

Senate

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COMMITTEE ON FEDERAL, STATE AND LOCAL GOVERNMENTS

Minutes of Meeting -- February 11, 1969

The ninth meeting of the Committee on Federal, State and Local Governments met on February 11, 1969, at 2:30 P.M.

Committee members present: Chairman James Gibson
Warren L. Monroe
Vernon E. Bunker
Marvin L. White
Chic Hecht
Carl F. Dodge

Also present were:

Larry Wadsworth, Nevada Jaycees
Clay Lynch, City Manager, North Las Vegas
Curt Blyth, Municipal Association
Pat Head, Director, Las Vegas Valley Water District
Paul Dinkelspiel, Municipal Financing Consultant, Stone & Youngberg
Frank Daykin, Legislative Counsel

Chairman Gibson called the meeting to order at 2:30 P.M. Under consideration were several bills.

SB-114 Proposed by Committee on Federal, State and Local Governments.
Authorizes issuance of general obligation bonds by Las Vegas Valley Water District without election.

Chairman Gibson stated that Mr. McDonald had sent an amendment for SB-114, as per the request the committee had made yesterday regarding the total amount of the bond issue in question. On line 3 of the bill, the correct amount should be \$15,700,000.00. He then asked Mr. Head to give some background on SB-114 and SB-138.

Mr. Head stated that SB-114 was to allow them to sell the \$4,700,000.00 of the bonds left in the authorization. Bonds in the amount of \$11,000,000.00 have already been sold. There is approximately \$5,000,000.00 worth of construction yet to be done under the bond program (construction program) and there are three contracts being let in the next month or so -- and time is getting critical to have these facilities ready to receive water from the Southern Nevada Water Project. In 1969, he added, they would be "tight" getting by, also in 1970 the same situation would prevail. By 1971 they would have to have these facilities available. He noted that all this bill is doing, actually, is reiterating their authorization to issue the remaining \$4,700,000.00 bonds -- with a 6% top interest rate, instead of the 5% given to them by the electors. He stressed that they were not increasing their authorization, but simply getting authorization to issue the \$4,700,000.00.

Senator Monroe questioned if they were within their rights legally to extend the interest rate. Mr. Head replied that they had consulted with their bond

counsel and that there was no doubt as to the legality of this. There was brief inter-committee discussion and Chairman Gibson stated that they would satisfy themselves on above mentioned points before voting on the bill.

SB-138 Proposed by Clark County Delegation.
Authorizes temporary borrowing by Las Vegas Valley Water District.

Mr. Head stated that the purpose of this bill was to give the Las Vegas Valley Water District ability to incur indebtedness other than by bonding. He pointed out that the Act provided that they can incur indebtedness and issue bonds in the manner "herein provided," but there is no way in the present legislation to do this. Mr. Head said that he had been disturbed over not being able to sell these bonds and the 1.4% rate, in the way it was affecting their operation -- and had gone to a bank to see if there wasn't another way in which to obtain some of the financing to give a better service to the public and to be able to keep from raising the water rates. In conference with the bank and Mr. Dinkelspiel, a municipal financing consultant, it was decided to come to the legislature for legislation such as is written into SB-138 -- to allow them to incur indebtedness other than by the bond route. He added that in the bond market, at the present time, they must finance their additional works within the next few months. He also said that had reached the point where the interest rates were very high, and it was the estimate of all concerned that they would be up to 5½%, if they went to the bond market today.

He continued that there was a covenant in all of their bond issues that requires them to receive net revenues above the debt service requirement on a multiple of 1.4 -- in other words, forty per cent higher than needed. This constitutes the "rate maker" for them. The surpluses that are created automatically from such a covenant, give them money with which to do capital improvements and to repay their indebtedness under such a procedure. He felt that if they had to continue the "bond route," and if they were to issue the \$4,700,000.00 worth of G.O. bonds to do this, the projection indicates that in 1972, rates would have to be raised in order to meet the covenant. He stated that they did not wish to do this, nor should they do this -- because he feels they do not have to raise the rates in order to run their business.

