MINUTES OF THE
JOINT MEETING OF THE ASSEMBLY COMMITTEE ON TAXATION
AND THE
SENATE COMMITTEE ON TAXATION

Seventy-Fifth Session
February 19, 2009

The Joint Assembly Committee on Taxation and the Senate Committee on Taxation was called to order by Chair Kathy McClain at 1:44 p.m. on Thursday, February 19, 2009, in Room 4100 of the Legislative Building, 401 South Carson Street, Carson City, Nevada. The meeting was videoconferenced to Room 4412 of the Grant Sawyer State Office Building, 555 East Washington Avenue, Las Vegas, Nevada. Copies of the minutes, including the Agenda (Exhibit A), the Attendance Roster (Exhibit B), and other substantive exhibits, are available and on file in the Research Library of the Legislative Counsel Bureau and on the Nevada Legislature's website at www.leg.state.nv.us/75th2009/committees/. In addition, copies of the audio record may be purchased through the Legislative Counsel Bureau's Publications Office (email: publications@lcb.state.nv.us; telephone: 775-684-6835).

ASSEMBLY COMMITTEE MEMBERS PRESENT:

Assemblywoman Kathy McClain, Chair
Assemblywoman Marilyn Kirkpatrick, Vice Chair
Assemblyman Paul Aizley
Assemblyman Bernie Anderson
Assemblyman Morse Arberry Jr.
Assemblyman Ed A. Goedhart
Assemblyman Tom Grady
Assemblyman Don Gustavson
Assemblywoman Ellen Koivisto
Assemblywoman Sheila Leslie
Assemblyman Richard McArthur
Assemblyman Harry Mortenson
Assemblywoman Peggy Pierce

SENATE COMMITTEE MEMBERS PRESENT:

Senator Bob Coffin, Chair
Senator Terry Care, Vice Chair
Senator Michael A. Schneider

Senator Maggie Carlton
Senator Mike McGinness
Senator Randolph J. Townsend
Senator Maurice E. Washington

GUEST LEGISLATORS PRESENT:

Assemblywoman Debbie Smith, Washoe County Assembly District No. 30

STAFF MEMBERS PRESENT:

Russell J. Guindon, Senior Deputy Fiscal Analyst
Michael Nakamoto, Deputy Fiscal Analyst
Joe Reel, Deputy Fiscal Analyst
Mary Garcia, Committee Secretary
Mike Wiley, Senate Committee Secretary
Kyle Casci, Senate Committee Secretary
Sally Stoner, Committee Assistant

OTHERS PRESENT:

Danny L. Thompson, Executive Secretary-Treasurer, Nevada State AFL-CIO, Henderson, Nevada
Jeff Fontaine, Executive Director, Nevada Association of Counties, Carson City, Nevada
Lisa A. Gianoli, LG Strategies, Ltd., Reno, Nevada, representing Washoe County
Sabra Smith-Newby, Director, Administrative Services, Clark County, Las Vegas, Nevada
Dino DiCianno, Executive Director, Department of Taxation
J. David Fraser, Executive Director, Nevada League of Cities and Municipalities, Carson City, Nevada
Marvin A. Leavitt, Overton, Nevada, Chair, Committee on Local Government Finance

Chair McClain:
[Meeting was called to order. Roll was called. All were present.] Today we are going to continue our educational series on Revenue 101 for the public as well as the new people on the Committee. Rather than have people present the same information twice, Senator Coffin and I have agreed to hold these joint hearings.

We have several issues to look at today. We will have an overview and discussion of abatements, exemptions, deferrals, and postponements of taxes. Then we are going to talk about how the local revenue/state revenue structure has been put together. We are going to have a presentation on the State Board of Equalization and some property tax issues. Then we will have a brief overview of the Nevada Plan, which is how we fund education in this state.

With that, I would like to welcome Assemblywoman Debbie Smith and Assemblywoman Marilyn Kirkpatrick. I would like them to go through their entire presentation, and we will take questions afterward.

Assemblywoman Marilyn Kirkpatrick, Clark County Assembly District No. 1: [Distributed handout: "Property Tax Distribution" (Exhibit C).] Today the long-awaited study will come out, but we would like to make some points of clarification first. Incentives are important in ensuring the competitive process of diversifying our communities. We are not saying we have to eliminate any of these incentives. We are saying we need to revisit the policy currently in statute to determine if Nevadans are getting maximum value for their money.

When Assembly Joint Resolution No. 16 of the 73rd Session was on the ballot, the voters spoke. They asked that the good of the public be our highest priority any time we implement Sales and Use Tax exemptions. We would like to go a little bit further and make sure we revisit all these policies in the future to ensure that is still the case.

Last session, my colleague and I were tasked with Assembly Bill No. 621 of the 74th Session, which was the green building bill. We decided we needed to take a much closer look at what is currently in statute, how all of it came about, and where we are going in the future.

We asked the Legislative Commission to authorize a study of incentives to see what was currently in statute, and we asked local governments to participate. We thought it was important to gather the information necessary to see the overall fiscal impact of those incentives.

In the interim, we discovered this is a very complicated issue. It looks simple on the surface, but a lot of things are intertwined. You have to read between the lines in order to determine how these things all come together.

We have been on the phone with the heads of state agencies in Virginia, Texas, California, Utah, and New Mexico to see if what we were doing was actually being done in other states. We spoke to all the state agency heads. Thirty-seven other states across our nation are doing exactly what we are doing today.

What we found in common among all the states we spoke to was that they were giving away incentives to bring businesses to their communities. States wanted so much to draw the businesses, to be the hub of a certain type of empire, that they were not looking at the long-term fiscal impact.

In Nevada, I think that we are on the right road to ensure that what we do in the long term is most beneficial to all Nevadans. Clearly, this is an important issue going forward. It seems our state statutes are lacking in accountability measures.

Assemblywoman Debbie Smith, Washoe County Assembly District No. 30:
We would like to consider some basic tenets in our discussions on tax incentives in Nevada. Today, when the report is presented, you will hear the many types of exemptions, abatements and other tax incentives we use in this state. You will hear stories in testimony of successful uses of these opportunities, but we would like you to keep certain things in mind.

Number one is accountability. How do we know an incentive is working? Are we receiving all of the information we need for making decisions? As Mrs. Kirkpatrick said, there is national interest right now. Many groups have websites where you can find information about tax incentive programs, and we need to take that information into consideration in determining accountability. When we are making decisions about how to change things—what to keep and what not to keep—we have to bear in mind what is the best use of tax dollars. We should use the money for employing Nevada workers, thus ensuring the money generated in our state remains in our state, generating more tax dollars and enabling us to provide better services to our communities.

Do we have good programs in place? Absolutely. Is there room for improvement in accountability? Absolutely. It is imperative, particularly in our difficult economy, that our taxpayers know we are doing everything in our power to ensure that we are generating more jobs and future dollars at the same time we are revitalizing the communities in which we all live.

After the presentation from our staff, I am going to talk a bit about one particular issue: sales tax anticipated revenue (STAR) bonds (Exhibit D, tab X). Russell Guindon and his staff have spent a tremendous amount of time on this study, and we want them to present that information. I want to remind you that, as Mrs. Kirkpatrick said, this is a complicated issue. A lot of people expected to see some big-dollar bottom line at the end of the report. It does not work that way. You have to read the report to sense the breadth and the depth of what we do, and I encourage you to do that. The report is well-written, very informative, and understandable, but you have to go through it thoroughly to understand what the numbers are.

Russell Guindon, Senior Deputy Fiscal Analyst, Fiscal Analysis Division, Legislative Counsel Bureau:
[Distributed *Report on Tax Abatements, Tax Exemptions, Tax Incentives for Economic Development and Tax Increment Financing in Nevada* (Exhibit D).] This is the report that was requested as a staff study by the Legislative Commission in September 2007. I apologize for the delay in getting this put together. The people I work for, the members of the Legislature, and the public understand it has been a trying 12–14 months for everyone in the state, including the Legislative Counsel Bureau (LCB) staff. While we were working on this, special meetings of the Economic Forum and the Legislature were being held to get us through these trying economic times.

I also want to apologize for not having enough copies of the report printed for all of the public. The 295-page report is available on the LCB website at www.leg.state.nv.us. From that homepage, click on the tag on the left-hand side marked "Research/Library." Under that, go to "Research Library," then click on "Hot Topics." Next, click on "Revenue, Taxation and State Budget." The report is located under "Staff Studies Prepared by the Fiscal Analysis Division." We did not try to make this hard to get to, but it is a 13-megabyte file. If you ask us to email it to you, we will try, but your email server most likely will not accept a file of that size.

