

SENATE

GOVERNMENT AFFAIRS COMMITTEE

Minutes of Meeting - March 28, 1977

Present: Chairman Gibson
Senator Foote
Senator Faiss
Senator Gojack
Senator Hilbrecht
Senator Raggio
Senator Schofield

Also Present: See Attached Guest Register

Chairman Gibson opened the twenty-seventh meeting of the Government Affairs Committee at 2:00 p.m. with all members present. At this time Chairman Gibson informed the committee that several of the bills referred to our committee should be re-referred to other committees.

SB-374 should be re-referred to the committee on Commerce. Motion to "Re-refer to Commerce" by Senator Schofield, seconded by Senator Faiss. Motion carried unanimously.

SB-376 should be re-referred to the Education Committee. Motion to "Re-refer to Education" by Senator Schofield, seconded by Senator Faiss. Motion carried unanimously.

SB-391 should be re-referred to Commerce Committee. Motion to "Re-refer to Commerce" by Senator Foote, seconded by Senator Schofield. Motion carried unanimously.

SB-392 should be re-referred to the Commerce committee. Motion to "Re-refer to Commerce Committee" by Senator Foote, seconded by Senator Schofield. Motion carried unanimously.

SB-394 should be re-referred to committee on Judiciary. Motion to "Re-refer to Judiciary Committee" by Senator Hilbrecht, seconded by Senator Foote. Motion carried unanimously.

Chairman Gibson then informed the committee of his dissatisfaction with the amendment changes to SB-15 regarding the religious holidays. It mentioned Governor O'Callaghan's name in the resolution and it doesn't list the holidays that we talked about.

Senator Hilbrecht stated that in the last meeting on this bill the committee didn't want to enumerate the holidays as it would be too many and would possibly lead to abuse. The Senator stated that he would make sure that Governor O'Callaghan's name was removed from the resolution.

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Chairman Gibson asked the committee to consider introduction on two bills that were requested prior to the 40th day.

The first is a bill that would require political candidates to report special discounts on newspapers and periodical advertising as contributions. It is a part of 294-A where we call for the reports on campaign expenditures.

Motion for Committee Introduction by Senator Hilbrecht, seconded by Senator Raggio. Motion carried unanimously.

The second bill for consideration by the committee was BDR 25-1369 It was requested by Clark County. At the present the County Commissioners also serve as the Hospital Board of Trustees, Water District Governing Board and the Sanitation District Governing Board. The Chairman of the County Commissioners also becomes the chairman of all of those boards. The proposal in the bill is to allow the commission, if they desire, to designate other members to serve as chairman.

Motion for Committee Introduction by Senator Gojack, seconded by Senator Hilbrecht. Motion carried unanimously.

Chairman Gibson informed the committee that he had the amendments to SB-110, and went over the changes requested by the committee. The majority of changes were to delete the "department" and insert "Board of Finance".

Senator Raggio felt that the wording should be "The State Department of Finance" upon application of the department. The Chairman agreed and felt that we needed to have some communication to implement the law.

Frank Daykin stated that, practically speaking, the State Board of Finance is not going to act unless the Department of Taxation suggests that the order has not been complied with. Feels that it is not necessary in the statute to say they may act only upon the request of the Department of Taxation because since they are the approving authority, up above, it is conceivable that they might, of their own knowledge, choose to intervene.

Chairman and Senator Raggio felt that the explanation given by Mr. Daykin took care of their concerns. At that point the Chairman continued with the other amendment changes. On Page 3, we will delete lines 2 and 3. On Page 3, we will delete lines 8 and 9 and insert "two to eight inclusive of this act. It may adopt the regulations only after receiving the approval of its advisory committee for the purposes of the Local Government Budget Act." Amend Section 10, page 3 - between lines 19 and 20 insert "3. As used in this section indebtedness does not include any liability which is incurred by the local government for the purchase of goods and services on open accounts."