There was some discussion of interest rates. Mr. Head explained that in regard to the interest rate -- they take the money down as they need it and pay interest only on the money that they take down. It is repaid under a schedule, but the schedule may be increased to dump surpluses into it. Although the interest rates involve a great deal of money, it is also important to run a business without having a false criteria or false rate structure requirement. The question was then asked: Would the bond holders regard this other type of debt as an obligation under bonded indebtedness? Mr. Dinkelspiel explained that the bill would specifically enable them to issue bonds and not consider the short-term loans -- the language refers to security of the short-term borrowing. The district would not be obligated under this act to raise rates and pay the indebtedness incurred. Mr. Head also pointed out that this was done in bond counsel and they feel that by doing it this way -- you are not making a lien against revenues (although it is permissible to use revenues when available) for paying off short-term debts, but it does not constitute a bond as defined in the bond resolutions -- and therefore would not come under the covenant that requires a 1.4 coverage.

Chairman Gibson commented that if you go with the 4.7 rate, then by the bond covenants you've got to increase the revenues to bring in a 1.4 ratio, even though you may have them reinvested; you are still faced with the problem of increasing revenues, (increasing the rates, increases the revenues). Mr. Head pointed out that we have all sorts of bond covenants -- every year we have surpluses -- that amount has to be used to call bonds -- 3.2, 3.3, 3.4 bonds. This gives that financing much more leeway.

Another question was raised as to whether or not this was a true tax levy within the five dollar rate, or is it an assessment procedure over and above the five dollar rate? Also, is it finally a general obligation of the county in the event of default or inability to meet the payments? Mr. Dinkelspiel explained that it is an obligation to the city to use general taxes in the five dollar limit and, it would be an obligation of the Water District. Mr. Dinkelspiel added that surplus revenues will be available -- the existing debt outstanding now, two eleven million dollar bond issues that were sold under this authorization -- authorization in 1954 and 1962. All the outstanding debts at the present time average bond interest will yield .4% under the bond service and will generate about 600 thousand dollars per year of surplus above and beyond the operating costs and bond service. So just from that they are generating now 600 thousand dollars a year.

Chairman Gibson pointed out that the way the bill was written it says, "It shall be the duty annually for the governing board to provide for the levy of taxes on all taxable property in the districts, which in conjunction with other . . ." et cetera. He then asked if that could be interpreted (referring to some ruling on our state bond) as meaning that we should actually attach a tax to any capital improvement that we bond? There is a difference of opinion on this. He pointed out that from year to year there is a bill to get the Water District into the ad valorem tax, which has been avoided thus far, and is now wondering just how far the bond holders could require that levy. Mr. Dinkelspiel referred then to Section 16-C and 16-D of the act, with 16-D spelling requirements out in more detail. There was further discussion on this.

Senator White commented then that we are talking about a "lingering financial arrangement that can go on and on," and that they were talking about excess monies now available to pay off these loans that wouldn't come under the general obligation bond covenants to allow them to borrow money to build the works and create the revenues to meet our requirements without going the bond route. The question was then posed by Senator White: "Why can't we change the law to allow you (Water District) to use these other revenues to apply the general obligation bonds and stay within the framework of the general obligation bond structure?" It was then pointed out by Mr. Head that this doesn't accomplish what they are trying to accomplish -- it doesn't give an opportunity to use the low interest rate and also it continues to increase the 1.4.

Senator Dodge: Do we have to apply the 1.4 requirement under this 4.7 issue?

Mr. Dinkelspiel: Yes, all the indebtedness incurred, and the obligation started in '54 -- the '54 issue and was carried forth in '62 -- so in effect all outstanding indebtedness would have to be retired to eliminate that 1.4 coverage.

Senator Dodge: This argument that you're advancing about the more attractive interest rate and the flexibility here to not be on a normal bonding procedure, actually could be applied for any political subdivision in government, couldn't it. Are you really saying that you think this is sound legislation and would apply to any political subdivision in government?

Mr. Dinkelspiel: Not necessarily. I have not analyzed it on that basis.

