

**Minutes of the Meeting**  
**COMMITTEE ON LOCAL GOVERNMENT FINANCE**  
**March 31, 2011**

The meeting was held at the Department of Taxation located at 1550 College Parkway, Large Conference Room, Carson City and video-conferenced to Department of Taxation located at 2550 Paseo Verde Parkway, Suite 180, Training Room, Henderson.

**COMMITTEE MEMBERS PRESENT:**

Marvin Leavitt, Chairman  
Michael Alastuey  
Beth Kohn-Cole  
Mary Walker  
John Sherman  
Gary Kraemer  
Marty Johnson  
Alan Kalt  
Greg Weyland  
Mark Vincent

**COUNSEL TO COMMITTEE**

Dawn Buoncristiani

**DEPARTMENT OF TAXATION STAFF PRESENT:**

Terry Rubald  
Tom Gransbery  
Penny Hampton  
Heidi DeAngelo  
Shirley Rains

:

**MEMBERS OF THE PUBLIC PRESENT**

<b>Name</b>	<b>Representing</b>
Carolyn Hultgren	Pershing General Hospital
Jack Riehm	Pershing General Hospital
Charles Stafford	Pershing General Hospital
Rudy Herndon	Lovelock Review-Miner
Patty Goldsworthy	Pershing General Hospital
Gerald W. Eick	Incline Village Gen Imp Dist
Jon Shipman	City of Reno
Kevin Knutson	Dir. Of Management & Budget City of Reno
Jill Olsen	Asst. Finance Dir. City of Reno
Joan Hall	NRHP
Pat Irwin	Pershing General Hospital
Steve Boline	NRHP
Holly Hansen	NRHP
Kristen Burges	Kafoury Armstrong
Anna Danchak	Kafoury Armstrong (Telephone)
Michael Rebaleati	Eureka County
Wayne Carlson	PACT
Suzanne Kilgore	Nevada Taxpayers Assn
Teresa Mojado	LV Conv & Visitor's Authority (Telephone)
Chris Petrimoulx	LV Conv & Visitor's Authority (Telephone)
Rene Childs	Pershing County (Telephone)
Jeffrey Share	Clark County Dept of Finance
Michael Sullivan	Pahrump
Richard Derrick	COH
Dave Empey	City of Mesquite
Lynnette Hamilton	Accounting Manager COR

**March 31, 2011**

Chairman Leavitt called to order the March 31, 2011, Committee on Local Government Finance (CLGF) meeting. Shirley Rains called the roll and stated there was a quorum. Chairman Leavitt called the first item on the agenda. Chairman Leavitt welcomed Mark Vincent to the Committee.

**2. Update on Feasibility Study Pursuant to NRS 266.0261  
(a) Moapa Valley Town Incorporation**

Tom Gransbery referred to the 2011 status update from the Incorporation Committee. Ben Robinson informed Tom that there was a problem with scheduling and nobody was going to be able to call in to discuss their status report. Tom mentioned in the status report he talked about getting some numbers to complete an analysis for three years out on the revenue and expenses that they might need to incorporate. Local Government Finance (LGF) would be willing to help them with the CTX projection and the motor vehicle fuel projection, and get something prepared for the next CLGF meeting.

Chairman Leavitt commented that the Committee had established a Sub-Committee to discuss the Moapa Valley Town Incorporation. At the meeting they had asked a number of questions that the incorporation could not immediately answer, plus they needed to meet with representatives from Clark County to obtain additional information. The meeting with Clark County was held and there was additional information they needed to put together. Chairman Leavitt anticipate that when they come back with the additional information that there will be another Sub-Committee meeting prior to bringing the information back to the full CLGF.

Mary Walker asked if they resolve the fire district issue, because they will have to get legislation for the fire district to be within an incorporated city. Tom Gransbery said from the status report they have not come to an agreement. Mary Walker noted under NRS 474.010, territory which may be organized into a district is contiguous unincorporated territory lying within one or more counties so it could go over county boundaries or incorporated territory lying within a consolidated municipality. She lobbied to put that in for Carson City and they are the only consolidated municipality. Otherwise they are not able to have a 474 district overlapping an incorporated area. It was stated that since the City of Fernley has a 474 fire district over their city that Moapa would be able to. She brought a copy of AB 663 during 2001 session, and it basically said that the North Lyon County Fire Protection District may continue to exist on and after the date on which the incorporation of the City of Fernley becomes effective and the boundary that district may continue to include territory incorporated into the new City of Fernley. What happened was the City of Fernley incorporation forgot that they were anticipating that the fire district was going to remain within the city and they did not understand there were laws that prohibit that. They had to go to Assemblyman Dini and Mark Amodi and get this special law passed just for them. Moapa will have to complete the same process.

Jeffrey Share said he was going to bring up that same issue. That was issue that was outstanding. Their District Attorney has looked into this and agrees that Carson City was the only consolidated municipality. That seems to be a bit of a contention with the group, they seem to feel as though they would be this consolidated city. Another outstanding issue was with the Water Reclamation District. Unfortunately he could not speak for the Water Reclamation District and if the Incorporation Committee would like to meet, he could bring a representative from the Water Reclamation District to the next meeting. There seems to be some issues regarding police as well. It was his understanding they have not meet with Metro since the first meeting in December. It was going to be a very large cost and that needs to be considered.

Mr. Share shared with the Consolidation Committee what happened on December 10<sup>th</sup>. Their county brought all the departments together that provide town services in addition to the Water Reclamation District, Flood Control District and the RTC just to give the committee the ability to have everybody in one room, ask all the questions of the departments. They were provided with numbers to give them an idea of what the costs would be. The biggest costs were the fire, police, and Water Reclamation District. He told them they would be getting the property tax numbers from the county treasurer soon. Tom Gransbery was going to work with them on the C-tax numbers as well as the Motor Vehicle Fuel Tax numbers.

Chairman Leavitt said at the last Sub-committee he had asked them specifically to see something resolved on the Metro issue, before they had another meeting of the Sub-committee. He is not going to call another Sub-committee until they get the Metro situation solidified.

Jeffrey Share said Metro did come up with a number for coverage in the area. They provide twenty four seven coverage. The problem was after talking with them, they may not want twenty four seven coverage and they were going back and forth on that issue. They have no facilities for jail, so if they want to use the Clark County Detention Center there would be a fee for that. There was going to be an overhead charge that Metro

will charge for finger printing, records, and for all the services Metro provides in addition to their administrative staff. This will be 2.1 or 2.2 million dollars more than what the Incorporation Committee provided to Mr. Gransbery. He understands the Incorporation Committee has also talked to Mesquite about possible police service, but he was no sure of the outcome.

Chairman Leavitt asked Tom Gransbery to transmit to the Incorporation Committee the items that need to be provided prior to another Sub-committee meeting.

Mary Walker said there was a bill at the legislature, because the City of Fernley has stated that they never agreed to the C-Tax allocation which was provided in 2001 when they incorporated. She would like to make sure that the CLGF have a clear cut agreement on the C-tax allocations, the methodology so that ten years from now they do not have somebody coming back and saying we didn't agree.

John Sherman agreed and it should be very explicit as to exactly what services and what the cost are so that everybody can concur with, and the revenue allocation to go forward. He did not want to set-up Moapa Valley for future problems. Tom Gransbery said the Department of Taxation was in total agreement. He said he would put together a letter to the Incorporation Committee with the questions that have come up. He will copy the Sub-committee members.

