MINUTES OF THE SENATE COMMITTEE ON TAXATION

Seventy-third Session
April 7, 2005

The Senate Committee on Taxation was called to order by Chair Mike McGinness at 1:42 p.m. on Thursday, April 7, 2005, in Room 2135 of the Legislative Building, Carson City, Nevada. The meeting was videoconferenced to the Grant Sawyer State Office Building, Room 4406, 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.

COMMITTEE MEMBERS PRESENT:

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

GUEST LEGISLATORS PRESENT:

Senator Michael A. Schneider, Clark County Senatorial District No. 11

STAFF MEMBERS PRESENT:

Russell J. Guindon, Deputy Fiscal Analyst
Chris Janzen, Deputy Fiscal Analyst
Ardyss Johns, Committee Secretary
Tanya Morrison, Committee Secretary

OTHERS PRESENT:

Dino DiCianno, Deputy Executive Director, Department of Taxation
Rod Barbash, Nevada Collectors Association
Marel Giolito, Chief Executive Officer, Credit Bureau Central; Nevada Collectors Association
Carole Vilardo, Nevada Taxpayers Association

John P. Sande, III, Nevada Bankers Association; Nevada Franchised Auto Dealers Association
Grant Markham, President and Chief Executive Officer, First Independent Bank of Nevada
William R. Uffelman, Nevada Bankers Association
Raymond Bacon, Nevada Manufacturers Association
Liz MacMenamin, Retail Association of Nevada
Michael Pennington, Reno-Sparks Chamber of Commerce
Arjen Kuyper, President and Chief Operating Officer, Navellier and Associates, Incorporated.
Daryl E. Capurro, Nevada Motor Transport Association
Wayne A. Frediani, Nevada Franchised Auto Dealers Association
Sabra Smith-Newby, City of Las Vegas
Helen A. Foley, Western Ethanol Company Limited Liability Company
Paul Vind, Western Ethanol Company Limited Liability Company
Russ Law, Chief Operations Analysis Engineer, Nevada Department of Transportation
Edgar Roberts, Administrator, Motor Carrier Division, Department of Motor Vehicles
Peter Krueger, Nevada Petroleum Marketers and Convenience Store Association
Joe L. Johnson, Toiyabe Chapter Sierra Club
Peter Konesky, Nevada State Office of Energy, Office of the Governor
Robin H. Joyce, Las Vegas Clean Cities Coalition
Daniel R. Hyde, Las Vegas Regional Clean Cities Coalition
Annalloyd Thomason, Las Vegas Regional Clean Cities Coalition
Perry Ursem, Vice President, Economic Development, Nevada Development Authority
Doug Keene, Vice President, Las Vegas Regional Clean Cities Coalition; Fleet Services Manager, Las Vegas Valley Water District
Jim Zeimet, Director, Las Vegas Regional Clean Cities Coalition; Fleet Maintenance Supervisor, Clark County Water Reclamation District;
Dennis Ransel, Director, Las Vegas Regional Clean Cities Coalition; Senior Management Analyst, Department of Air Quality Management, Clark County
Marty O'Connor, Secretary, Las Vegas Regional Clean Cities Coalition; Vice President of Sales and Marketing, Haycock Petroleum;
Jack Owens, Director, Las Vegas Regional Clean Cities Coalition; General Manager, Yellow Checker Star Transportation,
Shaun Carey, City Manager, City of Sparks

John Mayer, City Council, City of Sparks
Steve Varela, Director and City Engineer, Public Works Department, City of Reno
Andrew List, Nevada Association of Counties
Katy Singlaub, Manager, Washoe County
Michael R. Alastuey, Clark County

CHAIR MCGINNESS:
Russell J. Guindon, Deputy Fiscal Analyst, chaired the Legislative Committee on Taxation, Public Revenue and Tax Policy. Mr. Guindon will now share information with our Committee. We will open the hearing on Senate Bill (S.B.) 391.

SENATE BILL 391: Revises provisions governing liability for tax on financial institutions. (BDR 32-716)

RUSSELL J. GUINDON (DEPUTY FISCAL ANALYST):
Senate Bill 391 comes out of the bill draft request recommended by the Legislative Committee on Taxation, Public Revenue and Tax Policy (TPRTP Committee). It became known as S.B. No. 8 of the 20th Special Session, which was approved during the 20th Special Session.

They met during the 2003-2004 interim to look at the tax changes and the new taxes approved in S.B. No. 8 of the 20th Special Session. During the meetings, one of the discussions revolved around the modified business tax, but not on financial institutions. This is the 2-percent tax on the gross wages of financial institutions, less the deductions for health care expenses. The language was drafted in S.B. No. 8 of the 20th Special Session with regard to defining a financial institution. That was based on what is known as the North American Industry Classification System (NAICS). Staff was asked to do analysis for the amount the modified business tax would generate, whether on financial or nonfinancial institutions. We used the data put out by the federal Bureau of Economic Analysis, and we based it on the NAICS classifications.

When it came time to draft the classifications, the NAICS structure was used for defining a financial institution. After the approval of S.B. No. 8 of the 20th Special Session, the Department of Taxation and the Nevada Tax Commission implemented this tax. They had numerous hearings to develop regulations for financial institutions using the NAICS-based structure. The Legal and Fiscal Analysis Divisions of the Legislative Counsel Bureau, along with the direction of the TPRTP Committee attempted to look at an alternative way of defining financial institutions for the purposes of this tax. What you see is language brought before the TPRTP Committee during the summer of 2004. As I have stated, it was recommended by that Committee. That recommendation became Recommendation 12 as in the bulletin prepared for the TPRTP Committee and eventually became known as S.B. 391 which you see before you. In this bill, the amendments get rid of all of the NAICS-based language and attempt to replace it based on licensing, registration or other state or federal requirements for an entity to conduct business or financial activities.

Section 1, subsection 1, paragraph (a) removes the *Nevada Revised Statute* (NRS) 649 that has to do with collection agencies, as one of the recommendations of the TPRTP Committee. They requested collection agencies be removed from the definition of a financial institution. All other sections with regard to the NAICS language are deleted. The rest of the sections remain as is.

Page 3 explains using either the NRS or the *United States Code of Federal Regulations* to define or capture an entity to determine if it is a financial institution subject to the modified business tax on financial institutions.

CHAIR MCGINNESS:
Who would be exempt in the financial institutions clause? Some people were inadvertently captured in S.B. No. 8 of the 20th Special Session.

MR. GUINDON:
Fiscal and legal staff attempted to include everybody currently under the modified business tax except for those specifically under NRS 649—the collection agencies which were taken out. We also made sure the pawnshops or pawnbrokers were taken out of this provision. The staff believes they attempted to include everybody paying the modified business tax. There was the ability, under the regulations adopted by the Nevada Tax Commission, to appeal to the Commission. They would then investigate to find out if they could be excluded as a financial institution. My understanding is the Department of Taxation and the Nevada Tax Commission has hundreds of appeals still outstanding. The Department of Taxation has informed our staff the only entities exempt from the current modified business tax on financial institutions would be collection agencies and the pawnshops.

CHAIR MCGINNESS:
Was this an attempt to exclude the collection agencies and pawnshops that should not have been included in the first place?

MR. GUINDON:
Yes, this will let them out, but attempt to keep everybody else in the bill. The intent was to have a better structural way of defining a financial institution. We wanted to get away from some dilemmas the Department Of Taxation and the Nevada Tax Commission had to determine if an entity should be covered under the modified business tax and financial or nonfinancial institutions.

SENATOR RHOADS:
Do we have any idea how big a fiscal impact this will make?

MR. GUINDON:
Dino DiCianno can address that question for the Committee.

DINO DICIANNO (Deputy Executive Director, Department of Taxation):
I have given the Committee a copy of the fiscal note for S.B. 391 (Exhibit C). Mr. Chair, we would like to thank you and that Committee in working with the Department of Taxation and the Nevada Tax Commission to resolve some of the issues (Exhibit D). As Mr. Guindon has indicated, we have already done over 500 appeals on this issue. In reviewing the bill and fiscal note, the bill does remove the collection agencies by removing one chapter of NRS. It also removes the pawnshops. The relative fiscal impact is insignificant with respect to the total amount of revenue collected from financial institutions.

SENATOR TIFFANY:
Can you tell me how much revenue has been collected on this tax?

MR. DICIANNO:
I will get you that information.

CHAIR MCGINNESS:
You mentioned the fiscal note on this bill. It appears to be $2,954,000 over the next biennium.

MR. DICIANNO:
That is correct, Mr. Chair. That would be for two fiscal years.

SENATOR COFFIN:
Can we segregate the pawnshops and collection agencies on this fiscal note? I want to know what amount each entity is paying at this point in time.

MR. DICIANNO:
I do not have that information available. I can provide that to you at a later date.

SENATOR COFFIN:
Would you say the pawnshops are less than half of the collections agencies?

MR. DICIANNO:
That is a fair statement.

ROD BARBASH (Nevada Collectors Association):
We are in favor of the passage of the amended chapter 649 of NRS. The last Session of the Legislature inadvertently classified collection agencies in the same category as banks. We were mandated to pay 2 percent of our gross payroll to the State in accordance with the modified business tax statutes. Before you is a letter that explains our position and why we are in favor of the passage of this bill (Exhibit E).

MR. DICIANNO:
In response to Senator Tiffany's question, I have those numbers she wanted. I am going to quote from the General Fund Revenues from the Economic Forum of December 1, 2004, forecast.

> The total amount of actual collections for fiscal year 2004 for modified business tax on nonfinancial institutions was a little over $146 million. The amount for the financial institutions of the modified business tax was a little over $15 million and they are projecting that number out into 2005, 2006 and 2007 at a little over $20 million.

MAREL GIOLITO (Chief Executive Officer, Credit Bureau Central; Nevada Collectors Association):
I would like to emphasize everything Mr. Barbash said about being included in this modified business tax. Less than one-half of the companies within the industry are operating in the recovery of debt and returning money to businesses. These are law firms, out-of-state agencies, billing companies

et cetera. We are aware some of the smaller companies within our industry have actually dropped insurance coverage on their employees because the margins are so low. Their companies can no longer offer health insurance coverage due to the unequal and unfair tax burden. Health benefits could be reinstated to the company structures with the removal of this tax. We need to return this to the regular business tax other companies share.

CAROLE VILARDO (Nevada Taxpayers Association):
As you may remember, on the TPRTP Committee we were supportive of any of these changes, particularly with removing credit and collection agencies from the bill. We were quite sure that had not been the intent. There were a number of other changes presented to the Committee. In the old language, anybody who extended credit was liable as a financial institution. That meant almost all of our members. Just about everybody in business today extends credit. This also cleans up that provision. Truthfully, it would be better if we did not have the differentiation on financial institutions. It would have made life simpler all around.

