

**MINUTES OF THE JOINT MEETING OF THE
SENATE COMMITTEE ON TAXATION
AND THE ASSEMBLY COMMITTEE ON GROWTH AND INFRASTRUCTURE**

**Seventy-third Session
February 15, 2005**

The joint meeting of the Senate Committee on Taxation and the Assembly Committee on Growth and Infrastructure was called to order by Chair Mike McGinness at 1:42 p.m. on Tuesday, February 15, 2005, in Room 4100 of the Legislative Building, Carson City, Nevada. The meeting was videoconferenced to the Grant Sawyer State Office Building, Room 4401, 555 East Washington Avenue, Las Vegas, Nevada. [Exhibit A](#) is the Agenda. [Exhibit B](#) is the Attendance Roster. All exhibits are available and on file at the Research Library of the Legislative Counsel Bureau.

SENATE COMMITTEE MEMBERS PRESENT:

Senator Mike McGinness, Chair
Senator Sandra Tiffany, Vice Chair
Senator Randolph J. Townsend
Senator Dean A. Rhoads
Senator Bob Coffin
Senator Terry Care
Senator John Lee

ASSEMBLY COMMITTEE MEMBERS PRESENT:

Mr. Richard Perkins, Chair
Ms. Chris Giunchigliani, Vice Chair
Ms. Francis Allen
Mr. Bernie Anderson
Mr. Tom Grady
Mr. Lynn Hettrick
Mrs. Marilyn Kirkpatrick
Ms. Sheila Leslie
Mr. Harry Mortenson
Mr. David Parks
Ms. Peggy Pierce
Mr. Scott Sibley
Ms. Valerie Weber

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STAFF MEMBERS PRESENT:

Chris Janzen, Deputy Fiscal Analyst
Mavis Scarff, Committee Manager
Tanya Morrison, Committee Secretary

OTHERS PRESENT:

Douglas C. Thunder, Deputy Superintendent for Administrative and Fiscal Services, Department of Education
Dr. Walt Rulffes, Deputy Superintendent of Operations/Chief Financial Officer, Clark County School District
Patrick Zamora, Clark County School District
Gary S. Kraemer, Chief Financial Officer, Washoe County School District
Rick Kester, Director of Business Services, Douglas County School District
Martin Johnson, Bond Consultant, Johnson Consultants

CHAIR MCGINNESS:

I call this meeting to order. We continue to search for a solution to the property tax issue that is facing many of our residents. Today we will be hearing from the school districts.

DOUGLAS C. THUNDER (Deputy Superintendent for Administrative and Fiscal Services, Department of Education):

I will read from my prepared testimony ([Exhibit C](#)).

MS. GIUNCHIGLIANI:

Mr. Thunder, are you going to comment on the money that reverts from the school districts back to the State of Nevada?

MR. THUNDER:

I had not planned on explaining that issue, but I can.

MS. GIUNCHIGLIANI:

It is important for the public to know the money allocated for schools actually does not stay at school. It reverts back to the State General Fund. It is a large dollar amount.

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MR. THUNDER:

The total amount each district is entitled to is calculated by multiplying the number of students by the basic support amount allowed per student. We then add the Special Education Funding, the 25-cent property tax and the 2.25-cent sales tax. The result of these calculations is deducted from the total tax and the remainder is paid directly to the school districts.

The last two years, sales tax revenue exceeded the budget amounts considerably. We carried forward a substantial amount of revenue from Fiscal Years (FY) 2004 to 2005. With sales taxes still high, it looks as though there will be \$140 million to \$145 million in revenue which will not be needed. That funding will revert to the State General Fund.

I want to point out, in prior years, sales and property tax could be lower than projected. The Legislature then allows for supplemental appropriations to meet the projection. In the past couple of years, the balance has been over the projected costs and, subsequently, there were reversions to the State General Fund.

CHAIR MCGINNESS:

Mr. Thunder, you mentioned counties with school enrollments under 25,000 can add 25 cents. Does that have to fit inside their cap?

MR. THUNDER:

I meant to say 75 cents. That is for local construction.

CHAIR MCGINNESS:

If you have a county that is at the cap, do they not have the opportunity to get revenue from the State General Fund?

MR. THUNDER:

That is correct. I will continue on page 8 of my prepared testimony, [Exhibit C](#). For those of you having trouble reading these little graphs, please look at the other handout given to you ([Exhibit D](#), original is on file at the Research Library.) It has all of the graphs from my prepared testimony in a larger print. I will continue on page 12 of [Exhibit C](#).

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MR. ANDERSON:

The Permanent School Fund is generated, in part, because of court filings. Has it been able to generate additional dollars commensurate with the population increase?

MR. THUNDER:

I do not have those figures in front of me, but the fund has been growing. I have not compared the fund growth with the population growth. A portion of the land sales is required to go into the Permanent School Fund. The interest from that fund is paid out. I can get you more information at a later date.

MR. ANDERSON:

I understand a portion of that fund comes from court filings, and there has been a dramatic decrease in that source and property sales transfers have made up that decrease. Interest rates are also not currently generating additional dollars as anticipated. What percentage is from interest?

MR. THUNDER:

It was approximately \$3.5 million in my presentation for FY 2003.

MS. GIUNCHIGLIANI:

It is time to look at how we can invest that money to generate more money from higher interest rates.