Chairman Gibson pointed out that they had, in fact, gone to the voters for this project and that any surplus monies generated should be put into the project or allied works. It was pointed out, also, that they had had a fiscal consultant when they sold the \$11,000,000.00 worth of bonds.

There was inter-committee discussion with members and Mr. Head regarding the advisability of going back to the electorate with altered language in the bill that would further define the provisional limits of this bill -- and whether this would, in fact, hamper what is being accomplished in the bill.

Senator White stated that he saw no problem with the 4.7 and Mr. Head pointed out that some of the language in the bill was put in so that it would be compatible with the Bond Commission Act language. Mr. Frank Daykin stated that the language used excessive caution.

Senator Dodge: (To Mr. Daykin.) Is what we're relying on here, basically, for repayment, is a charge against the ad valorem base within the \$5.00 limit?

Mr. Daykin: That is correct. Any time the revenue is insufficient you fall back on the ad valorem rate and of course, you have preferred charge against the ad valorem rate in the same way that any other debt service does.

Senator Dodge: Is this in any way in the nature of a general obligation of the county?

Mr. Daykin: Technically, it is not a general obligation of the county, but a general obligation of the district. However, it is an obligation which falls back upon every piece of property within the boundaries of the district in precisely the same way that the general obligation of the county falls.

Chairman Gibson: They're depending on the surplus that's generated by the requirements of the 1.4. If I understand their obligation, if the rate structure does not generate 1.4, then they've got to increase their water rates. You are always going to have 40% surplus revenue over bond redemption -- so you really have a remote possibility that you come back to the property tax.

Senator White questioned the language in Section 2, but Mr. Daykin said it was suitable and proper language. Senator Dodge then asked if there was any way to write into the bill any authorities in regards to the additional revenue. Mr. Daykin replied that the reason for the general obligation language goes back to the covenant on the outstanding bonds (1953-54 bonds).

He stated that he was speaking not from any personal examination, but from reasoning.

Chairman Gibson asked what the water project was going to do to the rate structure when they start into the program. Mr. Head replied that it was felt that they can "live with" the water rates they have for the next 10 years.

There was inter-committee discussion regarding non-taxable bond rates.

Mr. Head made suggestions regarding amendment of the bill (SB-138) in Section 46-1 on Page 2. Mr. Daykin outlined the re-phrasing of the suggested amendment. Chairman Gibson stated that he would have the amendment drawn and the committee would then, again, look at the bill.

There were questions by Senator White to Mr. Head regarding North Las Vegas and the water situation. Mr. Head stated that the past summer, North Las Vegas had come to the Las Vegas Valley Water District requesting emergency help. He stated that various areas had had the same problems, having to put in wells, et cetera, and felt that it would be beneficial in the future to have one agency handling everything -- rather than diversified help. He added that their rate structure is the same throughout the area. Senator White then asked if Mr. Head felt that he could supply North Las Vegas with water at a cheaper rate than that which is now being used -- to which Mr. Head replied that he didn't know without researching the problem. There was brief discussion on "wholesaling" water.

Mr. Head thanked the committee for the privilege of appearing and for their continuing cooperation.

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SB-148 Proposed by Committee on Federal, State and Local Governments.
Authorizes refunding of certain North Las Vegas special assessment bonds.

Mr. Daykin spoke regarding this bill. There had been a request for a change of language by bonding counsel in order that the bill does not interfere in any way with the current case in the courts regarding North Las Vegas. He pointed out that such a change in language would in no way hurt the bill.

Senator Dodge moved that the bill be amended and re-referred to the committee following this. Senator Monroe seconded this and the vote was unanimous for this action.

Senator Gibson pointed out, additionally, that Mr. Buck had approved the language of the bill.

Mr. Lynch and committee members spoke briefly of various aspects of this,

regarding the principal, interest and compound interest involved in this --
percentage rates, obligation to the Public Employees Retirement Board,
et cetera. (This portion of tape faulty.)

There being no further business, Chairman Gibson adjourned the meeting.

Respectfully submitted,

Patricia F. Burke

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Committee Secretary