

**Meeting of the “Blue Ribbon Task Force”
to Evaluate Nevada Department of Transportation Long Range Projects
April 27, 2006**

Chairman Peckman called the meeting to order and asked Director Fontaine to take attendance. Vice Chairman Goodman, Member Russell, Member Vilardo, Member Madole, Member Mayer, Member Murphy, Member Capurro and Member Skancke were present in Elko. Member Landreth and Member List were participating by video conference from Carson City. Member Cashman, Member Ralenkotter and Member Geeser were participating by video conference from Las Vegas. Member Woodbury, Member Ellison and Member Porter were absent from the meeting.

1. Approval of the March 23, 2006, Task Force Meeting Minutes– *Action Item*

Member Vilardo made a motion for approval and Member Skancke seconded the motion.

Chairman Peckman received 14 votes to the affirmative and declared the item passed.

2. Nevada Department of Transportation Director’s Report – *Informational Item Only*

Director Fontaine stated that when he put this item on the agenda, he had thought that there would be some miscellaneous items that he would need to report on. The few issues that he wanted to talk about would be better handled under the next agenda item. These included allocation of funding and discussion of gas tax relative to the price of gasoline. He also wanted to clarify his response to a question from the last meeting regarding NDOT paving operations and who actually does the paving on state highways. At the time, he had said that NDOT does not have any paving machines and that the Department does not do paving. At one time NDOT did have a paving machine that we no longer own, but there are occasions when NDOT leases paving equipment from local contractors for very small type of repair jobs.

Chairman Peckman wanted to point out that on this agenda, there are only informational items listed and no action items. The Task Force is planning on making a recommendation the Transportation Board in September and he wanted to how the Task Force felt about having the recommendations listed as action items on the June and July agendas. He also wanted to ask Vice Chairman Goodman to put together a small group to make some visits to the press in Northern Nevada. He will do this in Southern Nevada. Any Task Force members that are interested in participating should give him or the Vice Chairman a call and Director Fontaine will prepare some talking points.

3. Discussion on Projected Annual Revenue Shortfalls and Potential Revenue Sources - *Informational Item Only*

Director Fontaine explained that this is really just a continuation of the last item in the last agenda. That item was to initiate discussion on possible revenue sources based upon the data that was compiled by Russ Law, who is Chief of the Operations Analysis Division. NDOT staff was asked to come back and continue that discussion and facilitate discussion by this group about pros and cons and the backgrounds behind some of these taxes and fees. The idea is to go through each of the potential revenue sources listed on the big sheet and Russ will facilitate some discussion regarding each of these.

Russ Law wanted to talk about the “blue stripe” sheet first. This sheet shows principle highway funds inflation adjusted. The last time that we increased most of the principle highway fund sources was in 1991 and 1992. There was a Senate Bill 441 that adjusted gas tax and diesel tax by five cents each. There has been inflation adjusted up to 2008, assuming that we are going to have relative consistent inflation for the next couple of years. We have had relatively consistent inflation since 1991 at an average of 2.7% per year. By 2008, these things will be up by 50% above what they were in 1991 and 1992. Just looking at gas tax and see to just make up inflation, you have to go from 17 cents to 27 cents. In reality, we have seen a little more inflation in the highway business than the average annual has been. Prices have went up by about 30% overall.

One member asked how many states had inflation adjusted their gasoline tax.

Russ Law responded that Maine and Wisconsin inflation adjusts all of their fuel tax. If you look at other states that have a sales tax on their fuel, they essentially inflation adjust it by the fact that fuel prices tend to go up over time. In general, up until recently, fuel has light general inflation as far as price increases.

Member Vilardo pointed out that national comparisons are nice, but there is a limited application. She thinks that we need to spend more time deciding what makes sense to do given our economy. There is no perfect tax structure because if there were, then every state would be doing the same thing. We need to create something that is good for us, good for the tax payers and politically palatable.

Member Madole? stated that the inflation adjustment in Washoe County was passed two years ago and thinks that it would be very helpful, especially in the long term. It is going to be a very effective way to respond to what is happening to the costs.

Vice Chairman Goodman suggested that the Task Force look at something where a once a year adjustment is made on the cost of fuel.

Member Skancke asked if we had the number of what each of the columns listed generates today and what it would generate if the inflationary tax were increased under the current tax situation.