Chairman noted a conflict with the bill and Mr. Daykin stated that he missed that but would take care of it too. The committee was in agreement with the amendments to the bill.

Motion to Amend and Do Pass by Senator Raggio, seconded by Senator Gojack. Motion carried with only one no vote, cast by Senator Faiss.

SB-347

Requires local government budgets to be prepared using line-item method and to reflect actual current expenditures. (BDR 31-1058)

Senator Hilbrecht spoke to the committee and those present regarding the intent of the bill. The problem seems to be that some local government entities were not getting satisfactory financial information because the format they were using was not a line item format. The idea was two fold, 1) to compare proposed budgeting in each given area with the immediate past budget. 2) It would also break out specific items, including personnel expense, capital expenditures and other items so that it would be clear. Several of us, including the Chairman, looked at several types of formats used by local governments in California and Utah and they seemed to give a clearer picture of what the local government is proposing.

Julie Canegliaro, Federated Fire Fighters in Nevada, stated that they were in favor of the bill but had an amendment. (See Attachment #1) He stated that line item budgeting simply means separate lines within a budget indicating the various and total expenditures of each department within a government agency. This would include a breakdown of staffing, personnel costs, operating costs and capital outlay. Mr. Canegliaro stated that they believe there should be a refinement of the budget practices so that a reasonably educated person could examine the budget and find out where the money is being spent.

Robert Rose, President of the State Education Association, read his testimony in favor of the bill to the committee. (See Attachment #2)

Jim Lien, Department of Taxation, testified against the bill. Mr. Lien felt that they already do what this bill is calling for except for personnel counts. He illustrated the type of report that is done by the school districts, using a three column budget report. Entities other than school districts use much the same approach. Mr. Lien felt that anyone who wants information broken down should be able to get that information, if they know what they want. He was confused about the definition of line item budgeting. Felt that if everything was broken down by items the reports would be voluminous and very costly. Also until the end of the year they would be constantly in a state of change. Felt the term was open to many interpretations.

Senator Hilbrecht wondered if under the present format was it appropriate accounting for a municipality to include under your category of "services and supplies" fringe benefits for employees. Senator Hilbrecht felt that "services and supplies" was a very vague term.

Senator Raggio stated that he felt the bill was very express and similar to the State Executive Budget. It was in his opinion that the bill was to help the average citizen understand where the money is going.

Jim Lien responded by stating that it would create alot of unnecessary paper work that the State really doesn't need at this time.

Senator Hilbrecht suggested that the bill be amended to have it state that "they shall be provided". This would clarify that the local entities must provide the information requested by the tax paying citizen. They should also provide to the Department of Taxation a summary that would be on any format the Department of Taxation decides on. The Senator's main concern was with the working budget.

Lee Burkstrom, representing Secretary of the Local Government Advisory Committee and his business. Mr. Burkstrom was also against this bill and stated many of the same reasons that Mr. Lien eluded to in his testimony.

Senator Raggio felt that the bill was trying to get at the problem of ambiguity for the interested citizen. The Senator used Washoe County as an example and felt that it was hard to determine how many new jobs were being added to a particular office or how much is being added in capital expenditures. Reiterated his earlier statement about the State Executive Budget.

Bob Warren, Nevada League of Cities, agreed with the remarks of Mr. Burkstrom and Lien. They were also against this bill. Felt that they need to know what the fiscal impact is on the bill if enacted.

Preston Price, Superintendent of Esmeralda Schools, testified against the bill also. His objection was different than the others who testified. Felt that if you designate in a statute how the budget will be made then you also designate in the statute how the budget will be lived with and how it will be amended. What he objects to is that you have elected boards of trustees, etc, who work with all the details of the budget. All the information that you indicate a tax payer would ask for is available. The budgets over the past few years have become more and more cumbersome and complex. If you legislate this bill and we want to make a budget amendment then we have to come back through the Department of Taxation to let them know the changes. He also felt that it tied in with negotiations. Mr. Price concluded his remarks by stating that if you do act on this you will be taking much of the authority away from us.