CHAIR MCGINNESS:
We will close the hearing on S.B. 391. Mr. Guindon, we appreciate your time working with this Committee and during the interim as well. We will open the hearing on S.B. 352.

SENATE BILL 352: Revises provisions governing taxes imposed on financial institutions. (BDR 32-25)

JOHN P. SANDE, III (Nevada Bankers Association):
With me today are Bill Uffelman, who is the president and chief executive officer of the Nevada Bankers Association, and Grant Markham, who is the chairman of the Nevada Bankers Association. I would like to turn this over to Grant Markham.

GRANT MARKHAM (President and Chief Executive Officer, First Independent Bank of Nevada):
I am also currently chairman of the Nevada Bankers Association. I appreciate the opportunity to testify in support of S.B. 352. With us today, both here and in Las Vegas, are executives and chief executive officers of several Nevada banks.

In the interest of time, rather than have each of them come forward to testify, I will ask that they all stand to show their support of this bill. You have a handout (Exhibit F) which includes board resolutions from a number of our bank members in support of S.B. 352.

The Nevada Bankers Association is not here today to say we are being devastated by the taxes imposed upon financial institutions from the 2003 Legislative Session. We have provided you a memo, Exhibit F, outlining the fiscal impact of S.B. 352 based on the information available to us. It is our hope you will consider these comments and the fiscal information we have provided and support S.B. 352.

WILLIAM R. UFFELMAN (Nevada Bankers Association):
I have provided the Committee members with letters in support of S.B. 352 (Exhibit G, original is on file at the Research Library).

SENATOR COFFIN:
What would be a fair rate?

CHRIS JANZEN (Deputy Fiscal Analyst):
I will run some numbers and get back to the Committee.

SENATOR COFFIN:
What is the total number? We should have some figures here.

CHAIR MCGINNESS:
Senator Coffin, are you asking what everyone else would have to pay to make up the $40 million if we reduce the percentage for the banks?

SENATOR COFFIN:
This is just hypothetical, but how would we recover the lost revenue?

MR. UFFELMAN:
Using the Economic Forum data handed out to you earlier, Exhibit C, forecasting the modified business tax for nonfinancial institutions for the biennium would be approximately $427 million. You would have to raise the other tax by 9 percent of the tax rate. It takes it back roughly to the 4.72-percent rate.

RAYMOND BACON (Nevada Manufacturers Association):
We were part of the Business Coalition. If you remember correctly, we adamantly opposed the separation of the bank tax as a separate tax. We continue to hold that position, so we support S.B. 352.

LIZ MACMENAMIN (Retail Association of Nevada):
We also express the same concerns and feel the same way we did last Session. We do support S.B. 352.

MICHAEL PENNINGTON (Reno-Sparks Chamber of Commerce):
Our policy is that we do not support industry-specific taxes. Although, in the best interest of economic development, we would like to see S.B. 352 passed.

ARJEN KUYPER (President and Chief Operating Officer, Navellier and Associates, Incorporated):
We are a money management firm out of Reno. We have been in the State of Nevada since 1987. We have 52 employees. We want to express our support for S.B. 352 and make it plain that it is a question of fairness; we want to be treated the same as everyone else.

DARYL E. CAPURRO (Nevada Motor Transport Association):
We were part of the Business Coalition last Session. We openly opposed treating banking and financial interests at a different tax rate in the franchise tax. We still oppose this, and we openly support S.B. 352. It is likely when the Economic Forum numbers come down, they will be substantially higher than projected in December 2004. It seems to me if they are projected through the next biennium, you will be back here dealing with another surplus issue. As far as trying to make up the revenue, it does not seem necessary at the present time.

WAYNE A. FREDIANI (Nevada Franchised Auto Dealers Association):
We were also a part of the Business Coalition last Session, and we were opposed to the different levels of taxes related to financial institutions. We support S.B. 352.

MS. VILARDO:
I do not have a specific position on this bill. I remind the Committee members, for anyone who was here last Session, we sent e-mails to every Legislator in the building asking them not to consider a financial institution tax. We have

never supported industry-specific taxes for a good reason. They send the wrong message to business, and they tend to work contrary to good economic development.

MR. DICIANNO:
You should have a fiscal note to this bill (Exhibit H). The Department of Taxation is neutral. I am only here to answer any questions you may have with respect to the fiscal note.

CHAIR MCGINNESS:
The fiscal note, Exhibit H, is headed S.B. 352 at the top. The bottom line is $39,938,000. Thank you for this fiscal note, Mr. DiCianno.

SENATOR COFFIN:
Are we going to have any more hearings on this bill?

CHAIR MCGINNESS:
No, this will be the last meeting on this bill.

SENATOR COFFIN:
There is a question of equity, no doubt about that. There are people who are dissatisfied with this bill. If you are going to treat everybody equitably, you would raise everybody at the same tax rate. If we have a surplus as we do right now, you could reduce everybody's rate. I would like to know those numbers.

CHAIR MCGINNESS:
There was a recess on the Senate Floor this morning to address that issue. This Committee has the authority and could pass S.B. 352 this afternoon. As you saw, the Senate Committee on Finance was vacuuming up a few bills. They will vacuum up all bills with fiscal notes. This Committee will consider public policy. It was part of the discussion on the Senate Floor today; we need to get all of the bills together that will go to Senate Finance. They will have to sort out how much money was captured or lost from each bill or measure. We will ask to get some of the numbers you have requested, Senator Coffin.

We will close the hearing on S.B. 352 and open the hearing on S.B. 356.

SENATE BILL 356: Revises provisions governing amount of sales and use taxes due on retail sales of vehicles for which used vehicles are taken in trade. (BDR 32-1106)

JOHN P. SANDE, III (Nevada Franchised Auto Dealers Association):
Senate Bill 356 deals with credits for trade-ins on used cars. At the end of last Session, you had several bills going to the vote of the people to make exemptions or credits uniform across the board to satisfy the simplified sales and use tax law. This was to adhere at a federal level. As a result, you put several proposals on the ballot, and there was some concern by your Committee that this would be confusing to the voters. You not only had the question of whether or not you should get the State portion of the sales tax, the 1955 tax, to allow a credit for a trade-in of a used vehicle for a new vehicle, but also whether or not you should exempt art, farm machinery et cetera. The voters turned down that bill because they did not understand it.

This bill tries to keep the local sales tax credit in effect until January 1, 2006. This bill would extend it until there is another vote of the people. With the new vote, you would have just one issue on the ballot so voters would understand it. That is what this bill does. It extends the credit from 4.5 percent to 5.5 percent of the sales tax. The 2 percent you cannot change without the vote of the people under the 1955 act. This is positive and would be beneficial for consumers of the State of Nevada.

CHAIR MCGINNESS:
Mr. Sande, give us a real-life example. How would it work if I have a $20,000 used vehicle and I am trading it in on a new $50,000 vehicle?

MR. SANDE:
On the $50,000 vehicle, you would pay approximately 7.5 percent, depending upon where you live. It could be anywhere from 6.5 percent to 7.5 percent. On the other hand, the trade-in worth $20,000 would give you a credit for $20,000 times 4.5 percent to 5.5 percent because the 2-percent State tax put in by the 1955 act cannot change without the vote of the people. Right now you get a credit on $20,000 at a rate of 5.5 percent that you would not pay to the State of Nevada when you trade in the vehicle.

CHAIR MCGINNESS:
With this bill's passage, you would get credit for the $20,000 trade-in.

MR. SANDE:
You would continue to get credit for that 5.5-percent trade-in until the vote of the people in November 2006. At that time, we would hopefully have a ballot question they could understand.

SENATOR RHOADS:
What is that going to cost the State?

MR. SANDE:
It will not cost the State any more now. The State will maintain status quo. If you do not pass this legislation on January 1, 2006, you will lose that credit. When someone trades in their vehicle, they pay full freight on a $50,000 vehicle.

MR. DICIANNO:
I would like to apologize to the Committee. We are still working on the fiscal note with respect to S.B. 356. We should have that completed by tomorrow morning.

I would like to draw your attention to a typographical error on page 8 of the bill. In section 9, line 7, it states “intangible” and that should say “tangible.” Also in section 10, line 20, it states “intangible” and that should also be “tangible property.”

Because of A.B. No. 514 of the 72nd Session, which was the enabling legislation for the State of Nevada to become part of the Streamlined Sales Tax Project, it required we could no longer have split-rate exemptions. In other words, for sales tax purposes, any sales of tangible personal property would be either fully taxable or fully exempt. The trade-in allowance has an exemption with the local government portion. It is still intact until the end of this year. However, on January 1, 2006, that exemption goes away and becomes a windfall to the local governments. That is why this bill is here in front of you. It goes to the vote of the people during the General Election in 2006.

SABRA SMITH-NEWBY (City of Las Vegas):
I am representing the City of Las Vegas in opposition to this bill. On the principle matter, new exemptions and abatements are generally not in the best interest of government. Eventually, the proliferation of these items has a significant effect on tax revenues.

MS. VILARDO:
For the record, Mr. Chair, we are supportive of putting this on the ballot as a separate question so the voters have the opportunity to better understand the issue. I agree with Mr. Sande, having six questions together on the ballot was confusing. Though it may be efficient on one hand, it did prove problematic without complete explanations. I want to be on record saying this should be a separate question. There were two other exemption questions addressed this morning in the Assembly Committee on Government Affairs. I am anticipating these will be coming over to the Senate.

CHAIR MCGINNESS:
One of those questions was an exemption on farm equipment. What was the other question?

MS. VILARDO:
The other question is on medical equipment and supplies.

CHAIR MCGINNESS:
Do you think we should lump these together?

MS. VILARDO:
After what happened the last time around, no; they should not be lumped together.

CHAIR MCGINNESS:
We will close the hearing on S.B. 356 and open the hearing on S.B. 362.

SENATE BILL 362: Provides for separate rate of tax on alternative renewable fuel. (BDR 32-1249)

SENATOR MICHAEL A. SCHNEIDER (Clark County Senatorial District No. 11):
I bring S.B. 362 to you today. Nevada needs to remove disincentives to the use of renewable fuels by adjusting transportation fuel rates to reflect the energy content of those fuels.

This is not just an economic issue, it is a security issue. Just last week, national security leaders advised President George W. Bush to reduce United States' consumption of foreign oil through improved efficiency and the rapid substitution of advanced biomass, alcohol and other available alternative fuels.

In a letter to President Bush, the Energy Future Coalition states, “We do not know today what form of crisis over oil will take, but we know the crisis is coming. One that could harm the United States.”
This group also declares:

> With the United States having only 2 percent of the world’s oil reserves and a consumption rate of 25 percent of the total oil reserves, domestic production alone will not meet America’s needs. To reduce the risk of an oil shock in the global market, we must reduce our use of foreign oil.