Russ Law explained that staff does have those numbers available.

Member Skanke asked what the bottom line number is.

Russ Law responded that if we inflation adjusted all of these, we are looking at a \$100 million in gas and \$145 million plus another \$80 million in registration. So roughly \$225 million.

Member Capurro believes that we have to look at this realistically, people are not going to accept the kind of increases necessary in gas and diesel taxes to take care of this shortfall. He believes that eventually fuel prices will go down, but not the levels that they were. He noticed on the way to the meeting, that some of the smaller towns had less expensive fuel, even with the cost of transport. The fact of the matter is that we have to deliver goods, regardless of the price of fuel. The bill is paid by both sides. People make choices when the cost of fuel starts to affect them and can reduce their travel, but the trucking industry does not have this luxury. There is a need to look at other areas of financing.

Chairman Peckman stated that this discussion is just beginning and no taxes have been taken off of the table. No recommendations have been made even regarding which projects should be built.

Russ Law wanted to look at the potential highway fund revenue various sources sheet to get a feel for what any increases might actually cost people. He took all of the projections for 2008 and put it on a per capita basis. Some of these like rental car tax

and alcohol tax are difficult to figure on a per capita basis because of the tourism industry and some of these taxes are not paid directly by a household.

One Member asked if there were other possible sources besides those listed on the “big sheet”.

Russ Law responded that there are absolutely other sources and urged the Task Force to come up with creative financing. The first ones listed are the principal sources for the highway fund and everything else is listed under other sources. It pretty much covers every major tax that Nevada has. Staff also included every tax that counties have that is different than what the state has. For instance, the room tax, jet fuel tax and Washoe County impact fees.

Chairman Peckman asked if there was any prohibition for those other taxes to either go into the highway fund or to go into some other fund that can ultimately be used for NDOT roads.

Director Fontaine explained that the way that the highway fund is established under Nevada Constitution, there are protected revenue sources that go into the state highway fund. Those are constitutionally protected and have to be used in accordance with Nevada Constitution for highway purposes. As far as the other sources are concerned, he does not know if they are constitutionally required to be used for certain purposes. The Legislature would be able to allocate other taxes or revenues to the highway fund. The difference is that they would not be necessarily be protected constitutionally.

Chairman Peckman asked if this was done by the Legislature, could NDOT do something so that these funds could be used for bonding purposes.

Director Fontaine responded that it probably could be done, but how it would impact the bonding rates is another question. He believes that one of the reasons that the Department has been receiving very favorable bond ratings and interest rates is because we pledged the gas tax to repay those bonds. Since the gas tax is constitutionally protected, that has a lot to do with the favorable terms.

One Member asked if the Task Force recommends a below the line tax increase for roads, what would be the process be in order to have those protected.

Vice Chairman Goodman asked if we took the modified business tax, for instance, that generates \$290 million. What if you took that amount of money or that tax and have it earmarked by the Legislature for roads and bonded against it. It pretty much comforts the Legislature to keep that tax in place and review it every two years or bond it for a specific project. *(This part was very unclear)*

Director Fontaine responded that was correct, but he draws a different analogy with what Vice Chairman described and the way the federal government works. The reason is that if the federal government authorizes a highway program, they authorize a long term program. It is a six year program and the reason for that is that the mega/super projects require that length of time for the planning, design and construction of those projects. When Congress authorizes a six year program, you know that you have authorization contract authority for six years. That is what makes these big projects go. In our Legislature, since they meet every two years, and appropriate every two years, he does not know if a Legislature would willing to bind future Legislatures to repay bonds based on them making decisions to appropriate money. We can bond because we know that these bonds, for the most part, are going to be repaid with federal gas tax, which has a much longer authorization period.

Member Capurro stated that some of these taxes are being used right now to support the bonding. The government services tax is one of those, in which their consolidated bonding function, at least in Clark County, utilizes a portion of that, so it varies with several of these taxes. They have looked at the possibility of the government services

tax could directly relate to highways because that applies to motor vehicles. That is when they found out that it is a part of the consolidated bonding capacity of the counties.