Harry Dixon, Carson City School District, testified against this bill also. Mr. Dixon felt that since they had back-up papers they could provide any information necessary. They have a computer printout that provides any information they might need and could give line item information if requested.

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Ed Green, Business Manager for the Clark County School District testified against the bill and concurred with Mr. Price's testimony. He felt that if this type of legislation is needed it should only apply to the final budget so it wouldn't appear misleading to the public.

Vaughn Smith, Carson City Clerk agreed with Mr. Lien of the Tax Department, was against the bill.

Darryl Dames, Clark County Comptroller, testified against the bill and tried to explain the reasons that so many were against this concept to the committee. Mr. Dames used salaries as an example. Stated all the various amounts that need to be considered on salaries alone. This information is reviewed and also submitted to the board of County Commissioners (in the case of the county budget). From then on our reports that are submitted to the governing board are in the four basic categories. The State uses three but we use four as we differentiate between services and supplies. The governing board expects their budget department and their fiscal department to maintain daily surveillance of the expenditures that are going on within that budget. There need to know is primarily only by the grand total. He felt that the Department of Taxation only needs to know, on these four major categories, the condition of a budget at the time that it is submitted and the quarterly reports that are submitted to the Department of Taxation. He concluded his testimony by noting that they are current each day at 8 AM. By the end of each day they are off again but reconcile so that each day at 8 AM they are current.

The committee did not have time for further testimony on this bill but would discuss it again at a later date.

SB-186

Removes prohibition against certain political activities by employees of Nevada Industrial Commission. (BDR 53-43)

Bob Gagnier, S.N.E.A. indicated that the only change was on lines 15 and 16 to delete a discriminatory section. This is an old provision and the bill is technical in nature.

Chairman Gibson wanted to hold action on this bill until Mr. Wittenberg from the Personnel Department could be present.

SB-372

Increases term of North Las Vegas municipal judge. (BDR S-1271)

Chairman Gibson informed the committee that he has been requested to withdraw this bill by the principal sponsor.

SB-353

Adds explanations of statewide measures to matter prescribed for inclusion in elected ballots and in official publication of measures in newspapers. (BDR 24-476)

Senator Gojack stated that this bill was designed to help get information to the voter prior to elections. The Senator felt that the sample ballot might be a good way to get this information to the public. She wanted to clarify that she was only talking about using the sample ballot for this "pro" and "con" statement on the issues to be in the election.

Secretary of State, William Swackhammer, testified to the committee in favor of the bill. Felt that it would be a good way to get information to the voter prior to elections. This would be a good way for the voter to be more informed and have an opinion prior to voting day. It was decided that the counsel bureau would write the "pro" and "con" on the issue. Mr. Daykin consented to this request. The Attorney General's office was in favor of the bill but did not want to be responsible for writing the "pro" and "con" of the issues to be voted on. The money to fund this would come from the Statutory Contingency fund. As an estimated cost Mr. Swackhammer felt that \$18,000. could be used as a rough estimate. That was based on eleven questions on the sample ballot used in the last election.

Senator Gojack felt that on Page 2, line 34 we should add "questions and their explanations".

Senator Hilbrecht stated that he had difficulty with line 22 on the first page. What if you had an issue where there wasn't a "pro" or wasn't a "con". How would you address that situation.

Secretary of State, William Swackhammer, indicated that Governor Brown had a suggestion. He felt that the opinion should be written by a professional writer, out of state, so that there wouldn't be any possibility of a biased opinion. There would always be two points of view.

David Howard, Assistant Secretary of State, stated that in the existing law there is nothing that refers to issues. It was his feeling that the lack of interest in the issues was a lack of information. He was in favor of the bill.

Karen Doshier, League of Women Voters, read the testimony prepared by Daisy Talvitie to the committee. (See Attachment #3). The League supports this legislation.