We tried to divide the report into functional sections. The report started out as a study of the economic development incentives that can be offered by the Nevada Commission on Economic Development (NCED). These are codified in *Nevada Revised Statutes* (NRS) 360.750, which is the statute that authorizes the NCED to provide partial abatements. These are covered in the report behind tab II.

I am going to let Joe Reel go through that part because he gets credit for all the analysis that went into that section of the report. He spent a great deal of work compiling all the numbers. Some of you may think it reads like the NRS, but we hope we have put it into more readable English to aid in understanding how these complex issues work.

Section III of the report is entitled "Green Building Tax Abatements." Those are the sales and property tax abatements that were first authorized by Assembly Bill No. 3 of the 22nd Special Session. As Assemblywoman Smith and Assemblywoman Kirkpatrick pointed out, that law was amended in 2007 to clarify the eligibility and availability of the sales tax abatements, as well as to clarify the computation and calculation of the property tax abatements.

Section IV covers the Sales and Use Tax exemptions. Property tax exemptions are covered in section V. Section VI is the Governmental Services Tax exemptions. Section VII covers the Live Entertainment Tax exemptions, and Section VIII is the Real Property Transfer Tax exemptions. Sections II–VIII cover issues in Nevada's laws regarding either an abatement or an exemption provided for a tax liability.

Carole Vilardo, President of the Nevada Taxpayers Association, testified in an earlier meeting about the difference between exemptions and abatements. With an exemption, had it not been for the granting of the exemption, there would have been a tax liability under the law. However, the law provides that a particular group or a particular type of item or property is exempt from the tax. With an abatement, on the other hand, there is a liability for the tax, but part of it is abated, such as an abatement of 50 percent of property tax for 10 years or an abatement of the Modified Business Tax (MBT) for 4 years.

Sections II–VIII delve into the abatement and exemption issues that are in the law. Sections IX, X, and XI go into tax increment finance; this refers to the STAR bonds. Section XI goes into redevelopment agencies (RDAs) and redevelopment areas. You can create an area and take the property tax increments generated within that area to use for projects or to provide loans or grants to other entities so they can use it for projects. The key to the tax increment financing issue is that the taxes are being paid by the people who have a tax liability. The revenue is simply being redistributed to other entities. With STAR bonds, a portion of the sales tax is pledged to another entity rather than going to the governmental entity that would have gotten that revenue, had it not been for the pledge allowed under the tax increment financing provisions in the law.

We tried to make a distinction between when a tax is being exempted or abated versus when all taxes are being paid but are redirected or redistributed differently.

The final point is that you can be in an RDA and still get an exemption or abatement if you are eligible under another part of the law.

Joe Reel, Deputy Fiscal Analyst, Fiscal Analysis Division, Legislative Counsel Bureau:
I would first like to review what is included in Section II regarding the NCED abatements. Then I will discuss several topics within that section.

We have included a detailed discussion of all the statutory provisions governing the NCED in terms of the Commission itself, which is comprised of the Lieutenant Governor and six members appointed by the Governor. We also looked at the provisions that govern the NCED in terms of staff who provide all the administrative functions related to all economic development activities, as well as the abatements that are included as the subject of this report.

We looked at the statutory provisions regarding the businesses that can receive these abatements and what those businesses are required to bring to the state in order to be eligible for the abatements in terms of capital investment, the number of new jobs that need to be brought to the state, the average wages that must be paid for those jobs, and requirements for providing health care for those employees. We also discussed provisions referred to as clawbacks. When a company does not meet the aforementioned requirements for the specified period of time, it is required to pay back all of the abatements that were granted.

We looked at the NCED's processes for administering the abatements in terms of their relationship with the Department of Taxation. We looked at the requirements for notifying the local governments that are ultimately impacted by the abatements, as well as the business being located within their communities. There is also a review of all the statutory changes made since 1999 concerning the requirements for the abatements. Finally, we put together an analysis of the abatements approved versus the abatements that have actually been used.

Generally, the Commission provides abatements to businesses that essentially export goods and services and whose jobs in Nevada are ultimately supported by consumers outside the state. The abatements are not available to retail or other service-based industries that are generally supported by the local community. At least 50 percent of the businesses' revenues must come from consumers and economic activity that is actually outside the State of Nevada. Such businesses include manufacturing, warehousing and distribution, national call centers, and essentially any business that is supported by consumers outside the state.

Other provisions allow renewable energy projects such as solar and geothermal, as well as projects where manufacturing uses recycled material, to be eligible for the abatements. The types of taxes being abated are Sales and Use Tax, the MBT, and personal property taxes. There are very few economic development-related abatements that apply to real property tax. Generally the renewable energy and recycling projects are the ones that qualify for real property tax abatements. There were provisions for green buildings to get real property tax abatements in some cases, but that has been changed a bit.

In terms of the sales tax abatement, the state 2 percent tax is not available for abatement. Businesses receiving the sales tax abatement are only eligible to get abatements from the amount above that state 2 percent, to include all local sales tax rates.

The MBT abatement is essentially 50 percent for 4 years on the jobs created. The personal property tax abatement is stated in statute as up to 50 percent for up to 10 years. Real property tax abatements also generally range from about 35 percent to 50 percent for up to 10 years.

There are distinctions in how the abatements are administered. The urban areas—basically Clark and Washoe Counties—have different criteria from the rural areas. In order to qualify for abatements from sales tax and the MBT, all businesses coming into an urban area have to meet three criteria. The urban areas require $1 million of capital investment, 75 jobs brought to the state, and all of those jobs must pay the statewide average hourly wage, which, as of FY 2009, is $19.69. The property tax abatement has a higher threshold in terms of capital investment. In order to get the abatement on property taxes, a business in an urban area has to make a $50 million capital investment.

For the rural areas, the required number of jobs is 15, with a capital investment of $250,000. The average wage requirement is either the statewide wage or the average wage within that county.

On page 35 of the report, we compiled all of the abatements that have been approved by the NCED from FY 1999 to FY 2008. It is a summary of all the abatements that were approved. In many cases, the abatements approved do not necessarily reflect what gets used. Some businesses may decide not to come to Nevada, so they would not take advantage of the abatements. Other businesses may come to Nevada, submit their applications, but then end up not using all of the abatements that were approved. They may anticipate more capital investment and then ultimately not buy all that equipment. They may still meet the basic requirements, but they do not invest as much as they thought they might.

Another issue is when a company does not maintain eligibility for the requisite 5-year period. They are then required to pay back all those abatements. In the end, not everything that is approved actually gets used.

In compiling the report, we really only had the ability to look at what was approved and what was used. Ideally, to look at the overall benefits, we should have been able to look at the impact of the businesses on the communities and the overall economic impact of each business. With the information available to us, any attempt to evaluate those impacts was very difficult.

The NCED performs a cost/benefit analysis for each community and each individual project. They provide that information to the commissioners for their consideration when a project is approved, and they also provide it to the local governments and school districts for them to review so they understand the impact of each individual project as it comes before them. However, we were not able to look at the entire collective impact of all these approvals and the businesses coming to the state for the 10-year period considered for our analysis.

Our real analysis starts on page 46 of the report and is broken into three sections. Beginning on page 46 is a narrative summary of the highlights of what is presented in more detail further on. Page 49 includes summary tables that go into a little more depth. Finally, I would direct your attention to page 53, where we try to quantify each of the different abatements in terms of what was approved versus what was actually used.

Page 53 is the summary of the Sales and Use Tax abatement. We compiled information from the Department of Taxation and the NCED. We contacted all the county assessors and treasurers to get information on the property tax abatements. We compiled data for each year based on the number of businesses that came before the NCED.

The first table in each section of the report briefly illustrates what abatements were approved. The second table shows the abatements that were actually used. Table 1, in section II (page 53), talks about each company that came before the NCED, the number of jobs that were expected to be employed, the average wage requirements, and the total capital investment for those businesses approved during that fiscal year. The middle of table 1 shows "Maximum Sales and Use Tax abatements approved." The abatement is essentially capped, in that the company provides a list of equipment they expect to be able to purchase. The NCED approves that list of equipment, which determines the maximum abatement the company is approved for.

The horizontal rows show the amounts approved for each of the different fiscal years, ending with the total and the average for the 10-year period. The total for all the companies that appeared before the NCED was approximately $80 million.

Table 2 looks at the amounts that actually were abated for all the companies participating in the program, based on those companies' spending. The middle of table 2 shows "Actual Sales and Use Taxes abated." We included a lot of other information related to the companies. As we followed the data across for the different fiscal years, we had to stop with FY 2007 because all the data for FY 2008 was not yet available. Although we have the information reported about who was approved for that year, we do not have the information about what was used.