Members of the Coalition included Admiral William T. Crowe, former chairman of the Joint Chiefs of Staff; John Dalton, former Secretary of the Navy; Robert McFarlane, former Security Advisor to former President Ronald Reagan; R. James Woolsey, former director of Central Intelligence and John Podesta, former White House Chief of Staff for former President Bill Clinton. Present were several other members of the same caliber.

Recent gasoline prices alone demonstrate the stranglehold the Middle East has on us. We must do something about it. We have the opportunity this Session to pass S.B. 362.

This bill will establish a new category of motor fuel that will be alternative, renewable fuel. In order to be considered alternative renewable, a fuel must be grown or regenerated. Fossil fuels are not renewable as their reserves are depleted, exhausted and not regenerated.

Currently, the most widely used and/or viable alternative renewable fuels are ethanol, biodiesel and hydrogen. Nevada needs to remove the disincentives in the use of alternative renewable fuels that exist in our tax structure. It is good for our air, water, wallets and for the security of our Nation.

Mr. Chair, we have been working with the chair of the Senate Committee on Commerce and Labor on a number of renewable categories over the past ten years. This falls right in line. Last week, one of the big Wall Street companies warned there may be a super spike in oil prices later this year that could run up to and exceed $100 per barrel. China is virtually absorbing all of the available oil in the world right now because their economy is booming.

China built more buildings last year than all of the rest of the world combined. The Chinese economy is booming; they are taking as much oil as they can, and of course, it is driving up prices worldwide.

SENATOR TIFFANY:
Have you taken a poll of the public to see if this is happening now and how many people it is impacting?

SENATOR SCHNEIDER:
Helen Foley is here to testify, and she has more in-depth information for your Committee.

SENATOR TIFFANY:
I like this policy. We should do everything we can to encourage the alternative energy uses as opposed to giving our friends to the East any more money.

SENATOR SCHNEIDER:
This is a real incentive. The government has to make our energy portfolio 15-percent renewable. We are trying to kick start the different industries, and this is just another step in broadening government's desire to motivate the private sector.

SENATOR TIFFANY:
What was the genesis of this bill?

SENATOR SCHNEIDER:
I have been aggressive in renewable products. I spoke with Ms. Foley, and now we bring this bill before your Committee. As you may recall, the straw bale housing bill was my first venture into sustainable housing and renewable fuels.

SENATOR LEE:
Maybe Ms. Foley can answer my question. Where was section 3, subsection 2, paragraph (d) previously in the bill? Was it encompassed in another rate and now we have asked to put a rate of 6 cents per gallon on it? Was there any tax on alternative renewable fuels prior to this bill?

HELEN A. FOLEY (Western Ethanol Company Limited Liability Company):
Currently, the law states gasoline is taxed at 27 cents and alternative renewable fuels are taxed at 6 cents in this bill, but previously it has been 23 cents for ethanol.

SENATOR LEE:
That answers my question.

MS. FOLEY:
Mr. Chair, with me today is Paul Vind who is with Western Ethanol. I have represented this company since the early 1990s when we began working to address the problem of carbon monoxide in southern Nevada. Western Ethanol was instrumental in coming forward to push through the oxygenated fuel season and help address and understand changing technologies with vehicles. We were finally lifted from under the burden of non-attainment of federal Environmental Protection Agency levels for carbon monoxide.

Many vehicles in Nevada are E-85 vehicles. These are vehicles which run on a fuel combination of 85-percent ethanol and 15-percent gasoline. Unfortunately, it has not been a level playing field for taxation on ethanol. Therefore, it has been a real disincentive for many gas stations to have ethanol tanks. We believe this would be a great incentive for them and for individuals to purchase E-85 vehicles. Mr. Vind is the expert in dealing with Ford Motor Company, along with many other companies, in producing many E-85 vehicles.

Unlike most alternative fuel vehicles, these are comparable in price to the ordinary vehicle on the road. Ford announced Lincoln Town Cars will be available in the E-85 alternative fuel system at the end of this month. Many vehicles at car rental dealerships are E-85 vehicles. You can drive on conventional gasoline, but you can also drive on E-85, if the ethanol is available and easily obtained by the customer. We believe there is a strong incentive for us to be less reliant on foreign oil. It is extremely important for us to keep our air as clean as possible.

PAUL VIND (Western Ethanol Company Limited Liability Company):
I was asked to speak to your Committee regarding energy content of ethanol versus gasoline. I like to speak about the measurement of energy content and units of energy.

The standard for unit measurement is called a British Thermal Unit (BTU). A BTU is the amount of energy it takes to heat one pound of water by one degree Fahrenheit at a specified temperature. Ethanol typically has a BTU value of 75,000 to 77,000 BTUs; gasoline typically has a BTU rating of 109,000 to 125,000 BTUs. When we blend an 85-percent mixture of ethanol to 15-percent gasoline, we have a significantly reduced BTU or energy content. Subsequently, we see an increase in fuel usage per lane-mile traveled. Ostensibly, one could argue the amount of fuel used is taxed at a greater rate per lane-mile traveled.

MS. FOLEY:
Simply stated, it takes a lot more fuel if you are using ethanol to go a certain distance than if you are using gasoline. We have been taxed at a much higher rate than we believe we should have to go that distance.

MR. VIND:
You are basically burning more fuel to go the same distance, but you are paying the same rate of tax. This was aimed at providing a fuel-neutral tax to reduce the rate per ethanol gallon such to level the playing field per lane-mile traveled.

SENATOR TIFFANY:
The bill states 85-percent ethanol derived from grain. Does it mean compressed natural gas, liquefied natural gas and liquefied petroleum gas?

MR. VIND:
No, it does not mean any of those things.

SENATOR TIFFANY:
Why are those gases not included?

MR. VIND:
They are probably not included because they are not renewable fuels. This bill is aimed at a renewable resource versus an exhaustible resource. Renewable means a source that can be grown or reclaimed.

SENATOR TIFFANY:
So, this bill is renewable fuels versus alternative fuels.

MS. FOLEY:
Yes, this is a new concept in Nevada law. It is only fuels which are grown or can be regenerated like water. It is not a fossil fuel, and is not in the ground as a reserve depleted after you explore. It has to be grown. Ethanol comes from many different places. You historically have heard about corn or rice. Also, the Miller Brewing Plant in California has a by-product used to make ethanol. Cheese factories have whey, which can be used to make ethanol. There are unlimited ways to make this fuel, and you cannot exhaust the opportunities to create fuel. Hydrogen is another source of fuel which can be regenerated so we are not depleting a natural resource to find it, and it is always available to us. This is truly an incentive to get these types of vehicles on the road and operating. This bill is important because it is strictly for alternative renewable fuels.

CHAIR MCGINNESS:
What is the current rate? Does this bill change the current rate?

MS. FOLEY:
Yes, Mr. Chair, this would be a change in the current rate. It is currently at 23 cents.

CHAIR MCGINNESS:
Is this part of the solution and to encourage people to use this type of fuel?

MS. FOLEY:
Absolutely, Mr. Chair, it is not only to encourage people to use it, but also encourage individuals who have filling stations to supply ethanol for individuals to use. There are a lot of willing people out there, but they do not have a readily available supply of fuel. When I say there is not a supply, I do not mean the ethanol cannot come to Las Vegas. It is delivered every day by truck. Ethanol is used winter and summer at the Rebel Stations and other locations. There is a small supply available. We feel confident that distributors, certainly from Western Ethanol, can supply all the ethanol we need in southern Nevada, but the consumer has to find a location to pull up and fill their tanks. This bill would allow for more stations to supply ethanol.

MR. VIND:
Rebel Stations recently installed state-of-the-art, ethanol terminal service at the rail spur in Las Vegas. It is very clean, and I would encourage any of you to take a look at it if you happen to be in the area. It is one of the cleanest applications I am aware of on the West Coast.

SENATOR COFFIN:
Can you tell us whether the State rate is lower than the federal rate on gas tax? Is there an incentive from the federal government yet?

MS. FOLEY:
There is a federal incentive in place.

SENATOR COFFIN:
What is the net effect of the federal taxes? Are they less than on ordinary gas?

MR. VIND:
Yes, the federal taxes are less on ethanol than on gas.

SENATOR COFFIN:
To what extent is the federal tax less?

Mr. Vind:
The Volumetric Ethanol Excise Tax Credit is 51 cents per ethanol gallon.

SENATOR COFFIN:
Could you please explain that so it is understandable? You said it is a credit.

MR. VIND:
It is an incentive to the blender of record who files for the 51-cent-per-gallon reduction.

SENATOR COFFIN:
What is the amount of the federal tax reduction?

MR. VIND:
I do not know the answer to that question, Senator Coffin.

MS. FOLEY:
We need to get that information.

SENATOR COFFIN:
I would be curious how it affects the price of ethanol. Frankly, if you are going to really go for it, you would not tax it at all.

MS. FOLEY:
We would support that, Senator Coffin.

SENATOR COFFIN:
Have you considered the idea of not taxing the ethanol? This was suggested by a constituent of mine.

MS. FOLEY:
Senator Coffin, when we proposed the 6 cents, we felt that was about as low as we could possibly go. Other individuals are going to get up here and say it is great for people to use alternative fuels and maybe there should be a subsidy out of some General Fund appropriation. It should not be on the fuel tax because everyone uses the roads. We attempted to look at the BTU equivalency and go a little bit less.

SENATOR COFFIN:
You are getting where I am going. Things are shifting so fast. To my knowledge, we have not done anything at the State level to plan to pay for our highways. This is going to become more of a problem as people switch to combination gas and electric or alternative fuels. We have to find a way to pay for our highways in the future.

MS. FOLEY:
It would be terrible to hold back on these alternative fuels for the fear of not sufficiently funding the highways. This time, we truly have an opportunity to make a huge difference. We presently have 12,000 vehicles in Nevada that could start using this type of fuel if available. It would be less dependence upon foreign oil, but also much cleaner air for our communities.

SENATOR COFFIN:
It is a good idea.

RUSS LAW (Chief Operations Analysis Engineer, Nevada Department of Transportation):

I am here to oppose S.B. 362. We have a philosophy that works well for the State highway system that says, "You use it, you pay for it." Right now that is how our system is financed. The fuels they have talked about all have different energy contents on a per-gallon basis. We have set the rate for methane and propane relative to diesel fuel at 27 cents per gallon. I have given you a flyer on energy content and taxation of special fuels (Exhibit I). This flyer compares the different fuels and sets their energy-based rates relative to diesel. As you can see, the E-85 fuel, principally ethanol fuel, should be taxed at a rate of 22 cents per gallon if we do this based on energy content. Hydrogen is down to 7 cents per gallon. I would argue the tax rate proposed at 6 cents per gallon is appropriate for hydrogen, but not for the other fuels if we continue to base this on energy content.