MR. PERKINS:

Mr. Thunder, you mentioned the growth and assessed-valuation numbers in property tax being between 7 and 10 percent, which is not the only issue why Nevada has increased individual property taxes. That was including new growth in the State and the new construction that is going on in the State. I do not want people thinking over the past decade or so we are experiencing 10-percent increases in assessed valuation on the existing properties.

DR. WALT RULFFES (Deputy Superintendent of Operations/Chief Financial Officer,
Clark County School District):

Mr. Thunder just did a good job of explaining the interaction of property tax and funding. He stated a couple of times, local taxes are really State taxes. We would like to address the property tax issue in a two-fold way. First, I would like to supplement how property tax has an influence on the Clark County

School District and how it interacts with the State funding. The second part I would like to explain is the construction and the Debt Service Fund, of which two-thirds is funded by property tax. With that, I will ask Pat Zamora to explain the first handout in your packet ([Exhibit E](#)).

PATRICK ZAMORA (Clark County School District):
[Exhibit E](#) recaps the Clark County School District's major revenue sources which are property tax; local school support tax, which is labeled sales tax; other, which is generally the government services tax; the state sources, which is the Distributive School Account (DSA) funding; and then federal sources. This is small, but it balances out to the audited numbers on the handout.

The numbers across the top are the actual, audited revenues of the school district from 1994 through 2004. Below the first line, where it states Total Revenues, it shows the fourth-week enrollment for each of the fiscal years. If you look below the fourth-week enrollment, you will see the actual percentage increase. This shows how much enrollment has changed on a percentage basis by fiscal year.

Below that is the June 2004 Consumer Price Index (CPI) for urban areas in the United States. Across you have the raw number, and then below that, you have the percentage increase in CPI. I have taken this handout and given actual 1994 revenues by major category and projected them out. If you were to check them at enrollment growth plus CPI, it shows a kind of benchmark of how the State's revenues have performed over the ten-year period displayed on this sheet. What you see in the last set of numbers is essentially the annual difference. I draw your attention to the amounts in the box in the lower right-hand corner and ask Mr. Rulffes to talk about these numbers.

MR. RULFFES:

To tie into Mr. Thunder's presentation, we highlighted two numbers in the lower right-hand side of [Exhibit E](#). The \$205 million is the amount the local property taxes have contributed, which normally would be State-funded. At the same time, the State sources have declined \$311 million. In terms of its guarantee, you can see how important the property tax is to the overall funding formula from the State. Although property tax is collected at the local level and distributed to the School District, there is an offset against the DSA-guaranteed

State funding. If a portion of the property tax were to be taken away or be capped, it would affect the makeup factor for the State funding.

Currently, funding is based on a guaranteed per-pupil basis. This is what the effect would be on the Clark County School District. That is all we have to supplement on the operational budget. We do want to discuss the construction budget, but I yield to my colleagues to address this further.

GARY S. KRAEMER (Chief Financial Officer, Washoe County School District):
Basically, we analyzed the Hobbs & Ong Associates' study, which had a 6-percent cap and a freeze. We found the effect on the General Fund with a 6-percent cap based on the existing parcels would reduce our overall General Fund Revenue by \$1.7 million. One-third of that, which is \$576,000 would have to be made up by the State. Some people say the State will make it up and you will not be hurt by the cap. That statement is true, only if additional State Revenues are identified.

The balance of the \$1.7 million, which is approximately \$1.1 million, would come directly from local outside funding, which would be lost to the district. If we did lose a full \$1.7 million, this is about \$27 per pupil, 37 classroom teachers, over 21,000 textbooks or 23 new school buses. We do have concerns on the effect of the 6-percent cap.

Analyzing the freeze is more difficult because it would affect the General Fund by about \$4 million. This is a fairly significant decrease in revenue, unless it is made up by some other revenue source like the State.

The last three out of four years, we have cut over \$18 million out of our budget and increased our student-teacher ratio by either one and a half or two students in Grades 4 to 12. We continue to deal with increasing utility costs and skyrocketing construction costs. Our English language learner population has been growing at 11 percent, compounded annually. This has increased our expenses. The Legislature has to consider the effect of a 6-percent cap when we are dealing with 11-percent increases in English language learners; increasing inflationary costs and a 3-percent enrollment growth per year. There is a combination of growth factors involved here.

MR. RULFFES:

Ms. Giunchigliani referenced some legislation she passed in 1997. That was a legislatively crafted, economic model for school construction in Clark County. I think it was ingenious. That legislation recognized in a growing economy, you have an increase in jobs and population growth. Increased population means more students, which means new schools would be needed.

The formula that is in place now from that legislation tends to generate more revenue when there are more students. If there is a decline in students, there would be less revenue, which correlates to what is happening in the economy and the population. The model we have has led us to an AA bond rating in Clark County and much of that has been because of the predictability and the stability of the property tax.

In the study by Mr. Guy Hobbs, he talked about the need for predictability and stability. That shows in our AA bond rating. We got that bond rating at a time when things were kind of tough in Las Vegas. It was after the tragedy of September 11, 2001 (9/11). Even though that occurred and the economy was taking a dip, we still got an upgrade in our bond rating, largely because that formula was so responsive to the need.

We want to show you some of the variables that are important in this issue, which is property tax-related. In fact, two-thirds of the construction program is funded by revenue from property tax. The first variable is on the second page of [Exhibit E](#). It is labeled Enrollment and Assessed Value Growth. You can see the blue line is the enrollment that has occurred in terms of percentage of growth each year.

