. Rucker apologized that she does not have an answer to that, but will look into it. She knows they expense, and then receive payment against it, and it's possible it is paid from the general fund, but she will have to look into it. Chairman Leavitt asked her to review that and have an answer for the committee at the next meeting.

He noted this has been a problem with a lot of local governments when they don't have enough cash, and they borrow from another fund. Sometimes they get approval and show a *due to* from the other fund in the financial statements, and other times they show a deficit. If they show a deficit, the money is coming from someplace. He asked again for her to review that and get back to the committee.

Member Sherman noted that doing it formally, there is a short term cash infusion to cover expenditures before they get the reimbursement. He noted the committee members have seen that and it is a pretty acceptable practice. That the issue is being transparent, so that problems don't arise in the future.

Chairman Leavitt asked if Nye County was up to date on all of their obligations, PERS, and any other payroll obligations, accounts payable, debt payments. Ms. Rucker replied yes to all of them.

Member Colvin referred to page 8, and noted that in July, there was a $3 million interfund transfer, she asked Ms. Rucker what the transfer was, and if it would be a recurring transfer.

Ms. Rucker noted she would need to investigate this as well, but they do not have any interfund transfers budgeted for FY17.

Member Walker added to what Chairman Leavitt and member Sherman's comments, noting it is better to do a interfund loan, going to the committee and getting approval. That it is good budget practices as you are thinking ahead, planning, and figuring out what fund it would actually come from, typically the general fund. But when it's not done, what happens is that it takes from the cash in their treasurer's office which is spread out to all the funds, and it could restrict some of the funds. She noted that she recommends this as a better practice. She also stated she is happy that Nye County has budgeted for a contingency of $200,000, and that is an improvement. Also, the fund balances in the general fund are around 10%, and that is good. She referred to page 7, cash flow for FY16/17; at the bottom where it states "net change and cash" the total actual and budget has a deficit of almost 1.5 million. (1,487,000 negative)

Ms. Rucker stated she would need to look at the formula, as it is the subtotal at the end and she is not sure it should have cash. Member Walker asked her to do so, and that when she looks at sustainability, they want to make sure there is not an operating deficit. If this holds true then the expenditures are higher than their revenue and while this may not be a problem this year it could be in the future.

Ms. Rucker noted she feels that the formula needs to be investigated. At the bottom of the FY16/17 accruals for August, they are forecasting their ending cash balance to be 3.2 million. Member Walker asked her again to check that and asked her to check if they are eating down their ending fund balance, and if they are, is it a one-time capital thing, or is it an ongoing thing that they will see the deficit in future years.

**2) Status of the FY 15/16 Audit, Final Revenue and Expenditures, Cash Flow Analysis for Northern Nye County Regional Hospital District.**

Chairman Leavitt asked the Nye County to discuss their medical situation, what they are providing or not providing, and where they stand financially with that.

Lorinda Wichman, Nye County Commissioner, came forward and stated she believes the committee was provided with a report that gives very minimal details. As far as the practical experience with it, she offered them to ask away. She explained the report is very minimal, as far as financial information. She further explained it shows what it is bringing in, about 700,000 a year for the tax base. They have withheld making any decisions until they were sure they were on the right side of the equation as there was an opposing opinion. She noted they are on the right side. Most recently, they have a NCEA contract, and Larry Trilops, is helping them get their trustees educated and up to speed on what the situation is, the background, open meeting laws, and what will be expected of them as well as a plan to move forward.

Currently, they have a lease between Nye County and Renown at that location, and they are offering limited nursing services, but they have telemedicine, which gives them access to doctors and specialists through telemedicine. The reports she has received from the public, is that they either love it or hate it. She is thankful that those who love it tell her about it more than those that don't.

Chairman Leavitt asked if this is the one in Tonopah.

She clarified that it is, that it's the old hospital almost at the intersection of Hwy 95 and 6. Chairman Leavitt noted he passed there yesterday, on a weekend, and it looked pretty deserted. Ms. Wichman stated it looks deserted during the week sometimes. He asked what is being provided there.

Ms. Wichman explained that there is administrative staff there four days a week and a nurse there four days a week. The nurse takes care of handling patients with the telemedicine. She notes it is an unusual situation, but is all they have been able to solidify until they know what they are doing with the hospital district revenue. The only other thing paid out of that is minor insurance, she thinks.

Ms. Rucker interrupted that the insurance payment was reversed; this is legal fees for the hospital district.

Chairman Leavitt asked if someone were to need emergency care that would require a hospital, where they would go.

