

**Meeting of the “Blue Ribbon Task Force”
to Evaluate Nevada Department of Transportation Long Range Projects
June 22, 2006**

Chairman Peckman called the meeting to order and asked Director Fontaine to take roll. Member Russell, Member Woodbury, Member Madole, Member Murphy, Member Skancke, Member Ellison, Member Geeser, Member Vilardo, Member Hadfield and Member Enos were present in Las Vegas. Member Cashman arrived late during discussion of Item No. 3. Member Landreth participated by video conference from Carson City and arrived shortly after the vote for Item No. 1. Vice Chairman Goodman, Member Mayer, Member Ralenkotter and Member Porter were not present.

1. Approval of May 25, 2006 Task Force Meeting Minutes – Action Item

Member Ellison made a motion for approval and **Member Vilardo** seconded the motion.

Member Hadfield abstained from the vote because he was not present at the last meeting.

Chairman Peckman received 10 votes to the affirmative and declared the item passed.

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

Director Fontaine wanted to update the Task Force on some adjustments that have been made to the cash flow sheets for the super/mega projects. On the second page, which is titled “Priority Super/Mega Projects for Funding”, staff adjusted how these projects would be prioritized if only half of the funding was available. The Boulder City Bypass was added and because it is actually a current super project and is going to be necessary when the Hoover Dam bypass is opened. This project includes approximately \$30 - \$45 million in federal funds. Again, if only half of the funding was available, we would propose to add the first phase of the Boulder City bypass to the priority projects and push out some of the other phases of the I-15 projects. The other change that was made was to move up the timing on the U.S. 395 project in northern Nevada by a year.

These are all still subject to project delivery, getting the environmental impact statements, right-of-way and so forth. We want to bring that to your attention.

Member Ellison had asked about the Boulder City bypass schedule.

Director Fontaine responded that about six months ago, we received the Record of Decision on the Environmental Impact Statement, which is a significant milestone in that project. The first phase is being designed in-house and we have a consultant doing the design and right-of-way setting for the second phase.

Member Skancke asked what portion of US-395 the Director was referring to.

Director Fontaine responded that the project is primarily from the Spaghetti Bowl to Stead Boulevard. The proposed project is to widen U.S. 395 to eight lanes to Lemmon Drive and to six lanes beyond that. Since we introduced this project, we also took a look at extending the 395 corridor south of the Spaghetti Bowl. However, that is something we want to do

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over a period of time and he is not sure if we can complete it by the 2015 timeframe

Member Geeser asked for a generic description when the first phase of a project is completed and subsequent phases are not done due to other issues. Is the first phase considered inoperable?

Director Fontaine responded that it depends on how a projects is phased. We try to phase projects in a way that each phase is usable. Obviously you don't realize the full benefits until the entire project is complete.

Director Fontaine went on with his briefing to explain that at the last Transportation Board meeting, he had made a presentation regarding the activities of the Task Force and the Governor has asked to have a list of projects prepared that could be considered for funding with the general fund surplus that is anticipated to be available. There would be potentially \$300 million in general fund surplus available going into the next legislative session. The three things that were considered for this surplus was a rebate, capital projects and transportation. The Governor considered the possibility of recommending all or some of the surplus to be used for transportation purposes. Of course, we are not going to know what that decision is until he puts together his budget.

At the last meeting, the Task Force has requested that staff look quantifying the benefits of transportation and perhaps more importantly look at the impacts if we don't build these projects. We have contacted the state commission on economic development to see if they can run these projects through their REMI economic model, which we helped fund. They can do that. The problem was that the person who runs that model is a new person and has just come on board. There is no way that they can do that and have it available for this meeting. But the Executive Director of that commission indicated that they would start running those numbers and hopefully have them available for next meeting. Russ Law is now going to provide a brief overview on general information related to the benefits of transportation.