The amendments to the bill were as follows: On Page 2, where we need to indicate that the money would come from the Statutory Contingency fund and also on line 34 we needed to add "questions and explanations".

Donald Klasic, Deputy Attorney General, suggested that in paragraph B on line 21, page 1 " An explanation, be placed upon sample ballots, with each proposed constitutional amendment, etc....."

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Motion to "Amend and Do Pass" by Senator Gojack, seconded by Senator Raggio. Motion carried unanimously.

The amendments to the bill were as follows: 1) indicate the Statutory Contingency Fund in the bill; 2) add questions and explanations and 3) add language regarding the explanation. This language would be finalized by the counsel bureau.

SB-369

Deletes requirement that certificates of election be issued for certain public officers. (BDR 24-1231)

The committee discussed this bill and felt that the costs involved as well as the time it takes in the Governor's office did not warrant the need or usefulness of these certificates.

Secretary of State agreed with the opinion of the committee members.

Motion of "Do Pass" by Senator Foote, seconded by Senator Gojack. Motion carried unanimously.

AB-136

Requires state or counties to pay cost of election recount if demanding candidate prevails. (BDR 24-276)

Secretary of State, William Swackhammer, testified that the law on this matter is unclear and this bill will clarify.

Motion of "Do Pass" by Senator Hilbrecht, seconded by Senator Schofield. Motion carried unanimously.

AB-158

Removes voting machine provisions from NRS. (BDR 24-104)

David Howard, Secretary of State's Office, testified on this bill indicating that the term "voting machine" is not used any more. The term should be eliminated from the statutes. Paper ballots and punch card systems are now in use throughout the State. It also allows more flexibility in the election board. They may have up to five members but no less than 3. Previously it was no less than five but with the new systems there are many occasions where three is all that is needed.

Senator Raggio thought that if this affects counties it should state that it would be effective upon passage and approval.

Mr. Howard stated that this wasn't going to affect any elections by the counties prior to July 1st and therefore didn't need the language that Senator Raggio suggested.

Motion of "Do Pass" by Senator Foote, seconded by Senator Schofield. Motion carried unanimously.

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AB-84

Requires State Board of Examiners to obtain approval of Interim Finance Committee before funding, refunding or reissuing certain state securities. (BDR 30-450)

John Crossley, Deputy Legislative Auditor with the L.C.B. introduced the committee to Mr. Harry O'Nan who also was a Deputy Legislative Auditor. Mr. O'Nan read his testimony. (See Attachment #4) They were against the passage of this bill.

Chairman Gibson read a letter that he had received from Mr. Howard Barrett. (See Attachment #5) Mr. Barrett further informed the Chairman that the federal government has changed the bonding procedures on these benefits.

Motion to Indefinitely Postpone by Senator Raggio, seconded by Senator Schofield. Motion carried unanimously.

AB-166

Allows payment of compensation to trustees of all general improvement districts and reduces limit on total amount of debt which may be incurred by such districts. (BDR 25-73)

Assemblyman Craddock testified on this bill from the Assembly Government Affairs (58th Session.) One of the provisions is that if the districts have the ability to pay the trustees the act enables them to pay up to \$6,000. after the term of the office has expired. The other provision in the bill is to reduce the limitations of bonded indebtedness from 100% to 50%. Their Government Affairs committee heard a good deal of convincing testimony which led us to believe that the reduction in the amount of indebtedness was justified. They also had no opposition to the changes in the bill.

Chairman Gibson indicated that he would like more justification on the compensation and the basis for it.

Mr. Craddock stated that the Incline Village Improvement District has about an eight or nine million dollar a year business. They meet two or three times a week. While this is an enabling act it was felt that the business that Incline Village does warrants this type of legislation to give them more flexibility.

Ms. Jean Ford, Assemblywoman on the Govt. Affairs Committee during the 58th Session, testified to the committee. This bill was to allow the Incline Village General Improvement District the money they need to conduct their business. It shouldn't affect any other district in the State. It also has the aspect of being affected by the open meeting laws as it can only be done by ordinance.