Ms. Wichman replied that depending on where they are located they would go to Bishop or Mineral County, depending on which one of their ambulances can meet Nye County's ambulance. She stated the situation is dire. She also added their EMT's are volunteers, and are very dedicated and top of the line. She stated with the vast distances in Central Nevada, volunteer EMT's could make a run in 2-4 hours, before the hospital went down. The situation now, when they respond to anything, anywhere in Nye County, other than Pahrump, they are at least 8 hours away from home and their jobs. Most of the volunteers are dropping like flies as they can't take care of their family obligations and their jobs, their volunteer situation is dwindling. Ms. Wichman said a year ago, that it was inevitable that they would have a crisis that would affect the state, not just Nye County.

She also learned in the last year that this is not just a Nye County problem, but a Nationwide and definitely a Nevada problem as well. They have been getting some help from private sources and also from the counties around them. Mineral County has been willing to meet their EMT drivers half way, so their EMT's can go to another call if necessary. Inyo County, California has been doing the same thing. Unfortunately, Inyo is now left holding the bag as there are a large number of indigents that call for an ambulance. Once released from the hospital, they have no family to get them, and no means to get back home. Inyo County gets left holding the bag with what to do, how to get them back to where they belong. It has become a problem with Inyo County as they are not part of the State. They have received some help within the state, and all of the counties are working together, however Inyo is in another state.

She added that REMSA has some exciting things coming forward. Ms. Wichman has stressed the fact with the new incoming trustees, and with the contractor with Renown, and anyone who will listen, that Nye County's emergency services have to have something to sustain them. Right now they are an enterprise fund and only receive what they collect. There is a large population of indigents in Nye County. Emergency services are a dwindling resource. Having a place where the volunteer EMT's can turn the responsibility over to someone, like an Emergency Room, Triage, Urgent Care, etc. Ms. Wichman is trying to encourage the trustees to take on the Hospital District and financing so that it can marry the two things together. Nye County is limited in what they can do for emergency services, but they are not limited in what they can do for providing those services at a stationary location.

Chairman Leavitt asked if they have the ability, financially, to continue the plans they have with the contracts they have left, over time. Ms. Wichman stated they have $700,000 per year coming in, but the contract is limited to $50,000 per year. She stated they need to build some of that, and they don't have enough money coming in annually to take care of what they need as an urgent care. Ms. Wichman noted she has spent a great deal of her time looking for other sources of revenue and other partners.

Chairman Leavitt noted two concerns the board looks at. One is that Nye County is able to provide the care that they need to, and the second is not to get into financial difficulty doing so.

Ms. Wichman noted that is why every suggestion and everything they have examined has been analyzed. Everything has been analyzed with how many dollars are attached to it, because $700,000 a year is not enough to do what they need to do. She also added they are limited due to the tax cap. The taxpayers are willing to step forward, but the county can't because they are already at their cap. She has to find other partners to help. They have a lot of pretty powerful partners in Nye County; they just need to find the right inspiration to get them to help.

Chairman Leavitt noted that statewide, Nye County does not look very good on the property tax side.

Member Sherman asked if they had any legislative fixes, any thoughts on the legislative session, and what they might be doing there.

Ms. Wichman noted the legislative fixes she spoke about a year ago, are unnecessary, as they are already in the NRS. It took them awhile to figure that out. The legislative fixes that are in motion, and will help with the hospital district, are being presented by others. There is a suggestion of bringing specific fees out of the cap on the property taxes. She thinks most all of the legislative proposals that she has seen so far this session are based around the property tax structure and that will help them.

Member Sherman noted they have a property tax that they have imposed for the hospital district, so he is curious, if they are looking to have the authority to impose a hospital district *fee* that is not viewed as a property tax, but is just a fee that is separate and apart from the property tax.

Ms. Wichman clarified that their hospital tax is based on 20 cents per 100 of the ad valorem. If there were a legal way they could make this a fee, so much per parcel, rather than the ad valorem, that could do it. She noted that she has spent her time trying to find partners to get the county money. It is something they have talked about and intend to look at, she does not know how it will go, that it will depend on the legislature.

Chairman Leavitt noted it sounds like they are talking about levying something that looks like a property tax but is called something different. She stated their water district is $5 per parcel, and is supported that way.

Ms. Langley referred to the cash flow projection for the hospital, the expenditures for services and supplies for February jumped. She asked what that represents.

Ms. Rucker explained that the Board of Trustees will be in effect in February so they are anticipating the board members to make decisions on how the remaining budget is spent.

Ms. Langley asked, as far as the budget for the hospital, if those fees weren't already budgeted in the FY16/17 year. Ms. Wichman answered that they are, and currently what they have for the Board of Trustees is the Board of County Commissioners sitting as the Board of Trustees. There is only the one expense for legal fees, and the contract for the NCEA group, so there are only two expenses coming out of that until the new Board of Trustees come in. One of the first decisions the board will make when they come in January is how much they will pay themselves for showing up for meetings. They are trying to anticipate that. They will sign an MOU so that Nye County can provide them with administrative help, the financial parts with the checks through the county, and all of that will have to be reimbursed to the departments putting out that expense. They tried to anticipate all of the things that could be anticipated. She added that she can't state the individual things in that figure without her printout.