### **3. DISCUSSION AND CONSIDERATION OF REGULATORY MATTERS**

#### **b.) Financial reporting requirements of GASB 54 with regard to GASB nomenclature for reserved and non-reserved funds and potential effects on budgeting requirements**

Kristen Burges with Kafoury Armstrong stated that GASB 54 was Governmental Accounting Standards Board 54, fund balance reporting and governmental fund type definitions. They are talking about governmental funds not talking about government wide financial statement or proprietary funds. Enterprise fund are internal service funds. There were two primary aspects to her statement. The first being fund balance categories and the second being fund type definitions. With respect to fund balance categories they changed it where they are used to the concept of reserved, unreserved, designated, and undesignated. Now they are looking at different classifications nonspendable, restricted, committed, assigned and unassigned. With fund type definitions the largest impact was going to be with respect to treatment of special revenue funds whether they are considered a qualifying special revenue fund under the definition and if not then they need to be rolled up into the general fund or potentially another qualifying special revenue fund. This will have an impact on state and local government's financial statements as well as budgetary presentation. She wanted to discuss the impact of these financial statements on what it was going to look like when they have Nevada Revised Statutes requiring budget information on funds that are no longer qualifying special revenue funds for financial reporting purposes under the GASB standard. She referred to some of the sample financial statements and what they are anticipating those to look like. The sample the Committee had was one of the potential options that might be out there facing local governments. With respect to the example includes a special revenue fund that was a special revenue fund that will no longer qualify and will be rolled up as part of the general fund with budgetary information reflected as required supplementary information (RSI). One of the other options out there was to present the information as a basic financial statement with reconciliation information in the footnotes to the financial statements.

Anna Danchak with Kafoury Armstrong, commented the first two pages are what the finance fund statements would look like pre GASB 54. This example had a major special revenue fund. Now that GASB 54 was implemented, that major special revenue fund will no longer qualify to be presented as a special revenue fund. It will either have to be rolled up into the general fund or into another qualifying special revenue fund. In the example it was being rolled up into the general fund. For budgeting purposes this major special revenue fund was budgeted as a bond in the budget documents. She referred to the pages labeled "POST GASB 54" and what these statements reflect was the combination of the old statement, the major special revenue fund and the general fund combining those two to present as the general fund. They do everything banded together any interfund activity is eliminated. The biggest challenge will be to figure out how to present the budgetary schedules. She referred to page five and stated this will be the budget to actual for the general fund it will be

presented as budget so it won't include that special revenue fund that was rolled up for the fund financial statement. You will have your original budget, your final budget, and then your actual numbers are going to be just for the general fund without the non-qualifying special revenue fund rolled into it. What you will have to do is reconcile this back to the fund financial statement. In the notes to RSI would be a reconciliation of the actual numbers on the budget schedule to include the non-qualifying special revenue funds and you can reconcile back up to the fund financial statements.

Beth Kohn-Cole commented although you are not showing the general fund you are just saying we are going to have just like before the special revenue fund similar to how it's reflected in the budget and the general fund then it's combined in the basic statement.

Ms. Danchak said yes, and then in the supplementary information you can have that special revenue fund which is required by statute to present that information. Ms. Kohn-Cole asked is they are not going to break out in the supplemental information, the fund balance between committed, assigned, etc. Ms. Danchak said exactly. The majority of the clients Kafoury provide service to are going the RSI route. It was a cleaner presentation.

Mary Walker asked do you see a lot of local governments actually eliminating the funds. Ms. Burges said they did talk about that, but she hasn't heard of many going that route. A couple options could actually be financial report and file a state document in accordance with 54. Some of her clients have talked about going that route, but then for internal reporting purposes keeping it somewhat the old way because it was what they were used to and knowing at the end of the day that special revenue fund was going to be added to the general fund. There are a variety of options that the local governments face in how they are going to present this information.

Mark Vincent commented if they were going to retain that structure probably what they would do in Las Vegas was create a special revenue fund category that would be all those things that don't meet the definition under GASB. It would be easier for them to know what was getting rolled up from the budget to the CAFR.

Jerry Eick stated that he would like to advocate working on getting the form packet to conform in term of terminology. Try to become consistent particularly in these classifications and fund balance. It was really awkward as a preparer of those forms to have an accounting system or methodology that identifies the new categories and then try and work backwards to what was now reserved or unreserved. The other thing he wanted to point out was he has been to several programs around the country about this. The same topic just mentioned encourages him to remember GASB 54 is a financial reporting standard. It is not saying that you have to have an accounting of a certain way. There was flexibility for the governments who find themselves having special revenue fund that perhaps don't meet the current definition, but have a legacy if they were designated or there's a lot of history as to why they were created. Governments want to keep track of them until that intention or designation was completed. He encourages to leave in grandfathering so they can finish those out and just deal with them on a reporting basis.

Tom Gransbery stated they had some calls from local governments on how they should present their budget. Mainly talking about stabilization funds, they still would like to keep them separate. They realize for the reporting it will have to be rolled up into the general fund. Discussions with K & A there will be in their supplemental part of the auditor CAFR. They will show that activity and so LGF will have a chance to check the audit year activity to the budget and proceed as normal. Another thing he was hearing was on the stabilization fund that they might start dedicating a portion of their Ad Valorem rate. If they have been transferring \$100,000 each and every year they are going to associate a rate that would equal that. Then we have a dedicated revenue source. He has also talked to some local governments who might budget CTX money to an equivalent amount of what they have been transferring in from the general fund and just dedicate the CTX money to the stabilization fund.

John Sherman asked if they have given any thought as to the degree of formality as to dedicating a specific revenue stream to a stabilization fund. For example would just the adoption of a budget be sufficient

or would they have to go through a formal resolution for creation of a stabilization fund and have to designate the amount of transfer, or support of that fund. All this is tied to a state law that says you can have these, there are limits on how much can be accrued and there is constraint on what circumstances can you spend the money.

Tom Gransbery commented that in talking with the local governments, there are budgets that break up their CTX distribution it is not all going to the general fund. With that regard he felt that maybe its clear in the budget it would be in the summary Schedule A that shows the revenue and where the revenue was going. He felt that was probably sufficient and again you see the tax rate broken up into different funds rather than just going to the general fund, or if they have a separate fund for their youth services or capital projects. He feels there was an equivalent amount so with substituting a transfer with the dedicated rate that we would be fine because it would be in the budget review process for the public and us.

Alan Kalt said it was his understanding that if the governing board took and modified the original resolution that they establish stabilization fund they put additional restrictions that met the 54 requirements then that could be a stand alone special revenue fund. But if your resolution, like the one we adopted mirrors the statutes that that was not enough restrictions. So it's our intent to create additional restrictions to allow it to qualify for a special revenue fund under 54.

Kristen Burges said that was correct the state statutes as currently drafted was not strong enough to support 54's definition to allow it to be a special revenue fund. They have spoken with GASB and have received some background information on their thoughts on what would strengthen the language to allow if you did want to do a stand alone stabilization fund. They were really looking at it from a standpoint of historical perspective because it can't be routine.

Alan Kalt said that he would argue that if in fact during this difficult economic time if you have not tapped it even though you did have revenue so were less the budget that would support the non routine basis.