For all the fiscal years here, the total of abatements actually used was about $40 million. The Department of Taxation was able to tell us specifically that this was the amount that has been taken by those companies. Generally speaking, roughly 50 percent of the abatements approved were actually used during this 10-year period.

Tables 3 and 4, on page 54, show a similar analysis of personal property tax abatements. Because these abatements are issued in terms of 50 percent for 10 years, and we do not know exactly how much equipment is ultimately going to be purchased, it is difficult to quantify for certain how much of the approved abatement will be used over a 10-year period. Different depreciation schedules also come into play. We had a method of estimating what the amount of personal property taxes would have been, based on the information we received from the Department of Taxation regarding the amount of equipment that actually was purchased.

Table 5 gives a similar summary of real property tax abatements over those 10 years. We estimate $14,200,000 in property tax abatements were approved. We were able to obtain more certain information from the county assessors and treasurers on how much had actually been used by each company, for a total of $4.9 million. A similar analysis was done for the MBT, shown in table 6.

Finally, the three tables on page 58 give summaries of amounts approved, amounts used, and percentages used for all the various types of abatements. That covers how the analysis was done.

Russell Guindon:
There is never an easy question in our profession, or at least there is never an easy answer. We have a process for approving abatements, and a certain amount of them are used. You would think we could easily obtain those sets of data and compare them. Joe actually spent a lot of time this interim, when not attending other meetings, compiling this data. It is frustrating that there is no reporting requirement in place that would pull this data together as a matter of course.

I am not implying that any of the agencies conducting these programs are doing anything wrong. There is just nothing in the law requiring such a report to be prepared showing what was approved for that year, what was actually taken by those companies within that year, or what was taken by companies from prior years. Did the companies even come here? Did they lose their abatements because they fell from grace? A company must remain in compliance with the requirements for an abatement for 5 years in order to maintain its eligibility. Otherwise, the governments can claw back the revenues.

It was hard to get that information in a convenient form. Unfortunately for Joe, this is something we will probably be updating every year. Now that we have the initial costs invested, it would be foolish for us not to keep this report updated to present to the Legislature each session.

I will quickly go through some of the highlights of the exemptions and abatements on green building, otherwise known as the Leadership in Energy and Environmental Design (LEED) process. If the chairs of the Committee think it is necessary, we could meet sometime in the future to address the issues in more detail. Page 68 of the report covers the property tax abatements available to people for LEED. During the 2007 Legislative Session changes were made so that property tax abatements only applied to the buildings and not the land. For the school districts, both the operating and the debt rates were removed from the calculation of the amount of property taxes that could be abated. Depending on the LEED level certification, property tax abatements can go from 25 percent to 35 percent for a period of up to ten years.

As some of you know, one of the big issues concerned sales tax. That was clarified in the 2007 legislation. At the bottom of page 69 is a list of the seven projects that actually qualified. One of the biggest things was having the opinion letter from the Department of Taxation so they could actually be eligible for the sales tax.

On page 70 are the amounts of the LEED exemptions, based on the FY 2008 information the Department of Taxation provided to the Fiscal Analysis Division, that were used in FY 2008 by the different rates: the Local School Support Tax (LSST), the Basic City-County Relief Tax (BCCRT), the Supplemental City County Relief Tax (SCCRT), and the local options. These primarily apply to Clark County because that is where these projects are occurring. As the BCCRT and the SCCRT run their course, determining who lost money through the exemptions and abatements becomes rather complicated.

If, after the completion of a project, a company does not receive at least a silver level of certification under LEED, then all the taxes that were deferred, abated, or exempted under the LEED provisions have to be paid back with penalties and interest. That is one of the critical points we wanted to bring to the attention of the Committee members.

Finally, section IV covers the Sales and Use Tax exemptions. Some members of the public, and even members of the Legislature, may be disappointed in not finding numbers in here that quantify all the different Sales and Use Tax exemptions authorized in NRS. A study authorized by the Legislative Commission in 1999 attempted to do that. However, with everything that was going on this interim, we decided not to spend the time making those calculations.

If members of the Legislature would like to know the numbers for some of these exemptions, please let us know and we can work on it, although it might be very difficult. The dilemma with exemptions is that nothing is reported because no tax is required to be paid. Thus, it is hard to find data to estimate what a tax would have generated had we not had the exemption in the law.

We tried to take the sales tax exemptions in NRS and summarize them in plain English. Exemptions apply to particular goods or products such as food, newspapers, or gasoline. The benefit to a resident of Nevada would depend on the amount of an exempt product he consumed, as compared to his neighbor, who might not consume as much.

The other types of exemptions get lumped into providing a benefit to a certain group of individuals, businesses, or organizations such as nonprofits. Prior Legislatures have made policy decisions to grant these people or groups exemptions from certain items. Other entities, such as federal, state, and local governments, do not generally tax each other. There are prohibitions against us taxing federal entities. Those are all listed on pages 73–75. At the back of the report are appendices that summarize the statutes involved.

A few exemptions come readily to people's minds, and one is food. However, a constitutional amendment would be required before a sales tax could be levied on food. Another that comes to mind is gasoline, but if we put a sales tax on gasoline, that money might end up having to go to the State Highway Fund because of constitutional provisions about taxes on motor vehicles. I would have to check with the LCB Legal Division about that.

The state is now a full voting member of the Streamlined Sales and Use Tax Agreement (SSUTA). Going back historically, we used to be able to grant an exemption from the LSST, the BCCRT, and the SCCRT, but we could not provide an exemption from the state 2 percent rate. Providing an exemption from the state 2 percent rate would require a vote of the people because of the constitutional provisions created when the Sales and Use Tax Act of 1955 was approved by voters. The Sales and Use Tax Act of 1955 is codified in Chapter 372 of NRS.

It is hard enough for the Legislature to be able to approve an exemption from the local rates without also having to have the exemption apply to the state 2 percent rate. Without that, we would not be in compliance with the SSUTA. We are waiting for Congress to act. With an act of Congress, we could start picking up sales tax dollars from Internet sales as long as we are in compliance with and a member of that SSUTA.

It is possible, under the current structure, to provide an abatement from local taxes without also having to provide an abatement from the state 2 percent. That is a subtle but critical distinction.

The section on property tax exemptions begins on page 77. The exemptions are listed beginning on page 79. These generally go to a particular group or organization or to a particular citizen. With some exemptions, the group or individual is simply exempt from property tax. Other exemptions are from only a portion of the assessed value, and these are generally ones that are provided to such groups as surviving spouses, blind persons, or veterans with disabilities. As I mentioned, we cannot tax federal property and vice versa. Again, we did not attempt to cost these out because, with exemptions, that is difficult, though not impossible. If there is interest, we can attempt to do those calculations.

The Governmental Services Tax is the registration fee paid on vehicles. These abatements and exemptions are also for particular groups of people such as surviving spouses, blind persons, veterans, or disabled veterans. In some of the sections, we thought you needed to know not just what the exemption was but also how the tax worked. Having a better understanding of the structure of the tax might make it easier to understand an exemption or an abatement from the tax.

Section VII covers the Live Entertainment Tax, which is a relatively new tax but also an older tax. This used to be the Casino Entertainment Tax up until 2003, when legislation created the Live Entertainment Tax. A lot of exemptions were brought forward from that Casino Entertainment Tax. Some of the exemptions to this tax are in the definition of "live entertainment." There are also exemptions that are granted from the Live Entertainment Tax. Some additional exemptions were granted in the 2005 and 2007 Sessions, and I believe they are noted as such in the report. Again, there was no attempt to try and cost these out. We did have conversations with staff in the Department of Taxation and the Gaming Control Board, but because exemptions are not reported, it is difficult to tell you what the taxable value would be.

Section VIII covers the Real Property Transfer Tax exemptions. This is included since it became a state tax in 2003. I do not consider myself to be an expert on these exemptions—what they mean, and to whom they apply. I would probably have to get someone else to answer questions on this section.

That wraps up the summary of the part of the report that has to do with abatements and exemptions. The next section, section IX, is about tax increment financing. This is authorized in Chapter 279 of NRS for redevelopment areas, which allows local governments to create redevelopment agencies (RDAs) that can, in turn, create redevelopment areas. I believe Assemblywoman Kirkpatrick has some statements she would like to make concerning this topic, so I will hold my comments until later.

With the tax increment financing areas, local governments can create an area, establish a base, and then, within that base, use the increment from the property taxes. The critical thing in the redevelopment areas and tax increment areas (TIAs) is property tax.