Ms. Langley asked if, for the next meeting, they could provide those expenses that are anticipated and what is in the budget for the commissioners to make because they will have to work within the budget that has been prepared for FY16/17.

Ms. Wichman noted that is part of the education they have been working on with the new members. She added that they have a five man Board of Trustees that is coming on. They had four individuals who signed up for the election, each signed up for different seats, so all four of them will be in place in January, and they have an empty seat. It gives them an opportunity to work with them, already, and not having to wait until the election in November. Understanding the budget is a big part of that.

Member Sherman asked when they anticipate the audit for FY15/16 will be completed.

Ms. Rucker stated she spoke with their auditor last week, and they are hoping to be on time. She believes they will have it to the board by the end of November, beginning of December. Member Sherman mentioned it would be good to have.

Chairman Leavitt asked Ms. Rucker to review the questions they had for Nye County today, and if she would particularly look into the situation regarding the interfund loans, and debts and balances, as that's a situation they need to get a handle on. He stated the board needs to decide how to handle that, otherwise they will continue to have deficits, that they don't call interfund loans, but that's what it is because they don't have any cash. Ms. Rucker assured him she would.

Member Sherman added for her identify the interfund transfer of 3 million and what fund it came from, and whether it is sustainable. Ms. Rucker agreed to.

**(b) For Possible Action: Discussion and Consideration of City of North Las Vegas Financial Condition:**
**Report by City on the following matters:**

1. **Status of the FY 15/16 Audit, Final Revenue and Expenditures, Cash Flow Analysis.**

Ms. Langley introduced Darren Adair.

Member Johnson interjected, disclosing that he owns water and sewer bonds for the City of North Las Vegas. That it's a small part of his portfolio, and the amount would not have any bearing on any decision made here, he will be participating.

Darren Adair, Director of Finance for the City of North Las Vegas came forward to give an update on the audit process. He noted they have continued with the same accounting firm, Piercy Bowler Taylor & Kern. The firm was out about two months ago and did some preliminary year end work and will be back out for field work on October 17th. He stated that the goal is to have it completed by the end of November, perhaps a few days ahead of last year's early December delivery date.

Chairman Leavitt asked Mr. Adair if he anticipates any violations of statute or over expenditures that he knows about now. Mr. Adair said no.

Mr. Adair started with the first document, "The City of North Las Vegas General Fund", which reviews the year to date actual history through June of 2016. He stated it is kind of a soft close of their financial statements and the results of the operations provided to their auditors to start field work, a comparison between the budgets for the same period.

Mr. Adair referred to the third column, budget variances where he noted in the revenue section, the charges for services showed an increase of almost a million dollars. He noted just below that, they saw consolidated taxes came in slightly higher by a million dollars than anticipated. Franchise fees had to do with reductions from their utility franchises with the decrease in power use and consumption. Other licenses and permits, had a 2 million dollar increase is reflective of some of the growth activity they are seeing in North Las Vegas. Business licenses, permits and so forth that have to do with public works. He noted they are excited as that is an early indicator that things inside the city are starting to turn around as they grow their way out of the problems. The revenues represent the increase over anticipated budget.

He went on to discuss the expenditure side. He noted salary and benefits did better than expected. He stated it was largely due to vacancy savings. They continue to manage that process through the critical justification committee. That amount basically represents the delays between the departure of an employee, and being able to recruit and fill that position. He said that obviously in the budget process you anticipate the full year, and in this case you sometimes run three to six months in between filling some of the vacancies trying to find qualified individuals and going through the process. In the employee benefits he said they would normally anticipate a similar type of percentage savings that goes along with that vacancy savings however they saw increases in the workers comp expenditures which were unusually high as well as overtime and employee benefits. There was about $5.5 million increase in expenditures for workers comp and that included some increase in reserves and $2.5 million in employee benefits. He referred them to the next significant increase, which was service and supplies, which is a positive $2.7 million. He noted this was due to reduced cost in utilities, the offset of the franchise fee reduction, although not directly related, but due to the decrease in power costs and consumption. They also had some savings from the police department in the detention area from operations. The last item, an increase of $3 million that transfers to other funds represents end of year transfer of about $3 million into their debt service funds. This is in anticipation of about the $4.7 million increase they will have at the start of the next fiscal year FY17/18. They are setting aside $3 million from the last year and are hoping to set aside, from savings, another $2 million in the current year to make up the difference. They anticipate being in a position to make that increase in debt service payment on time.

The result at the end of the year is close to what they anticipated. The end shows about a $12.8 million balance compared to the budget of $12.9, almost 13, slightly under what they anticipated for the year. They are pleased to have that.

The current year budget was a funded budget but was not a balanced budget. It required the inclusion of some of the ending fund balance to cover the projected expenditures. They were concerned how that would play out at the end of the year, but it is fairly consistent with their projections, so that does not disrupt their current year budget.