Russ Law, of the Operations Analysis Division of NDOT, explained that the general information comes from a 1998 study, which was a very high quality study. This study looked at the highways, going back to the interstate era in the 50s and clear up to 1991. They did an outstanding job on this study and looked at basically what happens when you put a dollar into the highway, another dollar of maintenance work or those kinds of things, but a dollar into capital stock as they had it. In other words, new projects, what we call capacity and other projects, they found there was from 1950 to 1991 a 29-cent annual return in productivity benefits.

They only measured the economic benefits from the standpoint of industry. In other words, how does industry improve productivity when we invest in highways. In this study they never measured the effect on consumers. We know there's a consumer effect that also adds value. This is purely benefits to the industry, 29 cents per dollar invested in capital stock.

From 1950 to 1991, the highway capital contributed 25 percent of the nation's total productivity growth and they say this value has fallen from a high of 31 in the 50s to 30 percent in the 80s. Highways overall contribute 7 percent of the nation's total productivity growth. During the period of 1950 to 1991, average annual return on capital invested in the highways is 32 percent, from '80 to '91, that rate fell to 60 percent or about the same return

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as private sector capital during that time. What they are saying, there was a pent up demand for highway that is we mostly fulfilled with the interstate system. We got the most bang for our buck from the investment early on.

The U.S. growth rate fell from 1.7 percent during this time to 1.9 percent -- a good deal of the decline in return on investment was due to population growth and it just wasn't there. 4.6 annual growth in Nevada from 1995 to 2005. It's highly likely that the return on investments in Nevada is more similar to what we experienced in the early days of the interstate due to pent up demand. So the bottom line is highway investments look like a, an excellent investment when you have pent up demand and especially for the industries like we have in Nevada.

3. Discussion and Possible Recommendations on Projected Annual Revenue Shortfalls and Potential Revenue Sources – *Action Item*

Chairman Peckman stated that over the past couple of weeks he had the opportunity to discuss where we are with various members of the committee. And we have as our next agenda item discussion and possible recommendations of projected annual shortfalls and potential revenue sources, he will ask for help from the Director and Member Vilardo. He thought that discussion of some broad range policy issues that we could consider for adoption would be beneficial before we look at possible revenue sources. He had asked Member Vilardo to prepare a list. Many of the things have been discussed in the past, so perhaps now would be a good time to list those and discuss them and consider adopting those either at this meeting or at a future meeting as part of a package that we send to the State Transportation Board.

Member Skancke asked what is the unobligated federal fund balance right now from.

Director Fontaine responded that the federal government meters the amount of cash because they have cash flow issues. The annual program is many billions of dollars a year and they give each state an apportionment. That means that there is a certain amount of money in contract authority, but you can only obligate a certain percentage of that every year. Every year, there's two golden rules around the Department of Transportation. One, we don't over spend our budget and also we obligate every dollar of federal money.

Member Vilardo stated that there has been much discussion based on presentations and others regarding shortfall on the projects. The basic charge of this group is to evaluate the various needs of the Department, including the super/mega projects. One of the first policies that the Task Force may want to consider is the need to allocate resources to preserve the existing system because that is a significant portion of our budget and contributing to the overall shortfall. The next issue to be considered is the super/mega projects which will cost \$4.8 billion and are driving the shortfall. Are these projects that the Task Force feels need to be done and be done within the time frame presented by the Department. She feels that this would be the first policy discussion.

The second policy discussion would be issues regarding right-of-way and how they impact these projects from a timing standpoint. Related to the right-of-way issue is the petition initiative regarding the eminent domain property, property owners Bill of Rights and some of the petitions in that initiative and how it would affect the Department's right-of-way acquisition in terms of both costs and schedule impacts on projects.

The third area should be an overall discussion regarding public/private partnerships. There's a wide range of things within that public private partnership, including toll roads. I think that's another significant policy area that we need to talk about.

Another item to be considered is efficiencies. We have presented information regarding everything from salaries and administrative costs to the road transfer issue and whether or not there's some savings or efficiencies to be gained with transferring roads from the state system to the local system. That would be the fourth item.