Section X, beginning on page 121, discusses legislation adopted for the promotion of economic development and tourism. The provisions were originally authorized in 2003, and the current law was put in place in 2005. It is codified in Chapter 271A of NRS. Under the law, these are called

Tourism Improvement Districts (TIDs), but most people know them as STAR bond districts. In this situation, the taxes are paid, but the increment being created is sales tax, and this is where you can create a TID. A TID can exist within an RDA up until October 1 of this year when that ceases to be authorized in law. Some TIDs within RDAs actually currently exist. I believe the Legends at Sparks Marina mall project in Sparks is a TID within an RDA.

A TID is a district that is created where retail transactions will occur. The local government can pledge up to 75 percent of the sales tax that would be generated from the state 2 percent rate, the LSST rate, the BCCRT rate, and the SCCRT rate, which is known as the 6.5 percent statewide rate. They do not have to pledge their local option rates—those rates authorized in Chapter 377A and 377B of NRS or through voter approval that are earmarked for public infrastructure, transportation, and such. That 75 percent of the retail activity in the TID can be pledged to finance projects or to reimburse developers for costs they incurred in completing projects. The remaining $0.25 of every $1.00 of sales tax in a TID actually gets distributed to the entity that generated the sales tax dollars.

I hope I did not step on Assemblywoman Smith's toes, as she is going to go further into this. After she is finished, I can go back through how these are structured in more detail if necessary. On pages 121–123, I tried to put Chapter 271A of NRS into plain English.

In January of this year, the Fiscal Analysis Division requested that local governments try and provide us information on their use of TIDs, RDAs, and TIAs, as well as any other things they might be doing to provide tax incentives by utilizing their own revenue dollars or other measures. The final part of the report contains the responses we received to that request. The introduction is on page 131. Following that is our attempt to summarize the information provided in those responses. We tried to go through and put in whether something is a TID, a TIA, or an RDA, and whether it is being used.

In the appendices at the back of the report, we included sections of the Fiscal Analysis Division's *Revenue Reference Manual*. The final section is section XVI. Since this report was prepared for the public and members of the Legislature, we decided to include the actual responses to the request from the Fiscal Analysis Division. This is a fairly large part of the report, but we thought it was important to provide that information so there would be no confusion caused by our attempt to summarize it in a table and perhaps misrepresent it.

Assemblywoman Kirkpatrick:
We would like to walk you through a couple of points of state policy where we think a better job could be done with accountability. The first one is redevelopment, which is very common. When redevelopment was established in Nevada, the intention was to take the blighted areas of our state, bring them back to life, and make them hubs of our communities. In the last eight years, as redevelopment has become established in our state, we have revised the definition five times. It is interesting that redevelopment has become so broad that pretty much anything can be done with it now. It is much broader than I had expected.

Local governments are required by statute to have a map to designate where their redevelopment areas are. We found that, of all government entities, cities are the biggest users of redevelopment in the state. Some cities had anywhere from 3 to 27 redevelopment districts.

We also found that the way redevelopment areas were used was inconsistent across Nevada. I thought redevelopment was something like downtown Denver or downtown San Diego. Over time we have gotten very lackadaisical with our definition, and people are within the law putting bathrooms in parks, as has been done in parts of our state. Based on our state's demographics, we are unique, from northern Nevada to eastern Nevada to southern Nevada. The purpose of redevelopment is not to pit one entity against another but to have flexibility. What works in southern Nevada in redevelopment would probably never work in Elko.

I am going to ask Mr. Guindon to summarize this when I am finished because local government people will tell you that I am not very nice to them when they tell me, "Zero percent of zero is nothing." That is not true. Growth does not pay for growth right away within redevelopment.

Redevelopment is fabulous; I love it. I think Denver is fabulous. I think Philadelphia, Washington, D.C., and Arizona are all fabulous. We have a lot of great entities out there, but what other states do is go back when the project is halfway through and reevaluate the project. So if we went in and built a $100,000 project in Virginia or Missouri, in five years they would actually go back through and say, "Okay, now your project is worth $200,000, so you are going to have to increase your payback to local government or the state."

Of all the states across the nation, we are one of 13 that have a terrible accountability measure. If you were to ask if there was a clawback provision within redevelopment, the actual answer would be very different throughout the state and the cities. I think that is unfortunate for all local governments and for the state because nobody can plan if we do not know what we are planning for. Counties are typically hurt the most, while cities are the biggest users. Cities can go out and approve a redevelopment project tomorrow, but the county is the one that has to make up the difference in the budget.

I have submitted a handout, "Incentives Presentation, BDR #48" (Exhibit E), and I want to walk you through it. I went to the largest county in our state and asked them how redevelopment affected them and their rates. This is not about singling one person out; it is about accountability and making sure the budgets of the local services and state services are made. Based on what all of the cities had in their projections for 2009, but going back to the actual amounts for 2008, 2007, and 2006, you can see the loss. Actually, it is not necessarily a loss, but an amount of money that went back into the redevelopment agencies.

On the next page, you can see the rates that were affected. Mr. Guindon is going to tell you there is a base rate, so we are guaranteed to be paid the base amount. However, we never see the increase in our figures. These are the rates with the increases that would have come naturally if the property had increased in value. The best way I know how to explain it is with property taxes. When times were good, I was still getting a full 3 percent increase in my property tax. I believe these are the amounts that were lost. You can see that the state amount, based on the state rate for 2009, was a little over $4 million. The projected amount to the Clark County School District was $21 million. For the Library District, $2 million could have gone a long way to get some books, and nowadays it is very hard to get a library built. Breaking it down a bit further, we get into indigent care services. We never talk about the indigent care services. Somebody has to provide for that growth. Every day we talk about education, and education is a huge part of this.

The point I am trying to make is this: Is redevelopment paying us back in 15 years? What about all the services we needed initially to make the project go forward? Let us just say I build a whole new subdivision. That is going to bring jobs, which is absolutely fabulous. If I build 3-bedroom homes, that is going to bring families. Those families are going to require schools, medical services, clothes, grocery stores, and other retail. All of those services are going to be part of the process, but are we getting the growth that we need for those services initially, or are we waiting 15 years to get it? There is a mall in Clark County that I have been familiar with since I was a kid, the Meadows Mall. Maybe it is a little more than 15 years old because I bought my first pair of Nikes there. I can tell you it does not have the same property value today that it had 20 years ago. So we really have to project this out to make sure that, in 15 years, we are really going to make up for the growth we lost along the way.

Other states across the nation figure that in. Although they may loan the money out for the 15 years, their initial impact is paid back within 2 to 5 years. That is important for us to consider if we are going to broaden definitions as we have done in the past, and if we are going to continue these projects.

Schools are also important. Without educated workers it is very hard to attract businesses or redevelopment. Go to any of the websites across the nation, and the first thing they tell you is why you should come to that state. They have a great education system, they have a great medical system, and they have great infrastructure in place. However, on the website, at the bottom right-hand corner, in very small print, it always says they have corporate income tax and state income tax, but they have the best of everything else. In our state I have a hard time saying we have a great education system, great medical centers, and all of the infrastructure in place. It is a tough sell for me.

I would like Mr. Guindon to walk through this to show where we need to start thinking long-term for Nevada citizens.

Chair McClain:
May I interrupt? We are running really late, and we have three more presentations. We have your walk through, then Assemblywoman Smith, and I know there will be some questions. Could you limit yourselves to 2 minutes each?

Russell Guindon:
I will try. I may need a little more than 2 minutes. You have a handout, "Examples of How Property Taxes Are Calculated and Distributed for a Redevelopment Area (RDA) Pursuant to NRS Chapter 279" and some associated tables (Exhibit F). Something that has come up several times this session is how RDAs work. I tried to put some examples together. This is a gross simplification of how these work in the real world. At least I have tried to make this representative of how they may work.

Example 1 just shows the various tax rates that could be in play in a redevelopment area. There are two hypothetical parcels with their assessed values, starting in year one, of $105,000 and $175,000. You can see, going over to the property taxes box, the taxes that would be paid on the parcels and the total property taxes due.

In this particular example, you have an RDA that was created in year five and that terminates in year 14. Under that, the amounts of property taxes that would be going to the state, local, and school districts increase from year one through year four. There, in the yellow line, you can see when the RDA is completed, the school districts, state, and local governments are locked in at that base value of taxes. As assessed value increases, the incremental taxes end up going to the redevelopment agency for use in that redevelopment area. That is the gist of this.