Chairman Leavitt asked if he anticipates, during the upcoming legislative session, any help or relief in the area of the enterprise funds and the money going into the general fund so they do not have to diminish that payment.

Mr. Adair stated they would like to ask the legislature through one of their bill drafts of the city, is to consider connecting the reduction and dependency on that transfer to the incremental tax revenue that they anticipate seeing through the growth of the industrial park at APEX. They continue to move forward with the State's assistance on the financing side of that and a private party to put the infrastructure in there. They hope to have that in there by the early part of 2018. Faraday is largely abated, but they have seen significant interest in additional businesses and development out of that area. They believe the growth will be strong and the incremental tax revenue from that area could be pledged to that reduction. As the tax revenue comes in, dollar for dollar, they pledge to reduce PILT at the same pace. They are hopeful that the legislature will allow them to connect those two activities together. At the current time, they need to take the full amount from the enterprise fund.

Chairman Leavitt asked Mr. Adair to discuss the agreement they recently made as it relates to the provision of utilities to the APEX area, and what obligations to the city, if any, is assumed.

Mr. Adair noted through the special session last December, Senate Bill 1, they received the opportunity to use state issued bonds to fund up to $175 million of infrastructure. That infrastructure was limited to primarily serving the area that Faraday would be located with water, and sewer, and other services. The city would like to see that the area is expanded so there can be other business and growth up there that would provide additional tax revenue to the city, and jobs and so forth. In order to do that an additional surface water solution, in addition to the ground water solution would need to be developed up there. The city placed an RFP looking for proposals that would include the financing that would provide the water and wastewater to be provided to that area. They found a respondent, qualified that respondent, and are working with that respondent now in a public-private partnership that would allow the city, including the capacity under the states, allotment for bond financing as well as the private parties potentially look at providing all of the necessary infrastructure to support a reasonably aggressive development in the area.

They are starting negotiations on the prospective financing agreements on the state bonding side as well as the private financing side. They are working closely with the respective agencies and developing the engineered plans and costs so they can begin the process of creation for the tax increment area districts as well as the special improvement districts. They hope to have a plan for the Governor's Office of Economic Development by late November and then to be proceeding with the creating of those districts in the early part of the new year, hopefully financing by the mid to latter part of the second quarter and then go to construction.

Chairman Leavitt asked if anything that is being done or planned to be done out there have any effect on the finances of the city, as they know it, right now.

Mr. Adair stated that one of the reasons for involving a private partner was to address the city's lack of ability to provide a traditional guarantee or full faith in credit of the city. Even during the Senate Bill 1's legislative process, it was diluted in order to try and accommodate the city's current bond financing obligations and terms. There is nothing going on right now that negatively impacts those bonds and obligations that they are aware of. The enterprise fund is committed to some short term advances and design costs related to the utility infrastructure there that will be supported by a reimbursement agreement. At this time, none of those costs are expected to create a burden there, they are relatively minor. They do not anticipate anything being done creating a financial hardship on the enterprise fund or the city.

Chairman Leavitt asked if the city has a reduced ability to get money from the enterprise fund to put in the general fund as an operating subsidy.

Mr. Adair stated that it would not. They are also working on the special improvement district for the commercial area, the area referred to as the Northern Beltway Commercial District, it is about 1500 acres of developable land that was lacking access to the center of that area and sewer services. The city is working on the creation of a special improvement district to fund approximately 51% of the total project for road and sewer access. They have businesses committed to and beginning to develop, and they expect those improvements to happen first quarter of 2018. The city has anticipated being able to cover its share of those costs without creating a hardship to the enterprise.
Mr. Adair mentioned the Debt Service. It has the same increases anticipated in FY2018 that he spoke about earlier. He referred to the Cash Flow Projections for the general fund. There are two; one is for the ending of FY15/16. The last month, June, there was a significant draw down in that month on the transfers from the enterprise taking it up to the full cap, about $16.5 million. That money was necessary to address workers comp reserves, benefit costs and about $5 million was put into the vehicle reserve.

One of the city's actions was to look into the city public street maintenance vehicles, and extend the useful life of those without buying replacements. They did that for both police and fire vehicles as long as it was safe. They are now approaching an additional 2 years of that useful life and they need to start setting aside the reserves to start replacing those vehicles. They could not budget that at the time, it was anticipated as an increase they would need to face. They were able to set those funds aside at the end of this year.

The funds for the debt service payments were also in there, and that is why there is an increase.

The cash balances are playing out as forecast of 2016/17. The end of the month cash balances are not far off from what has been forecasted. It is a little tighter than the prior year in anticipation of the increase in contract labor costs, which they have seen.