The red line above it represents the assessed value in Clark County. The exception is FY 2000, due to a spike. This was related to new resorts which came online that fiscal year. There was a dip in 2002, which was associated with the aftermath of 9/11. Other than that, the trend has been pretty close for both enrollment and the assessed value.

We went back in history and we found a positive correlation when you do a regression analysis. It shows enrollment growth and assessed valuation follow each other over historical periods of time.

The next variable on page 3 of [Exhibit E](#) shows the assessed valuation in Clark County. I heard Mr. Hobbs talk about the aberration that has occurred. This graph documents that because the trend analysis here of assessed valuation has been pretty consistent. We do not have statistics for 2006 or later because that is when the big spike will occur that has everybody concerned. Aside from that, what Mr. Hobbs called aberration has been a fairly steady trend analysis in Clark County's assessed valuation.

Next is our projected enrollment. In dealing with sources of revenue, it is vitally important we recognize there is no immediate relief in sight for enrollment in Clark County. We see the same kind of numbers growing in live births. We believe over the next few years there will be a 15,000- to 17,000-student increase in Clark County every year. This means we will continue the trend of adding from 12 to 16 new schools.

The next variable is the cost per square foot. This is the wild card in the formula developed. We built in a 5-percent inflation growth per year and then accelerated the program. We were able to achieve some savings because we did not need a contingency for inflation. Those are the dollars we were able to allocate to the legislatively mandated replacement schools. The Legislature required we replace ten schools. This has been a wonderful contribution to the southern Las Vegas community. Those dollars were obtainable by capitalizing on the reverse of inflation.

Now we are dealing with the opposite effect. We have the cost escalation which is occurring dramatically. We are seeing 25- to 30-percent increases in our cost per square foot. On the graph in [Exhibit E](#), we tried to show you the wild card that is occurring. We went from \$209 per square foot to \$245 per square foot in one year. Currently, we are up to \$292 per square foot. That is a combination of increased costs in materials and labor. This shows how important property tax has become and the importance of assessed valuation to fund the needs from growth. We do not have the ability to cap other things, such as the escalating cost of enrollment.

MR. ANDERSON:

The cost per square foot for construction intrigues me. I see the dip on the graph of [Exhibit E](#) in 2003, a spike in 2005 and an anticipated spike in 2006. What percentage of the buildings in Clark County are over 30 years of age?

MR. RULFFES:

I do not know the answer to that question. A guess would be between 20 to 30 percent of the buildings would be over 30 years old.

MR. ANDERSON:

Did the legislation passed previously help Clark County to replace older buildings without passing bond issues? And did this legislation take care of part of your construction costs?

MR. RULFFES:

That is correct, but I would probably phrase it a little differently. The Legislature recognized the need for replacement schools and placed emphasis on inner-city issues. They allocated some of the bond-approved money to cover the cost of replacement schools.

MR. ANDERSON:

I do not doubt the need. My point is 15, if not 16, of the remaining counties have older buildings and I feel the numbers would be greater than 20 to 30 percent. In fact, more buildings in these other counties are as old, if not older, than the buildings replaced in Clark County. I was just trying to figure out how this would affect a smaller county as compared to the huge new growth that Clark County has and how a smaller county might be impacted more dramatically than the larger counties. Is that fair?

MR. RULFFES:

That is fair and I certainly would not do anything to discount the need for replacement schools in other counties. I would point out, while we have a low percentage of schools over 30 years old, the schools replaced were from 40 to 60 years old. In most cases, those buildings were clearly deficient and in dire need of replacement. I believe what you say is correct. There probably is a need for replacement facilities in other counties, as well.

MR. ANDERSON:

I was thinking the same thing. Those other counties may be in the 40- to 60-percent category and have buildings in an extreme state because budgets are so tight. They have difficulty in keeping up repairs in older facilities and have to move funds for these repairs from other entities.

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MR. RULFFES:

Also, they have little tax capacity to pass bonds.

MR. PERKINS:

On the significant increase in the cost per square foot, how much of that can you attribute to land acquisition and land in Clark County?

MR. RULFFES:

There would be a high percentage and it is growing. We are worried about that. As noted on the next page, we have \$155 million budgeted and have already spent \$115 million. This is the green line at the top of [Exhibit E](#). You can see almost 75 percent is expended. As we prepare for the next bond issue, which we anticipate will be 2008, we need to start acquiring sites now. We believe we will have to increase this budget. The Clark County Board of School Trustees made provisions to address an increase the other night. Land value has had a major impact on us. We seek help in working with developers to acquire land for schools as it becomes available. This would ensure schools would be built in the proper places to serve the community.

MR. PERKINS:

It has always concerned me and actually has been somewhat offensive to me we have to go out and purchase land when the federal government owns so much of this State. We have the opportunity through our congressional delegation to get land deeded to us for school sites and other public purposes. We do it at the State level as well. We buy up property to build a Department of Motor Vehicles building, college campus building or a highway patrol building. We spend hundreds of millions of dollars on this when we should be getting the land from Uncle Sam. It is a terrible thing. Perhaps there is something we can do to explore that option to provide some relief to the Clark County School District.

The second question is more of a comment. No matter what we do in property tax relief, there is still going to be bonding surety. The money will be coming in at a stable rate. I do not think we will upset those people who follow the ratings of the bonds with a "what a relief" mechanism.