Beth Kohn-Cole cautioned the smaller local government because they do not realize how restrictive the use was once they put the money there. She heard one local government say at a public meeting well they'll establish this fund restrictive then they will get rid of the fund when they need the money and then they will re-establish it.

John Sherman asked how many governmental entities in the state do have stabilization funds and more specifically stabilization funds created under specific 354 language. He was vaguely aware that some governments have created stabilization funds but not under that particular statute.

Tom Gransbery said he would have to get back to the Committee with a correct number, but there was a good portion of the counties that have them. He said there was a stabilization fund that can be created under NRS 362 that allows the money to come out easier than the 354 stabilization fund. That basically was for a natural disaster and overall short fall in general fund revenue.

Chairman Leavitt wanted the Committee to come up with some standards prior to the next years budgets. He asked Tom to have this item on the next agenda to start discussing budget presentation for these types of items.

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

##### **b.) Pershing County General Hospital Financial Condition Update**

- 1.) Financial Report as of February 28, 2011**
- 2.) Report by Nevada Rural Hospital Partners**
- 3.) Report by Department regarding conditions existing pursuant to NRS 354.685**

Beth Kohn-Cole wanted to make a statement that when Steve and Nevada Rural Hospital Partners (NRHP) first began coming to the Committee to present information regarding Pershing Hospital she disclosed that she does the audit for NRHP, she does not as part of the audit have access at all to Pershing County information other than as it is presented to the Committee. She does not believe there is a conflict of interest, she just wanted to disclose.

Steve Boline began with the Pershing General Hospital financial analysis as of February 28, 2011 and June 30, 2010 memorandum, Attachment A. He made the comment that they are doing the FY 11/12 budget from a zero based budgeting taking every expense element of the hospital and looking to see what it should be and what it can be to look for cost savings.

Chairman Leavitt asked if the hospital has now hired primary care physicians that will possibly be there for awhile.

Patty Goldsworthy replied that they have one full time physician and one full time mid-level nurse practitioner. They still have an opening for a full time physician.

Chairman Leavitt noticed there was a concern with the financial statements. We are all aware that we have been continuing this same issue for a long time, and it seems like they improve a little bit, but overall we do not see the net financial resolution of the financial problem that originally caused them to be before the Committee. Now the question, do we just continue on doing what we have been doing. Should they start the financial emergency process. He would like Pershing to address that.

Joan Hall said her mission was to assure the viability of the rural hospitals. What they looked at when they had their growing concern, the NRHP came in with what they call a SWAT team. They identified rural health care experts, experts in other hospitals, looked at best practices, and what other hospitals do. They did an analysis of the way Pershing does their business and identified some issues. They looked at essential services, and non-essential services, they looked at staffing requirements. She thinks their staffing was an expense that can be cut. They looked at the way they contract for positions. They do it differently than most of the rural hospitals, so they have given some suggestions for that. Controlling their costs was important. They laid out a corrective action plan. When they looked at this they identified what they see as rural health care areas they could improve on they gave it the accountability and the timelines. They have made administration designate somebody who will take care of these tasks, and a timeline that it will be completed. They have identified some simple tools that staff, administration, their governing board, and the Department of Taxation can look at monthly. With health care one of the issues was revenue collection. Some payers don't pay the cost. What happened to Pershing they weren't collecting the revenue due to them. Therefore, they had implemented a revenue cycle process through NRHP nearly a year ago. Unfortunately that wasn't implemented fully and now through this improvement plan explains what they have to do. Who was going to do it, when they are going to do it, and through this the revenue cycle dashboard created it was obvious that things are happening or not happening. Unfortunately, she does not think the Committee will be able to see any changes with this plan implemented for probably 45 – 60 days just because of the way health care reimbursement works. They took this to the governing board and got it approved. They will now be collecting at time of service.

John Sherman commended that he appreciates fresh eyes, but as the Chairman mentioned we have had a number of iterations of reviewing the cost structure and reviewing the revenue cycles how can you improve that will allow the hospital to be financial sustainable. It seems there was some point where cost reduction was going to impact capacity and not only for the direct medical services, but on the administrative support infrastructure, because a lot of what we are talking about here was back office staff. Both of those elements are very important, but at what point in the cost reduction program that you really are going to starve the ability or capacity to either provide front line medical services or the administrative support infrastructure to keep the hospital viable.

Joan Hall said some of the experts and Ms. Goldsworthy's colleges and the other hospitals that run basically the same census, the same ER capacity, long term care, and their clinics are what they were looking at. Their staffing matrix that has worked for them and still enables them to provide the quality care that was required without any impact.

John Sherman said if you don't have enough staff you potentially run into all kinds of internal control problems. Those types of things start to occur and could quickly unwind. He would like to see where they think this will need to land to be sustainable in terms of staffing capacity in both front line medical and administrative support.

Steve Boline commented that they were talking about two things here in addition to bodies and staffing. We're also talking about the compensation structure and how the positions are compensated. Traditional pattern used in rural hospitals was during the day the clinic physicians will cover the ER because the volume was very light. Currently because of the transition on the providers and the initial contract that was put into place they are paying for ER coverage twenty four seven separately of paying for clinic physicians. There was the same coverage but at an added cost, so we would not necessarily be reducing a body and changing the emergent care pattern but would have a significant impact on the cost. The other thing they see was the compensation structure within the organization as it relates to duties and responsibilities. They are also looking at the benefit structure.

Chairman Leavitt asked how long would they anticipate when they come back to the Committee to discuss in some detail the thing that have been implemented and the effect that has had on operations.

Joan Hall said within 60 days. However, you will not see the total impact, but there's less denials of claims, there was more collection of revenue outstanding that has not been collected or written off because it was stale dated.

Chairman Leavitt said if they have another meeting in 90 days will that be sufficient time. Joan Hall said yes.

Beth-Kohn Cole stated she has been asking for some time to see cash flow analysis. She understands the whole contractual adjustment and the receivables, she would like to see the expenses on an accrual basis, but she would like to see the revenue on a cash basis. When do you need to pay the bills? We have been asking for this information for awhile, just the net cash. The numbers can be manipulated with that allowance.

Joan Hall said the other thing Steve referred to was the retail pharmacy. It was the only pharmacy in the community so it's a great community service. It is not an essential service for the hospital to provide that and it is a huge cash outflow, because you have to pay for those drugs up front cash.

Chairman Leavitt said the pharmacy has been discussed during the last several meetings and there needs to be some resolution of the pharmacy.

Patty Goldsworthy said she has taken all but one class to learn their software, which has been extremely helpful. They have changed the pricing in the computer that reads on the financial reports, not completely done yet but from average whole sale price to acquisition cost and that should help them get a real number. There will be reconciliation they are now changing their hours open to the public they are giving them an extra hour in the morning. They eliminated all over the counter stuff. Pharmaceutical prices went up this year, but they have reduced how much she allows the pharmacist to keep on hand.

John Sherman stated they do get period cash analysis, however, what Beth was talking about was a cash flow analysis that looks at multi-period particularly cash flow analysis going into the future and one of the things we see if you run into cash problems then you can't make payments. In another report he noticed that once again they were late on making the PERS payments and then they had to take a loan to make the PERS

payment. He believes with all the accounting ins and outs it was really important that doing cash flow analysis really helps you manage your organization better.

