

ISSUES AND CONCERNS REGARDING THE INNOVATION ZONE BILL DRAFT 22-1109

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Representing Storey County

Concern #	Page #	Description	Concern
1	6	Sec. 4 "Applicant" means a person who submits an application to establish an Innovation Zone.	<p>1) There are no qualifications of this "person" mentioned in the legislation.</p> <p>2) The "person" could be a foreigner since the "person" is not limited to U.S. Citizens. In fact, it could even be a "person" from a foreign government which is an American adversary.</p> <p>3) There is a concern the focus is on policy and not on the "person." In 1945, the Nevada Legislature created the first state gaming license and tax. The low tax rate and highly lucrative business caught the attention of legitimate and non-legitimate developers such as organized crime, the Mafia. The threat of federal intervention became imminent. It took Nevada decades to rid the State of the Mafia and organized crime because the State didn't take into account the "person" or persons who would own, operate and control a casino.</p> <p>In today's world, Stablecoin and Cryptocurrency, which is touted by the Innovation Zone proponents, is under federal investigation. In a May 13, 2021 Barron's article "Binance is Under Federal Investigation. Bitcoin, Coinbase, and the Crypto World Are Reeling," the article states "Regulators have long had concerns that cryptos are funding illegal activities such as money laundering or tax evasion. Hackers also appear to be trafficking in cryptos."</p> <p>The focus of the legislation needs to be on both the policy and the person.</p> <p>4) There is no qualification the "person" has to have prior governmental administration yet, they will build a government from scratch.</p> <p>5) What happens when the "person" passes away? Does the Innovation Zone remain in effect? What if the land located in the Innovation Zone were sold or inherited by someone else?</p>

2	6	Sec. 9 "Innovative technology" means any new or emerging technology, or novel use of an existing technology, to address a problem or provide a benefit in government administration, government services, nonprofit organizations or private enterprise in this State."	There are no requirements of a feasibility study of the technology. This would be important since Blockchains, Inc. testified on August 12, 2021 they are "In the process of developing a single platform that has identity at its core..." "We are preparing to launch this platform sometime in 2022. But right now, this whole year we are really focused on inventing and innovating and building and proofs of concept integrating. I should have probably put test all over this slide because we are doing a lot of testing right now as we prepare for launch." (Michelle Basch testimony August 12, 2021.) Therefore, there is no developed blockchain technology as of yet at Blockchains, Inc. They are in the process.
3	8-9	Sec. 13 (1) (b) (2) "An estimate of the number of employees anticipated to be engaged in construction of infrastructure, commercial developments, and residences within the Zone and the number of employees anticipated to be employed by businesses within the Zone within 10 and 20 years after approval of the creation of the Zone." Sec. 13 (1) (g) "An estimate of the economic impact of the Innovation Zone within 10 and 20 years after the approval of the creation of the Zone."	The Bill Draft requires the applicant to provide 10 and 20 year information on the number of employees and 10 and 20 year estimate of the economic impact of the Innovation Zone be provided to the Economic Development Director. Tesla was also required to provide a 20 year information on the number of employees and economic impact. This is the State standard for economic development projects, that a 20 year economic development impact study be provided, not a 75 year economic development impact study. The problem is there is no accountability in a 75 year economic development impact study since all persons deciding on the project would not be here by then. A 10 and 20 year economic development study on the Innovation Zone should be provided to the Nevada State Legislature in compliance with its past practice.
4	9	Sec. 13 (d) "Documentation satisfactory to the Office that the applicant has made a total capital investment of at least \$250 million within the territorial boundaries proposed for the Zone prior to submittal of the application."	In a New York Times article dated November 1, 2018 entitled "A Cryptocurrency Millionaire Wants to Build a Utopia In Nevada," Mr. Berns stated "he has spent \$300 million on the land, offices, planning and a staff of 70 people." Therefore, this requirement of \$250 million initial investment is not new money. It has already been spent years ago.