Mr. Adair mentioned their collective bargaining agreements. They had the two largest union contracts, the Police Officers Association and the Teamsters contract both up for negotiation this year. The goal was to try and hold those fairly flat as they did in the previous year with the International Fire Association contract. They were unable to do that. Between the two of them, they reflect increases of about $5 to 6 million on a recurring basis. They Teamsters contract will be on the counsels agenda on October 5th for consideration and approval. On the low end, they were forecasting being close to eliminating their structural deficit down to about $21 to 22 million to 2021. These increases will take that structural deficit in the opposite direction, probably adding $30 million.

It is still the situation for the city as they face their current staffing, which is his greatest concern for the city. They remain at below minimum staffing levels, and that is reflected in their overtime and workers comp claims. They are still hoping they will grow their way out of this situation and put every dollar they get above and beyond what they anticipate back into the form of hiring critical positions.

Member Sherman asked if the negotiations were done without extending the process in terms of fact finding or arbitrations.

Mr. Adair noted the agreements they reached were agreements they felt they could reach without going to fact find and arbitration. They did go to arbitration with the Police Supervisors Association and they did get an arbitrators judgment in favor of the city. The other three were reached without going to arbitration, but did reflect increases.

Member Colvin asked what the COLA percentage was in the contracts.

Mr. Adair stated the contracts did not include any COLA’s, only merit and some other benefit increases.

Member Walker noted on the cash flow, the net change in cash showed 1,170,000 deficit, and asked if that an ongoing deficit and is the $5 million deficit for the union contracts on top of the $1.1 million.

Mr. Adair stated some of the increases included in the contracts were anticipated as part of the budget process so the impact on the current year budget would not be the full $5 or 6 million. The forecast does not include all of the increases related to the impact of the Teamsters agreement. It will not be a material impact to the current year. They anticipate some savings from vacancy savings that they hope will help offset that.

He added that when they prepared this forecast it reflects the month to month budget that was turned into the Department of Taxation, and reviewed by the committee earlier in the year. It was largely a near balanced budget. They had a couple million that they knew they would be taking from ending general fund balance in order to cover the anticipated costs of the year. Going forward, using the seven year forecast they prepared for the committee about three years ago, is where you will see the increase in structural deficit. It will translate to every year as they sit down to do the budget process and it must have a funded budget, and that will result in management having to have a decrement plan. He anticipates, based on where the recurring revenues and recurring expenditures are at they will probably need to look at something around a 3% reduction in the upcoming budget year process in order to result in a balanced or funded budget.

Member Johnson noted that without the transfers from the utility funds, there are big cash flow issues. He stated in FY17, there is $23 million from the utility funds, and they may be fronting some of the development costs on the industrial park complex. He asked if there is sufficient liquidity in those funds to handle all of that. He asked the chairman if maybe we should ask for that to be included in future updates.

Mr. Adair asked if he meant a cash flow for the enterprise. Member Johnson said yes. Mr. Adair stated they would be happy to provide that.

Mr. Adair explained the enterprise has increases every year in water and wastewater fees. Those increases are necessary in order to have sufficient funds to meet the infrastructure obligation. The city has an obligation of about $17 million. When you create a special improvement district, there is a limitation, depending on the district created, on how much the property owner can be assessed. Working backwards is how much has to be contributed in order to equal the increase in land value that is necessary for the particular process. The city has been successful in getting both tax RFI dollars as well as RTC dollars for developing the road infrastructure which helps reduce some of the financial obligation. They are also in the process of getting a job creation grant which they believe will also reduce that obligation. They believe the obligation that the city will probably need to fund from the enterprise will be probably 1/2 of that $17, 18 million so $8 or 9 million. They believe they can sufficiently fund that. They would not be able to handle the financing through the enterprise fund, except they have some cash timing that has to do with making deposits on engineering while they get the financing in place as compared to significant known replacements in the wastewater facility such as membranes and things that are considerably expensive, but are about 2 years off. They would have to get any funds that are advanced in the development of the infrastructure at APEX, those would have to come back to the enterprise fund before the repair and maintenance costs would come into play. They are monitoring that closely, and do not believe that it puts the enterprise at risk. They feel the only way the city can solve its dependency on PILT is growth. The city's current situation, they depend on $23 million every year on transfers from the enterprise fund if they did not have caps on property tax, and those property taxes were reflective of the values they have on the properties today, they would have approximately $21 million in additional revenues. The citizens are paying $21 million less in property tax, but are paying $23 million more in water fees. He stated is would be so simple to go to the citizens to right those two things, but that's not that simple. They are working with the other municipalities and addressing the cap side and still trying to focus on growing their way out and pledging incremental revenues if that can be arranged to address PILT as a long term strategy.

Chairman Leavitt asked if there are any other labor contracts that are still outstanding and have not been resolved.

Mr. Adair noted that the contracts are for short terms, 2 to 3 years, so they are kind of always in the process. They are trying to be fair to the bargaining groups and keeping it close to their financial situation.