Chairman Leavitt asked the board members from the hospital if they were willing to do the things that are necessary for implementation. He would like some assurance that they are willing to take the difficult steps to actually implement this. Jack Riehm, Chairman of the Pershing General Hospital Board said yes they would.

Chairman Leavitt said at the next meeting he would like some detail on why they cannot run the pharmacy at a profit, and see a number that is not in red.

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

##### **a.) City of Reno Financial Condition**

- 1.) Report by Department regarding audit violations pursuant to NRS 354.6245**
- 2.) Presentation of Action Plan by City of Reno**
- 3.) Request for advice**

Beth Kohn-Cole talked with Dawn Buoncristiani, Deputy Attorney General, regarding a potential conflict of interest regarding the City of Reno. She was hired by the Reno Fire Fighters Union to review financial records for the city that are public records, and she testified on behalf of the union as an expert witness during arbitration hearings. After discussion with Dawn she was going to abstain from voting, but will participate in the discussion without influencing any of the decision making.

Mary Walker said she was the financial consultant for the Truckee Meadows Fire Protection District which has merged with the City of Reno approximately 11 years ago. She has been working with the city for that period of time. The liability in regard to our employees is under some of the funds. We pay into the funds for workers compensation, retirement, medical and these are the funds in question. She will also abstain from voting.

John Sherman said he is the Director of Finance for Washoe County, and the county has a relationship with the City of Reno through the Board of Fire Commissioners. They are under contract with the Truckee Meadows Fire Protection District. He has no direct involvement in the management of the affairs of the Truckee Meadows Fire Protection District that has a separate board of directors but is the same as the board of county commissioners. He asked Dawn if he had a conflict of interest.

Dawn Buoncristiani said he would know because she provided Mary and Beth with the analysis from the commission on ethics where it says that if you have some pecuniary interest that would be directly influenced. She would leave it to Mr. Sherman in terms of understanding if he has any direct interest that he would benefit from more than any other members of the community. Pecuniary interest doesn't necessarily mean money, but could be another type of benefit.

John Sherman said based on that he would declare he does not have a conflict of interest in this case.

Terry Rubald stated that LGF was reporting to the Committee about the audit violations that were reported in the City of Reno CAFR pursuant to NRS 354.6245. Today we are reporting some of the findings and give the City of Reno an opportunity to talk about their plan of action that they have submitted to the LGF. What we hope to gain from this meeting is to get Committee input, because it is the responsibility of the Department of Taxation to determine whether that plan of action in regard to the audit violations is a sufficient plan. Although in the topic letter there was mention of the potential for some of these violations as an indication of qualifying for a Severe Financial Emergency, however, that was not what the agenda item was about. This is about looking at the audit violations and seeing if the plan of attack to fix it is adequate.



Terry Rubald brought to the Committee's attention the information in notes 19 and 20 where the CAFR notes that expenditures and expenses of certain funds were in excess of budget or deficit position, and that certain interfund loans were made without authorization. She said LGF is concerned in particular about the self-funded medical plan internal service fund which was a violation of NRS 354.6215, which disallows use of fund balances which are restrictive for purposes other than that for which the fund was established.

Greg Weyland asked if it was a legal loan and if they felt they could repay it. He was curious from his own standpoint from the school district and his health insurance fund, if he needed a million dollars and it was legitimate that he could repay it why does restrictive mean you can't make a loan.

Terry Rubald said the restriction applies to the uses that the money can be put to. It's the use to a different purpose that is outside the function of the fund.

Tom Gransbery commented NRS 354.6118 says for short-term borrowing there are two ways to look at that restriction. One way to look at the restriction is if the self-funded medical fund is truly restricted; as opposed to a fund having a large ending fund balance or cash position so they could borrow that money for a short time.

Greg Weyland asked if there was a legal opinion on what restrictive means, because if I am going to repay it, it may not meet that definition. He would like to know if there was some legal backing that says restrictive means you may not loan money from and which type of fund.

Terry Rubald asked for the City of Reno representatives to come forward and give their presentation. She observed that NRS 354.6215 states "Except as otherwise provided in. . . if a local government provides a fund for self-insurance of property, for any form of insurance for the benefit of its employees, or for any other risk that it is permitted by law to assume, the reserves or balance of a fund thus provided must not be expended for any purpose other than that for which the fund was established."

Beth Kohn-Cole said it goes on to say if you transfer the funds you can use it in the subsequent year, but not in the year of transfer. Terry Rubald said except that when the governing body deems the reserve or balance to be no longer required, either in whole or in part, it shall transfer the excess balance to the general fund of the local government, which is part of the problem; she did not believe the governing body has made that finding.

Kevin Knutson and Jill Olson went through their power point presentation, which was part of the Committee packet. Mr. Knutson said, prior to submitting their CAFR to the Department of Taxation, it became clear they would have to report several items that were not in compliance. In November of 2010 they immediately began taking action. The City Manager asked for a 5% reduction in overall expenditures across all departments. It was that large not only to deal with some of the issues they saw coming out of the CAFR but also because they were seeing their revenues come in a bit short. When they submitted their CAFR they submitted a cover letter with a matrix that showed each one of the issues discussed why those things happened and what their plan was moving forward or if there was some mitigating circumstances or state law that gave them permission to do those things. The Department of Taxation staff was quick in their review and got back to them on January 27, 2011, and met with them on February 11, 2011 to go over the issues.

In Note 19 they identified 4 areas where the city had expenditures in excess of the budget. In Note 20 the interfund loans did not meet the proper requirements. But this year the City reported for GAAP purposes it had used one day loans to cover negative cash balances in funds so the annual report did not have any negative cash balances. They had been late on several quarterly reports, there were questions on derivative instruments of interest rate swaps, and wanted to discuss the status on general fund cash. In addition to the 5% which was about \$3.5 million to \$4 million at the time, they have had to cut their budget by \$14 million this year. The vast majority of that was due to revenue losses over and above the budgeted losses that they expected this year. The 5% it raised just under \$4 million we had to have additional cuts; all of those were part of a budget augmentation that they did in the past week and were passed by their governing body on February

28, 2011. It included a reduction in force of approximately 122 people. They have identified an additional \$7.5 million in next year's budget that they will use to fund deficit fund balances. One of the issues they were going to have a medium term obligation between the sewer fund and the RDA for the purchase of the RTC City Center. While they were going through the process of creating that loan they discovered there was not going to be sufficient revenues to pay it back. So they are looking at alternatives. After this meeting today he will go back to council and ask for that purchase to be in the sewer fund. They will hold that property until we sell it and any revenues that come back from the property will go into the sewer fund first plus interest. The biggest problem they could find in the list of issues was they have not been adequately funding the Worker's Compensation Fund for four years. They failed to act aggressively enough in the case of this down turn they did not cut enough out of their budget and did not plan adequately.

They were unable to fund a great number of things, mostly capital purchases. The thinking at the time was it was going to be short term and they would be able to catch back up, but that did not happen. They are currently \$8.2 million in negative cash. That was on top of the heart and lung presumption. They have developed a five year plan to resolve negative cash balance in workers compensation fund. In addition to the actions they have put into their proposal to the Committee they are asking for direction from the Department of Taxation on several items. First, what is the intent of NRS 354.6118. Next, how are statutory requirements for the medium term obligation transaction in the Community Assistance Center to be met because they have approximately \$1.9 million deficit in there from property they are holding for resale. The properties were given to the city in exchange of other properties where they built the Community Assistance Center which is a homeless shelter and campus in the downtown area. Until they are able to sell the properties they will have a negative fund balance. Lastly, working on this five year plan to refund the worker's compensation internal service fund we'll need some direction and some assistance on how we can report that over the next couple of years and whether or not we should use a medium term obligation.