Chairman Peckman requested a historical perspective on three separate issues at the next meeting. He would like a briefing on the Blue Ribbon Task Force from the 1990's, the politics around it, the process and what they chose. In addition to that, there have been two RTC committees that Mr. Woodbury has participated in and he would like to revisit what those were and what taxes the County raised. He then asked Carol Vilardo on the below the line taxes, are there any of those that are now allocated for roads?

Member Vilardo responded that she believes that there is one for three months re-experience and the 1990 bond issue and part of the room tax. *(This is what the tape sounded like, but it didn't make sense)*

Member Russell stated that in Clark County, it is called Question 10 and there was an additional earmark to the Clark County road tax specifically earmarked for the resort corridor transportation issues.

Chairman Peckman asked if this went to the State?

Member Vilardo responded that it was an advisory question. It was a part of the 1990 package and the 2002 package. Voters approved it, it went to the Legislature and they gave the authorization.

Chairman Peckman asked if it was a resort corridor room tax?

Member Vilardo responded that it was correct and it goes to Clark County. Clark County RTC and Washoe County RTC operate totally different and cautioned the Task Force on being aware of how a tax is structured.

Member Mayer stated that Washoe County has a rental car tax that is specifically for a baseball stadium and it was written in such a way that it even set up a stadium advisory committee, so precedence has been set for earmarking any type of tax that is creatively financed to get a bill passed through the Legislature.

Member Capurro asked staff to find out how many of gallons of fuels went through Nevada's pipelines in the year 2005 for a future meeting. He suggested adding a pipeline fee that would be dedicated to highways and the new airport. Taxes are currently collected at the terminal rack. The owner of these pipelines has also considered increasing that capacity by 50%. There is also another pipeline being considered that would come in from Phoenix. This revenue source is worth looking into further. *(This part was unclear – lots of background noise)*

Member Madole wanted to clarify a request from a previous meeting. On older vehicles, the government services tax, is very low. He wanted to know if we were to readjust the angle of the line, so if right now we have a 10 or 15 year depreciation schedule for a new car, what he is suggesting is to readjust the angle of the line to pick up the difference of the highway fund. Compute what that is and if somebody buys a new car and they pay \$350 for a license, they are not going to worry about what it is going to cost ten years from now to license that car. He is saying that it is an alternative that is a little less painful. He would like staff to look at this possibility. If we have to find funds from a combination of different sources, this might be a possibility. Adjusting the depreciation schedule.

Member Vilardo suggested a future meeting, that the Task Force look at sources of financing that don't change taxes or require taxes. For instance, part of the surplus being used and being dedicated. That is revenue already coming in. Those are the kinds of things that the Task Force has already had piecemeal discussions about. These may not be consistent sources, but they enable the Department to some of the

projects on a pay as you go basis. She wanted to pursue the possibility of taking existing taxes and redirecting the revenue.

Chairman Peckman stated that those items have been discussed briefly at previous meetings and the Task Force will discuss those possibilities in detail at a future meeting, including the reallocation of the BLM land sales.

Member Vilardo thought that redirecting existing sources may be easier to get through the Legislature than a brand new tax.

Member Capurro stated that even if we had a fluctuating revenues from some of these sources, one of the things that he saw from previous staff presentations is the need for advance acquisition of right-of-way on some of these projects. Those fluctuating revenues could be put into right-of-way more effectively than planning it for the actual project. We have already seen what happens to land prices if we wait to long to acquire the needed right-of-way.

Russ Law gave some details on some of the taxes mentioned during the meeting.

Chairman Peckman wanted to re-examine the option of cities and counties taking some of the roads that NDOT now maintains at the next meeting. That would be in line with redirecting existing revenue. At some point, the Task Force also needs to hear what priorities NDOT has set and what the timing of those are. There also needs to be a discussion on whether this Committee might consider choosing some of those projects and choosing the timing of some of those projects, which might affect funding and the ability to raise taxes. If that is what the Committee chooses to do.