5	9	Sec. 13 (e) "A commitment to make an additional capital investment of at least \$1 billion in the Zone during the 10 years following approval of the application."	This is Nevada. Nevada has many, many economic development projects over \$1 billion whose owners did not get control of a government. Examples of some of these projects over \$1 billion are: MGM Grand Las Vegas, The Bellagio, The Venetian, Tesla, Switch. In addition, they did not take 75 years to build their project.
			In addition, what is "a commitment" to make the \$1 billion investment. What about actual proof of the financing required to build the project to insure the project is not going to be half built?
6	8-9-10	Sec. 13	There is no requirement for a feasibility study of the project which should include governmental, financial and technological feasibility, and feasibility of adequate water resources and the plan and financing to deliver the water to the development site.
7	8	Sec. 13 (1) (b) "A comprehensive general plan to guide the development within the Zone, including the necessary infrastructure and the residential, commercial and industrial land uses of the Zone."	Does the Director of Economic Development have the expertise to review such a planning document?
8	10	Sec. 13 (2) "To be eligible for approval as an Innovation Zone, the proposed area must: (a) Consist of at least 50,000 contiguous acres of undeveloped land owned or controlled by the applicant."	Does this mean the applicant can lease property to put into the Innovation Zone to meet the 50,000 contiguous acre requirement? Does this mean a person who owns 50,000 or more contiguous acres could lease the property to another unknown party and the unknown party could apply for the Innovation Zone?
9	12-13	Sec. 16 "Except as otherwise provided in this chapter, upon approval of an application to create an Innovation Zone: 1. The Innovation Zone becomes a local government and a political subdivision of the State with the powers and duties of a county separate from and independent of the county in which it is located."	BDR 1109 establishes a new local government with the powers of a county using a bureaucratic or administrative process, not a Legislative process. This allows 1 person at the State the sole authority to decide if a "person" will be able to establish a new local government and control the government since they will have selected 2 of the 3 Board of Supervisors governing the new government. The Legislature will not know who the applicant is. The Legislature will not provide oversight over the qualifications, prior business success or character of the person applying for the new government. One bureaucrat will decide that.

10	13	Sec. 16 (3) "The exercise of any power or duty by the Board supersedes the exercise of that power or duty by the county in which the Innovation Zone is situated. The adoption of any ordinance by the Board of Supervisors supersedes any ordinance on the subject adopted by the board of county commissioners of the county in which the Innovation Zone is located."	This would allow conflicting ordinances, resolutions in the governmental service whereby a Sheriff or Public Works Department or any other department could be required to follow conflicting laws since the originating county would provide the service until the Zone takes over the service but they would have to follow new laws.
11	14	Sec. 17 (1) "The Board consists of three members, two of whom must be appointed from a list of at least five nominees proposed by the applicant. The third member of the Board must be appointed by the Governor based upon qualifications and experience that would enable the person appointed to carry out the duties of the Board."	Because the applicant will be allowed 2 members of the Board of Supervisors to be their nominee out of 3 members, the applicant will have majority control over the Board of Supervisors. In addition, only one member will be appointed on the basis of qualifications. The other 2 members selected by the applicant do not require any qualifications.
12	16	Sec. 19 (2) "Until the Board determines pursuant to section 23 of this act that the Zone intends to assume all of the duties and responsibilities of county government, and except as otherwise provided in this chapter: (a) The Board may not impose: (1) A tax on real property within the Zone; (2) A tax on motor vehicle fuel, fuel for jet or turbine-powered aircraft or aviation fuel sold in the Innovation Zone; (3) A tax on the sale or use of tangible personal property within the Innovation Zone..."	The Innovation Zone property abuts the properties of Tesla, Switch and Google. What if the Innovation Zone annexed those properties? If the Zone annexes Tesla, Switch and Google before the Zone is ready to assume all the duties of county government, does that mean Tesla, Switch and Google would not have to pay sales tax or property tax because there would be none of these taxes enacted within the Zone? Would this be an equivalent of an extended tax abatement for these companies whose tax abatement is set to expire in the next few years? In addition, what if the Innovation Zone were able to annex into the Tahoe Reno Industrial Center after the Zone assumes all the duties of the government and the Zone was able to levy sales and property tax? Would this mean the unabated taxes from these companies would go to the Innovation Zone and not to Storey County taxpayers?
13	17	Sec. 20 (1) "Except as otherwise provided in Section 19 of this act, the Board may impose any taxes or fees authorized to be imposed by a county. If the tax or fee supports a service being provided by the county in which the Innovation Zone is situated, the Board shall provide 60 days' notice to the county of the intention of the Board to assume responsibility for the service and impose the tax or fee."	This short 60 days' notice may cause significant disruption of service at Storey County and the layoff of County staff. The short 60 days' notice will also disrupt the County's entire operations budget.