Lastly, there is going to be property-tax relief. We need to find the right vehicle. I sympathize and we need to know how it is going to impact the school

districts. We need to find a relief mechanism because we cannot drive people out of their homes, especially in the largest county in the State. We are seeing 20-, 30 and 40-percent increases in assessed valuation. Those are unanticipated numbers. We have to find the proper relief mechanism and find a way to make that meld with our school districts. I sense the concern and I feel your concern, but I also caught a little bit of the nuance in your presentation regarding the cap. You have stated, do not cap this and do not cap that. I am not sure how we are going to do this, yet. We want to find the best way to accomplish this by working with you.

MR. MORTENSEN:

The Speaker asked my question, but I want to elaborate a little more. If you look at the acquisitions of land on [Exhibit E](#), in 2005, it was only 2.4 percent of the cost of construction, but suddenly, the construction costs have gone up 17 and 19 percent in a couple of years. That does not make sense to me. The land is driving 2 percent of 19 percent. Why the big increase?

MR. ZAMORA:

The cost-per-square-foot increase you are seeing is for schools opening that year. The cost per square foot that is shown in 2009 would be reflective of bids made in 2002, so there is a lag there.

MR. MORTENSEN:

What is the reason for the huge increase in cost, regardless of what year the contracts were made?

MR. ZAMORA:

The costs are increasing due to a number of factors. One is the general economic activity in Clark County; also competition for skilled labor, shortages of material, locally, regionally, nationally and now, internationally. All those factors are coming together to drive up the cost per square foot.

MR. MORTENSEN:

Do you have increased nationwide costs per square foot versus increase in local costs of construction?

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MR. RULFFES:

We do a biannual audit, which does a thorough analysis of construction costs and compares us on a nationwide basis. In the past few weeks, we have received inquiries nationally from school districts. These other entities are undergoing the same kind of inflation as Nevada. They are not going through it to the extent Nevada is because we are suffering a labor shortage causing escalation in costs. The other states do not seem to be having labor shortages. We are finding a nationwide trend in this increase in cost because of the rising prices of steel, China's economic growth and the cost of building materials, which are escalating 10 to 25 percent per year. These cost increases are clearly documented and can be traced through the bid process.

MR. KRAEMER:

I do have some numbers for the Committee. The cost of energy is up 30 percent in the past year; the Industrial Metals Index is up 25 percent; the Building Cost Index is up 10 percent; Materials Cost Index is up 20 percent; rebar is up 41 percent; structural steel shapes up 24 percent and hot rolled steel plate up 44 percent.

MR. MORTENSEN:

With those cost increases, these estimates make sense.

MS. LESLIE:

[Exhibit E](#) is the most helpful showing the impact of cost increases on a school district our size. Have you prepared statistics for the drastic approach that something like California's 1978 Proposition 13 property tax cap would mean or any other proposals in the Hobbs & Ong Associates' report?

MR. KRAEMER:

We did not get into a study of Proposition 13, which capped property tax increases at 2 percent per year. If you go back 3 years, as was proposed originally, it equates to approximately a 20-percent reduction in our property taxes. The General Fund is about \$80 million. The proposed 20 percent is about a \$16-million reduction in the General Fund revenues, unless the State makes up for the loss. It is a very significant reduction in the General Fund. If you cut \$16 million out of our budget, it would impact us immensely. If you cut the bonding, it continues to get worse. We get \$40 million a year and if you cut that by 20 percent, it would be \$8 million less. We can usually bond out

approximately ten times that amount. We would lose \$80 million in bonding capacity. That would be seven elementary schools. We are already behind in our funding for these schools without a cap. It would be ridiculous to go on a retroactive, three-years-back basis. It would take ten years to catch up to where we are right now. At a 2-percent limit in increased taxes each year, it would take 10 years to regain that 20 percent.

MS. LESLIE:

The more we can reduce the analysis to a written explanation, the more it will help not only the Committee members, but help the Committee educate the public on the choices we have. As we narrow down where we are going, this type of analysis would be helpful for the general public.

MR. PERKINS:

I want to be clear on the explanation you gave Ms. Leslie. How much did you say your assessed-valuation increases were?

MR. KRAEMER:

They were approximately 6.7 percent, so you can round it to 7 percent a year over the past 5 to 8 years.

MR. PERKINS:

Was that just an increase in assessed valuation on existing properties or does that include growth and new construction?

MR. KRAEMER:

That includes growth, so on existing property it would be less than the 7 percent.

MR. PERKINS:

If we are all working off the same sheet of music here, we are talking about whatever property exists. We are always going to have continuing growth in construction. Do you have any idea what the average assessed-valuation increase was on existing properties in your county?

MR. KRAEMER:

I could not get that information. That is why they hired Hobbs & Ong Associates to do the study. They had to analyze 150,000 parcels

in the State and had difficulty getting the information on prior years from the Washoe County Assessor's Office. Some people have tried to go back into prior years, but it is basically a major study of each year in the past. It is always going to be less than the total percentage increase on the existing property. That is how the math works on these assessments.

MR. PERKINS:

I do not want anyone to go out on a limb on this, but it is probably safe to say assessed-valuation growth on existing property was probably less than 6 percent in Washoe County.

MR. KRAEMER:

That is probably true, other than Incline Village. One year it was 4-percent and another year it was 5.5 percent. There have been cases where the valuation was quite a bit less than 6 percent.