Director Fontaine explained that when staff prepared the list of the mega and super projects, virtually all of the major interstate and U.S. highway segments are included in southern Nevada projects. In Washoe County, staff looked at the two major highways, US-395 and I-80, as well as Pyramid Highway due to the levels of congestion as it is the only road that serves that whole area of Washoe County. That is the background on how those ten projects were developed. He thinks that he is safe in saying that of all of the freeways in Nevada, on all of the roads that NDOT maintains, you have to look at Interstate 15 for a lot of reasons. It is a interstate highway, pure volume of traffic and the importance to the economy of southern Nevada. Of course the same could be said for Interstate 80 in northern Nevada. Having said that, what staff did was develop a list of projects that is being distributed that lists all of the super and mega projects that are planned on Interstate 15 in southern Nevada. Of that list, of the ten super and mega projects planned in Nevada, three are on I-15 and the total \$3 billion, which is half of the shortfall that we are talking about. As far as the actual background and break down of projects and how they are planned, Susan Martinovich will explain this further.

Susan Martinovich, Deputy Director, stated that when staff presented the super and mega projects to the Task Force, we made the commitment that we would have them, if funding became available, all designed and constructed by 2015. That is still something that can be done, but there was concern expressed that such an aggressive construction schedule would gridlock the whole Las Vegas Valley or Washoe County. She also developed a list of project if all of the funding is not made available by focusing on some of the core projects. She reviewed where are our current projects are and what the status of them is in order to find the areas where we could get the biggest bang for the buck or where you could have the biggest impact on the level of service. What would make sense to do and when. Staff identified phases of the various projects and identified when they could realistically go out and looked at where construction of these projects occurred. She actually laid it out where we could see what cash flow we need for what year.

Director Fontaine distributed a handout that explained bond payments on different scenarios. For instance if all of the projects were done or only half of the projects were done and the bond payments that would be necessary. It showed all of the projects, if

all funding was available, on how they would be phased and the cash flow associated with these projects. He also showed how it would be done if we only addressed half of the funding shortfall, how we would build projects based on available funding.

Member Skancke asked about the right-of-way acquisition process, the use of state and federal funds, potential risks, priorities and limitations.

Director Fontaine stated that no matter what priority a project is given, right-of-way acquisition should be a priority activity for all of these projects. Even on the projects that may not be considered the top priority, it is still prudent business to acquire the right-of-way for all of these projects because they are all proven projects that are going to be expensive and they are not going to get less expensive.

Member Skancke believes that pre-purchase of rights-of-way is the most important policy discussion that this Task Force will have.

Director Fontaine explained that we do have the authority to pre-purchase right-of-way per Nevada Revised Statutes. It is very broad and very clear and even covers authorization for exchange of right-of-way for projects. It is clear to him that the Legislature intends for the Department of Transportation to be pro-active. That is not the issue. The issue is funding.

Member Skancke responded that he was aware that we have a provision, so if we could acquire this, then we could start designing and we would have an appreciating asset. This appreciating asset is costing all of us money on a daily basis.

Director Fontaine stated that when we talk about inflation and what is eroding our purchasing power, it is the cost of construction and what beats that is the cost of right-of-way.

Member Capurro asked if through some sort of earmark, Nevada was to receive the \$43 million needed for right-of-way acquisition, would it change the construction schedule listed.

Director Fontaine responded that Boulder City has received close to \$50 million in Congressional earmarks over the years and that is clearly not enough for us to build the project, but it is enough for us to get started and that is what we are doing. We have committed to using that money and have designed the first phase of that project in-house and are having consultants design the rest of the project so we can identify the right-of-way, which is exactly what we are talking about here. Identify the right-of-way and use whatever available funds there are to acquire right-of-way and put it in a position so that we have a design that is 60%, we have the right-of-way tied up and then figure out how to build it.

Member Skancke stated that we know what the dollar amount is, he thinks that we have to look at cash flowing these projects, when these dollars have to come in and which revenue sources can we generate to pay for these projects. It is clear, he will state for the record as a disclosure, that I-15 has been his project for the past 17 years. He has been advocate for it throughout California and Nevada. In his opinion, the I-15 corridor is the most important corridor in the State of Nevada. If those projects are not funded, or if the NEPA process does not start and the environmental documents are not moving forward and we are not acquiring right-of-way, this committee will not be sitting here five years from now. If we are prioritizing projects, he would suggest that projects two, three and four on this list are the three number one priority projects in the state of Nevada.

One Member stated that he believed that the priorities are listed on page three. If we don't have all of the money, then this what is going to be done. He does not understand what the issue is. Unless we want to take issue with the third page. The third page is the priorities inside of the bigger projects. If we don't have all of the money, then this is

what we are going to do. It seems to him that is another way of saying what the priorities are.