The fifth item that I would sort of frame as a significant policy issue and I think that leads us into that discussion. This group is really looking at a number of different revenue course sources. Before looking at increasing existing taxes or raising new taxes, looking at existing taxes and whether or not some of those taxes ought to be redirected and the surplus was talked about. The idea of looking at perhaps BLM land sales and some additional charges based on that. The Task Force has an obligation to explore the existing resources first, potential resources.

She has outlined three different areas that the group has had some discussion on. The first one is just taking a financing tool and expanding it. Last legislative session, the local governments, particularly Clark County and Washoe County, Lyon County and Douglas County were successful in convincing the legislature that they needed another element of tax implement finance. This has nothing to do with redevelopment. It's infrastructure financing. It seemed apparent that if we took that tax increment financing to the locals and made minor changes to the statute under which it appears, that we would be creating a partnership in those instances where it makes sense to do it.

Member Hadfield stated that he liked the notion of having the ability to do something. He is aware that there is a need for that cooperation on projects throughout the State. What he finds intriguing is with tax increment financing, essentially you would be creating or joining in a taxing district. He thinks that a basic fundamental principle would be that before recommending new revenues, the group should be sure that they are revenues that provide real growth. Revenues that will grow and not be destroyed by inflation against the dollar. It seems that there's a mutual need here that would be met by such a proposal.

Member Skancke stated that TIF's are very successful. Lots of infrastructure has been paid for across the country with TIFs, you can get six parties to the table to pay for a frontage road or an interchange. It's a very successful program. Having the Department of Transportation have the authority to enter into an agreement with a local agency, it's not necessarily a good way to bring in revenue, but to have growth pay for growth, as well as alleviating the burden of the Department.

Member Russell stated that he understands how a TIF is identified, but what is the basis of the actual tax payment inside the boundaries of the TIF?

Member Vilardo explained that it doesn't change the tax rate. What it does is even with the cap, there is an increase in value. And that increase of value and what is generated between the base when you start the TIF and the revenue received to this increase in value and the tax rate being applied, even with the TIF, there is an increase from the base to the new.

She continued with her second item that had to do with the general fund surplus that is

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occurring right now. However, there are other times and other years where there is a surplus. So it might turn out to be very controversial if the highway board accepts it and it goes to the legislature, because it is ear marking something. And every time you ear mark, you take it out of some elected official's hands. But in essence what would happen if this were accepted is that once you meet the obligations that currently fit in this particular section of law, the ending fund balances that you have made your deposit of any surplus first to the rainy day fund. That set aside portion of the rainy day fund that is the disaster account. Once you satisfied those obligations, then a percentage, either something that we could recommend or that government recommends or whatever, would have to be the next element funded through the surplus.

Item three has multiple amounts, in terms of the multiple discussions that have taken place regarding the 700 miles of roads that the State would like to transfer back to the locals and free up some funds. There is also the governmental services tax that does not go into the highway trust fund. Maybe a portion of this tax could go in to the Highway Trust Fund to be used for maintenance of the roads that the State would like to transfer. Perhaps these items are worthy of some discussion.

Member Woodbury stated that before we would want to take action on anything like that, we would need to hear from the affected entities and get their perspective.

Member Enos asked if some of this money is already bonded and how would this affect that.

Member Vilardo responded that it shouldn't affect it because on the tax revenues which is the consolidated tax distribution, alcoholic beverage, rural property, transfer tax, governmental services tax, basic city country relief tax, you can only bond to a total of 15 percent of the anticipated revenues, but in addition to that, a 6 percent increase in just this alone should more than compensate for any of that type of issue.

Member Murphy stated that she believed that this is a very interesting concept, but there is for me an awful lot of analysis that needs to be done before a rate is proposed.

Chairman Peckman proposed that the Task Force request that the City or County analyze this for our next meeting.

Member Skancke stated that he doesn't know what the State will do when Carol Vilardo retires. He also thinks that it is worth our while to take a look at a sliding scale as a percentage.

Member Woodbury asked if Member Vilardo knew how much the governmental services tax has been increasing each year.