In example 2, the RDA actually did a project of about $1 million, which is about $350,000 of assessed value. That actually increases the amount of taxes that are being paid, but under a redevelopment area, the amount of taxes that goes to the schools, the state, and the local governments is locked in at that base amount, with the additional increment going to the RDA. What I should have pointed out in the first example, and you can see in example 2, is that after the orange line, when the RDA terminates, that increment then goes back to the schools, the state, the counties, the cities, anybody that has a property tax rate in that district.

In example 3, the assessed valuation on parcels 1 and 2 starts increasing by 3 percent, versus increasing by 2 percent in example 2. This is because something has been developed in the area that adds additional value to the parcels in the RDA. You can see that the property taxes stay the same for those rates that were locked in. The additional increment generated by that growth goes to the RDA. This could just be due to normal market conditions and not necessarily to the project, or it could be due to some combination of those.

Example 4 just shows that, under the statutory authority in Chapter 279 of NRS, certain rates can be protected. That is, they have to get their money. These can be voter-approved rates. They can be bonded. Bonding is very important because they must have the money to pay their bond covenants. You can see that if you have a voter-approved rate, everybody else still gets their taxes. Each entity gets the money that is generated by its rate.

The final example is under Chapter 279 of NRS for cities with a population greater than 300,000, which would be Las Vegas. They have a holdback of up to 18 percent for affordable housing. This example shows that the holdback comes out of the RDA's money. The RDA still keeps the money, but it is to be used for affordable housing, although they can use it for affordable housing outside of the RDA. However, the voter-approved rate still gets its money and the school districts and others are still locked in until the project terminates, so that holdback for affordable housing comes from the RDA money. You can see that their amount goes down.

I also gave you a set of graphs because it sometimes helps to see information graphically rather than in a table. Table 1 shows the property taxes as they are distributed to the redevelopment agency or area under each example. At first there is nothing, and then the project created all this value and all those incremental taxes. The yellow line shows what would have happened if they had never done anything in the RDA. When the RDA terminates, they do not have any money. Tables 2 and 3 show the inverse, which is that the money is not going to the school districts, the state, or the counties in an RDA until that RDA terminates, and then all that increment comes back to them.

Assemblywoman Smith:
I was just going to touch briefly on STAR bonds. Russell did a nice job of describing what STAR bonds are. Those of you who were here in 2005 probably remember that Kansas was often used as a reference because they had completed a big project there. I think our experience in the two projects we have tells us we need to do some fixing. We have two big projects that have gone on in Washoe County. Our constituents, both on the constituent side and the business side, are very interested in this issue and want to see some changes made. So you will see a bill come through that will have some recommended changes.

I am going to hit a couple of the high points. One of the big issues is that we need some reporting, as an accountability measure, from those who are receiving the money to build their projects. They must have demonstrated that a preponderance, meaning over 50 percent, of their business that generates the revenue will come from outside the state. However, we have no way to get that information.

My fellow money committee members will remember that we had some reporting done in the Interim Finance Committee (IFC) last fall, but we discovered that the businesses would not report because it is considered proprietary information. It does not make sense to do a study if you cannot, in fact, find out if it is working, especially when you are considering other projects down the road. It would help the approving bodies if they knew how the other projects were working. That is a big issue, bearing in mind there really is not a clawback mechanism for these kinds of projects because it is bonded and the financial commitment is made. That is really solid, so you could use the information down the road when looking at other projects.

Another big issue in the news up here concerns establishing a zone where you cannot close a business and move it into that area because you lose the revenue from one side when the business closes, and then you lose 75 percent when it moves into the STAR bond project. We have actually seen that happen on one of our projects. The state loses money on that because, if there is a hole in the LSST, we have to make up that difference although we have lost that piece. Kansas, in fact, has implemented a 50-mile zone, which is pretty big.

We want to work with everyone to find solutions that will make these projects stronger while making sure that we are protecting our taxpayers' hard-earned dollars and that we are getting the most for the money. I provided you with a 2-page handout, "Notes on Kansas STAR Bonds, December 29, 2008" (Exhibit G), since Kansas had been a model, that talks about some of the things they have done to change their legislation. They have, in fact, started limiting retail and have gone just to entertainment. They just denied one big retailer a project there, and they have adopted some other accountability measures. You can take a look at that, and you will be hearing more about it.

Chair McClain:
Thank you. I appreciate the work everybody put into this report and your presentations. Are there any questions from the Committee?

Assemblyman Grady:
By chance, did you go back to see if, under the redevelopment districts or any other districts, anyone ever goes back to see if they produce the requisite number of jobs to get the exemptions? Are there any checks and balances that go along with that?

Assemblywoman Kirkpatrick:
You bring up a great point. The way the policy is currently set up, economic development gives away the incentives, and then the Department of Taxation is supposed to go back and check. We do not have any really good handle on how that works. Some of the local entities have development agreements that allow for them to go back, but not all of them. A lot of them use a formula based on how many jobs they should have gotten. A key issue for our state, local governments, and the agencies that are affected is to make sure we actually go back and check on those things.

With that, I want to give you a quick synopsis of a renewable energy project. Renewable energy is the hottest thing; it is fabulous for our state. It is a generator. However, we gave a $2 million abatement to a renewable energy company that hired labor from outside of Nevada to build their project. Clark County absorbed the expenses for the initial extra services they had to provide, and we got one employee out of it. Ultimately, the most disheartening thing to the state was that the company sold its power to a higher bidder, California. Had we kept closer tabs, had we had more tracking, had we set higher standards, we would absolutely have been ahead of the game. As the stimulus package comes forward, we need to make sure that Nevadans are getting what is best for Nevadans.

Assemblyman Anderson:
Assemblywoman Smith and I are in agreement on the issue of STAR bonds and some of the concerns that were not presented when we first took up the issue. The reality of it is the same for us as it is for Kansas. My question comes from an earlier part of the presentation. When these two abatements are side by side, a redevelopment district adjacent to a STAR bonds project, the issue becomes how you can continue to grow that project with no end in sight and how long these can continue to run. That, to me, is a major flaw, and I have remained opposed to that concept.

I live in a community that has the oldest redevelopment district in the state, and it has yet to accomplish the first part of its goal. Does this report reflect that as a flaw, or can we draw a conclusion from the report that, without a real sunset, we do the taxpayers no service?

The second point is I appreciate the fact that businesses are concerned. However, here is a company that is reaching its hand into the public till and putting the public taxpayer at risk for its private profit, and the local governments are willing, up front, to establish a district. If the business fails, we are going to be on the hook. Yet they will not share with us the information that accounts for how the revenue stream is flowing, so that we know whether we are getting our fair share of the dollar in the first place. The cities and counties that participate in these districts have no way of ensuring accountability for the dollars that are flowing through that particular project other than the company's litany of, "Trust me."

Assemblywoman Smith:
That is the case. One of the projects gave us a snapshot of numbers of out-of-state visitors, but even while that gave us an idea that people were visiting from outside the state, it was only a week-long snapshot. The preponderance study says that 50 percent of the revenue generated has to be from outside the state. We have no information on the other project.

I understand the proprietary nature of their work, but we have to figure out a way to make sure we have some accountability. If we need to receive information of a confidential nature for our staff to review, then we have to be able to do that. There has to be a way to do it. It is only fair to our taxpayers.

Assemblyman Anderson:
I really want to go on record. I want to apologize to the people of my district and to the people of the State of Nevada for supporting this concept in the first place.

Chair McClain:
Thank you, Mr. Anderson. Nobody has any questions on the report from Fiscal staff? Read it; it is very interesting and easy to understand. If we have no more questions, we have a quick report on another abatement. This is a study that was commissioned last session through a bill Mr. Anderson brought forth.

Michael Nakamoto, Deputy Fiscal Analyst, Fiscal Analysis Division, Legislative Counsel Bureau:
All of the members should have a smaller report entitled *Report on the Assessment of Churches and Religious Organizations Located Within Local Improvement Districts* (Exhibit H). Like the other report, we only printed enough for the members of the Committee. Anyone who wants this report can find it online in the same location on the legislative website as the other report (Exhibit D).

The genesis of this report came from Assembly Bill No. 339 of the 74th Session, which proposed an exemption from any fees or assessments imposed on property owned by certain religious or educational organizations. The text of the bill is located on page 47 (tab E) of this report. The research that Fiscal staff did during the interim, based on this report, was requested by the Assembly Committee on Taxation and approved by the Legislative Commission at its meeting in September 2007.

We were asked to study this issue and come back with findings and various recommendations. I would note that the Fiscal Analysis Division does not have any specific recommendations with regard to this issue. All of the information within this report is based on items for consideration that were put forth by members of the religious community, as well as the bond counsel and local governments who were requested to provide their own input.