Susan Martinovich stated that is correct. The third page was provided with just one or two phases where we could get the biggest bang for the buck and I-15 does have quite a few phases in that corridor to address that. It was also for cash flow purposes, assuming that we were not going to bond for a the full \$4 billion in one year because we had to figure out a way to pay for it. So we were also trying to distribute the monies in a cash flow mechanism as well as resources. So this was priority, the third page is taking some priority on benefit and distributing based on where projects are, both in status of design, right-of-way and construction. Where they are as far as location, so we were not gridlocking the world. That is how this list was established.

Chairman Peckman suggested that this discussion be continued at one of the next meetings. He understands that this list is as fast as the Department could go if all it is fully funded and if it is partially, then it would be prioritized by the Department and it would be up to the Task Force to assume if that is the correct priority if there is only partial funding. The other thing that needs further discussion is the phasing in of the funding. If we had all of the money available, but you don't really need all of the money, so that has him wondering if it is really a \$4 billion shortfall, so does that mean that you could really hassle off this session. That the \$350 million per year that the Department, apart from the \$4 billion shortfall, but you don't get all of the money, what would you really ask for. How would that work?

Director Fontaine responded that if you look at the graphs, it kind of helps with that discussion. The average of the 20 year bonds is \$277 million at the most and at the lowest \$155 million. We are missing the page that shows what will be built in northern Nevada if there is only partial funding.

Chairman Peckman asked what kind of law would the Department pass to raise all of this money.

Director Fontaine responded that the Department of Transportation already has the bonding authority. What it needs is the authorization to sell bonds from the Legislature to include it in the budget and the revenue sources to support bonds.

Chairman Peckman asked if the Task Force had a law passed that raised \$277 million a year for 20 years, would that build everything listed on the time schedule shown.

Director Fontaine stated that the Department would need \$277 million a year for 30 years.

Vice Chairman Goodman asked if got all of this done, are we going to be all taken care of or is it just a band aid considering Nevada's growth.

Member Vilardo stated that ten years ago, there was \$3.8 million in maintenance backlog that had nothing to do with super projects and mega projects. Are the current revenue sources sufficient to maintain existing roads.

Member Russell thought that at the first meeting, it was presented that the Department is \$400 million short. Forget about the mega and super projects with the \$4 billion shortfall. If nothing else, we have to find \$400 million.

Member Vilardo agreed that is exactly her point, the Task Force has concentrated so much on these mega projects in relationship to the revenue and that the Task Force needs to develop a policy statement that says that we need to expand and think outside of the box, redirect revenues, change some of the financing options. This policy statement should talk about why we are going through this exercise, how many times we have done it and that the first thing is to maintain the existing roads with the acknowledgment that there are the mega/super projects.

Director Fontaine responded that the Department does have a maintenance backlog in Elko County and the other 15 counties in the State that is very important. In addition to the maintenance backlog, there are other needs besides maintenance like passing lanes on US-93, there are smaller capacity and safety projects in the other counties that don't rise to the level of the super or mega projects, but are nonetheless important. We tried to capture all of that into the funding shortfall. Just as a quick reminder, the super and mega projects are \$4 billion in southern Nevada, \$1 billion in northern Nevada and in addition to that there is about \$900 - \$400 million to widen two lane highways which we have lots of in this state. A lot of our U.S. highway system are two lane highways. Those are projects that are important to the rural counties. The preservation program, which is the maintenance program, in our analysis we have assumed \$160 million a year just to maintain the existing backlog and that was done a year ago. We could probably increase that cost today by 20% - 30% just based on inflation cost for the last two years. We did include an additional \$400 million to try address that backlog, which in reality wound up addressing nothing more than inflation. We have \$100 million included for the technology, which is the ITS or message signs. It is not just the mega and super projects that are being discussed in the shortfall. It is a combination of all of these items.

One Member wanted to clarify that the \$3.8 billion shortfall is not just for the super and mega projects, but a combination of all of these things. The Task Force has to look at it from the standpoint that some of the super projects have to be built to the peak and a certain amount of leveling of these other projects that have to be picked up right from the start. He is assuming this because they are on a time table.