Jim Lien, Tax Department, was questioned by the committee about the reduction of bonded indebtedness to 50%. He stated that this was determined because most of the entities are small. They should be able to have more than the 10% assessed bond rating.

The committee discussed the testimony given regarding the Incline Village General Improvement District.

Motion of Do Pass by Senator Gojack, seconded by Senator Raggio. Motion carried unanimously.

AJR-8

Proposes to amend Nevada Constitution by deleting public administrators from list of elective county officers. (BDR C-577)

Assemblyman Mann testified to the committee on the reason for this bill. He stated that it proposes a constitutional amendment to make the office of public administrator appointed rather than elected. There was no objection from Washoe County on the bill.

Mr. Mann continued by stating that they are having a problem in Clark County and feel that over the years it has become evident that the job is being bought. Its a position that requires a great deal of expertise and shouldn't be political. He further indicated that all counties except Carson City were in favor of the bill.

Chairman Gibson wanted to know why it wouldn't be possible to abolish the law now. Mr. Mann responded that there seemed to be some difficulty in that as was explained to him by Mr. Daykin.

Frank Daykin, L.C.B. stated that the only need for a constitutional amendment, in this case, would be that if the legislature ever wanted to re-create the office or to make it appointed, you could not do it unless you have taken it out of the mandatory elected law.

It was decided by the committee that AJR-8 could be placed as an amendment on some similar bill and Mr. Daykin stated that he would find the appropriate bill to add it on.

Senator Raggio wondered if we could add the County Auditor to this classification also as it appears that all the county auditors are appointed anyway.

Motion to Amend and Do Pass by Senator Hilbrecht, seconded by Senator Raggio. Motion carried unanimously. Amendment was to bracket out the auditors in the bill.

With no further business the meeting was concluded and a joint hearing with the Assembly Elections Committee began at 5:00 p.m. (See Minutes of Joint Meeting behind attachments of this meeting.)

Respectfully submitted,


Janice M. Peck

Approved:


Chairman

AMENDMENT TO SENATE BILL 347

Delete line 14 thru 17 and add the following:

The standard formats for budgets shall contain columns which show the actual expenditures for the prior fiscal year and the estimated expenditures for the current year for each line item, so that each proposed budget expenditure may be compared with the prior years expenditure as well as the current years estimated expenditures.

Nevada State Education Association

Testimony
on
SB 347
before the
Senate Committee on Government Affairs
March 28, 1977

CHAIRMAN GIBSON AND MEMBERS OF THE COMMITTEE:

My name is Robert I. Rose, President-Elect of the Nevada State Education Association. I am here today to present testimony in favor of SB 347.

SB 347 would require the following changes in the budget format used by local governmental entities: (1) Local budgets would be prepared using a standard format prescribed by the State Department of Taxation; (2) Detailed estimates of budget resources and expenditures for the budget year by separate line items would be required; (3) ~~The standard format for budgets would contain a column showing actual expenditures for the current year by line item.~~

Local budgets prepared using the changes proposed in SB 347 would provide additional information with which to measure the efficiency of governmental operations. ~~The requirement that a column in the budget be included showing the actual expenditures for the current year for each line item would provide a comparison of each proposed budget expenditure with the actual current expenditures.~~

Over the last six years many NSEA's local affiliates have entered into the negotiation process with local school boards. Over the same period many other public employee groups, i.e., fire, police, county and city employees, have also entered into negotiations with their employers. One key to the success of the negotiation process is the adequacy and accuracy of the budget information supplied by the local government employer. This bill would improve the budget format in that it should increase the amount of budget information available at the time negotiation proposals are being written by both parties.

Because we believe budgets which are accurate and detailed will be a significant help in the negotiation process. We urge early and favorable consideration of SB 347. Full and accurate information should facilitate good faith bargaining and thereby minimize the need for third-party intervention.

Thank you for your attention.