The bulk of the information is actually located within the first 20 pages of the report. You can turn to page 1 and see that we have an introduction and overview, as well as a summary of the recommendations that were brought forth by the interested parties. On page 9 is a summary of the information that was given to members of Fiscal staff and the Assembly Committee on Taxation during the 2007 session by members of the religious community. Similar information is located on page 13 for bond counsel and on page 15 for local governments who testified at the hearing on A.B. No. 339 of the 74th Session and the local governments who provided feedback to Fiscal staff during the interim.

Based on the information provided by those entities, on page 19 is a list of considerations to be kept in mind, were the Legislature to consider granting an exemption from assessments or fees to religious organizations or the property owned by those religious organizations within assessment areas. Although the bill in the 2007 session proposed an exemption from any fee or assessment levied by a local government, most of the testimony that you will see, and most of the information actually within the report and appendices, focuses on those assessments that were specifically authorized under Chapter 271 of NRS, which are local improvements, such as the ReTRAC district in Reno. The rest of the tabbed portions are the appendices, which include an overview of how religious organizations are currently taxed in the State of Nevada (Appendix A) with regard to Sales and Use Tax, property tax, and various other chapters of NRS concerning where fees or taxes may be levied.

Appendix B is an overview of assessments levied within Chapter 271 of NRS. Appendix C is a history of the consolidated local improvements law. Senate Bill No. 80 of the 53rd Session created the local assessments under Chapter 271 of NRS. Appendix D contains an overview of the exemption granted to churches in special improvement districts in the state of Ohio.

Appendix E goes into supplemental material such as the text from Assembly Bill No. 339 of the 74th Session and the minutes of the meeting where it was heard, as well as exhibits that were provided. The later sections are the supplemental materials that were provided by the religious community, by bond counsel, and by the local governments that offered their input during this process.

Assemblyman Anderson:
I want to thank staff and the members of the Committee for putting their time and energy into the many hearings that this took and the development of such a very thorough report. Members of the Religious Alliance in Nevada (R.A.I.N.)

are still concerned about the issue and have contacted me with their concern over the inability to get a requested bill draft introduced or some of their concerns addressed. However, they do note the nature of their problem is not lessened.

Their concerns are predominantly within the City of Reno. While the area in question is not within my Assembly District, many of the people involved are constituents in my district, and this a big issue for them. Philosophically, religious organizations and educational organizations provide a benefit to the community that is often not measured in dollars and cents and that cannot be weighed in the economic formula as such. I think the report is very thorough, and I appreciate the staff's work on it.

Chair McClain:
Do we have any more questions on this? Seeing none, we will move on to the next item on the agenda, which is the overview and discussion of the local revenue structure. We will hear from the Nevada Association of Counties (NACO) and the Nevada League of Cities and Municipalities.

Danny L. Thompson, Executive Secretary-Treasurer, Nevada State AFL-CIO, Henderson, Nevada:
Before you move on, I would like to provide some testimony on the issue you just talked about: tax abatements and, in effect, giving away the state's money.

Chair McClain:
All right, we will give you a few minutes.

Danny Thompson:
I want to tell you the story of a bill that I fought last session and lost. Assemblyman Grady hit the nail on the head when he asked who is checking up on these people.

A renewable energy project was built in southern Nevada. The company was foreign owned and had come to Nevada promising to hire Nevada workers. They were given up to $50 million in tax abatements. The company then went to the Public Utilities Commission (PUC) and sought triple the output of this plant. They were granted that on the promise that they would hire Nevada workers.

When they started construction on the plant, we saw they were not hiring any Nevada workers, so we sent a worker there to apply. He was hired and then put on a crew of people who were not even from this country. This was all recorded in affidavits. He ultimately quit when the company tried to hire him as the supervisor. He asked where his travel pay was, and he was told that was only for people from outside Nevada.

Then we sent a photographer to the parking lot. He took pictures of the license plates for a week. Eighty-eight percent of the people were not from this state. The obscenity of that whole project was that nobody went back and checked up on those people. If you want to talk about giving the farm away, that is the classic example.

We had a bill last session that did not get very far ultimately; we pulled back on it. I think you are on the right track, and I think it is in the best interest of everybody in this state. I urge you to look not only at tax abatements but at the authority the PUC has to give away your constituents' power bills.

I went to the PUC to file a complaint, and there is no mechanism there to file a complaint. Ultimately, by the grace of the chairman, I was given the opportunity to make a presentation. Insult was added to injury when the attorney who came to represent these people told me that we did not have the expertise to make the little angle iron stands that hold up these devices so they had to make them in Phoenix and transport them by truck to Las Vegas.

I have 12,000 workers building the largest privately-funded job in the world in CityCenter. We are building the largest concrete expansion dam in America over the Colorado River. This year we will start a job that is the equivalent of the Chunnel, where we are going to tunnel under Lake Mead. We are doing all those jobs, but we could not build these little angle iron stands.

Given the financial condition of the state, I would urge you all to take a really hard look at all those things.

Chair McClain:
I think that is very good advice, and that is probably what is going to happen. Thank you. Is there anyone else who wants to weigh in on redevelopment and abatements now? [There was no response.] We will move on and talk about local and state revenue structures and how they intertwine. Do you think you can do this in about ten minutes?

Jeff Fontaine, Executive Director, Nevada Association of Counties, Carson City, Nevada:
I will give you a very brief overview of county revenues. As you can imagine, the range of revenues for the counties in Nevada varies greatly. On the low end is Esmeralda County, whose revenue is about $5 million a year. On the high end is Clark County, whose revenues approach $3 billion. Nine of Nevada's counties have revenues of less than $25 million a year.

The main sources of revenue for most of the counties are property tax and the consolidated tax or receipt tax. Property taxes comprise from 20 percent to 45 percent of the individual county budgets. While counties have been given the authority to increase their tax rates, they are constrained by the statutory cap of $3.64 unless there is a legislative or voter override. That $3.64 is the combined tax rate for all the taxing entities within the county. Two counties are currently at that tax cap.

According to the Department of Taxation, counties are projected to receive about $855 million in property taxes—that is net of abatement—out of a total of about $3.325 billion statewide, or about 25 percent. The rest of the property tax revenue collected by the counties goes to the state, schools, cities and towns, and other special districts. Much of the property tax that is distributed to the counties is earmarked for specific purposes and cannot be shifted around.

For example, counties are authorized to impose a $0.05 ad valorem tax for capital projects. If they have a higher priority, such as social services, for those taxes, they are statutorily precluded from using them for that purpose.

Consolidated tax is the other major source of revenue for counties. The consolidated tax consists of sales tax, cigarette and liquor taxes, real property transfer fees, and the motor vehicle privilege tax. These are distributed to the counties and then, in a second-tier distribution, to cities, towns, and special districts within the counties by a complex statutory formula.

With regard to the sales tax, there are also the local sales tax options, which range from $0.00125 to $0.005. These local options are also earmarked for very specific purposes including swimming pools in White Pine County, flood control in Clark County, and public transportation in several counties.

Other revenue sources available to the counties include state gaming license fees, room taxes, franchise fees, permit fees and other fees for service, and other license fees including business licenses.

Almost all these revenues are either established or capped by statute. The counties do have some flexibility in setting the license and permit fees and user fees based on the cost. For example, utility user charges for county utilities, such as water and sewer, are generally based on the cost of providing the service in total, so that would include direct costs, indirect costs, capital costs, operating costs, debt coverage, et cetera.

In addition, every county receives revenue from a mandatory $0.0635 gas tax, which is divided among the county of origin and the cities within the county by a statutory formula. This money is to be used only for specific road improvement and maintenance projects as specified by statute.

Counties also have the authority to impose an additional optional tax of up to $0.09. The counties' authority for taxing motor vehicle fuels is limited to gasoline and does not include diesel. In addition, 15 counties receive what is known as the Net Proceeds of Minerals Tax, and that total, statewide for all the counties, is $36 million to $37 million, or at least that was the figure in FY 2007–2008. Of course, it fluctuates from year to year. That is about the same amount the state received.

In addition, all counties receive payment in lieu of taxes (PILT), which is a federal payment to counties based primarily on the amount of federal lands within each county. Mineral and geothermal leases and royalties are very important for certain rural counties. Last but not least, counties receive various federal and state grants.

I want to summarize by saying that, in almost all the counties, property taxes and sales and use taxes make up the majority of the revenues, so counties are not immune to the economic downturn. Declining home values, reduction in sales, et cetera, have impacted county revenues. Also, depending on the amounts of public lands in the county or the total assessed valuation or the amount of business or commerce, those other revenues such as PILT and the Net Proceeds of Minerals Tax are very important revenue sources. When you look at the ability of certain counties to raise revenue through, say, property tax, look at Esmeralda County where every $0.01 of property tax increase raises $4,000. That does not go a long way.