MR. RULFFES:

We are looking to the Committee for guidance. We have two pieces left to present to you. The first is an update on the construction program, which may be relative to this. The second is how the credit and bond ratings work in relation to the stability of a tax. We can explain these to the Committee.

CHAIR MCGINNESS:

We would appreciate an explanation on these subjects.

MR. RULFFES:

The last page of [Exhibit E](#) is an update from the beginning of January 2005, explaining the ten-year construction program for the Clark County School District. If you total the numbers of the column titled "Complete," there would be 69 schools completed and 11 more to be completed by fall. Out of 100 schools being constructed, 70 of them are completed. We still have \$1.6 billion to spend on new schools and remodeling, which is shown on the bottom of the last page. I hope this is worst-case scenario. We estimate the cost escalation on the remaining portion of the ten-year program for new and replacement schools only, will be over \$200 million. We are not suggesting there should not be a cap. There are too many variables for us to measure that. Property tax is the main driver of school-construction programs. We do not have control over these issues other than to build fewer schools.

MR. ZAMORA:

As far as the credit market is concerned right now, the Clark County School District maintains AA credit rating, which is considered a high rating. The backing for that rating is the general obligation, which goes with all the school district bonds. Even with the school district bonds that are repaid with room tax and real property transfer taxes, the credit agencies look through those revenues and look at the underlying general obligation pledge to establish the credit rating for those bonds. Currently, the school district has about \$3.4 billion in outstanding bonds, which makes them a significant player in the credit markets.

MR. KRAEMER:

We, in Washoe County, are more restricted than any other district in the State because we are the only county that gets the debt service rate. I believe Clark County gets Real Property Transfer Tax and Room Tax of \$75 million a year that we do not have.

A cap is even more serious to Washoe County unless there are some other provisions made to offset the cap's effects. Also, we did calculate the 6-percent cap using the Hobbs & Ong Associates' figure on existing parcels, and it reduces revenue for our debt service fund of approximately \$900,000. That translates into \$11 million of a bond issue if that were to go into effect immediately.

The years thereafter would not be as serious, but there would be an initial kick. I originally wrote the decrease would be one new elementary school, however, in speaking with our bond people, they provided the information on increases in construction costs. The increases in these costs would make the next middle school we build 24 percent higher in cost within two years. The elementary schools we built in the last several years are estimated to be 29 percent higher in cost to build in the next couple of years. In fact, there is going to be a school board item discussing how to deal with the three new proposed elementary schools and the Cold Springs Middle School, which is a combination fifth through eighth grades. There is not enough money set aside at this point in time, and we may have to delay opening one of those schools.

The other, smaller school districts also have different revenues. I believe the Douglas County School District gets Residential Construction Tax. Some of the

counties get a little bit of sales tax. Individuals who move into this area pay \$1,000 for parks, but pay no additional costs for schools when they build a new residential dwelling.

We have the bond rollover similar to Clark County. We met with the Bond Oversight Committee. This Committee includes local officials. We pointed out land prices are going up, and the Committee stated whenever a development is approved, there is a designated site approved for a school. The Committee also assumed the site is provided free, which is not true. We have to purchase those school sites. There is a lot of miscommunication with local entities who keep approving the developments. They believe the school site is approved for free. Also, the water rights have doubled in price, and we have to purchase those. The Northern California and Northern Nevada Construction Cost Index is up 20 percent this year, and they expect a minimum increase of 5 percent thereafter. A total 45 percent of the schools in our district were built prior to 1965. This brings up the issue of old schools which need to be replaced. We have a growth issue and old school issues to deal with.

If the cap affects us negatively, we will have problems with overcrowding and housing. We would have to institute more year-round schools and we may have to start bussing students to other schools. The other counties have more flexibility with their capital programs because of other means of revenues to support them. I found out today, the City of Reno has applied to receive the balance of the \$3.64-statutory rate cap. If that is approved, there will be no cap left. I am hoping there is some way to move us out of the \$3.64 cap.

As far as possible solutions to this problem, perhaps the hardship method may be a way to achieve some direction for certain people. This would focus on the issue of helping the individuals having financial hardships pay their property taxes. We would like to work with you on this difficult issue and we would appreciate being informed of the effect any legislation may have on our district and all the other districts in the State.

I have one final thought for the Committee. If they froze the assessed valuations, the debt service revenue would drop \$2 million. That would be about \$25 million in bonding capacity, which is approximately two elementary schools.

CHAIR MCGINNESS:

You talked about other counties having sources of income which your county does not have. Clark County is the only county which receives any real estate transfer tax or room tax for their schools. Is that correct?

MR. RULFFES:

That is correct. I would like to make one more comment to the Committee. The Clark County School Board would want the Legislature and the public to know, even with the cost inflation that has occurred and with the enrollment growth, we do not believe the funding for the 1998 Program is in jeopardy. We believe we will be able to complete that program as committed to the public and to the Legislature. That includes the schools we are adding. We thank you for that formula which has worked well over the past six or seven years.

MR. KRAEMER:

Our county is in a different position. We do not get that \$75 million per year. Over 40 percent of our schools were built prior to 1965, so we are not in the same situation as Clark County.