Having said that, I would argue that other societal goals might interest you, including energy independence and improved air quality. When it comes to improved air quality, be aware that all of these fuels pollute. Do not be led into thinking they do not pollute. Every fuel pollutes in one way or another. At a minimum, every one of them produces heat pollution. I will argue they all produce significant air pollution relative to reformulated gasoline.

If you are going to provide incentives for fuels, you might think about doing it outside the Highway Fund. There is a need for infrastructure to supply these fuels. That would be a great place to look at incentives. There is a possibility that applying incentives to buying vehicles that burn alternative fuels would be much more effective than any societal goals you have to address.

I would like to address a couple of other issues. Someone asked about the federal tax on these ethanol fuels. The federal tax on ethanol has been changed recently because of the beleaguering effect on the federal Highway Trust Fund due to the use of ethanol to replace methyl tertiary butyl ether (MTBE) as an oxygenate. The MTBE was found to cause water pollution that was egregious, and it was banned in California. As a result, we do not purchase that fuel in Nevada either. The winter or oxygenated mixes are ethanol and the federal tax on that was significantly lower than the tax on gasoline. The federal Highway

Trust Fund was looking to lose a total of $2 billion a year. They replaced the ethanol tax incentive they had on fuel, at the federal level, with a General Fund appropriation that provides for incentives as opposed to taking it out of the federal Highway Trust Fund.

Regarding hydrogen, the idea that it is not depleting a resource is inaccurate. Most hydrogen in the United States is made by steam reforming of methane. They use methane gas and combust it in the presence of steam to produce hydrogen. It is an energy-intensive process; as a result, you do not see hydrogen readily available, especially as a fuel. It is used for more specific work, if you will. It is an energy-intensive process to build, and it combusts carbon otherwise combusted in an engine.

SENATOR COFFIN:
What type of pollution is produced by the alternative fuels? I have heard testimony over the years on the pollution effects of other alternative fuels, but we are going to have to make a change somewhere. I understand the effects of gas-electric, but I have no idea how much or what kind of pollution is produced by ethanol and biodiesel.

MR. LAW:
The information on biodiesel shows it is indeed a cleaner-burning fuel than diesel. Details I found on ethanol mixes with gasoline are quite interesting. In fact, there is evidence the ethanol mixes, due to increased vapor pressure of the gasoline, actually end up increasing pollution. As a result, I urged the United States Congress to do some scientific expeditions and look into that further. From research, we do know that they increase the vapor pressure of gasoline mixtures, and therefore, increase the ozone pollution. They also increase nitrous oxide emissions. There is a trade-off between that and the reduction in carbon monoxide from ethanol blends. The ethanol blends do reduce carbon monoxide. These things need further investigation. I heard a couple of weeks ago that the State of California has some individuals urging changes based on ethanol’s effectiveness.

SENATOR COFFIN:
Catalytic converters have reduced pollution a great deal; however, they have created other problems with sulfur dioxide emissions. I understand it is harmful when sulfur dioxide gets into the atmosphere and mixes with the moisture.

MR. LAW:
Indeed, when you mix sulfur dioxide with water in the air, it creates sulfuric acid. I am not sure catalytic converters created that problem; however, catalytic converters heat up and take platinum and resources. It is a trade-off. If there was a perfect solution, trust me, we would be using it.

SENATOR TIFFANY:
Ms. Foley was testifying about alternative renewable fuel. I thought I heard you say hydrogen does not fall into the category of renewable fuels. Is that correct?

MR. LAW:
Yes and no are the correct answers. Most hydrogen used in the United States is produced using a steam reforming process where they inject methane into super-heated steam and it combusts the carbon and produces carbon monoxide and eventually carbon dioxide. It then leaves hydrogen as a by-product. It is an energy-intensive process, but most of it is made that way using methane which can be burned in cars. It is one of the cleanest fuel sources. Having said that, there are many ways of making hydrogen. One is through electrochemical processes where you take solar radiation and use that to generate the energy to break chemical bonds in water. You can do this electrochemically which is a clean process, but unfortunately quite expensive. It is used a few places in some small power plants.

If you want to do something for Nevada I would urge you to look at some solar applications. There is indeed some opportunity for this State to make a difference, change the world and improve our air quality.

EDGAR ROBERTS (Administrator, Motor Carrier Division, Department of Motor Vehicles):
I am here to oppose S.B. 362 and inform you the Department of Motor Vehicles (DMV) has submitted a fiscal note reflecting the losses to the State Highway Fund and the counties. Senate Bill 362 reduces the tax on ethanol, biodiesel and hydrogen fuels from the current 23 cents and 27 cents per gallon, respectively, to 6 cents per gallon. Data from the DMV reflect 16 ethanol-only vehicles and no known hydrogen-powered vehicles in Nevada. In addition, there are only 12,000 flexible fuel vehicles which may run on E-85, 85-percent ethanol and 15-percent gasoline. Only 184,500 gallons of biodiesel have been reported used in Nevada, the majority in nontaxable government vehicles.

The effect of the reduction of the State fuel tax on E-85 fuel from 23 cents to 6 cents per gallon and a reduction of the special tax on biodiesel from 27 cents to 6 cents per gallon creates a large loss to the Highway Fund and the counties in future biennia. The amount of lost revenue would be $2.9 million, as reflected in the DMV's fiscal note. However, if this bill passes on biodiesel at 6 cents per gallon, the State would lose approximately $60 million of the $80 million we collect on diesel tax at 27 cents.

The bulk carriers changed to the 6-cent biodiesel because of the lower, cheaper rate. This is a $60-million loss to our Highway Fund. In addition, ethanol used to make gasohol, as used in E-85, is presented in this bill under the NRS 366. The appropriate chapter for E-85 would be the NRS 365 under motor fuels.

Finally, a major reduction in fuel rates in one type of fuel will lead to evasion schemes and reporting of taxable fuel which means further losses to the Highway Fund and the counties. This will lead to the necessity of auditing all carriers, users reporting the use of E-85 or biodiesel with its cheaper tax rate, to ensure all who use these fuels are reporting the use and tax correctly. This reduction is not equitable or fair as it relates to other fuel taxes.

SENATOR COFFIN:
The revenue for roads is going to be lost eventually as the hybrid cars are used in greater quantities. What kind of studies has the DMV done on replacing the cost of the Highway Fund? I would love to see Daryl Capurro’s trucks using biodiesel as opposed to diesel because of the cost to society from diesel pollution. How many people are dying because of the pollution? I think you can come up with something to replace the loss to the Highway Fund.

MR. ROBERTS:
Currently, the DMV is charged with the collection and distribution of the fuel taxes to the Highway Fund and the counties. We are not involved in studying or setting fuel rates.

SENATOR COFFIN:
I am trying to get a concept through to you which you probably already have on your mind. We are going to be losing this revenue, and someone needs to think of a long-range policy.

MR. LAW:
I am the one who is paid to look at those issues and indeed, I do look at them. I appreciate your broad perspective that looks outside the highway right-of-way limits. The last federal Highway Cost Allocation Study included an addendum which looked at the cost of pollution, the health effects and other factors to try to identify those issues. The effect of carbon monoxide and carbon dioxide was studied closely, and the study found it was extremely harmful. They did a nice job on the study, but is it accurate? It is hard to tell.

SENATOR COFFIN:
You can quantify savings in some fashion, but it is subjective. The American Cancer Society and the American Lung Association will tell you they have a pretty good handle on the amount of savings. It would be nice if your agency would do some of the thinking to try to give us a way to go with this issue.

MR. LAW:
I understand where Senator Coffin is going with this issue, and I agree with him. We should look at all the criteria by which you evaluate these fuels, not just the energy content, but also the ability to provide us with energy independence to provide cleaner air and cleaner water.

PETER KRUEGER (Nevada Petroleum Marketers and Convenience Store Association):
We are in support of this bill. We have always supported fuel rates, and this includes the 6 cents, based on what we have heard. We have asked this Legislature to come up with a fuel tax policy for at least a decade. We have asked for this in writing because we have had an informal policy whereby all tax rates for fuel are based on the BTU value of fuel. We support that. I am not sure who to believe here. We have Ms. Foley and Mr. Vind who tell us the rate would be 6 cents based on the BTU, and then we have a chart prepared by the Nevada Department of Transportation and Mr. Law that shows the E-85 fuel would be based on 22 cents. We are supportive of all fuels being taxed on their BTU value. Whatever that value is should apply to this fuel, and we will support that value and this bill.

MR. CAPURRO:
I should support this bill as it is written right now. The simple fact of the matter is, if this bill were passed and signed by the Governor, my first e-mails sent out would be to the 400 companies I represent. My suggestion to those companies

would be to switch to biodiesel because they would save 21 cents per gallon. That will cost the Nevada Highway Fund $60 million a year. This comes up every session where somebody dreams up legislation as an economic incentive to do something. It always seems to hit the Highway Fund. Unfortunately, the Highway Fund is not as healthy as the State General Fund at this time and will not be after this Session. Clearly, nobody is interested in increasing revenues. Look back to the year 2000 when we had nothing in the way of bond payments. Since then, because of the super projects done around the State, which could not be done with existing revenues, they were bonded. At some point in time, the piper has to be paid. Starting in fiscal year (FY) 2007 or 2008, there will be a $100-million hole in the Highway Fund per year.

Nobody knows what is going to happen with the federal Highway Fund. We believe it will be approximately $285 billion for a 5-year bill. Nevada will receive a significant increase. You have to understand, none of that money can be used to reduce those bond payments. We have the benefit of putting in highways, but at some point in time, we have to pay for these roads. There has been no increase for the Highway Fund in 14 years. Bills like this obviously do not help for the reasons I have outlined. Individuals make decisions based upon economics. If biodiesel fuel is accessible and I can save 21 cents per gallon, it is a competitive issue to the industry and a loss for the State Highway Fund.

I noticed significant differences in the testimony from both sides with respect to the BTU content. We have to go beyond the BTU content and understand the State of Nevada has basically stated, if you use the highways, you have to pay for them. We have a dedicated Highway Fund; there is no General Fund money going into our Highway Fund at the present time. If you use any kind of fuel that burns, it is going to be burned on the highways and damage will be done to the roads. There are going to be congestion management problems and other issues to deal with. I do not believe we should be talking about providing an incentive from the Highway Fund for the use of any kind of fuel. We recognize the BTU content with respect to what we charge. Diesel is charged at 27 cents, gasoline is charged at 23 cents and it varies down from there.