Chairman Leavitt asked if they were to take the budget filed last June, the current year, and add any other money for these contracts that was not anticipated in that budget what change would be seen.

Mr. Adair answered he believes about $1.5 million. The Teamster contract is just in the process, the impact probably would not be more than $1.5 million overall.

Chairman Leavitt noted the budgeted beginning balance, in July, and asked how it compared to the actual beginning balance.

Mr. Adair stated they anticipated having a budgeted ending balance of $12.9 million, and they were close to that. They had built some increases into their budget for this year, some that were not certain, like merit increases. There was some conservatism in there to deal with where the city might end up at the end of the day. The impact, for example for the Police Officers contract, the fiscal impact year over year increases somewhere in the neighborhood of 1.9 additional every year. This current budget year, the fiscal impact was about $100,000, it was minimal. The idea is, if you look towards the structural deficit, it moved them in the wrong direction but as far as not having to make significant augmentations to their current year budget, they were fairly flat with their budget. An augmentation will be necessary to address the increases for the Teamsters contract but is not something they believe will keep them from hitting their budget.

Chairman Leavitt noted there are increases in expenditures, probably close to $10 million that is ongoing. He wonders if over time, the revenue structure can accommodate that.

Mr. Adair noted a representative from the city will probably be before the committee for three or four more years. Adding $6 million in recurring expenditures to their forecasted structural deficit, the last update they provided was as if they maintained their current staffing they would have been around $21 million, primarily in the last year which had to do with PILT. They were pretty close to "scoring a touchdown" so to speak. This has set them back, but will take them a little longer to get there now.

Chairman Leavitt asked Mr. Adair to provide the committee with an updated projection on their revenues and expenditures for the FY16/17 so they know where they stand.

Mr. Adair stated he would, and it would not be far off from the projected budget. They will also provide an updated forecast through 2021, which was originally the 7 year forecast that was prepared for the committee. The city continually looks at it to measure their progress; their goal is to get their recurring expenditures inside of their recurring revenues and to reduce the structural deficit down to zero. They will provide an updated in regards to that forecast through 2021 by the next meeting.

Member Walker thanked Mr. Adair for all of his hard work and the great job that he is doing.

Chairman Leavitt noted that for some time they did not receive very straight answers from the city of north Las Vegas, and currently he feels they are receiving those answers now. He stated the committee appreciates their honesty and integrity in dealing with the committee.

Mr. Adair thanked the committee, and noted the help they have received from the members has been valuable to their efforts to determine how to resolve this.
Ms. Langley thanked Mr. Adair for the level of details they have provided.

Mr. Adair thanked his staff, the city's staff, and the accounting department; they are very committed to finding the right answers and reporting information accurately. He also stated his staff appreciates the dialogue they have has with Ms. Langley and the Department of Taxation. They appreciate the teamwork.

**ITEM 4. For Possible Action: REPORT FROM SUBCOMMITTEE REGARDING PROPOSED GUIDANCE LETTER**
**Regarding the Review of Current and Pending GASB standards on Lease Accounting; Requirements for Reporting Installment-purchase Agreements; and Types of Installment-**

**purchase Agreements and Medium Term Obligations Subject to Approval by the Department of Taxation**

Terry Rubald, Deputy Executive Director with the Department of Taxation, asked member Johnson how he would like this item presented. Member Johnson requested she read through the letter with the group, and once that is done they can ask questions.

Member Johnson made an introductory comment that this subcommittee was put together to look at the type of financing that was done by the Elko Convention and Visitors Authority. He thinks the intent is that as they look at the different forms of financing, but if it fits the definition of an installment purchase agreement that needs to be authorized; then it needs to be authorized. They are not trying to keep anyone from doing any particular form of financing, just that it meets the rules for going to the debt management commission and going to the Department of Taxation and that those steps are taken.

Ms. Rubald stated that this project was embarked on this project as there were new forms of leasing arranged for by some local governments. Upon further study, they found that current GASB 62 is proposed for update starting in 2018. The criterion that they thought about that distinguishes capital leases from operating leases is proposed for change in the future. This particular guidance letter is dealing with what we have now, GASB 62 and how that works with the Nevada Revised Statutes with regard to installment purchases. She noted one of the main points of this letter, is to recognize that GASB has a standard that is applicable and we need to recognize it as a generally accepted accounting principle. This letter does that, for starters.

On page two of the fourth version, it starts with a discussion about what our statutory and regulatory framework look like. The highlights were additions from the last subcommittee meeting. They are actually talking about what is the definition of an installment purchase agreement, what is required to be reported to the department, what is required to be approved by the department, and also what needs to be part of the indebtedness report. There is this statutory framework that is referenced.

She noted there is a lengthy description on what GASB does. She referred to the bottom of page two, specifically referencing both 62 and 34, because in any given leasing arrangement there may be additional provisions within that leasing agreement where they would need to recognize what GASB 34 has to say as well.