MR. ANDERSON:

Before you came to the district, Mr. Kraemer, I was on the committee for the school district's bond issues. We had a relatively large landholding bank we were able to utilize. This was in the 1970s and 1980s. In every quarter section, there would be a certain amount of land set aside for a school, thus we could sell the land off for school construction. We no longer have this land made available to us. Washoe County is not entitled to Real Estate Transfer Tax which is made available to counties with populations over 400,000. The Residential Construction Tax is available in counties with population under 50,000, which leaves Washoe County out again. This is the difficulty in trying to deal with large growth areas in Washoe County.

MS. GIUNCHIGLIANI:

We tried to do something to help the districts years ago, but unfortunately Washoe County did not have enough rooms for the Room Tax to benefit them. We tried several times to make sure schools were added to the list for the benefit tax. The smaller counties were able to do it through a vote. The bottom line is, no matter what we do, we will jeopardize or further impact school

construction needs. This is the issue you gentlemen are stuck with in the majority of the counties if we use a cap to deal with property tax relief.

MR. KRAEMER:
That is correct.

MS. GIUNCHIGLIANI:
It is time we probably reviewed some new ideas or restructuring with public land sales. There may be some other ways to redirect those dollars. Impact fees do go to parks and now that the parks are getting 10 percent, there could be a different mixture that comes in to allow for some support for school construction. We may want to kick this idea around because it may give us an opportunity to look at other means to generate revenue.

CHAIR MCGINNESS:
Thank you. Are there any further questions from the Committee? Mr. Kester you may give us your testimony now.

RICK KESTER (Director of Business Services, Douglas County School District):
It is a little bit like chasing ghosts right now with property tax relief so undefined. From a school's perspective, one of the overall concerns is uncertainty. I do not believe any of us know what kind of relief mechanism people are talking about and what kind of depth of relief people are talking about. That makes it extremely difficult to do any kind of analysis. As you are aware, schools have a significant amount of their operational funding supplied by taxes, and additionally, have most of their capital needs funded by property taxes. The method of property tax relief has a different effect on the operational and capital side for schools from an overall funding of the DSA perspective. There is not any substantial difference between the 50 cents levied by the school districts outside the guarantee or the 25 cents levied inside the guarantee. All the money which flows to the schools flows from you. The 50 cents is taken away from the equation prior to the time you determine guaranteed basic support; basically, the benefit or lack thereof of all 75 cents falls to the State.

Our concern in that area is with the breadth of the tax relief and not really with the mechanism. It is the amount of constriction in property taxes we should worry about and you should worry about. The primary issue for all of us is how

that constriction impacts your ability to fund us to whatever degree you desire to fund us. We do not have a revenue source that is not taken into consideration when you fund either the basic support or any of the programs outside the DSA. It is really the impact on you and the impact on us through you.

From an individual-school-district point of view, the issue with tax relief is the same. The distribution mechanisms in the Nevada Plan have wealth distribution mechanisms in them. From an operational side, an individual school district will probably not be as concerned about the mechanism you use and the diversity of the effect on different school districts, but they certainly will be concerned on the capital side. This issue will be timing. You cannot run the distribution mechanisms within the Nevada Plan without an accurate assessed valuation from all 17 school districts. The primary determinate in the mechanisms within those distribution formulas is the 50-cent property tax. Without knowing how much revenue is produced by the 50-cent property tax, those distribution formulas cannot be run with any degree of certainty.

No district could be certain of what it is going to receive in the area of operational funds. You would not be certain on the wider level, and no district would be certain on its own individual district operational level. The only way this will be solved, in terms of property tax relief and timing, is you are going to have to make these decisions about property-tax relief long before numbers have been run for school districts out of the distribution formulas and the DSA. That is typically not run until you finalize funding, which is pretty close to the end of Session. No matter what mechanism you choose and no matter what depth of relief you choose, the State Department of Education has to be active in running distribution formulas for school districts. You can run them against the Governor's Budget or any measure you want, isolating the tax relief as a factor, so the school districts will know, financially, where they stand. Rural school districts do not have those capabilities. In fact, most school districts do not have the capabilities of running the distribution formulas in the Nevada Plan. They are tied to each other and tied to the assessed valuation in their county and wealth adjustments; it should be run all at once by the State.

One can assume the equalization formula currently in place in that plan would adequately equalize the additional disparities in property tax perhaps created by tax relief. I do not think anybody is certain of that issue, and that is exactly why

those formulas should be run before any school district will know about its operational funds. Wealth equalization formulas that exist on the operational funding side for schools made me conclude our concern is with the depth of the relief and not the mechanism itself. That is entirely opposite on the capital side for school districts.

MR. KESTER:

As you saw earlier, school districts have three types of property tax rates on the capital side. They either have a fixed pay-as-you-go rate, fixed rollover-bond rate or they have a variable-debt-service rate. This is set at whatever level is necessary to pay back principal and interest on bonds. The issue with property tax relief on those rates is a little different. On the fixed rates, obviously, anything that would reduce or constrict the assessed valuation would impair a district's ability to meet its capital needs. The variable rate on debt-service payments that constricted or reduced assessed valuation would have the effect of driving those rates up. You will find this to be a particular problem in rural counties. It is the great diversity of this State and the overall differences between the smallest of counties and the largest of counties that are going to give you a difficult situation in terms of debt service rates.