Insofar as the argument about clean air, the California Air Resources Board, which probably has more expertise than the federal Environmental Protection Agency (EPA) in testing fuels and vehicles, released a study showing natural gas emissions from buses. These were found to be seven to eight times more mutagenic than tested diesel buses powered by ultralow sulfur fuel. The natural gas bus was found to discharge more mutagenic emissions, particulate mass, hydrocarbons and carbon monoxide. A mutagenic measures the degree of mutation in the cells which means concerns for children or future children born.

The whole issue of which fuel is cleanest has a long way to go. As of 2007, by federal law, we will have to use ultralow sulfur diesel, which solves some of the problems. We will have vehicles required to meet stringent standards. They will be so stringent they will be as clean as or cleaner than any alternative fuel now on the board. I am also a hydrogen fan, but we are a long way from the mass use of hydrogen on the highways. Every estimate is anywhere from 15 to 20 years.

Senator Coffin is right. We have to come up with some sort of road map to finance the highways of this State. This is the fastest-growing state in the country, and we have one of the most serious congestion management problems in the fastest-growing area in the State, Clark County. Reducing the amount of money going into the Highway Fund certainly does not help. I urge you to defeat this bill.

SENATOR COFFIN:
You have always been a defender of the Highway Fund, and you foresee a possible increase in fuel taxes if this bill passes. Is that how you are thinking, Mr. Capurro?

MR. CAPURRO:
We were part of what was called the Highway Users Alliance. A bill that came into this Legislative Session would have raised gasoline 2 cents per gallon for the next 5 years. The feeling around here is if any Legislators were in agreement with that increase, they would be looking at severe reelection problems. At some point in time, which is probably no later than the 2007 Session, you will have to address how we are going to fund these roads. That may be an increase in fuel taxes or other fees that go into the driver's license and registration fees or any other fees dedicated to the Highway Fund. You may have to decide to put some General Fund money into the building of highways.

SENATOR COFFIN:
Not every state finances its highways exclusively with highway tax. Some use General Funds exclusively. I am not sure how many states that would include.

It is a societal question. You have death and disabilities caused by pollution, and the State should spend any amount of money it can to fix that problem. That would be a societal issue to be answered by the General Fund.

MR. CAPURRO:
The problem is we have other demands on the General Fund. Those financial obligations range from education to health. It is an uneven application of funds, whereas you have a dedicated Highway Fund. The amount the fund will receive from year to year is well calculated. It would be virtually impossible to calculate General Fund allocations.

SENATOR COFFIN:
You made the statement the first e-mail you would send out would be to your clients to switch fuels.

MR. CAPURRO:
I have been around 37 years, and everybody knows I am one of the staunchest supporters of the Highway Fund. It would be irresponsible for me to send out those e-mails, and I hope you do not put me in that position. It would be irresponsible to tell the industry we could shaft the State Highway Fund and the State of Nevada because of this bill.

SENATOR COFFIN:
I would not consider it shafting the government. I would consider it saving lives and making money at the same time.

MR. CAPURRO:
I am not sure what you mean by saving lives. Quite frankly, some of the testing procedures done simply do not show a big difference between the new diesels and the new engines. I am not sure how many lives might be affected; that is a subjective situation.

SENATOR COFFIN:
I know it is, Mr. Capurro. Yet, this bill is a good vehicle on which to have this discussion and try to figure out where we are going to go in the future. You have said we have never really done anything about these congestion and pollution problems. We have a lot of people moving to Las Vegas and to the

Truckee Meadows. There are a lot of inversion layers and a lot of problems. We should think more about what a nice place this is to live. We have the additional particulate problem in southern Nevada.

It is time to move some of the General Fund into the Highway Fund to replace these inevitable losses. I will defend the Highway Fund with you. It is a good user-pay situation, but the whole equation is changing from outside factors. I would love to see your trucks switch to a cleaner fuel. We would not leave the Highway Fund in a lurch. We would have to find ways to replace the funding.

MR. CAPURRO:
We have to find an answer for this issue. The fact of the matter is, somebody else would have to pay. I am not sure the general public or other elements of the industry would be too interested in having the trucking industry recognize a huge break and everyone else pays for that break.

SENATOR COFFIN:
I do not look at it as a break just for the trucking industry. Think of the noise pollution which would be solved from the hybrid-type vehicles.

SENATOR RHOADS:
Maybe we should do what we did last time we had a tax increase. We started about a year and a half before, went to the different communities and had hearings. When we got to the Legislature, it passed easily.

MR. CAPURRO:
If nothing else comes out of this Session, you have an interim study of some sort for 2007 and beyond for some answers. That would be greatly desired.

JOE L. JOHNSON (Toiyabe Chapter Sierra Club):
We support this bill and recognize the concerns and impacts these types of abatements or credits have on the Highway Fund. We understand the external cost and benefits gained by using some of these alternative fuels. Pollution studies were referenced against ultralow sulfur diesel which comes into play in 2007. This is a major advancement for clean air, particulates and toxics. If you process this bill, there needs to be a definition of biodiesel. It is referenced in other sections of statutes that define biodiesel reflecting B-5 or B-20. Senator Tiffany's bill removes the cap at 20 percent. If we give the benefit, we should recognize many grades of biodiesel since some have fairly low content of

biomaterial. If we give the credit, it should be based upon the percent of the alternative fuel actually in the fuel mixture, not on some artificial substance. We would like to be on the record stating that we have supported fuel tax increases in the past. We generally are opposed to General Fund offsets on highway improvements.

SENATOR COFFIN:
Mr. Johnson, why are you opposed to offsets of the General Fund?

MR. JOHNSON:
Generally, we support the user pays. In recognizing other public and policy benefits, we are now seeing customers responding to price mechanisms. If the cost of fuel adequately expresses the cost to society, they may select vehicles which are more fuel efficient, such as hybrids. In general, what is not recognized is the external cost that would be shifted to a different group of people. The General Fund taxpayer, as opposed to the highway user, is the direct link to pollution. This is really market oriented.

SENATOR COFFIN:
To some degree, I understand price will, govern consumption, but look at the price of cigarettes. Does that stop cigarette smoking? It has slowed it a little bit. If you are in the Sierra Club and you are breathing the air, it seems to me you would want something as soon as possible to help replace that stuff going in your lungs. Granted, the last person buying gas will pay $1,000 a gallon or more. Somewhere along the line though, a lot of people will die from excess pollution. Many states do put general fund in, and those are probably states in which the Sierra Club testifies.

MR. JOHNSON:
I recognize that, and I said in general policy.

SENATOR COFFIN:
Well, that is general policy as Nevada is concerned. I would like to hear some more creative thinking from you on this issue. I would like to know if you have the same policy in all states.

MR. JOHNSON:
I will get back to you on that. There are national policies on fuel efficiencies. I will check to see if there are statements on that subject.

SENATOR COFFIN:
Do you have the same position in California as you do here in Nevada?

MR. JOHNSON:
In general, we hope to have markets address issues, particularly in this area. Normally, our concern is how to put a dollar value on the external costs, the health effects, the visibility and the quality-of-life aspects. That is difficult to do.

SENATOR COFFIN:
You will not argue with me that there is a question regarding the future of the Highway Fund if we just rely on fuel taxes.

MR. JOHNSON:
Yes, this is a major concern. There are many areas we need to look at in the future. At this point in time, we are looking at this as a relatively small impact upon the Highway Fund towards what I envision.

PETER KONESKY (Nevada State Office of Energy, Office of the Governor):
I want to frame our situation within this State. We need to do something with alternative fuels. We have had 9 pipeline closures in the past 14 months. That is our pipeline for keeping this State green. We produce about 1.5-million barrels of oil in this State. We use 25-million barrels of gasoline, 12-million barrels of diesel and 11-million barrels of jet fuel. It is over $3 billion a year for energy in Nevada. I just ran some numbers on fuel. If we were paying $1 a gallon going out of the State for the fuel we use, we would spend close to $2 billion just on motor and jet fuels alone. We use about 600,000 barrels of alternative fuels which is a small drop in the barrel.

For every dollar we would leave in this State using an alternative fuel, we would have a good economic boost. Comments were made on hydrogen. The numbers I obtained a few months ago showed we generate hydrogen from natural gas at a cost of $12 for a million BTUs. If we generate it from electrolysis, it is about $28 for a million BTUs, and that is approximately 5 cents a kilowatt. If we use ethanol, it is about two-thirds the cost of what it would be for natural gas or about $8 for a million BTUs. Other alternatives to hydrogen production need to be considered.

One of the things that concerned me in the bill we are talking about was grain-derived ethanol and cellulose ethanol that should be cheaper to produce than grain ethanol. I would suggest specifying grain as something we have to address in the future. As far as the Office of Energy is concerned, we are neutral on this bill. I just wanted to bring some information to the table for you to consider.

CHAIR MCGINNESS:
We will close the hearing on S.B. 362; we ask people to give us the executive summary version of their testimonies. We will open the hearing on S.B. 476.

SENATE BILL 476: Makes certain changes relating to tax on special fuels and registration of motor vehicles powered by electrical power or alternative fuel. (BDR 32-1301)

ROBIN H. JOYCE (Las Vegas Clean Cities Coalition):
We are in support of S.B. 476 with amendments we would like to submit (Exhibit J). A copy was given to each of you. With me are Dan Hyde and Annalloyd Thomason, also representing the Las Vegas Clean Cities Coalition as well as several members of the Coalition briefly testifying from Las Vegas. This bill provides incentives for the purchase of alternative fuels and alternative fuel vehicles. At this time, I will defer to Mr. Hyde and Ms. Thomason.

DANIEL R. HYDE (Las Vegas Regional Clean Cities Coalition):
I want to first make a remark about Mr. Law's comments on hydrogen. Since 2002, Las Vegas has operated a hydrogen-methane energy station. As far as electrolysis for hydrogen, it is now under construction at the Las Vegas Valley Water District and should be operational in about four months. The City of Las Vegas operates two hydrogen vehicles.

I would like to address what I consider a vitally important policy issue for the Legislature to consider. In dealing with alternative fuel vehicles, it is more than clean air; though it is certainly that, it is more than economics. Our dependence on energy sources from outside this country is having a dramatic impact on everything we do. As a Coalition that has been around since 1993, we have finally come to the table with something that is tangible, workable and does not in any way impact the Highway Fund or any other tax fund. That is the driving force here. It does have a sunset in four years. We are putting the pressure on ourselves to produce results as a team.