Under GASB 62, there are some great criteria for distinguishing between a capital and an operating lease. She noted on the bottom of page 3, it says "if at inception a lease meets ***<u>at least one</u>*** of the criteria outlined in paragraph 213 of GASB 62, the lease should be classified as a capital lease". It does not need to meet all four of the criteria; it just has to meet one. She mentioned this whole section is a summary of GASB 62.

She continued to the bottom of page 4, Lease/Installment-purchase Agreements. She said it basically describes installment purchase agreements that can be for the purchase of real or personal property. Under NRS 350.089, an Installment-purchase Agreement also includes transactions not required to be counted against the municipality's debt limit if those transactions are (a) greater than $100,000 in the larger counties and $50,000 in the smaller counties.

She noted the section titled Application of GASB Standards for the capital leases and moved on the page 7, Application of the GASB Standards. She noted that in the 1st paragraph it states we will rely on GASB 62, however when the new standard comes out in 2018, we will need to look to that for guidance from GASB. She offered that when that comes out, this committee may want to revisit this as distinguishing between the leases will become more difficult and decide if they need a statutory or regulatory change.

Chairman Leavitt noted as a result of the anticipated changes, he thinks the subcommittee should stay in effect, and he would like to add Mark Vincent to that subcommittee.

Ms. Rubald continued with the second paragraph, regarding the indebtedness report, and what is needed there. If and when the exposure draft becomes final, we will likely have to revise forms to distinguish between the different types of leases, but would still need to comply with NRS and NAC.

The third paragraph was added, and has to do with a lease reported as a capital lease in an agency's CAFR under GASB which doesn't otherwise meet the definition of a capital or an installment purchase agreement, still has to be reported under other in the indebtedness report. She gave the example that under GASB there are four criteria, two are anticipated in the NRS, but the other two are not specific in the NRS. So if those two things occur but the title does not transfer, and there's no bargain purchase option, the lease meets GASB standards as a capital lease. If the resolution authorizing such a lease meets the conditions of NRS 350.087 the lease must also be approved by the Department.

The new sub paragraph four, lease accounting, should only be applied to the lease elements, other elements of the contract should be reported according to the GASB standard appropriate to that contract element. Sub paragraph five, advises local governments to review the terms of the agreement and decide whether it is a medium term obligation or installment purchase and depending on the definition it reaches to, to then prepare the correct documentation necessary for review and approval by the department. Sub paragraph six refers to the guidelines for reporting to the department.

Member Sherman stated that he likes the idea of having a reference to a websites they can go to, however websites migrate over time, may want to add by the link, "or the now current location".

Ms. Rubald went on to page 8, paragraph 7 is asking the local governments to evaluate and determine whether there is an option or right to purchase, the option or right to purchase is the distinguishing characteristic in an installment purchase agreement under 350.0055. If such a provision is present and the terms of the agreement otherwise meet the definition of an installment purchase agreement then it needs review and approval. They will also need to evaluate whether the lease or rental payments are credited towards to the purchase price. If the title to the subject property and the buildings vest in the local government at the expiration of the lease either automatically or upon written notice by the local government with no further payment, that should be considered a capital lease that requires approval by the department. Those criteria might be applied to our recent example. This morning the committee added the words "the lease should be considered a capital lease requiring approval by the department and the debt management commission if applicable" to the bottom of this section.

Ms. Rubald went on to number 9, the catch all. If there is a transaction that is difficult to classify, particularly like a lease/leaseback, it can be tricky if it should be classified as a capital lease or not. In that case, the department is requesting the local government consult with both its auditors, and the Department of Taxation for additional input, so that it can be evaluated. In the second paragraph of number 9, because the local government may simply request title be transferred at the expiration of the facilities lease in a lease/leaseback situation, then that transaction may constitute an option to purchase in which the lease payments are considered credited towards the purchase price for purposes of meeting the definition. She added that was included due to the specific situation. The last sentence is the catch all, talk to the auditors, talk to the department, and get an answer to the specific situation.

Member Kalt commended the Department for their hard work.

Member Johnson motioned to approve the Guidance Letter and request the Department of Taxation to send it to the local government finance officers and the local government financing firms. Member Zander seconded the motion. The vote was unanimous.

ITEM 5. BRIEFING TO AND FROM THE COMMITTEE ON LOCAL GOVERNMENT FINANCE AND LOCAL GOVERNMENT FINANCE STAFF

(a) Report by Department on Local Government Finance comparison between the actual tax rate that is levied and the effective rate that is actually received reflecting the "Tax Cap" abatement.

Ms. Langley noted that at the last CLGF meeting Chairman Leavitt had commented that the effect on the property taxes is really different around the state and that it would be interesting to see the comparison between the actual rate that is levied and the effective rate that is actually received.