League of Women Voters of Nevada by Dg Tabrite, Pres.

The League of Women Voters of Nevada supports the concepts of SB 353. We have long been in the business of Voter Education and our experience has shown us that the greatest difficulty voters often face is understanding constitutional & referendum questions on the ballot. It is on these questions that we receive the most inquiries and the most requests to appear at group meetings to speak on the issues involved. Last year, we published 5,000 copies of a booklet, Ballot Issues, Election '76. It proved so popular that all copies were exhausted in less than two weeks and we found ourselves giving permission to other organizations to duplicate them for their members. Our experience has shown that certain things are necessary:

① The ballot question must be explained in simple, clearly understandable language.

② The material must be completely neutral showing no bias. 877

③ The issues involved in the question must 3

be clearly defined.

④ Pro's and con's must be included.

We have also found that most citizens — and even the League with its experience — often have difficulty interpreting the explanations as issued by the Secretary of State and Attorney General's office as it is so often couched in legalize. We have found our best source of information lies in legislative records and the Legislative Council. For pro's and con's, journals and minutes of legislative meetings are often inadequate — since discussions are not always fully recorded. For this reason, we often make personal contacts with those involved for further clarification and then with members of the public to determine the questions most in need of clarification. For these reasons, we place major emphasis on placing primary responsibility on the Legislative Council for development of the material proposed and also emphasize the need for the widest possible distribution of the material.

AB 84 is based on a recommendation from our audit report of the Consolidated Bond Interest and Redemption Fund as of June 30, 1975. The Board of Examiners has authorized the issuance of Refunding Bonds prior to, during, and after our audit of the Consolidated Bond Interest and Redemption Fund.

Refunding Bonds are new bond issues with new terms, (usually a lower interest rate and shorter maturity date), which are floated through investment channels, and the money so provided by the Refunding Bonds is then placed in an Investment Escrow Account. The income generated from the Escrow Account is then used to retire the prior outstanding bond issues.

What you then have is two separate bond issues that are guaranteed by the State of Nevada's full faith and credit. Our concern during the audit was whether one, or both, of these bond issues should be included in the computation of the State's 1% debt limitation on bonding.

Under this refunding method there is no real savings to the State until the Refunding Bond Issue is retired, as illustrated on the attached schedules. The amount of the proposed savings has not been reduced by the investment company's fee.

Because of this method of paying off the bonds, we asked the Legislative Counsel if the State has a contingent liability in regards to the refunded bonds. A copy of our request and his opinion is attached. In summary he stated:

"The state has a contingent liability in regard to the indebtedness refunded by the new issue.

While the fact remains that federal securities have been purchased and placed in escrow to service the debt outstanding under the original issue, nevertheless the state has a continuing obligation to use its full faith and credit to discharge this indebtedness in the event of a default or other event preventing payment of the obligation."

It is for this reason, that a contingent liability to the State is being created, that we feel the Legislature, through the Interim Finance Committee, should be involved in a transaction which affects the State's financial position.

GENERAL OBLIGATION IMPROVEMENT REFUNDING BONDS
 SERIES 5-1-72, \$5,250,000
 SCHEDULE OF PROPOSED SAVINGS

<u>FISCAL YEAR ENDED JUNE 30,</u>	<u>Present* Yearly Payment</u>	<u>Proposed Yearly Payment</u>	<u>Yearly Payment Difference More (Less)</u>
1972	\$ 370,000	\$ 385,000	\$ 15,000
1973	887,460	897,850	10,390
1974	882,305	886,800	4,495
1975	848,725	849,000	275
1976	816,225	820,900	4,675
1977	783,725	787,350	3,625
1978	751,090	753,500	2,410
1979	718,185	738,750	20,565
1980	745,010	746,750	1,740
1981	<u>317,440</u>	<u>—</u>	<u>(317,440)</u>
Total Payments	<u>\$7,120,165</u>	<u>\$6,865,900</u>	
Proposed Savings			<u>(\$ 254,265)</u>