Member Vilardo responded that it is roughly 80 percent per year.

Member Woodbury requested that Department staff prepare an item before the next meeting which would be our first findings and perhaps recommendations that we would need to adopt. A draft that can be debated and then voted on at the next meeting, which will be that we accept the recommendations on which roads need to be built in this time frame.

Chairman Peckman stated that he is going to ask for a vote today. He thinks that it needs

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to be in writing and next time it can be debated whether we adopt a bill draft, adopt the language, whether we should or shouldn't. Get it down on paper and get it distributed if you can before so we can debate it a little bit at the next meeting.

Member Skancke wanted to know if the Chairman would be willing to take additional policy issues as it relates to pre-purchase of rights-of-ways. However, the bigger issue is HOT lanes. He realizes why toll roads were defeated in the past, but as we look at the expansion of the I-15 and US-95 corridors, he thinks that high occupancy tolls should be considered.

Member Ellison asked if that would fall under public/private partnerships.

Director Fontaine responded that would be correct.

Member Cashman stated that he thinks the toll idea is a good one and had come up with some broad recommendations that this Task Force can make that don't necessarily deal with funding. It seems like it is probably getting close to the time when these have to be specified and voted on. Are the ten super projects acceptable to the Board. What positions is the Task Force going to take on any of the initiative petitions. Is toll authority needed. There are probably other that have been discussed that should be on this list also. He thinks that these need to be listed in draft from for review.

Chairman Peckman stated that he believes that a list needs to be developed that can be at least debated at the next meeting in preparation for a vote. Staff can draft this and distribute it to the Task Force. All of the members can contact Director Fontaine with their concerns. He would also like to take the responsibility to start the discussion on some tax issues.

Member Russell stated that what concerns him is how to effectively approve and implement taxes. A huge part of that is the fairness concept. So he wants to make sure that in his own mind the fairness concept is being taken into consideration in any laundry list of taxes that we look at. He wants some type of analysis of who is going to absorb the burden of any particular tax.

Chairman Peckman distributed a list of potential taxes that he acknowledged was incomplete. He asked the members of the Task Force to go back to the community and talk to people about it. Obviously we are going to be open to a lot of suggestions today and at the next meeting.

Russ Law stated that we have roughly \$300 million a year that comes in over the eight-year period shown here with these taxes. We will start with discussion of these and keep Member Russell's comments in mind regarding who bears the burden for each tax. The first one is gas tax and the highway users pay that. There is also special fuel tax, which is diesel fuel or propane. A three cent a gallon increase on diesel generates about \$11 million per year. About 90 percents of that is from the motor carrier industry.

Member Vilardo stated that in her mind there is a difference between talking about taxes that have a nexus to roads versus taxes to which there is no nexus. If a sunset was listed, she thinks that it would make a much more salable package.

Director Fontaine stated that he had the information that Mr. Ellison was interested in. The combined gasoline tax rate in Nevada is 52 cents a gallon, which makes it the fifth highest in the nation. As far as diesel tax, Nevada is the twelfth highest at 52.2 cents a gallon.

Russ Law went on that the last tax increase on the state level for diesel and gasoline was in 1992. So it's been about 14 years. Ultimately these taxes come back to us consumers. The drivers license fee was last increased in 1991. It was a part of SB 41 that also raised fuel taxes. It went from ten dollars to \$20 and it generates roughly \$5 million per year and is paid by the drivers of vehicles. He thinks that the drivers license is probably one of the fees that don't cover the costs. The next item is overweight permits and that is paid strictly by the motor carrier industry.

Chairman Peckman asked if there has been work done on the damage or cost of the over weight loads on the highways.