The exemption will be entirely different. An exemption applied in a certain way could force school districts to the \$3.64 statutory rate or put them over the \$3.64 rate even more and affect local governments, if they have a pure debt service rate. They would have to increase that rate if the mechanism you implement rolled back the assessed valuation. The county would have to increase that rate, and if they were already at \$3.64, it would be an issue for them and other entities. Perhaps the \$3.64 would have to be examined to see if it is legitimate any longer under those circumstances. Certainly, in rural districts on the capital side, you will have a whole different effect, depending upon what mechanism you use or what combination of mechanisms you use. From my perspective, you have different considerations on the operational side, which is mainly the depth—meaning, how much you are restricted. On the capital side, it is about the depth and the mechanism. I can only offer the obvious to you. Tax relief is going to be a very slippery slope. It will be that way for all governments, not just school districts. It will be that way for the State of Nevada, and partially, it is because of the school districts. It will be difficult for cities and counties. What I have heard others say is you need to do it in a hurry. Obviously, it needs to be done rapidly to be in effect in 2006.

The other reason you need to do it rapidly is because the impact on individual school districts is going to be diversely different. It is a very complex issue, running basic support numbers through the Nevada Plan. It would not behoove anyone to hesitate running some type of individual tax relief scenarios through that plan to figure out exactly what the impact is on each school district. That means even earlier, because the impact should be known before you adopt any property tax relief or mechanism. I hope this is done early enough to avoid any issues for school districts in terms of what falls out as an unforeseen circumstance. We will all be at risk for this and time is short. We do get the benefit of the Residential Construction Tax and we utilize that in Douglas County. Every school district in Nevada, rural or urban, has tremendous problems in the area of capital construction. We all have issues. In Douglas County, I would challenge you to pass a bond issue. That is a very difficult issue. I ask you to act early, be thorough and consider the effect on each school district. This is going to take some time and effort.

CHAIR MCGINNESS:

The Committee recognizes these important and diverse issues. That is why on Day 6 of this Session we are into our 14th hour of testimony on property tax with more hours on the way. For those of us who represent rural Nevada, and those counties went to the Constitutional limit of \$5, they still could not build a good playground, let alone a school. Those are some unique challenges facing all of us on this panel.

MARTIN JOHNSON (Bond Consultant, Johnson Consultants):

I work as a bond consultant to many of Nevada's school districts, and particularly, rural school districts. You should have a three-page handout ([Exhibit F](#)). The first page shows funding options available to Nevada school districts. I use this to put into context that property taxes are an important part of funding capital projects for Nevada school districts. As you can see, there are five various funding options. Property taxes are the only one available to every school district and, of course, those can only be imposed as long as the voters approve it.

The Real Estate Transfer Tax and Room Tax have already been discussed, and those only apply to Clark County. There is a Residential Construction Tax and a quarter-percent sales tax that are only available in rural Nevada. Carson City is not able to do the Residential Construction Tax because it has over 50,000 in

population. Other than that, those two revenue sources are available in other areas. They do have to be imposed by the county commissions. The school district has to go to them to impose this tax.

As you can see, on the Residential Construction Tax, as Mr. Kester said, they are the only county that currently levies \$1,600 countywide. Storey County also utilizes that for \$500, and Lincoln and Lyon School Districts are both getting that put into place. The Nye County School District recently had that tax imposed on their behalf in the Pahrump area to the tune of the \$1,600 maximum. This is why property tax is a very important piece of the puzzle, especially for the rural school districts.

The second page of [Exhibit F](#) really gets to what is the crux of the problem. As you look at this page, you can see various areas listed in bold. Those are counties where the highest overlapping tax rate is either at the cap or is within 10 cents of the cap. As you look at this list, you see a lot of rural Nevada school districts. For example, the Pershing County School District's tax rate for debt repayment is 42 cents. Eleven years ago that rate was 80 cents. In the last 11 years, it has actually gotten as low as 30 cents as assessed value went up and old bonds were paid off. The assessed value has now gone down due to a decrease in mining. That makes the debt repayment amount go up to offset the mining decrease. However, the overlapping tax rate in the past 11 years has stayed at or near the statutory maximum for that entire period of time, so as the county's rate has come down, other entities have been able to take advantage of that and access those revenues for their needs.

As the school district's rate has had to come back up in the recent past, the other entities have to lower their operating rates because the district has made a promise to levy whatever tax is necessary to repay those bonds. As you look at any county that restricts or limits their assessed value that causes their tax rate to go up, by definition, it means as long as that \$3.64 rate is in place, other entities are going to have to lower their tax rates at the same time. They are experiencing the same problems with the assessed valuation as the school district. Depending on how this is handled, it could exacerbate an already serious problem in rural Nevada. You also have to recognize in rural Nevada there are a lot of different categories. You have areas that are heavily mining-related: Humboldt, Lander and Eureka; but you also have areas that are beginning to change. You have Nye County, where the northern part is stagnant

and the Round Mountain area has a lot of mining going on with the gold mine there, and you have a tremendous amount of growth going on in Pahrump. Generally, what has been happening is the assessed-value growth in Pahrump has been driving the school district's ability to borrow money. They have a rollover question along the lines of what Clark County has that allows them to borrow money as the assessed value goes up. They have used the increase in assessed value, with voter permission, to borrow approximately \$30 million to build new school facilities within Nye County.

If the growth rate in Pahrump was limited, it would be something less than \$30 million. We do not know what that number is exactly, but they would not have been able to provide as many school facilities as they have. The Lincoln County School District is limited in terms of economic development. However, recently the land from the Lincoln County Land Act of 2000 was sold; the Coyote Springs area is going to start developing. That is why they are pursuing that Residential Construction Tax. Lyon County also has a tremendous amount of growth. You are going to have areas where there is growth in some part of the county, but not in other parts of the county. As the growth in the growing areas is limited, it could cause problems for the entire district.