* Series 6-1-70, \$3,760,000
 Series 9-1-70, \$2,740,000

GENERAL OBLIGATION IMPROVEMENT REFUNDING BONDS
 SERIES 6-1-74, \$4,770,000
 SCHEDULE OF PROPOSED SAVINGS

<u>FISCAL YEAR ENDED JUNE 30,</u>	<u>Present* Yearly Payment</u>	<u>Proposed Yearly Payment</u>	<u>Yearly Payment Difference More (Less)</u>
1975	\$ 284,439	\$ 311,026	\$ 26,587
1976	377,600	380,823	3,223
1977	410,600	407,985	(2,615)
1978	402,250	404,047	1,797
1979	393,850	394,973	1,123
1980	443,750	444,247	497
1981	431,950	431,873	(77)
1982	595,300	594,547	(753)
1983	593,550	591,723	(1,827)
1984	571,550	573,210	1,660
1985	549,550	549,560	10
1986	527,550	525,695	(1,855)
1987	504,850	506,475	1,625
1988	481,450	481,897	447
1989	458,050	456,994	(1,056)
1990	434,550	169,744	(264,806)
1991	<u>466,375</u>	<u>--</u>	<u>(466,375)</u>
Total Payments	<u>\$7,927,214</u>	<u>\$7,224,819</u>	
Proposed Savings			<u>(\$ 702,395)</u>

* Series 9-1-71, \$3,195,000
 Series 9-1-71, \$2,000,000

TO: FRANK DAYKIN
 FROM: HARRY O'NAN
 DATE: MAY 5, 1976
 SUBJECT: REQUEST FOR LEGAL OPINION ON REFUNDING BONDS

FACTS

1. The State issued the following refunding bonds in accordance with the provisions of NRS 349.334:

Refunded:

G/O Bonds 6/1/70	\$3,760,000
G/O Bonds 9/1/70	<u>2,740,000</u>
	\$6,500,000

Redeemed	<u>1,250,000</u>
Amount Refunded 5/72	<u>\$5,250,000</u>

Refunded:

G/O Bonds 9/1/71	\$3,195,000
Parks Acquisition 9/1/71 (Ch. 613, Statutes of Nevada, 1969)	<u>2,000,000</u>
	\$5,195,000

Redeemed or to be redeemed	<u>425,000</u>
Amount Refunded 6/74	<u>\$4,770,000</u>

2. On May 3, 1972, the Attorney General informed Mr. Barrett, Department of Administration, that the amount of the refunded bonds are to be excluded from the computation of the State's 1% debt limitation on bondings. (Copy attached. Also attached is AGO 646, dated 3/5/70.)
3. The refunding bonds issued in June 1974, refunded \$1,830,000 of Parks acquisition bonds which were not subject to 1% debt limitation. (See Article 9, Section 3 of the Nevada Constitution, and LCB report entitled "The State's Debt Limitation" dated January 1966.)

QUESTIONS:

1. Is the Attorney General correct in his letter of May 3, 1972, that the refunded bonds are to be excluded from the computation of the State's 1% debt limitation?
2. If the answer to question 1 is yes, does the State have a contingent liability in regards to the refunded bonds?
3. If the answer to question 1 is no, are both the refunded bonds and the refunding bonds included in the computation of the State's 1% debt limitation?
4. What is the effect of the 6/1/74 refunding issue in regards to the State's 1% debt limitation when one of the issues refunded is a Park issue which is exempt from the 1% debt limitation?

ATTACHMENTS

1. Attorney General's Opinion No. 646, dated March 1970.
2. Attorney General's letter dated May 3, 1972.
3. Refunding issue of May 1972.
4. Refunding issue of June 1974.