The other point I want to make is that counties do not have fiscal home rule. That means they do not have the authority to create new revenues, nor do they have a lot of authority to increase existing revenues. Lastly, as I mentioned earlier, a lot of county revenues are dedicated to specific purposes and cannot really be moved for other activities or other services.

Chair McClain:
In Senator Reid's speech yesterday, he mentioned PILT. Was actually paying local governments what they were owed a part of the stimulus package, or was it just an appropriation for one year?

Jeff Fontaine:
It was not part of this stimulus package. It was in a prior bill—one of the stimulus bills that passed last summer. That is very important to some of the rural counties. It increased the amount to counties beginning this fiscal year by 36 percent or 37 percent. This is the first year in 30 years that PILT has been fully funded at the authorized levels.

Assemblyman Goedhart:
About how many dollars does that 37 percent increase translate into?

Jeff Fontaine:
It translated into about $8.5 million in additional payments on top of the initial payment of about $14 million, so the total federal FY 2008 payments to all Nevada counties total about $22.6 million.

Assemblyman Goedhart:
That is based upon the number of square miles of federally controlled land?

Jeff Fontaine:
That is the primary factor in the formula, but it is a very complex formula. It also includes offsets, so if a county receives payments for other federal programs, those score against their PILT payment. They adjust the acreage rate payment too.

Chair McClain:
Unfortunately, I am familiar with that because I used to work in the budget office for a local school district. We got PILT for some of the bases there, as well as some outlying tribal areas. That was always so frustrating. They said there was this formula, and we got all these taxes, but then they only funded it 12 percent. It was almost not worth the paperwork.

Lisa A. Gianoli, LG Strategies, Ltd., Reno, Nevada, representing Washoe County:
[Distributed a PowerPoint presentation, "Washoe County Presentation to Joint Senate & Assembly Taxation Committees, Nevada Legislature 75th Session, February 19, 2009" (Exhibit I).] Slide 1 shows the basic demographics of

Washoe County. Slide 2 shows Washoe County's services provided—the required, mandated services as well as regional and local services provided.

The first graph shows the source of revenue for all governmental funds in Washoe County. This includes our General Fund, our special revenue funds Jeff referred to that are earmarked for a specific purpose, and our proprietary enterprise-type funds.

The next slide, page 5, shows our General Fund, which I will key on in some detail. As you see, the bulk of our revenue in the General Fund comes from property taxes and intergovernmental revenue, the largest portion of which is consolidated taxes. I have gone into a bit of detail on some of the broad categories we budget to give you a flavor of what makes up those dollars and what the key pieces are of the largest portions. On the taxes, of course, the largest part is property taxes, although you do have some small amounts for room tax and optional motor vehicle fuel tax. Of the property taxes, less than $1 million are those two smaller amounts.

On the license and permit side, there are business and liquor licenses, local gaming licenses, franchise fees, marriage licenses, and building permits. A large part of that comes from franchise fees. In our case, of that $6.7 million, about $3.7 million is derived from franchise fees. On intergovernmental revenue, as I mentioned previously, the bulk consists of the consolidated tax, which is made up of cigarette, liquor, sales, governmental services, and real property transfer taxes. That adds up to more than $80 million for Washoe County, which is most of our $109 million total intergovernmental revenue.

The other piece, as we talked about, is the federal PILT. For us, that was $3.1 million this year when it was fully funded. That was about a $1.1 million increase over previous payments prior to the full funding of PILT.

The charges for services are your basic clerk and recorder fees, assessor commissions, sheriff fees, and water and sewer charges. Those are also broken down by what type of function they are—general government or judicial. The bulk of those come from general government-type functions. Fines and forfeits are library and court fines and bail, the bulk of which are court related-type fees and fines that come to $9 million.

Under the miscellaneous category are interest earnings, rents, and donations. The majority of that is related to interest earnings on our various accounts. For Washoe County, total revenue from all of those portions of the General Fund is about $312 million for the current fiscal year.

The next chart on property taxes (Page 7) is an interesting chart. At the top of the chart is the Washoe County operating rate, which is the only rate that Washoe County has any flexibility with. The rest of the rates are either legislative overrides or voter-approved overrides, which are set aside and earmarked for whatever purposes they were budgeted for. As we understand it, the $0.04 going into the Governor's budget to generate that $6 million a year will be will be taken out of Washoe County's operating rate of 0.9479. Currently, $0.01 in Washoe County generates about $1.5 million.

As you can see, many of these overlapping rates levied in the county are earmarked for certain things. On top of that, you load on the state rate and the school district rate to get a 2.70 rate that every taxpayer within the confines of Washoe County pays. Then, depending on whether you live in Reno or Sparks or whatever special district, you are going to have overlapping rates layered on top of that. Everyone would pay this 2.70, though.

Just as a note on that .9479 rate, each year we receive a spreadsheet that calculates what the county's maximum allowed rate is that they can levy. Over the years, we have approximately $0.30 that we have not levied. Currently, we are at $3.64 within Reno, so we could not levy any additional rate if we wanted to.

The next chart is interesting. We have graphed for you the impact of the tax bill cap that was put in place in the 2005 Legislative Session. You can see that, over these four fiscal years (FY 2006 through FY 2009), we have accumulated basically $32 million worth of abatement in that area. Based on the reduction that has occurred in our assessed value going into the upcoming 2009–2010 fiscal year, we will use up approximately 75 percent of that abatement in the coming tax year because of the drop in assessed value.

The next page is our economic outlook. As you can see, we are all living in the same unfortunate world of declines in consolidated tax, the increase in unemployment, jobs lost, and foreclosures. Our sales taxes in Washoe County have declined in 28 of the last 29 months. Our taxable value that I referenced previously was reduced 15 percent across the board. Previous to that, we had anywhere from 25 percent to 30 percent reductions already done based on our reappraisals. We do annual reappraisals now on all parcels. We had in excess of 3,000 appeals filed, and the county assessor chose to do an across-the-board 15 percent reduction which, in turn, is going to cause the assessed valuation to go down and chew up the bulk of that abatement. In short, we are looking at our fund balance declining dramatically, and measures are being taken now. We cannot drop below 7 percent or 8 percent or we will have significant cash flow problems just trying to pay the bills going into the next fiscal year because of the way revenue flows in from property taxes.

Chair McClain:
So you had 3,000 applications for appeals. Out of how many residential parcels is that?

Lisa Gianoli:
I do not know that off the top of my head. I can get that information for you. I believe it is 100-and-some-odd thousand.

Sabra Smith-Newby, Director, Administrative Services, Clark County, Las Vegas, Nevada:
[Distributed PowerPoint presentation, "Clark County, Nevada, Revenue Sources, presentation to Joint Taxation, February 19, 2009" (Exhibit J)]. On the second slide, we put forth a fiscal framework, which basically talks about the major revenues we have, the taxing authority that establishes each one, and any limitations placed upon them.

The next slide is a pie chart showing the General Fund revenues for FY 2009, broken out by the section of revenue. This is fairly evenly split, with 1/3 going to each of property tax, intergovernmental (which is primarily consolidated tax), and other things, including licenses, permits, charges for services, fines, forfeits, and other.

The next slide goes into the mix of all our revenues and how the major ones have been performing. Consolidated tax has been performing fairly dismally, which will come as no surprise to you at the Legislature. Our current revenue is far below the quarterly average.

On the next slide, we put forward the countywide consolidated tax revenues in more detail. These are all the revenues coming out of Clark County and not just the ones that actually come to Clark County. As you can see, in these tough economic times, liquor appears to be doing fairly well, as opposed to declines in sales tax, cigarette tax, and Governmental Services Tax, as well as a sharp decline in Real Property Transfer Tax. I am sure this mirrors some of the numbers you have seen at the state level. We are all in the same revenue pool, so the state of our revenues should be no surprise to you. The next slide simply breaks out the same numbers for the first quarter. This time, cigarettes appear to be popular.

The next page goes into the parcel assessed valuation. Of our 724,000 parcels, 99 percent have declined in value. When you are going to be talking about next year's assessed value and property tax collections, over half of those will have both declining assessed value and a decline in property tax collections. The other half have seen a decline in assessed valuation and an increase in property tax collections. This is particularly poignant when you consider the property tax cap that was put in place in 2005.