Mr. Knutson continued that how they got into this situation over the four years was they started seeing the drops in revenues. They used a lot of one time cash and deferred a lot of capital and did not make payments into the workers compensation fund in order to try and get through this crisis. That was the amount of money in their general fund, fund balance. In 2011 they had \$6.1 million that was roughly 4% of the general funds last years budget so it does meet the statutory requirement but at the very minimum level. They would prefer to be closer to \$8.3 million or higher. This year 2011 they are adding \$2.3 million back into the general fund through a stabilization fund. Next year they have budgeted \$3 million to bring that number back up to a little over \$10 million.

They have four different areas where they had specific challenges where revenues have not been sufficient to cover debt service. The first is in their ReTRAC bond that represents \$140 million and it is funded through one 8 cent sales tax. Sales taxes have not been sufficient to cover that service this year. So they have worked with Goldman Sachs, the B bond holders; and with Bank of New York who writes their letter of credit, to come up with a deferral of the city's payment on the B bonds so they have sufficient funds for the A bonds and they have some time for the sales tax to come back. On the events center the room taxes were not sufficient to cover the total debt service, however, that was backed by CTX; up to 15% of the city's CTX was pledged toward it. In the RDA there was a slight deficit that has not been resolved yet, he will be going to council in the next two weeks with a plan to rectify that. The tax increment \$3.4 million was a projection from a few weeks ago they just got the final numbers recently so that number has changed significantly. With regard to the Fitzgerald's lease, the city had a piece of property that it was leasing and the lease was the revenue used to pay the bond. The city has plenty of money to pay the bond, but because the lease holder stopped paying the city is in a technical default. Staff replaced the lease payment with general fund money and have obtained a deferral on any action on that at lease for one year.

Chairman Leavitt asked a question regarding the workers compensation fund that has a deficit cash balance. He assumed when they were creating this debt cash balance they were making payments to the recipients. Where was the cash coming from?

Jill Olsen said they have pooled cash environment as a result it was coming out of the pool cash, consequently the fund kept going into negative cash. At the end of the fiscal year they would then make the transfers to cure the negative cash balances.

Chairman Leavitt asked about the pooled cash; an investment kind of fund that they can draw out of even though it puts any fund in a deficit balance?

Jill Olsen said we have a pooled cash environment where all the cash is pooled physically and each of the funds shows their share of that pooled cash. Some funds can go into negative cash usually for just timing differences. But for workers comp it was more than just a timing difference.

Chairman Leavitt said technically speaking whenever you go with any fund in a deficit balance even if it is overnight you have an interfund loan.

Jill Olsen said that was what it turned into and they happened to borrow that from the self-funded medical fund because staff looked at it as a like the same fund type. It was a one day cash advance from a similar fund.

John Sherman commented all of us here have had to manage cash from multiple funds. It was puzzling that you are telling us you don't know on a day to day basis what your cash balance is in your funds.

Jill Olsen said no, we know. Mr. Sherman said consequently you knew well in advance of the end of the fiscal year that you had negative cash balances in one or more of your funds. Ms. Olsen said yes. Chairman Leavitt said subsequently you are essentially making loans from other funds, maybe not identified what fund it was coming from, but some other fund someplace you were making a loan that was not approved. Ms. Olsen said from a reporting purpose we only made the loans we didn't make on a monthly basis we didn't make journal entries to cure the cash deficits.

John Sherman commented that the notion you are going to cure a negative cash balance to be in compliance with GAAP, however, there are other GAAP reporting requirements. Basically, you are making loans and now you are in violation of that. He was struggling with them trying to cure cash negative balances at the end of the fiscal year to gain compliance with GAAP but then the city is making loans, some of which were not recorded as loans.

Jill Olsen replied the workers comp is a different issue and they understand they have a significantly greater issue than just curing negative cash, and that was why they developed the funding plan and they know that they are going to have to do the medium term obligation and that there is a loan aspect. Ms. Olsen had a question on NRS 354.6118, the one day cash advance and asked for direction. If the one day cash advance in NRS 354.6118 was to be strictly interpreted for those funds for which it is just a one day cash advance such as a grant fund.

John Sherman said the matter was not a one day. That was just an accounting entry at the end of the year so your cash balances were positive. You had been making those, you had gone negative, and in making those all during the course of the year.

Chairman Leavitt said it appears that any fund you have a cash balance they have a situation where they make a payment and it results in a negative balance. Then they automatically borrow from some other fund even though they do not know if it is a restricted fund or non-restricted fund. I think when you are going make a payment that results in a negative cash balance, in any fund you have to make some formal understanding of where that cash was coming from and go through an approval process, because they are really making a loan.

Jill Olson said it was their understanding that when it's for a 12-month or less period of time it was not defined as a loan. However for workers comp it did meet that definition, they agree with that.

Chairman Leavitt said it was still an interfund loan. He asked if their governing board has given approval to loan money back and forth between funds on a daily basis. Ms. Olson said no, not for negative cash, and that was the guidance they were asking for on 6118. Chairman Leavitt said he could not imagine the governing board being willing. One of the problems they have was if you just do it automatically you can be getting that money from funds and the use of that money was restricted.

Chairman Leavitt gave a scenario. They are anticipating a grant from the federal government, but they do not have approval for the grant and they have to spend some cash to build a building. Where do they get the cash to build the building that they are eventually expected to be repaid by a federal grant. He assumed they were borrowing it someplace either outside the city or they were borrowing it from one of their other funds. This was not appropriate if they are getting it from the workers comp fund or getting it from a self insurance fund or debt service. It seemed to him they should not be borrowing this money unless they go through a formal process and their board determines that they have money available from a non-restricted fund that they can use to fund that building. That way they don't have this problem.

Kevin Knutson said they understood, and that this was something they will bring back to their council along with other policies for adoption.

Chairman Leavitt said they have to get out of this business of just having pooled cash and being able to take money from any of these funds. As long as you have enough cash in this pool cash fund you can essentially make payments out of any fund even though you have no money in that fund and you have no approval from the board to borrow from another fund you are just asking for big trouble.

John Sherman referred to NRS 354.6118 regarding the short term interfund loan. He said he was going to make a statement and for the city representatives to correct him if he was wrong. They made a journal entry at the end of the fiscal year to show their cash balances that were negative to turn them positive. Then they reversed that at the start of the next fiscal. They had negative cash balances in the funds if they did the cash accounting before the end of the fiscal year. It just did not happen on the last day of the fiscal year. Ms. Olsen said correct. Mr. Sherman said therefore it happened some time during the course of the fiscal year it could have been three days before, or five months before. As a result the point was then when we look at the provisions and we can certainly go to NRS 354.6118 it was not restricted to whether it was one day or 12 months. It says if it was one year or less if they borrow money it was by definition a short term interfund loan. He asked Ms. Olsen to tell him why she disagrees with that.

Ms. Olsen said she was not saying the Committee should agree with her, she was asking for clarification. That's why they are working with Kafoury Armstrong.