The last thing is unless the school districts go to the voters and get approval, as assessed value goes up, as bonds get paid off, those tax rates do come down on the debt service side. A number of years ago, Carson City had a tax rate in excess of 60 or 70 cents. That tax rate has dropped to 47 cents. With that, they have also had assessed value growth and have been able to go to the voters and have \$21 million in bonds approved without having to increase the tax rate. Depending on the district and what their needs are as the assessed value has changed, they have lowered the rate, used that rate to build new facilities or done a combination of those two things. I certainly do not have a magic solution for all of this. I was asked to explain to you what the impact could be on many of the rural districts. My only comment would be, as you go through this, we would like you to be aware of what the impacts may be. It is going to be a difficult decision and a difficult solution. We are certainly willing to help in any way we can.

MR. PERKINS:

As someone who provides counsel in bonding areas for many people, it would be important for us to hear from you how we go forward and create long-term

stability in whatever it is we accomplish in property tax relief. Are there any ideas you have heard of which would be less stable than others and would cause concern?

MR. JOHNSON:

That is difficult to answer. When looking at the 75-cent tax and the school districts, that rate is mandated by the State. From a debt-rate perspective, as I mentioned, if assessed value goes up, if there is voter approval through a rollover question—Clark, Nye, Washoe and Storey County School Districts have those types of questions—those would directly benefit from increases in assessed value higher than what they would normally expect. By definition, the tax rates in other districts, which have bonds outstanding and are just paying them, are going to have to come down as assessed value goes up. They are not allowed to keep levying a 30-cent tax rate and keep accumulating that money. The money raised by the 30-cent tax rate can only be used to repay debt.

Strictly looking at a school district debt rate, letting the tax rate float might work. However, as you have heard in some of your other testimony for counties, cities and special districts, that may not work as well. My sense is you will end up with some sort of combination of things: exemptions, caps or floating rates. All of these solutions may come into play. Using exemptions in Esmeralda County, Pershing County or even Lincoln County may wipe out half of the assessed value, depending upon how they are imposed and how it is written. I do not have any specific ideas for you right now. As ideas are developed and we understand what those ideas will do to the valuations of those counties, we can look at what the impacts are and figure out ways to mitigate the impacts and make them as fair as we can for the most diverse group possible.

MR. PERKINS:

Since many of you have decided not to come forward to address the Committee, we will take written testimony and any written suggestions which may help us. We want to make sure the schools are taken care of and the essential services in the State go on and continue to run in a fashion that is expected by our constituents. By the same token, we need to provide some property-tax relief, all under the umbrella of a uniform and equal clause in the Constitution. We are all looking for creative ideas and I would personally appreciate any ideas the public may have.

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CHAIR MCGINNESS:

I remind everyone the information we are given in these meetings on property tax will be available on the Legislative Web site under either the Assembly Committee on Growth and Infrastructure or the Senate Committee on Taxation.

SENATOR COFFIN:

I put in a request yesterday for a bill draft and I would like to run it by the Committee for consideration. The bill draft is for a 6-percent cap on property tax. This would offer individuals relief from increased property tax they cannot afford. I do not believe these individuals are trying to avoid paying their taxes, but they need some relief.

I would offer not forgiving the taxes, just deferring the taxes or capping the taxes at 6 percent. If people feel the increased property tax has become a hardship, they would be able to apply for a deferral of the additional taxes for as long as they own that land. When they sell the land, the taxes will then come due. This is not a forgiveness of taxes, but a deferral to remove the panic feeling from the people who cannot afford to pay the tax. I am offering this as an idea. This way, the taxpayers do not feel it is charity. They owe the money for the development of their communities, but it need not create a financial hardship at that particular time.

I am hoping there will be acceptance of the idea we not cut revenues to the entities such as the schools, but rather we offer some relief to the individuals who really need it and are willing to apply for it. I do not believe we should have means testing. A person can make a lot of money and still not be able to afford their property taxes and vice versa. At any rate, I think they would be proud to be able to say they will pay this when they can, and if that moment does not come until they sell the parcel, that would be fine. This might offer some solution and I am sure it will have some defects.

CHAIR MCGINNESS:

That is something to add to the mix.

MS. GIUNCHIGLIANI:

You mentioned parcels, Senator Coffin. Does that mean land value or the home?

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SENATOR COFFIN:

You would apply it to the total value. The reason for this is people think of property tax as a whole on the land and house. They do not segregate it into land and improvements. It is more easily calculated if you use the total package. This is just one thing for the Committee and other entities to consider.

Ms. GIUNCHIGLIANI:

Everything needs to be on the table for us to take a look at to see what sticks with the uniform-and-equitable issue. We want to make sure what helps one part of the State does not hurt another part of the State and still get relief to those who are truly needy. Maybe part of the focus will be how to deal with the

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severe economic hardship we have wrestled with and have not defined. That is one area we should be focused on.

CHAIR MCGINNESS:
This meeting is adjourned at 3:29 p.m.

RESPECTFULLY SUBMITTED:

Tanya Morrison,
Committee Secretary

APPROVED BY:

Senator Mike McGinness, Chair

DATE: _____

Assemblyman Richard Perkins, Chair

DATE: _____