An executive agency fiscal note was presented which is moot (Exhibit K). It has to do with taxes, and it has to do with dependence upon the DMV. What we have put before you in the amendments is in reference to our Coalition, both north and south. There are two Coalitions in Clean Cities. They would be more than happy to administer this program at no cost. We are doing this voluntarily; we are not getting paid to do this. You are going to hear from people in Las Vegas representing several agencies including members of the Nevada Development Authority, Haycock Petroleum, Yellow Checker Star Transportation and Clark County Air Quality Management District. All of the testifiers will talk about a variety of issues which are a win-win situation for everybody. I will defer to my colleagues.

ANNALLOYD THOMASON (Las Vegas Regional Clean Cities Coalition):
This bill provides an incentive for purchasers of alternative fuel vehicles. These vehicles would be required to use the alternative fuel. It has a cap of 250 vehicles per year. It also provides an incentive that would eliminate the registration fee for those vehicles for a maximum of four years.

These types of incentives will help to move the use of alternative fuel vehicles from just government use to private industry, and indeed, private citizen use. That is the reason for the bill.

SENATOR TIFFANY:
If you were to put it succinctly, what policy issue are we facing?

MR. HYDE:
The policy issue is to redirect our resources to give credit for the purchase of an alternative form of energy, to gain energy independence and to clean our air at the same time.

SENATOR TIFFANY:
Are you giving an incentive for the private sector to move to alternative fuels?

MR. HYDE:
I am glad you pointed that out Senator. We are under the federal Energy Policy Act of 1992 and the NRS 486A adjudicated by the Legislature in 1991. It was mandated for us to have an increasing number of alternatively fueled vehicles deployed within our fleets. That created a fiscal crisis in the budget process dealing with any governmental agency because it is unfunded. That is the bad

news. After 12 years of doing this in Nevada, the good news is we have an infrastructure in place paid for by those mandates and the Clean Cities Coalition actively pursuing grants. Now we have an infrastructure in place, and the private sector is perfectly positioned to take full advantage. Offering these types of incentives with a sunset and a cap in no way impacts any other tax. This is by far the best way to go. If it fails, the blame is on us. If it did fail, it goes back to your fund. If it succeeds, we will look at a way to bridge in the next phase.

SENATOR TIFFANY:
Are you trying to get the private sector to buy these cars? The last bill we heard was to try to encourage this through tax rebates on the fuel. Is there a reason you chose the incentive on the purchase of the car versus the fuel?

MS. THOMASON:
We, of course, have had many conversations about the Highway Fund as well, and we did not want to select a mechanism that would affect that fund. Private industry and or private individuals look for something to help make the cost of alternative fuel vehicles at parity with gasoline and diesel. We felt if we could give private industry incentives to purchase the vehicles, it would be up to them to pay the price of the fuel, including the Highway Fund taxes.

SENATOR TIFFANY:
Is that why you chose to go the General Fund direction?

MS. THOMASON:
That is correct, Senator Tiffany.

SENATOR TIFFANY:
I have to say, this is the first time I have heard this approach.

CHAIR MCGINNESS:
Mr. Joyce, you can have the rest of your group in Las Vegas come up to the table to testify. We have a letter from Mr. Goodrich (Exhibit L) and an e-mail addressed to me from former Assemblyman Jason Geddes (Exhibit M) supporting these two bills.

PERRY URSEM (Vice President, Economic Development, Nevada Development Authority):
Somer Hollingsworth, President and Chief Executive Officer of our firm, was unable to attend the hearing today and requested I speak on his behalf in support of S.B. 476. As a transportation specialist for the Nevada Development Authority and a stakeholder with Las Vegas Clean Cities, my responsibilities include working with companies that develop alternative fuel, electrical and fuel cell technologies for vehicles used in the public and private sectors.

Currently, I am working with a number of companies developing and utilizing alternative fuels that are in the process of considering relocation to Nevada. A select few are in the process of moving to the southern Nevada region.

Companies around the globe are attracted to Nevada because of the unique desert climate in which to test and the opportunity to be part of a progressive business community developing these forms of alternative fuels, harnessing solar, wind and geothermal resources for energy. The Nevada Development Authority is the gateway for new and expanding companies looking to relocate to Clark County, seeking grant and abatement opportunities provided by the State of Nevada. At this time, the only forms of incentives are for companies creating renewable energy or building a facility for the production of a renewable energy storage device.

Senate Bill 476 would be a catalyst for stimulating research, development and fleet implementation by private sector companies using alternative fuels. It is becoming more evident today, with the escalating costs in petroleum, that we as a community be proactive in the development and use of alternative resources.

There has been some discussion today whether or not this would have health impacts, but we believe alternative fuel use would benefit our local air quality and environmental standards. As we have seen over the last year with the federal EPA's heightened awareness for the increased ozone in particulate matter in southern Nevada, alternative fuel would assist in reduction of these contaminates. The use of these fuels will enable us to decrease our dependency on foreign resources as well. Alternative fuels will be born of American entities and not our foreign counterparts. In essence, it would benefit us with national economic development.

This bill would also support our efforts in attracting new industries that develop and use alternative fuels for transportation. This incentive, I hope, is the beginning of the State's proactive approach in stimulating alternative fuels, new means of energy for transportation and a responsible move in the health and fiscal welfare of the citizens and businesses within the State of Nevada. We ask the Senate Committee on Taxation to take consideration of this bill and thank you for the opportunity to hear our support of this measure.

DOUG KEENE (Vice President, Las Vegas Regional Clean Cities Coalition; Fleet Services Manager, Las Vegas Valley Water District):
I am the fleet manager of over 600 vehicles. Of those 600 vehicles, approximately 68 percent run on some sort of alternative fuel, whether that be natural gas, biodiesel or hybrid.

In 1991, Nevada passed the *Nevada Administrative Code* 486. They saw we had a need for relief on dependency of foreign oil and air quality problems. Based on that Code, most of our fleets had to buy those vehicles, and we have been quite successful with them. There has never been anything to convince the private sector to use alternative fuel vehicles. This bill will help convince individuals the time is right for alternative fuel vehicles and improve the air quality in Nevada.

JIM ZEIMET (Director, Las Vegas Regional Clean Cities Coalition; Fleet Maintenance Supervisor, Clark County Water Reclamation District):
I want to express my support for S.B. 476. We have a smaller fleet of approximately 220 vehicles, and 65 percent run on alternative fuels. In the past 5 years, we have cut 75 percent of our gasoline consumption using alternative fuels. This bill is an incentive for the private sector to get on board, and I support it.

DENNIS RANSEL (Director, Las Vegas Regional Clean Cities Coalition; Senior Management Analyst, Department of Air Quality Management, Clark County):
I am here to speak in favor of S.B. 476. Creating incentives for private use of clean alternative fuels will open the door for the future. These fuels do help clean the air by reducing vehicle emissions. We feel incentives will help to introduce clean fuels and new technology vehicles to the public. Doing so will increase awareness and ultimately acceptability and use of the vehicles, the fuels and the new technologies. This bill, as it stands with its sunset, is really

a small but firm first step for this State to take. We will have cleaner vehicles that use cleaner alternative fuels, and we will continue to improve air quality as well as increase energy independence.

MARTY O'CONNOR (Secretary, Las Vegas Regional Clean Cities Coalition; Vice President of Sales and Marketing, Haycock Petroleum):
Haycock Petroleum has been a long-time supporter in providing access to the alternative fuels by virtue of our card access system. We have been supporting the idea of cleaning our air for more than a decade. I support everything my colleagues have said.

As the card supplier for the entities of compressed natural gas and hydrogen right now, our system would record the use for the distribution properly. I would provide any information necessary. We are greatly in support of this bill and appreciate the opportunity to testify.

JACK OWENS (Director, Las Vegas Regional Clean Cities Coalition; General Manager, Yellow Checker Star Transportation):
I am here representing Yellow Checker Star Transportation in support of this bill. We have been in the alternate fuel business for 25 years. We have saved the Las Vegas Valley a thousand tons of particulates and a thousand tons of carbon monoxide a year. That is done by converting the vehicles properly with a dynamometer and all of that. In the previous bill it was said these fuels are not necessarily cleaner, but they are. We have certified with the national EPA the engine family for our Ford Crown Victoria's for the years 2002, 2003, 2004 and 2005. That means we had to satisfy them, in the lab, that our emissions were clean. We had to send the vehicles to the EPA laboratory in Ann Arbor, Michigan, for consideration. We have done a lot, and our emissions have been shown to be cleaner at the tailpipe than the surrounding air we are driving in. We heartily support anything that encourages other people, especially fleets in this Valley, to get on the bandwagon and use alternate fuels.

SENATOR TIFFANY:
Could somebody give us the amendments and go step by step through them? It looks like you are asking for credits on the fuel and registration and I cannot figure out where the money is coming from.

MR. HYDE:
Mr. Chair, if you do not mind, I will go through the proposed amendments with you right now. As written, the bill is wrong. What you have in front of you are the amendments to the bill, Exhibit J. Item 1 replaces the entire section 1, subsection 1.

Item 2 changes the word "tax" or "tax credit" to “rebate” in section 1, subsection 2, paragraphs (a), (b), (c) and (d). Item 3 changes "tax credit" to “rebate” in section 1, subsection 3. Item 4 deletes section 2 in its entirety. Item 5 deletes the line that reads, “The exemption must expire 1 year after the date of purchase” in section 13, subsection 1. Item 6 changes section 13, subsection 3, paragraph (a) to read “During each year following first year purchase, must be for the full amount of the registration fee.” This will clarify that the registration exemption is for the full amount of the registration fee only. It will in no way impact the Governmental Services Tax.

Finally, item 7 deletes section 13, subsection 3, paragraph (b) in its entirety. That constitutes our amendments.

SENATOR TIFFANY:
It looks like you are setting up a fund funded by the General Fund and then when somebody purchases what you have defined as an alternative fuel vehicle, that individual gets a 100-percent registration fee credit for his or her first four years of registration of that vehicle. Is this bill saying 250 different cars each year get registration exemptions?

MR. JOYCE:
The registration exemption would apply for each of the four years of the program. That is just the registration portion, not the Governmental Services Tax portion people pay when they register their vehicles.

SENATOR TIFFANY:
For instance, if 250 cars register as exempt, they get the exemption for the full 4 years. The second year, 250 other cars register; they would get the exemption for 3 years. Do the first 250 go through the full 4-year exemption?

MR. JOYCE:
That is correct, Senator Tiffany.

SENATOR TIFFANY:
Do we have enough money in this fund to cover all these vehicles? Have you done the calculations?

MR. JOYCE:
We have the funding and did the correct calculations.

CHAIR MCGINNESS:
Is there anyone else who wants to testify on this bill either here or in Las Vegas? Mr. Law, go ahead and come forward.