Kristen Burges said she has talked to the City of Reno with respect to this issue and she sees it as a bigger issue. She sees a lot of local governments that have "due to/due from" issues between their funds and not necessarily going before board approval. That was why she thinks it's important for the Committee to clarify, should NRS 354.6118 be interpreted one day or does short term mean, in the case of a grant fund, if it was going to be reimbursed by the federal government within 60 days. Are those types of timing issues falling under this? If yes then it was broader than just the City of Reno and communication needs to go out to local government across the state to clarify.

Alan Kalt addressed that; and spoke on the example she just said. He had a case in his local government where he had a case of "due to/due from", his board approved that grant for the hypothetical building and they knew the reimbursement cycle would be with in the 60 day collection. They built the building, expended the money, submitted the reimbursement reports to the federal agencies; it goes through their process and it gets done. He would argue from his perspective that, that interfund loan, because they too have a pooled cash environment, when they went out and made progress payments on the building they knew there was going to be a timing difference between when they spent the cash and when they got it back and if in fact if it was on a balance sheet date then they could be in a "due to/due from" scenario, but they also were going

to have a receivable because they collected that within 60 days. He was concerned because she raises a valid issue. There is a point in time that even rural local governments could have a negative fund balance based on the timing of when the payments are made and when corresponding revenue is collected. Our issues are not to the extent that was identified, but grants do come to mind where there will be some timing issues, but it is resolved by the time we close out that grant and we met our obligations and that fund has been made whole.

Gary Kraemer said that would be something they would do as well if they have a \$500,000 grant coming in they will advance that as a "due to/due from" and not an interfund loan. Therefore if for some reason the \$500,000 was disallowed later on the general fund would cover that and the general fund has more money compared to the grant funds. It was an issue that maybe a definition of a "due to/due from" relating to grant or assured revenue or no cash.

John Sherman said all of us that are in practice are faced with that, but when we get reimbursed for grants some of them are very significant. We want to make sure the fund in which those transactions are going to be posted has sufficient cash in there to pay for that before we get the reimbursement and if not we always make sure it does. He is curious what in NRS 354.6118 raises that question?

Kristen Burges said if you read it literally anytime you would have any of these sort of instances you have to go through 354.6118 and there are many instances where that was not happening and the question was should there be consideration to think of those types of known revenue type items as it relates and modify or clarify 354.6118 or read it literally and move monies and go through the hoops that are required for even those known short term type activities with respect to grants. She thinks another issue that might be facing many of the local governments was timing with respect to property taxes. The funds are getting so low and that amount of time that comes between property tax payments she thinks that's driving some of the funds into potential areas where this could be an issue as well and we will see "due to/due from" growing potentially between funds at June 30<sup>th</sup>.

John Sherman said they can certainly get into intent, and may in fact have to put this on an agenda to look at 6118. However, in managing an organization you have to understand how the cash works and everybody goes through the collection disbursement cycle on property tax. You all know the quarterly disbursements and the timing differences and you need to account and plan for those. He knows in the Reno note disclosure there was a notification there could be a potential violation of NRS 354.6118.

Chairman Leavitt said if you want to make inter-fund loans at least their board needs to be aware they were going to do it. Maybe even by blanket approval. Even then they may have a problem if they were going to try and make a loan from a restricted fund.

Kristen Burges said that was an absolutely different issue than it coming from a general fund or available fund balance in a general fund that was not restrictive. Even in a short term nature that would be an issue.

Chairman Leavitt said in general if they are going to the board to get approval for a Federal Grant right then you say to the board we are going to have to make payment in advance of receiving the fund, and we are going to have to borrow money from the general fund to accomplish this. If the board says yes and gives you an amount, then you won't have a problem.

Alan Kalt stated monthly they submit to their board at a governing meeting the cash balances of every fund, the bank reconciliation, and there are times that a fund for timing differences may have a negative balance. That was disclosed and put on the agenda as part of the report. It does not happen often, but it does happen.

Michael Alastuey stated he believes this discussion on how to structure the approvals and transactions and the source of activities need governing board approval per transaction. What's happening here does not

rise to the level of a transaction. These are interfund loans that have taken place in a way that is murky, undisclosed, and in fact does not even create a transaction until it comes time to paper it over for one day at the end of the year. There is a whole other realm of this. These transactions need to be clarified to say they requested our assistance and in doing that and he thinks it will be a good outcome of this byproduct. But that does not mask the fact that some actions were perhaps not exactly umbrella under some particular statute. It does not mask that they are switching a deviation between the actual practices taking place and any level of public disclosure. That is a gap that needs to be closed as well as refining the definitions of the transaction. With that being said, these transactions did not occur because they were waiting for a grant or an interim between a pledge of money, the receipt of money, or the need to receipt. These are funds with no money and at the core of the issue was a general fund balance before it was spent doesn't represent more than a whisper of time at the year end when in fact property tax proceeds typically do not get allocated until into the month of September. Also, there is two months of wait at least for C-tax despite the fact it has been approved it is not received in cash until a couple of months after the onset of the fiscal year. There are three dimensions, one define the transaction we are discussing here; second get to a level of practice that needs to be conducted for public disclosure well above that level of practice the city has really conducted, and third give into the notion that this is a state with very little financial resources. He appreciated the plan showing 5 years of the cash balance issue in the workers comp work fund group will be cured. But that in fact will require additional money assessment and how is the general fund going to bare his share of closing that gap in the workers comp fund with the general funding being in such dire straits.

John Sherman said when you think about 354.6118, why was it there. There is a reason why that statute was put there and this Committee has dealt with over the course of a few years' interfund loans that were questionable on two basic realms. One you are taking a fund that raises money for a specific purpose, such as a utility fund, you go out and impose utility fees for water and waste water we are going to impose those fees to provide that service. Then you are going to turn around and take some of that money and are going to give it to another fund and use it for a different purpose. So you have a public legitimacy issue. He continued that Carole Vilardo with the Nevada Taxpayers Association many times comes before this Committee and states this is in violation of the public trust. It may not fall into the realm of inappropriate legal behavior but it still violates the public trust. The other dimension of this is that there are governments in the past and maybe currently that do this to cover up deficits. They either do it by intentionally doing it or doing it because they just don't understand they are doing it. There are reasons why this law is there.

Gary Kraemer would like to see this as an agenda item in a future meeting, because he knows Kafoury-Armstrong has really looked at all of their clients closer because it a historical practice in relation to grants. He did not think it would be a bad idea to determine whether there was such a thing as a "due to/due from" related to grants and just some more information on that if you wanted to do it when you accept the grant, what kind of format we might advise to take care of that end of it. The other thing was the plan of corrective action he saw. There was one in the prior year and he was curious if there are plans of corrective actions, was there a need that they be reported to us and we see what they are or not. It seems like they had one a year before, was that in our purview to see plans of corrective action so that we are aware it is on our radar or that's not our problem.

Terry Rubald commented and said it was the Department of Taxation's responsibility to follow through on the plans of corrective action. It very clearly says that we are to determine whether the plan of corrective action is sufficient and that is what we are going to do in this case. She wanted to put on the record that LCB File No. R135-10 became effective December 16, 2010, and to her that certainly indicated the Committee's intention on how to interpret some of the issues; particularly what the definition of a temporary interfund loan is, means a loan of money for a term of less than 1 year from a fund to meet an immediate obligation of another fund in advance of receipt by the borrowing fund of sufficient revenues from regular sources. Does that not describe the situation in the grant funding? Then it goes on to describe including loans from different types and government. Then the body of the regulation discusses how you go about going through the process of getting that approval from the governing board which the committee has been discussing today. She thinks in part the answer is already available. Although it just became effective December 16<sup>th</sup>, there is some regulatory guidance available.