Russ Law responded that the Department has done extensive work on this. We've done a bunch of cost allocation studies. The last time I looked at this was for a national study that the general accounting office was doing, trying to find out the cost of these over dimensional rates and what we found was that when you measured on a per ton of commodity haul, they actually do less damage in our state. They are efficient to the degree that you don't have an extra tractor doing damage. And the steering axle on the tractor itself causes much of the damage. The single tires, and single tires are bad news on highways. The best way to haul commodities as far as damage to the highway is by spreading the load out and keeping as few vehicles on the road as possible. Those 54 foot vehicles also equate to lower costs. The costs are allocated across all functions of running the highway, not just pavement, not supplying pavement, but everything else it takes. There was a study conducted by the American Association of State Highway and Transportation Officials about five years ago and they found that Nevada's fees are pretty typical in that realm. As far as the governmental services tax fee, this tax is paid for by vehicle owners and overwhelmingly new vehicle owners. 80 percent of this revenue comes in from vehicles that are five years or less in age. Only 20 percent comes from vehicles older than that.

Director Fontaine continued that under that bump ten scenario, instead of the depreciation on a new vehicle going from 100 percent of the value to 85 percent in the second year, that depreciation is changed to a 5 percent depreciation from year one to year two. Right now the fee to register a vehicle that is more than ten years old is just six dollars. Under the bump ten scenario, the fee would be \$16. This scenario would generate \$56 million.

Russ Law explained that the rental car tax is relatively new and is paid mostly by tourists and if it was increased by 1%, would bring in about \$5 million per year.

Chairman Peckman asked about rental car services taxes.

Russ Law responded that there are quite a few states that have such a tax and there's only about 12 states that don't have some kind of a vehicle property tax.

Member Vilardo stated that the rental car tax personally bugs her. We have a great nexus and we increased it so that we didn't use it for the nexus. We're building stadiums and other unrelated items. If the tax is raised right now at the systems tax level along with the other fees, it is a big burden. She has seen tourists get furious when they brought their cars in.

Russ Law stated that the net proceeds tax, which is something over 90 percent of the mineral value or net proceeds in Nevada are occasioned by the gold mining industry. There's little else in the way of significant mineral production. 1 percent of net proceeds,

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that's about \$12 million a year.

Chairman Peckman asked when was the last time this tax was raised?

Member Vilardo responded that it was 1989. In that session the voters approved the change in the schedule. There is a constitutional issue with that because of the way it's based on percentage from two to 5 percent, it's less than what the property tax rate is. That 5 percent equates to an constitutional cap of five dollars per dollars of assessed values. You have mines that pay at 5 percent consistently. You have a constitutional prohibition with raising it higher than the 5 percent level. So I don't know that this is a tax that you can look at because you've got constitutional proscriptions. There may be an equity issue with that.

Member Hadfield stated that with all the exemptions that have been granted by the state board of equalization, even though the price of gold increased 300 bucks an ounce or more in the last year, most of the big mining companies they that were no net proceeds in mines next year.

Member Vilardo responded that was because of the net effect and that is another discussion that the Task Force can have.

Member Hadfield stated that this can't be counted on. The way the numbers are structured, the big mines don't have to pay a dime.

Member Vilardo agreed with this statement.

Chairman Peckman stated that the way to do this is through a committee. In terms of spreading the tax so if there's something that would make sense, not that we should adopt this, just as a credit to the mining industry, maybe there's something that can be done.

Russ Law stated stated that he will throw this out right now. About ten years ago or so we successfully negotiated with the mining industry to get some substantial stipends to help rebuild some roads that go into the mines, specifically to the mines. They served little other in the way of public interest. And I think this is one of those things where maybe it's worth this committee talking about a policy statement where we would perhaps continue to do that as part of our negotiations to divest some of the roads to the local entities. Some of the roads we are looking at possibly transferring are mine roads. This might be a good policy statement.

He continued with the next one which is real property transfer tax and this is going to the real estate commission and is arguably paid by the buyer or the seller or maybe split halfway between the two. Hard to say. Essentially whenever real property is transferred in Nevada, a tax is paid. The state portion of that is a \$1.30 per \$500 in value in this scenario, which is erased by the 25 cents per \$500 of value. This generates about \$30 million a year.