MR. LAW:
I am here to oppose S.B. 476 for all the same reasons I cited on S.B. 362. I would like to see the section that takes the registration fee removed from this bill as it affects the Highway Fund. I would also encourage you, if you decide to give that exemption, to limit the number of vehicles eligible from a single company or single individual and make it fair so others can participate.

SENATOR TIFFANY:
What amount would be impacted by the Highway Fund?

MR. LAW:
It could be as much as $300 if they register a heavy-duty truck. They pay up to $1,360 in registration fees. If you assume it is a passenger vehicle, they pay $33.

SENATOR TIFFANY:
I thought the $33 went to the DMV.

MR. LAW:
That money goes to the Highway Fund even though the DMV collects it.

SENATOR TIFFANY:
If you exempted that out, would the Highway Fund be impacted?

MR. LAW:
That is correct.

SENATOR TIFFANY:
The funds are coming from the General Fund, and that is what pays the cost of the registration. Everyone is being made whole, but they are made whole out of the General Fund. That is the way I understand this.

MR. ROBERTS:
The DMV has submitted a fiscal note which breaks out the fuel tax cost and also the registration cost.

SENATOR TIFFANY:
You need to look at their amendment because it does not include the fuel tax, just the registration.

MR. ROBERTS:
Based on the amendment in previous testimony, it would still affect us as they were asking for a special fuel tax rebate.

SENATOR TIFFANY:
Not with their amendment. They removed all of section 1 from the amendment.

CHAIR MCGINNESS:
Mr. Roberts, check the amendment and make sure we are all on the same page.

MR. LAW:
The way I heard Mr. Hyde explain the amendment, there was a rebate incentive from the General Fund at the beginning, and indeed there would still be a registration fee exemption. There are two components to this bill. If there is no Highway Fund impact, I do not need to be here.

MR. ROBERTS:
To address the registration cost, if they were all motor carrier vehicles, there could be an impact of $340,000.

MR. CAPURRO:
Unfortunately, none of us has access to the amendment you are looking at right now. We are opposed to S.B. 476 the way it is written. We are neutral if the amendment is indeed a rebate from the General Fund on 10 percent of the purchase price of the alternative fuel vehicles. The other thing they removed was section 2 whereby they are not required to have these vehicles smog

checked. We feel these vehicles should still be smog checked. Last Session, the Legislature passed a law that all fuel-powered vehicles must be smog checked.

Part of the problem is not being able to check these amendments against the bill. I would also say on the registration fee portion, make sure it is not just one individual or fleet that gets the exemption. One rental car fleet could use up all of these exemptions if they were the first ones in line. They could get the entire tax credit.

Mr. Roberts is correct. If this bill exemption was extended to heavy-duty vehicles, their registration is $1,360 which would be a significant amount of money.

CHAIR MCGINNESS:
We are getting extra copies of the proposed amendments to pass out to anyone who wants a copy. Are there any other questions or comments?

MR. URSEM:
We would like to clarify a few details on S.B. 476. First of all, the credit or partial abatement is for 10 percent of the tax on the alternative fuel; it is not 10 percent on the fuel. Also, for the registration, this is an abatement up to $300 per vehicle. This bill states, "for a new vehicle," which would mean that vehicle would be new for the first year only. The next year you would have 250 different vehicles which are new and so on.

MR. KEENE:
These changes are applied to S.B. 476, and this bill is applicable to vehicles with a gross weight of less than 26,000 pounds. This would not apply to the larger vehicles.

MS. SMITH NEWBY:
The City of Las Vegas is in support of S.B. 476 as a member of the Clean Cities Coalition.

MR. JOHNSON:
The Toiyabe Chapter Sierra Club would like to go on record as supporting this bill as well as the proposed amendments.

CHAIR MCGINNESS:
Is there anyone else to testify on S.B. 476? We will close the hearing on S.B. 476 and open the hearing on S.B. 482.

SENATE BILL 482: Revises provisions governing allocation of certain taxes levied on motor vehicle fuel. (BDR 32-530)

SHAUN CAREY (City Manager, City of Sparks):
I appreciate the opportunity to speak today on behalf of the City of Sparks. I am joined today by John Mayer, a city council member from my community.

The bill draft we received last week did not include the language which would make this a Washoe County-specific bill so we brought forth an amendment to comply with our original intent (Exhibit N). I have a PowerPoint presentation to help explain our intention (Exhibit O, original is on file at the Research Library).

This bill is supported unanimously by the city council of Reno and the city council of Sparks. It is opposed by Washoe County. This bill is not about an increase in gas tax, it is about a fair distribution of gas tax in Washoe County. You are appropriately considering this bill as I consider it an issue of tax policy.

It is the position of the two cities that a consistent and equitable distribution of fuel taxes has two factors. Those factors are need and extent for the roadway system within Washoe County. This is the outcome of the FY 2004 fuel tax per capita. This shows you on a taxpayer basis within the various jurisdictions that $53 of fuel taxes are currently returned to taxpayers residing in the unincorporated area and less than $17 is returned to the City of Sparks. A little less than $18 is returned to the City of Reno. This is a long-standing formula which is having a devastating effect on road conditions in the two cities. We believe a change in this formula would be fair and equitable and allow the cities and their residents to receive a fair return.

Washoe County is a unique county within our State. The slide, Exhibit O, shows you we have the highest concentration of city residents within incorporated areas. Seventy-three percent of the residents in Washoe County reside within the corporate limits of either Reno or Sparks. That compares to some other areas quite differently. You can see in Elko County, the split is about 50-50, and obviously in Clark County, a very different county than Washoe County, we have 57 percent of residents living in cities and 43 percent living in the urbanized and municipal function in Clark County areas.

MR. CAREY:
Washoe County is different. We are in a unique position and would like to utilize factors which would take into account our uniqueness. I ask you to please look at the screen for the PowerPoint presentation. These graphs will explain the distribution of the fuel taxes within our county.

The formula you just looked at in the PowerPoint presentation is treating our taxpayers within the cities unfairly and leading to a great amount of distress within our road system. We are proposing a system which would distribute the fuel tax based upon need and extent. We feel this is fair to the taxpayers. Two-thirds of the distribution would be done based upon need. That is basing it on population, making the population and the taxpayers represented by that population equal.

An important factor is one-third of the money should be distributed based upon the road mileage maintained by each local government. This would apply to the 6.35 cents distributed between the cities and would be based upon need and extent. The precedent for the distribution is the actions which our State Legislature has taken in the past to base our tier 1 distribution between the counties and the State. We believe need and extent are the factors for our taxpayers to be treated fairly. We ask for this consideration in Washoe County. These are the current variables. We are looking at assessed valuation as not being a relevant factor in the distribution of highway funds. The value of the land has nothing to do with the cost of maintaining the road. The area of land has nothing to do with this either. In a densely populated city, you will have more miles of roads per square mile than you will in rural areas. We believe eliminating these two segments and focusing a revised fuel tax formula based upon need and extent is the fair way to do this particular distribution.

If you apply this bill based upon FY 2004, Washoe County would still receive more revenue on a per-capita basis. We feel that is fair and appropriate. It is an equitable distribution to all taxpayers; this change is important for our two cities and the taxpayers who reside therein. Roads are different, and city roads carry the bulk of our urbanized traffic; our employment centers and job centers are all predominantly within the two cities. Our traffic conditions are important. County roads are also important to those residents. They often travel more miles to reach their destinations, and that is fairly represented by inclusion of miles in those particular factors. There is a fair picture in Exhibit O of traffic congestion.

Our proposal is based upon taxpayer fairness. Taxpayer fairness is something this Committee can help us with by providing policy guidance. It should be based upon need, and that need is based on treating taxpayers in the populated areas on an equal basis. It should be based upon extent. This factor takes into account the miles needed by county residents who travel greater distances. We believe this formula is fair.

Please take a look at our amendment, Exhibit N. I want to point out that we filed our bill draft back in August 2004 and received it late last week. It was always our intent to focus on the unique situation in Washoe County.

MR. CAREY:
The time for action is now. Tier-1 motor fuel taxes were debated, and the Legislature acted in the past to create fairness in the distribution based on need and extent. Motor vehicle fuel tax distributions have been discussed on and off for over 20 years. This is a city versus county debate. There is little incentive for any county in the State to give up revenues. What we are proposing is right for Washoe County. It should be based upon need and extent. In the last Session, the city of Sparks and city of Reno, along with the Regional Transportation Commission of Washoe County, brought forward a similar bill. It was heard in the Assembly and sent to the interim committee. The interim committee gave it little consideration based upon a standing practice they have that the technical advisory committee act unanimously on proposals brought forward. We need to have some clear guidance from policy makers that this tier 2 distribution needs to be changed.

If it is going to be sent to an interim committee this time, I would urge you to provide clear policy direction and not an eleventh hour debate, as that committee reviews other tax issues. I reiterate, now is the time to act, and we have brought forward a bill which is fair and based on sound policy which has been proven at the tier 1 level. We are not asking this to be applied throughout the State of Nevada, but solely within Washoe County to take into account our uniqueness. We urge you to take action now for our taxpayers.

I provided you with a brief brochure (Exhibit P). The back of this brochure shows the impacts of the change if it were enacted. We based it upon combining FY 2004-2005. We have attempted, on an ongoing basis, to negotiate or discuss this issue with Washoe County. We are here because we need to have an incentive applied for our taxpayers to be treated on a fair basis. We urge you to look at this issue carefully before sending it off to any additional committees. Last fall, we offered Washoe County a provision as we attempted to negotiate this locally. It would have made them whole, and we would base the shift in this formula upon growth in the fuel tax formula over whatever period of time it takes to achieve a two-thirds, one-third, so they would not receive a sudden shift in funding which would cause them budget considerations. That shift would take ten years under the plan we put before them. It was given no consideration. We are here today to say, if that amendment is important to you, we would support that amendment to our bill to ensure we were not creating a sudden shift in Washoe County. We would do this over time out of the growth that will occur. Please help us find taxpayer fairness in Washoe County; I appreciate your considerations.

JOHN MAYER (City Council, City of Sparks):
I have seen the reaction of the Committee with short speeches, so I endorse everything Shaun Carey has said.

SENATOR TIFFANY:
It sounds like you are running into politics, county versus city, and there is no incentive for the county to do anything, status quo, they win. What if we do not do anything with this bill? Can you take it to an advisory vote in each one of your cities and take it back to the county and tell them 86 percent of constituents agree? Do you have county commissioners who run in the districts for city council?