14	18	Sec. 21 (2) "The Board may establish a justice court. Upon establishment of the justice court, the Zone shall be deemed a township for the purposes of chapter 4 of NRS. Until the Board establishes a justice court, the Zone is subject to the jurisdiction of the justice court for the township in which the Innovation Zone is situated."	Why does an Innovation Zone require a separate court under the control of the Board of Supervisors and applicant who selected the majority of the members of the Board?
15	19	Sec. 22 (1) "The Board may perform the duties and provide the services of county offices, including without exception the offices of county clerk, county recorder, sheriff, county treasurer, county assessor, county auditor, district attorney and public administrator in the manner provided in this section."	Why does an Innovation Zone require police powers, district attorney powers, clerk, recorder, treasurer, assessor, and county auditor powers and authorities? Government is created for the health, safety and welfare of its citizens, not solely for economic development.
16	19-20	Sec. 22 (2) "The Board may create one or more of the offices specified in subsection 1 as Innovation Zone office, and may consolidate the offices into one or more offices if it finds that such consolidation would be in the best interest of the Innovation Zone."	As one Legislator recently stated, this is not limited government, this is no government. By consolidating these offices, America's use of checks and balances as a fundamental principle guiding governance is eliminated. In addition, the national accounting principles would be disregarded since national accounting standards requires separation of duties. National accounting standards requires the county auditor and treasurer be separate and distinct. This combination of the duties of all these offices would mean an independent outside auditor would not be able to complete an audit of the Innovation Zone as is required by law of all governments. What if the county treasurer stole money from the Innovation Zone county but never got caught because the county treasurer was also the county auditor? There's no one to catch them. There are no separation of duties, no checks and balances in this situation. What if there was a hit and run in the Innovation Zone county? What if there's witnesses who file a complaint against a party in this Innovation Zone county but because the sheriff is also the district attorney, he decides there's no evidence because the perpetrator was actually his brother-in-law. Local governments provide building permits and have third party inspectors inspect building construction to insure they comply with the building codes and that the building is actually safe. If a private business constructing commercial or residential buildings is also its own building inspector, where are the checks and balances? Who is insuring the buildings are safe? Local governments provide for the health, safety and welfare of its citizens. The lack of checks and balances in the private business' Innovation Zone county could jeopardize the health, safety and welfare of its own citizens and visitors.

17	29 and 34	Sec. 31 (1) "For the purposes of distributions from the Local Government Tax Distribution Account created pursuant to NRS 360.660, taxes collected within the Innovation Zone must be returned to the Innovation Zone in the manner provided in NRS 360.680. Sec. 38 (1) "On or before July 1 of each year, the Executive Director shall allocate to each [enterprise]: (a) Innovation Zone the amount deposited in the Account from taxes imposed within the Zone in the immediately preceding fiscal year."	These two sections would allow the BCCRT and SCCRT local sales taxes collected within the Innovation Zone to directly go back to the Innovation Zone controlled by Blockchains, Inc. <u>permanently</u> . Blockchain, Inc. would argue these taxes will go back to the Innovation Zone in order to pay for the cost of the newly organized county. However, how much cost will there be when the Innovation Zone could combine various county departments into one position? The local sales taxes can then be spent by the Innovation Zone on construction projects generally required by the developer to pay. In addition, if the Innovation Zone annexes Tesla, Google and Switch properties, the local sales taxes, once no longer abated, would then go to the Innovation Zone and not to the Storey County taxpayers.
18	29	Sec. 32 (1) "If on January 1 of any year in which a general election is held the county clerk or registrar of voters determines that there are 100 or more registered voters residing within the Innovation Zone, an Innovation Zone must conduct elections as provided in this section. The clerk or registrar shall notify the Board and transmit all necessary information concerning the registered voters in the district. The Board, or the clerk for the Zone if one has been appointed, shall conduct the election."	The concerns of this section relate to control of the Zone. If the Economic Development Director approves the application to establish an Innovation Zone, the Innovation Zone is established and governed by a Board in which 2 members of 3 are selected from a list provided by the applicant. Therefore, the applicant has majority control of the Innovation Zone governance. But it is not until there are 100 or more registered voters residing in the Innovation Zone, which could be months or years away, there would be a democratic election for the Supervisors. What will happen between the time the Innovation Zone is established and when the election to elect the Board of Supervisors occurs? Will the applicant and/or the Innovation Zone Board members want to cede control over the government and give it to the citizens to control via the vote? At the Reedy Creek Improvement District in Florida, Disney World decided not to have residents because they didn't want to lose control over governing the Improvement District. Will it be the same with the Innovation Zone? In addition, Disney hand selected their citizens who voted by ensuring the voters of the District were Disney Executives. Will the Innovation Zone also hand select the residents, particularly when it's only 100 people? Blockchains, Inc. has approximately 100 employees.