John Sherman said in a lot of the discussion they were having here today they had during the course of deliberations on that particular regulation and they had a lot of different examples that led to crafting the regulation the way it was.

Chairman Leavitt wanted to go over the over-expenditures. He asked if it was the city's normal procedure at the end of the year that they go before the council with an augmentation or budget adjustment or whatever it was that was necessary. Last June did they do that? Jill Olsen said yes. Chairman Leavitt said evidently when you did that you miss some of these. Jill Olsen said that was correct and in fact some of these came in after the end of the fiscal year but they had to be booked as of June 30. They were obligations that they were not aware of until after June 30.

Gary Kraemer asked if they had purchase orders or contracts. Jill Olsen said some were the OPEB obligations and they did not have those calculations. She was taking steps now to book them in advance at least based upon the prior years so they will have those numbers. They are going to do more education with the departments related to invoices that they may be aware of that they have not notified.

John Sherman stated he was struck by the scope of the number of areas that were over budgeted and also he took the liberty of going back through their 6-30-2010 financial statements and then he went back the prior two years and there was also a very long list of accounts going over budget. The challenge was that if they can't keep within their spending plan it portends trouble particularly in an environment of declining revenues. So controlling expenditures would be within the plan and in our environment it has to be under budget, because our revenues are declining. They will need to take a lot of diligence to watch it, almost on a weekly basis when you do payroll.

Chairman Leavitt stated it appears they need to go through their process where they determine liabilities and see what they are missing which was causing this to happen. It seems to him that even in these cases where you have funds that are exempt from the statute its good policy to go before your governing board but they approved the budget previously and you now are going to spend more than they approved even though you might not have a legal requirement to do it. It seems a good idea to him to take it before the group that actually approved it and say we are going to go over this for the year and we want your approval.

John Sherman said they were all in the process of doing their 2011-12 budget build. In a lot of the corrective actions particularly the workers comp fund you say we're going to charge the fund that had people in an appropriate amount. He would suppose the vast majority is the general fund. So they are building into your general fund next year a charge that will take care of the costs to provide the actual workers comp payment. What does that look like in 2012-13, 2013-14, etc. In other words you have a corrective action plan that you have to gauge for next year, but what does it look like after that. Because when you start adding up all these corrective action plans and their related costs in addition to the cost of providing the services the city provides balanced against the potential revenue coming in. What does that look like after 2011-12?

Kevin Knutson said in the table they showed each year there was going to be additional costs that they will have to identify and apply. John Sherman said he saw the table and it says we have to come up with the money someplace that was the statement he sees, but where was that place and what was the consequences of saying I'm going to take another \$2 million out of the general fund.

Kevin Knutson pointed out that by budgeting it next year it will be an item that will be part of their budget that will roll forward into the future years. They will have to identify the funding sources for it and it will be part of their balancing.

Chairman Leavitt said based on the discussion today it would be a good idea if the Committee could have the City of Reno come back for the next CLGF meeting. By then they have filed their final budget. Let's go down this list along with your budget and check off what you have done to resolve these items. There was also the reports that have been filed late. He thinks there is a process on a regular basis where there are entities that have late filed their reports and there is a certain period where during a Committee meeting they

come in and we make certain that all the reports are brought up to date. It would be a good idea to go through that at least for the next year or so with them to be certain they are up to date on all those reports. The legislature on the filing of the reports felt it was so important that you don't file some of them there is actually a payment withholding as a result of that. He then pointed out that they do qualify under many things that would relate to a severe financial emergency, and we don't want you to get into that position. It appears that they have several big deficit balances that if they don't come up with some way to fund them they can very well not have enough general fund balance and they can't go there anymore.

Tom Gransbery commented that he and his staff make attempts to notify the local governments when their reports are late, and they do that as a courtesy, however, it was not an everyday duty. That should only be happening once every two or three years.

Gary Kraemer commented that if he files late the Department of Taxation should send notification to the superintendent and the president of the board of trustees and this Committee. He thinks as these types of violations continue three or four reports in a row, now everybody finds out about it. Terry Rubald said she would look at their process and make it more formal.

Mark Vincent said the first thing he would be doing if he was Reno was increasing whatever the rate was for workers comp so that his revenues are sufficient for his expenditures and his operating loss goes away and then to the extent that he has revenues available in the general fund or elsewhere that was appropriate then that would be his additional premiums to try and get the cash problem rectified. He would like to see the revenues equal the operating expenditures and then what was left over becomes premiums.

Kevin Knutson said that was the problem with the way he showed it to the Committee. Their intent was to do it exactly the way suggested. He just failed to show it in such a way that it was clear.

John Sherman wanted to go back earlier in the report Kevin gave and there were a couple of items, two of them had to do with the list of property held for resale. It was mentioned the RTC bus station as an asset being recorded in your sewer utility fund and he went to that schedule and it listed about \$44 million it does show RTC transit center site and ice rink plaza, but what caught his eye was the base ball stadium land at \$36 million and you said your intent was to put those up for sale. He understands RTC and the ice rink plaza but how are you going to sell land under a stadium.

Kevin Knutson said he apologized if he led the Committee to believe they were going to sell all the properties. It was just the RTC properties.

John Sherman referred to the second item the unrestricted net assets deficit amount and they are showing that on page 21 of the CAFR the statement of net assets shows an unrestricted net asset deficit amount of almost \$109 million. He was curious about the Cabela Star Bond that they reported a liability of no offsetting assets of \$32 million.

Lynette Hamilton stated part of that number is on the star bonds of the financing bill, some of the money went to infrastructure improvements including a freeway access point, which the city doesn't own; that's NDOT so we funded some assets for the developer.

John Sherman said so you were booking a liability and the only way a liability gets paid off is through the star bond increment.

Chairman Leavitt wanted to have a discussion of the debt. At the next Committee meeting, in addition to the other items, could they do a debt service schedule on all of the bonds showing the payments that are due and when they are due and the interest that was due and lets try to make a ball park revenue projection. He would like to see where they stand on all of these bonds for the future. It looks like those could be a big problem someplace down the line.



Marty Johnson wanted them to add an estimate where the shortfalls are going to be made up from. Chairman Leavitt said it appears that the debt obligation they have will have a real financial drain on the city as a whole for a long time into the future. So even with an economic recovery it was going to be difficult for them to go back to their previous situation because of all the debt.

Chairman Leavitt in closing said he was concerned about their operation, because the end result was that they are providing services to all the residents and the financial condition makes it impossible to perform those services. He believes the restrictions and requirements are put into the law to protect the financial security of the local governments and when you violate those or try and get around them you end up causing a lot of grief for yourself and eventually the citizens of the City of Reno.

Terry Rubald informed the Chairman that the Department of Taxation could issue a preliminary report regarding the plan of action and ask the City of Reno to come back periodically to keep us informed and will issue a final report with the Committee is satisfied that the plan attacks all the problems.

Chairman Leavitt commented that the Committee members received a letter from James Sommer a 40 year resident of Reno, who outlines a list of his concerns. Some may not be in the scope of the Committee. He asked Dawn to review the letter and during the next meeting discuss some of his issues.