Director Fontaine explained that the bonding chart is based on bonding the \$4 billion shortfall, which is attributable to the super/mega projects because those are not pay as you go projects. Those are bonded projects. He is correct, in addition to what is needed to support those bonds, there is going to be some other expenses. The Department believes that those other expenses can be handled on as a pay as you go basis.

Member Skancke believes that the problem is bigger than \$4 billion. As a 17 county state, there is an additional \$2 - \$3 billion in projects that are backlogged and he thinks that it is important that the Task Force know what that number is because if we get the \$4 billion, where does it go from there. The problem does not stop. Is it easier for the Task Force to take a look at the bigger picture and say that the real problem is "x". We know that the immediate problem is \$4 billion, but what is the entire number. He does not know how many times that they are going to get a shot at this trough to come back to the Legislature or to the business community and say that the problem just keeps growing. He thinks that we need to look at the bigger problem now.

Member Vilardo thinks that the shortfall, in terms of looking at the revenue on how it is financed, needs to be looked at on a per year basis rather than this number because the Task Force is not going to get in \$4 billion. Given the way that money is spent and inflationary costs, you may start out with some implementations and redirections of revenue that occur October 1, 2007 with some others starting October 1, 2008 and so on. She thinks that looking at what is needed per year, would be beneficial.

Susan Martinovich responded that the costs are broken out per year, but the other costs are not included, so staff will incorporate those changes.

Member Capurro asked if the ten current super/mega projects are already provided for in the financing. Are they part of the shortfall or are they fully funded at this point.

Director Fontaine responded that the current super projects are financed, in part with bonds, It is basically a billion bonding program. Today that is the plan. With inflationary costs and so forth that number may rise. We want to maintain the current bonding program of \$1 billion, but if we have to make the shortfall with cash, that is probably what we will end up doing.

Vice Chairman Goodman thought it would be helpful to see where all of the projects are in the process.

Director Fontaine responded that it would be more helpful to provide a status report of where each project fits in with our cash flow.

Chairman Peckman asked how the issue of ballot questions is going to be addressed and then asked if there were any further items that the Task Force would like to be discussed at a future meeting.

4. Schedule Next Blue Ribbon Task Force Meeting – Action Item

The next meeting is on the calendar for May 25 in Las Vegas.

5. Public Comment

Chairman Peckman asked for any comments by the public.

_____, Elko County Commission, stated that the roads out in the rural areas, we all recognize the revenue flows from the major urban areas, but the roads out here are kind of like of a dog. He can look at the dog and say that it performs a useful function, he is a companion, he guards the property and so on, but over a period of time, he is can say that he has to save money and he can't afford to feed the dog anymore. He can start reducing the amount of food he gives her over a period of time, but ultimately as he starts to reduce it down to a certain point, the health of that dog starts to deteriorate and her ability to function and perform the job that she is supposed to be doing. Now he can come down to the point where he says how can I get her to use less food, well if she is less active, so he cuts off one leg. She won't run around quite as fast, but she can still guard the place. Then maybe I will cut off another leg and she can kind of pull herself around, but she can still bark. Then I cut off another leg and what we end up is with we end up as an unfunctional animal. You look at the roads around here and you look at the roads that the state is responsible for throughout the whole State that provide a good function for the whole state and if you start to neglect those roads by cutting them off a little at a time, over a time you come to a point that you are going to have to totally rebuild the roads. Because if you lose the road in the County, when we stop maintaining asphalt road, after a certain amount of time, you are going to have to put a whole lot of money out to rebuild a whole road. So you folks have an investment that is contributing in different ways than you expect that I-15 corridor. There is an important investment out here, it not only important to the County, it is important to the State. You don't want to throw away this investment just by little cuts. He wants the Task Force to think about that as they go through this process that the rural areas don't need to die a death of a thousand cuts. The County needs some contribution. They are stepping up to the plate too. They have lots of projects that they are working together on with the State. They are trying to be a good partner. The State needs to protect their investment out there. Don't get so lost in the big projects that you forget the little ones. You don't want to cut the legs off the dog.

Member Capurro asked if Elko County had considered increasing their tax and dedicate it to the state for roadway improvements, similar to what Carson City did for the Bypass.

Member Vilardo made motion for adjournment and **Member Skancke** seconded the motion.

Chairman Peckman received 14 votes to the affirmative and declared the meeting adjourned.