STATE OF NEVADA
LEGISLATIVE COUNSEL BUREAU

LEGISLATIVE BUILDING
CAPITOL COMPLEX
CARSON CITY, NEVADA 89710



LEGISLATIVE COMMISSION (702) 885-5627

JAMES I. GIBSON, *Senator, Chairman*
Arthur J. Palmer, *Director, Secretary*

INTERIM FINANCE COMMITTEE (702) 885-5640

DONALD R. MELLO, *Assemblyman, Chairman*
Ronald W. Sparks, *Senate Fiscal Analyst*
John F. Dolan, *Assembly Fiscal Analyst*

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ANDREW P. GROSE, *Research Director* (702) 885-5637

August 11, 1976

Mr. John R. Crossley
Chief Deputy Legislative Auditor
Legislative Building
Carson City, Nevada 89710

Dear Mr. Crossley:

Re: State of Nevada Refunding Bonds

In correspondence from Mr. Harry O'Nan dated May 5, 1976, this office was requested to render an opinion concerning the status of two series of general obligation refunding bonds issued by the state. Four questions were posed which are answered in restated form as follows.

Questions Restated

1. Shall the amount of indebtedness represented by the issue of General Obligation Refunding Bonds, Series May 1, 1972, and Series June 1, 1974, be included in calculating the 1 percent limitation on indebtedness as provided by the Nevada constitution and, if so, to what extent shall it be included?
2. Does the state have a contingent liability in regard to the indebtedness refunded by such bonds?

Discussion

For the purpose of discussion the two series of refunding bonds will be treated as one issue and referred to as the "new series." The various issues refunded, including the park bonds which will be distinguished later, will be referred to as the "original issue."

Question 1

The amount of indebtedness represented by the new series of

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bonds is to be included in the calculation of indebtedness under Nev. Art. 9, § 3 except for the amount issued to refund the General Obligation Park Bonds, Series September, 1971. The remaining amount of outstanding indebtedness under the original series is not to be included.

The legislature has provided for the refunding of general obligation bonds in NRS 349.330, et seq. and there is sufficient authority to hold that such refunding is only a change in form of indebtedness and not the creation of new indebtedness. Therefore the amount of the new issue which would otherwise be included in the calculation of the 1 percent limitation on indebtedness under Nev. Art. 9, § 3 is measured against such limitation; and those amounts exempt, redeemed or refunded under the original issue are excluded.

Included in the original issue was some \$2 million of general obligation bonds which are the subject of a specific exemption under Nev. Art. 9, § 3 and from calculation of debt limit known as the "natural resources" exception and discussed in The State Debt Limitation, (LCB-D, 1966, Appendix B, pp. 1-4). Using the concept of tracing and the original premise that a new debt is not created the amount refunded in the new issue which is specifically allocated to the park bonds is not to be included in the debt limit calculation.

Records indicate that the proceeds of the sale of the new issue are to be used to redeem a part of the outstanding indebtedness and to purchase federal securities, with the balance to be held in escrow as provided by NRS 349.338. In the opinion of the accountants acting for the state in this transaction the amount is sufficient to service the outstanding debt represented by the original issue and, hence, under the "special purpose doctrine" discussed in The State Debt Limitation (supra, Appendix D, pp. 1-3), the remaining amount of outstanding indebtedness under the original issue is no longer subject to the debt limit calculation.

Question 2

The state has a contingent liability in regard to the

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indebtedness refunded by the new issue.

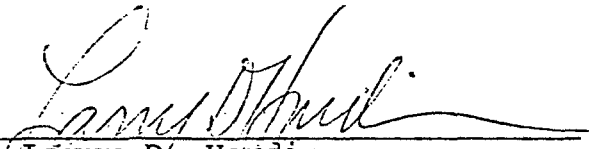
While the fact remains that federal securities have been purchased and placed in escrow to service the debt outstanding under the original issue, nevertheless the state has a continuing obligation to use its full faith and credit to discharge this indebtedness in the event of a default or other event preventing payment of the obligation.

Notwithstanding this contingent liability this indebtedness is excluded from calculation of debt limit for the reasons expressed in the above question.

Very truly yours,

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By


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LDH:jll