Member Vilardo stated that is may be helpful to know that on a real property transfer tax that Clark County has the highest rate in the State. It is also her understanding that the State association is going to ask for a vote to get the 60 cents for all the other. We don't know how the legislature will view all these multiple interests wanting to use this revenue source. It needs to be considered as to just what kind of legislative reception it will get.

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Chairman Peckman asked if this wouldn't be true for all of the taxes that the Task Force is considering.

Member Vilardo stated that she thinks some of these are defensible. There are others that you are going to have competing interests with.

Russ Law stated that the modified business tax is relatively new. The 2003 legislature replaced the existing business tax that was in place with a gross wages tax. This tax essentially is paid by anybody who employs people. It's based on gross wages and currently the state gets .63 percent of gross wages. If it were raised to .8 percent, it would generate roughly \$60 million.

He went on to explain that over half the States have a general fund and highway fund that are commingled. You can identify which specific money is used for both ways. Nevada is one of around 20 states that have a constitutionally protected highway fund. It says any money goes to highways. Other states don't do that.

Chairman Peckman asked if would be particularly unusual that a broad based business tax be used for highways in other states?

Russ Law responded that it would not. Nevada's business tax is probably a little different to the degree that most states allow income taxes. Nevada is one of the few that does not. As far as the development tax, the rate would have to be raised about 50 percent to get that kind of money stabilized.

Member Murphy reminded that group to keep in the back of their minds that there's a couple of things happening in the development industry. One is the new billion dollar pipeline and the other is that the Water Reclamation District is proposing an increase. The water authority is proposing a billion dollar water line, although the bulk of those costs will be borne by the development industry.

Member Vilardo stated that another thing regarding the development tax, is that the development act is very specific as to the areas and the boundaries. If you look at where we have needs for some of our roads, we have no development to support the tax. She does not see this as a tax that can logically be used statewide. I think it's another one where, like the tax increment financing, you might be able to join with a local on rural impact fees if you can meet the nexus conditions. I just don't see how you do it otherwise.

Chairman Peckman stated that he is not sure that he agrees with Member Vilardo's logic on this issue, but that is what the Task Force is here to debate and does not need to be decided on today. This is just another methodology to spread the generation of funding around as much as possible.

Russ Law stated that a half percent increase in the room tax would generate about \$20 million per year.

Chairman Peckman stated that a half of a percent increase in room tax is relatively small in comparison to the total taxes that are collected. He is aware that some of the member have to leave soon, but each member represents various industries and various associations. He encouraged each member to this discussion back, share it and be prepared to discuss it in detail at then next meeting. We need to decide which taxes, if any, we are going to ask the

legislature to raise.

Member Skancke thinks that this is a great start to what needs to be done. We have extensive research on room tax and how that affects the way people and event planners decide where they're going. Because of that, particularly Clark County is one of the lowest in the nation. It's why we are attracting additional conventions and why we are expending a billion dollars to expand the convention place. Event planners look at that room tax and where it goes. Communities that use room tax for anything but reinvests in centers, as an example, you invest in police stations and you invest in schools, you invest in infrastructure, things like that, event planners take a look at where the room tax goes. They say it's not being used for the facilities that they are using. They make decisions based upon that. They have the research to back it up. I think it's good to look for new revenue sources, I agree with you that we have to shop this around to our friends and colleagues in the industry. I think it's worth investigating with the industry as it relates to infrastructure that affects that industry.

Member Vilardo reminded the group not to forget that we need the statements on eminent domain and TASC. Then we can adopt a position that we are opposing it and it would be my suggestion that we point specifically to statutes and why.

4. Public Comment

Chairman Peckman asked for any public comments from Carson City and Elko and hearing none asked for public comment from Las Vegas. He then asked if Senator Coffin would like to speak.

Senator Coffin thanked the Task Force for letting him observe and he agrees with the discussion that he has heard. Everybody has an interest group. User nexus, the recipient is always the key thing. That's the biggest psychological edge to anything. Public acceptance and legislative acceptance. Get the user close to the revenue. It makes it better.

Chairman Peckman thanked the Senator and declared the meeting adjourned.