MR. CAREY:
Yes, the county does represent the residents of the cities, there is no question we are well represented. This is a dividing issue between their areas of responsibility. They are solely responsible for county roads. They do not provide those services inside the city limits. In fact, they do not spend money inside the city limits, so there is no incentive. We have done surveys, and they have done surveys. We want to hold onto control of our roads. Road maintenance is a local issue of primary concern to our residents. We want to maintain that control so we are not interested in road districts or consolidation. Those services should

come from Sparks, and we do them well. We are cooperating on a number of fronts using our voter-approved tax money as best we can to meet the situation. A failure to act in this area is costing us something important to our future, and it is delaying the implementation of critical capital improvements needed in our road system by the Regional Transportation Commission (RTC).

SENATOR TIFFANY:
Do you know how much revenue the county would lose?

MR. CAREY:
It is shown on the back page of the brochure given to you, Exhibit P. If you look at the green box, you will see it is about $7.3 million which is roughly $3 million.

SENATOR TIFFANY:
They would lose $3 million today or in the future?

MR. CAREY:
This is based on the best figures we had available which was combining FY 2004-2005.

SENATOR TIFFANY:
Would they lose $3 million now?

MR. CAREY:
That is correct, although the money would stay within Washoe County. It would be used in the incorporated areas. As mentioned during my presentation, we did offer and would offer today an amendment that would do this over time. We would use the growth in fuel taxes to create the shift. It would take ten years, but that would eliminate any shock to the county, as well as allow us to move toward something fair and equitable.

SENATOR TIFFANY:
If we will not do this outright or phase it in at the very least, you want us to send a message to be a little more serious about this issue.

MR. CAREY:
If you do send this back as a policy measure, please give them clear direction. They need to spend the time and come back with a concrete report to this

body. It is a tax policy issue. You could act now, but if you want more information, provide clear policy direction if you want some effort put into this, not the eleventh hour consideration by the interim committee.

STEVE VARELA (Director and City Engineer, Public Works Department, City of Reno):
I want to reiterate most of the issues Shaun Carey mentioned. The city council of the City of Reno is in support of this measure. I was part of the technical advisory committee that addressed the tier 1 distribution issue for the State Legislature, which you acted on. That was mentioned and discussed at that point in time, but of course there were a number of different counties and cities involved and issues are different with Clark County and Washoe County. Washoe County is unique, and we were hoping something would have been done at that time, but so far nothing has been done.

The other thing is to let you know the taxpayers of the City of Reno are concerned about their roadway system. We recently passed a measure that went to the voters of the City of Reno to allow continued use of our debt rate reduction. As we reduce our debt from the general fund in the years to come, over the next 30 years, that money, instead of being returned to the taxpayers, will go to neighborhood street programs for maintenance and operation. They would be the same benefits that would come from this tax distribution. There is a big awareness and need from the taxpayers in the City of Reno that we need more money for our street program.

CHAIR MCGINNESS:
Is there anyone else who wants to testify in support of S.B. 482? Is there anyone in opposition who wants to testify?

ANDREW LIST (Nevada Association of Counties):
I was made aware of the proposed amendment upon arrival, and the Nevada Association of Counties (NACO) is still opposed to the bill. While NACO is opposed to this bill, we think it highlights an important issue on which both local governments can agree. Everybody is concerned about their current and future ability to fund the maintenance of existing roads and the construction of roads in the future. However, we believe S.B. 482 is not the solution as I will further explain in my prepared testimony (Exhibit Q).

We do suggest this Committee send S.B. 482 back to the Legislative Committee for Local Government Taxes and Finance for further study, and let the local governments work out solutions to their problems. It has not been studied in its entirety, and its effects on the State as a whole certainly have not been studied. I urge this Committee not to support S.B. 482.

KATY SINGLAUB (Manager, Washoe County):
We appreciate the opportunity to speak with you. Washoe County does not support S.B. 482. Today, in the interest of being brief, I have provided for you a handout titled, "Road Maintenance Funding in Washoe County" (Exhibit R). This handout, gives six reasons to reject this bill. As you heard from Mr. List, one of the ways to address road maintenance funding is to share RTC funding, and that does occur in Washoe County.

The first page of Exhibit R shows current local funding for the roads. The portion of the pie you are looking at reflects the entire fuel tax revenue sources that come into Washoe County. The next page shows the distribution of the various sectors of the fuel tax revenues and how those are distributed between Washoe County, Reno and Sparks. The bottom of that page shows a separate funding source which was the result of a voter-approved advisory question in our last election. That was brought to you in 2003, sponsored by Washoe County, as legislation to share a package of revenues which included a sales tax increase.

The next page of the handout shows you the bigger picture than just looking at the population distribution and the assessed values which are two of the other factors referenced in road maintenance funding distribution. You will note on three of the four variables used in the funding formula, Washoe County has a significant responsibility, and this is specific to unincorporated Washoe County. The bill proposed to you would put two-thirds of the weight for the variable on population, and of course that is low in unincorporated Washoe County, but need is determined not only by population. It is also done by square footage of roads maintained, and Washoe County has 47 percent of the responsibility for maintenance of square footage of roads. On the average vehicle miles traveled, the numbers are the 2002 numbers because the 2004 numbers were not available. The rest of the numbers are from 2004.

MS. SINGLAUB:
The last page of Exhibit R is the most telling, in our opinion. It shows the impact of combining all revenue sources for road maintenance. Again, it does not include those sales taxes that are new. This is for the fuel tax distribution alone. It does show the majority of the fuel taxes now go to the cities when you take into account the RTC distribution.

In considering the entire road funding picture in Washoe County, cities do get the majority of the revenues now. None of our jurisdictions receive enough dollars to meet their road maintenance responsibilities. Cutting one entity's revenues to help another is not good public policy. Every county in Nevada is unique, all 17 of them. Applying a unique formula for a statewide revenue source is not good policy. As you heard from Mr. List, the formula proposed has been brought before the Legislature and rejected before. The facts have not changed and the issues have not changed. In Washoe County, we have made progress. It may not be the progress the city of Sparks may like, but all local governments, as well as the RTC, agreed to a Regional Road Efficiency Study by Lorick Associates. That study produced 32 recommendations which, when fully implemented, will save the taxpayers $3.2 million in costs, and we are working on implementing those. The recommendations include such things as sharing equipment and supplies, contracting for lowest-cost service provision, joint planning of maintenance projects and sharing facilities, all of which are underway to completion. We will have an interlocal agreement. It has been drafted, and it will be coming to the city councils and the county commission within a month.

As Senator Coffin has noted on a previous bill, we all need to look for ways to be less reliant on traditional fuel taxes. Shifting money from counties to cities will do nothing to encourage us all to look for other solutions to our transportation system needs.

In response to Senator Tiffany’s question, an independent voter research firm did voter research in Washoe County, and 76 percent of the voters countywide said they would prefer road maintenance services to be consolidated. I would be happy to answer any questions you may have. With me today is our Public Works Director, Tom Gadd.

SENATOR TOWNSEND:
This is a good faith effort by a local community trying to resolve their problems, but the suggestion that came in the study, which is one that members of our delegation have often wondered why all of you have not pursued, is extremely important. Obviously, we will have a delegation meeting to have this conversation, but it would certainly be prudent for all parties, all three of you, to have a serious conversation over the next 72 hours about regional consolidation for purposes of maintenance. When the public needs a snowplow, a pothole fixed or something widened, they do not question if this is a City of Sparks, City of Reno or Washoe County road. They just want results. Now, to my friends in the City of Sparks, City of Reno and Washoe County, you probably remember 10 to 15 years ago when this body had to intervene on the same issue. We prefer not to do so. You are always asking us not to intervene in your affairs; we do not want to do so. We would like you to solve this on your own. I think I can speak for my colleagues; you do not want us involved. Whether we chose the county or the cities, you do not want us there. You and your elected entities are much closer to the public than we are. If you work on that regional maintenance program, you can find a way. You have managed to do a lot of great things in our community, and we are really proud of the way you have been working together. You could try that for a few hours and see if you can come up with a solution. The Chair has a thousand bills to process, and it certainly is not going to shatter his heart if you cannot find a solution. If you need some authority or need us to help you a little bit, we would like to see some effort made toward that. This particular Session has a role, and this Chair would try to accommodate us, but I would encourage the cities and county to resolve this on your own. I would be happy to help in any way I can.

CHAIR MCGINNESS:
Is there anyone else who wants to testify on this bill?

MR. ROBERTS:
The DMV currently has no position on this bill; however, the Department has submitted a fiscal note (Exhibit S) which reflects the added expenses the DMV would incur should S.B. 482 pass. Currently, the distribution of this portion of the state-county tax is completed only to the county level. Each county then is responsible for distributing the correct portion of the fuel tax to each applicable city. Should this bill pass, I am here to request the DMV's expenses incurred in performing the requested changes in distribution, pursuant to S.B. 482, are covered in our budget or are paid to our Department by the City of Sparks and

the City of Reno. They could be charged against the distribution entities benefiting from this State and county excise tax of 1 cent per gallon levied pursuant to the NRS 365.192.

MICHAEL R. ALASTUEY (Clark County):
Normally, I represent Clark County, but today I am sharing some recollections as a technical advisor to the Legislative Committee for Local Government Taxes and Finance.

This all starts from a scarcity of revenue. There is simply not enough gas tax money out there because almost all taxes, with the exception of some voter-approved ones, are flat numbers of pennies per gallon. That simply does not rise in elastic fashion in conformance with the level of growth in our communities and in conformance in actual cost. We have cities, many of which have strong appetites for annexation, more rooftops, more people, more responsibilities, more roadways to maintain, all with a limited source of money, regardless of who administers it. We know growth does not pay for growth, otherwise why would governments be in the level of bonded debt they are today, both with sales tax and property taxes leveraged to the hilt? The government is taking on responsibilities in a scarcity of revenues and transference of authority or intergovernmental competition. I respect your comments, Senator Townsend, but it really does not provide us much hope for a solution. I live in a metropolitan area a little bit different from Reno. I live in the Las Vegas metropolitan area, but I can visit all three cities in the Las Vegas Valley depending on how I route my motor trip by traversing most of the distance on a county road. It is a single road system. In the long run, a simple shifting of dollars, is a simple shifting of potholes. Is that really the long-term resolution? I do not think so. The City of Sparks proposed this is a unique Washoe County situation and other counties can be amended out of the bill. All of that aside, simple transfer of revenue and intergovernmental competition does not lend itself to solutions.

CHAIR MCGINNESS:
Is there anybody else wishing to testify on S.B. 482? Committee members, I appreciate your patience today. I would like to have a letter placed into the record I received from Christina Dugan of the Las Vegas Chamber of Commerce in support of S.B. 352 (Exhibit T). There being no further business, this meeting of the Senate Committee on Taxation is adjourned at 4:36 p.m.

RESPECTFULLY SUBMITTED:

____
Tanya Morrison,
Committee Secretary

APPROVED BY:

____
Senator Mike McGinness, Chair

DATE:______________________________