She referred to page 29. It shows the assessed values for the last couple of years and how much of their revenue had been abated, therefore what the effective tax rate is, what they are receiving vs. what they are actually levying. She noted the graph included for each of the counties reflecting the annual tax rate levied in red and the effective rate in blue.

Much of what is seen on the graph can be explained by the unusually low general tax cap, leading to a flat or lower property tax revenue. A memo has been included that went to the various entities at the time the tax cap was finalized.

Ms. Langley wanted to point out that there were 7 counties that were impacted by the very low .2% tax cap factor for FY16/17, and that is at the actual 2% additional that receive less than their 3%. Seven of those counties received the .2% which really impacted their ability to grow.

Those 7 counties were Carson, Clark, Douglas, Lyon, Nye, Washoe, and White Pine. Four of them; White Pine, Nye, Clark and Lyon were at 25% of their revenues, their taxes were abated, which is significant. They did see increased assessed value, yet their effective tax rate declined meaning a majority of the taxes they were levying were going into an abatement pool.

There were 15 counties tax rate levied didn't change. There was only two that actually increased. 10 of those counties were already at the maximum 3.66 tax rate.

Churchill assessed value increased by 7%, their abatement increased by 12%. They were one that their tax cap factor wasn't a .2%; it was a 1.8%, still significantly below the 3%.

There were two counties, Eureka and Lander, whose assessed value decreased 25%. They have Barrack and Newmont in both counties, they are high mining counties. Eureka was able to increase their tax rate significantly, but their abatement increased drastically as well. Lander did not increase their tax rate, but they used up the majority of their abatement, their effective and tax levied come very close together.

Member Walker commended Ms. Langley and her staff.

Chairman Leavitt noted how it is amazing how different the counties are, some almost come together with no abatement, and others it is growing. Ms. Langley stated her concern that the counties that are not building up an abatement, what will happen in the next year, where they can't raise taxes, or they see growth, but they will be limited.

Member Sherman noted the rural counties that rely on mining, the Epson flow in the past has been a challenge, but the abatements could magnify their challenges.

Member Kalt noted this shows that local governments can't rely on property taxes to generate any new revenues. Chairman Leavitt noted it can't be considered a major revenue source as long as the legislature leaves the existing…. Ms. Langley interjected adding how they address their growth to be able to meet the needs of their taxpayers; they will have to look for other ways as well.

Ms. Langley offered to provide this information on an annual basis. Chairman Leavitt stated he thinks it would be interesting and could be used as CLGF look to governments heading into problems, because this can indicate when at least one major revenue source is having difficulties.

Ms. Langley stated it would be included with the other reports.

(b) Report on status of LCB File No. R053-16 amending NAC 354.660.

Ms. Rubald noted that this amends the NAC about how much is subject to negotiations with the unions. The NAC 354.660 has been in existence since 1972 at the 8 ½% levels. She believes the tax commission originally adopted it, and then when CLGF was created, it went on under CLGF regulations. She also added the law changed last year to increase that amount to 25% for general governments, which posed a problem as not all governments got that, school districts and any special revenue fund wasn't subjected to that, so they married the two. She stated it seemed very straight forward to her, but apparently not the legislative commission. They decided to not vote on it at all, not down, not up, not anywhere so it is kind of in limbo. She is hoping to get it on a future agenda and see if some action will be taken at a future time.

Chairman Leavitt stated he thought this was at a point where it was non-controversial.

Ms. Rubald recalled there were folks from the union, and they had been fine with the regulation, they didn't like the underlying law, but the regulation was fine. She hopes it will go forward in the future. She offered a possible solution to create a short guidance letter that says look to the NRS if you are a local government with a general fund, if you are a school district, or any other fund, look to the NAC.

Chairman Leavitt asked if she knew when the next commission meeting is, Ms. Rubald stated she thinks it will be in December.

**ITEM 6. REVIEW AND APPROVAL OF MINUTES**
**(a) For Possible Action: CLGF Committee Meeting – June 7, 2016**

Member Kalt motioned to approve the minutes for June 7, 2016. Jeff Zander seconded the motion. Chairman Leavitt asked if there were any comments, there were none. The vote was unanimous, the minutes were approved.

**ITEM 7. For Possible Action: Schedule Date and Review Agenda Topics for the Next Meeting**

Chairman Leavitt noted they should probably wait until after the audits come in, they will at least have two of those and it would be helpful to have them in. Ms. Rubald suggested a date in January. Member Walker commented that budget committees start in mid-January, so if it were earlier than mid-January that would be better. Ms. Rubald offered to pull for a date between January 1st and January 10th.

Ms. Rubald noted they would invite Nye County and the City of North Las Vegas back. Chairman Leavitt noted we would have an update if there was anything new on that as well as anything else that originates between now and then.

ITEM 8. PUBLIC COMMENT

There was no public comment.

**ITEM 9. For Possible Action: ADJOURNMENT**

The meeting was adjourned at 11:25 a.m.