### **3. DISCUSSION AND CONSIDERATION OF REGULATORY MATTERS**

#### **a.) Report of the Sub-Committee with regard to recommendations for regulations concerning appropriate recognition of health care liabilities on the books and records of local governments**

Alan Kalt thanked John Sherman, Beth Kohn-Cole, Department of Taxation, Carole Vilardo and Wayne Carlson for the working Sub-Committee. There is currently a bill draft pending, and depending how that turns out will have an impact on this. Therefore, the Sub-Committee voted unanimously to defer this issue until after the legislative session.

### **5. REVIEW AND APPROVAL OF MINUTES,**

- a.) CLGF Meeting, 10-22-10**
- b.) CLGF Sub-committee Meeting, 11-19-10**
- c.) CLGF Sub-committee Meeting, 11-27-10**
- d.) CLGF Sub-committee Meeting, 2-1-11**

Gary Kraemer had a correction on page 8 of the October 22, 2010 minutes. Changing their too there. John Sherman corrected the acronym GASB.

Gary Kraemer moved to approve all set of the minutes with the above mentioned changes. John Sherman seconded. The motion carried unanimously.

Michael Alastuey excused himself from the remainder of the meeting.

- ### **6. BRIEFING TO AND FROM THE SUBCOMMITTEE ON LOCAL GOVERNMENT FINANCE AND LOCAL GOVERNMENT FINANCE STAFF**
- a. Report on FY10 Audit and CAFR Information**
  - b. Report on PERS delinquencies**
  - c. Report on Inter-fund transfers**
  - d. Discussion of Matters Affecting Local Governments**
  - e. Discussion and Consideration of Legislative Matters**
  - f. Schedule Date and Review Agenda Topics for the Next Meeting**

Tom Gransbery went over the report on FY 10 Audit and CAFR Information. He sent the packet out showing the drafts and the numbers and there are about five issues he wanted to touch on. On page 47 of the 2010 audit summaries, Nye County, 2009 ending fund balance was \$2.6 million and 2010 was \$327,522. He went back to look at the 2010 budget and they actually had budgeted an ending fund balance of \$501,000. This was under the 4% guidelines. They had stated they had the \$500,000 in ending fund balance they had \$500,000 contingency number and that gave them about \$2.9 million of actual prior year expenditures and they the commission believes that the combination of these two are adequate. So first off the calculation was incorrect, they should not have used the \$500,000 into contingency. He is going to have the analyst for Nye County work with them.

Chairman Leavitt said in looking at the next page 48, Pershing County, if you notice the ending fund balance, the county will not be able to subsidize the hospital much. Tom Gransbery said no they aren't.

Tom Gransbery said Pershing County had an ending fund balance in 2009 a little over \$1 million, then 2010 is \$333,000. But we picked this up early and what they have done is if you look up in the transfers in they have had starting in 2005 the transfer in of \$400,000 in 2006, nothing in 2007, in 2008 \$350,000, in 2009 \$550,000 that is a transfer from the PILT fund and so they decided to see what that general fund would do if they took the PILT fund transfer out. They have a large fund balance in their PILT. That is what is reducing that fund balance.

Tom Gransbery then referred to Lincoln County School, page 27, what he pointed out there was the 2010 ending fund balance spiked up. It went down in 2009 because they had some retirement buyouts. They now appear to be normal. He then referred to Nye County School, page 30, they had a drop in their ending fund. He will look at this and have a discussion with them how 2011 and 2012 will end up.

Tom Gransbery referred to the City of Caliente, page 30, looking at past ending fund balances dropped in 2009 and 2010, what we discussed with them that they built some parks. You can see the governmental revenue in 2009, had some grants to build the parks. They have now found out there is a cost in running the parks. Since their ending fund balance is so low they will monitor them.

Marty Johnson asked if there are others on a list that we need to be watching and being concerned about and be proactive and ask them when they send in their 2012 budget we want to know how you will survive. Chairman Leavitt said when we get the budgets that will probably give them a hint in some of the areas for the current fiscal year as well as what they plan for the future. Tom Gransbery said when they get the 12 budgets we will need to look at current year to see where they sit. We do focus on all three years the audit year, the current year, he thinks there may need to be more emphasis in looking at the current year. Then make some comparison on revenue and expenditures for what they are budgeting in 2012.

### **Report on PERS delinquencies**

Tom Gransbery said in their packet there should be a letter dated March 24, 2011 from Brian Snyder. There are three entities that are late. Grover Dils Medical Center has had a history of being basically one month late. Staff talked with them and hopefully we'll get results. Pershing General Hospital is three months late. The Walker River Irrigation District is not a local government.

### **Report on Inter-fund transfers**

Tom Gransbery said there has been some discussion on enterprise funds and transfers. At the last meeting it was requested that we list all of the enterprise funds and show the transfers in and transfer out. He referred to the first two pages which show a report on the counties. He brought to the Committee's attention Nye County had a transfer out of \$3.7 million. They did through a resolution for a PERS buy out incentive plan. The resolution is dated May 5, 2010. LGF staff inquired how many people were involved and 38 people who took the buy out. Three received \$25,000, the rest purchased PERS service credits. Now that they are going

to convert this into a medium term they will go outside and try and take on debt pay off the solid waste fund and have this debt.

Tom Gransbery said he had a discussion on a medium term from a local government and when it was described over the phone he asked him it sound like a medium term for an operation. So when we met with the local government and heard their concerns on why they wanted the medium term they said they were going to go and get an opinion and that the opinion came back that the medium term they were looking into was for operation and its not doable.

Gary Kraemer said Fallon had utility after utility putting money into their general fund. Alan Kalt said he called them this morning they basically had a change in accounting practice. There used to be a cost allocation it was charges for services that were paid, because they have employees in the general fund that do the work for the different utility enterprise funds. It used to be charge for service for the billing and collecting and the stuff that is done within the general fund. The other element is they charge a franchise fee equivalent to a PILT and he believes those numbers are rolled into that. He is just reporting what was said to him.

Tom Gransbery said some of these where the amount is large LGF staff just did not have the time to look into them, but he will.

There was concern from the Committee on how large the transfer out amounts are. It raises some questions particularly in the sustainability of these. It seem inappropriate that you charge the citizen in the community to provide a service then you use it for something else.

### **Discussion and Consideration of Legislative Matters**

Terry Rubald wanted to let the Committee know they were following the four bills in the packet. Two of them relate to the City of Fernley, about allocation. One was brought by Fernley the other by North Las Vegas. AB 46 came from the state engineer's office because of the underground water basins some ask us to go through the analysis that we do for tax rates and they become part of the Redbook. As such the revenues generated are subject to abatement. So if this bill does not pass we will be asking our Attorney General to tell us if we have been treating it correctly. The last one has to do with school districts, and basically it introduces a whole new reporting process. It was noted that AB 71 got passed out of committee with an amendment that basically says that they are going to extend the timeline you could have an agreement amongst a local government on how to allocate C-tax from December and are now pushing out until May.

### **Schedule Date and Review Agenda Topics for the Next Meeting**

The next meeting will be scheduled the end of July or the beginning of August.

### **PUBLIC COMMENT**

There was no public comment.

### **ADJOURNMENT**

The meeting adjourned at 5:20 p.m.