The final slide shows General Fund revenues for FY 2008, with actual fund revenues broken into categories of taxes, licenses and permits, intergovernmental, charges for services, fines and forfeitures, interest, other, and transfers for a total of $1.3 billion.

Those are all of the slides. I did not introduce my colleague here, Les Lee Shell, who is with the Clark County Department of Finance, and who is here to bail me out if there is anything I cannot answer.

Chair McClain:
Thank you. We could use a bailout expert. Do we have any questions? [There was no response.] In the interest of time today, we will let staff off the hook on the Nevada Plan. Mr. DiCianno, how much time do you think you need for an overview of the equalization boards?

Dino DiCianno, Executive Director, Department of Taxation:
Five minutes.

Chair McClain:
Would you rather wait? Why not reschedule you for next week before you present your bills?

Dino DiCianno:
That would be fine.

J. David Fraser, Executive Director, Nevada League of Cities and Municipalities, Carson City, Nevada:
[Distributed PowerPoint presentation, "Nevada League of Cities, Prepared for the Senate & Assembly Taxation Committees, February 19, 2009" (Exhibit K).] Next to me is Marvin Leavitt, who chairs the Committee on Local Government Finance, which was created under Chapter 354 of NRS. The statute designates that the committee is comprised of three members appointed by the League of Cities, three appointed by NACO, three appointed by the School Board Association, and two appointed by the State Board of Accountancy. Marvin

has been one of the League's appointees to that committee for I am not sure how long. That committee chooses its own chair, and Marvin has been chairing it for more than 20 years. With that bit of background for some of the newer members of the Committee, I would like to turn this over to Marvin in his capacity as Chair of the Committee on Local Government Finance.

Marvin A. Leavitt, Overton, Nevada, Chair, Committee on Local Government Finance:

I would like to make my presentation fairly quick and short. I do not think you need a recital of what is happening with some of these taxes. We are all well aware that taxes have been declining. There are some local government issues that we ought to discuss at another time—issues that are important in the relationship between state and local funding. Let me just mention a couple of things today, though.

There has been a lot of discussion over the past months related to one basic issue: The state is having a lot of problems, but local governments are having fewer problems. According to what we hear, there are essentially two reasons for this. One is that local governments get a lot of property tax while the state gets almost nothing. The second is that the state gets a lot of sales tax, but local governments are not so dependent on sales tax. Let me address those two things and I will close until another time.

First of all, it is true that if you look at the property taxes levied in the name of the state, you will see it is $0.17 out of as much as $3.64 in some places. Even though the state only levies $0.17 in its own behalf, there are also levies for schools, which have the same effect on the state as if they were levied in the name of the state. In fact, $0.25 of the school operating rate of $0.75 is a direct computational offset against the responsibility of the state to fund education. The other $0.50 is given consideration when the funding for education is determined.

Let me just mention a couple of instances. If I include the state in the school rates, say for the City of Las Vegas, combine those two and compare that with the total rate, the state has the advantage of 45 percent of the property tax levied in Las Vegas. If I do that for Henderson, it is 50 percent. Because the rate in Washoe County is slightly higher, those percentages are not quite as great there. We can see the state has an advantage, essentially through the schools or through themselves directly, of between 45 percent and 50 percent, at least in the cities in Clark County.

Regarding sales tax, as you are all aware, the state has 2 percent directly levied in the name of the state. There is also a 2.25 percent levy called the LSST. Both of those have a direct effect on the state finances. The LSST is a direct offset against the contribution of the state to the school systems. The state has exposure in the sales tax of 4.25 percent.

If you think about that, the local governments have exposure from what we call the BCCRT, which is $0.005. They have exposure from the SCCRT, which is $0.0175. Those two together total $0.0225. Then there are the special levies—those that have been approved by the voters. In Clark County, those go for things like flood, water, the Las Vegas Metropolitan Police Department, roads and streets, et cetera. They add up to a total rate of 7.75 percent.

If we combine all of those together, the state has exposure to the sales tax equal to 54.84 percent while the local governments have exposure to the sales tax of 45.16 percent. When we compare those two major taxes and our exposure to those taxes, both on the state and local levels, they are very close to being even. That is the reason we see the local governments in essentially the same position as the state.

We on the local government side have gone through all of the same kinds of things you have on the state side. We have done everything we could short of laying off people, and we are now to the point where, if it gets any worse, the next step is to start laying off people if we cannot lower salaries substantially.

I think that discussion is probably enough. I do not want to belabor these points any more or go into more detail, but I think you can see we are facing a situation similar to that of the state. In the largest cities, 46 percent of revenue comes from consolidated tax and 23 percent from property tax. Our exposure to those is great.

Chair McClain:
Thank you, Mr. Leavitt. That was an excellent summary of the relationship between state and local governments. We are essentially sharing the burden statewide. I did not realize we were quite at the same level. People do see only $0.02 of the sales tax going to the state and the rest to local governments. However, when you figure in offsets for education, which is state money, then we are pretty even. I appreciate that explanation; it was good.

Assemblywoman Leslie:
So if that is the case, we heard this morning that the salaries for employees in Clark County are going to go up substantially, whereas in Washoe County they

are going down 2.5 percent. Is your position that Clark County is just going to cut in other areas in order to be able to afford those salary increases?

Marvin Leavitt:
Obviously, I cannot speak for what the county is going to do, but let us just do the math. We have existing contracts—labor agreements—with our employees at the local government level, and we arrived at those contracts following procedures that have been set forth for collective bargaining as determined by legislation. Many of them are multi-year contracts. If the employees themselves are not willing to take a salary decrease and amend those contracts to reflect that, then we essentially have no choice but to pay the salaries as they have been negotiated in those contracts.

If our revenues go down at the same time the salary costs are going up, the math says something else has to give. We either have fewer employees or we cut other essential services. The problem is the local governments are like the state in that 75 percent of our general operating costs in our general funds relate to salaries and benefits. Where else do you cut if you do not do something on the labor side? I am not saying that is desirable or what we would like to do, but if we are faced with that situation . . .

Over the years, a lot of governments have come before the Committee on Local Government Finance because they were in financial difficulty. We are trying to deal with one right now. When you try to maintain service levels without the revenue to do it, all you accomplish is getting yourself into extreme financial difficulty, which is of no benefit to anyone. You have not accomplished anything for your citizens.

Chair McClain:
Thank you. Do we have any other questions or comments? I think people need to understand the function of government, though. It is to provide services, and services are not provided by machines or factories. They are provided by people, and that translates to salaries and benefits.

Marvin Leavitt:
That is right. That is exactly how we provide those services. We do not yet have graders that run without people running them or police cars that operate without policemen sitting in them or fire trucks without firemen inside them.

Chair McClain:
Also, people cannot simply go online, fill in their information, and have their result automatically spit back at them. You need to have social workers and such. And what would we do without our Fiscal staff?

Marvin Leavitt:
Yes, I am acquainted with a lot of what they produce, and they have done excellent work for the Legislature for a number of years. The first year I was here on a full-time basis was 1977.

Chair McClain:
We are glad we have had you all these years. Keep up the good work. Are there any questions or comments? If not, we will reschedule the presentations on the boards of equalization and the Nevada Plan. I want to thank Russell, Michael, and Joe again. That was very good work, and we appreciate everything you do.

Senator Coffin:
I want to join in that sentiment. My Committee members have to go because of other committee meetings. I am 30 minutes late for the Senate Committee on Natural Resources. I can only say thanks to our staff for all the work they did on these remarkable reports. The cost of producing this report on exemptions and abatements is high. We cannot provide copies to everyone, and that is why we are providing that link on the Internet. They are going to try to set it up in fragments so people will be able to download all or part of it sometime next week. The authors have taken the statutes and made them very understandable. It is the clearest language I have seen, and something you can really get your teeth into.

Chair McClain:
We will see you next Tuesday. We are adjourned [at 3:52 p.m.].

RESPECTFULLY SUBMITTED:

Mary Garcia
Committee Secretary

APPROVED BY:

Assemblywoman Kathy McClain, Chair

DATE:

Senator Bob Coffin, Chair

DATE:

EXHIBITS

Committee Name: Assembly Committee on Taxation/Senate Committee on Taxation

Date: February 19, 2009 **Time of Meeting: 1:44 p.m.**

Bill	Exhibit	Witness / Agency	Description
	A		Agenda
	B		Attendance Roster
	C	Assemblywoman Marilyn Kirkpatrick	Handout: "Property Tax Distribution"
	D	Russell Guindon	*Report on Tax Abatements, Tax Exemptions, Tax Incentives for Economic Development and Tax Increment Financing in Nevada*
	E	Assemblywoman Marilyn Kirkpatrick	Handout: "Incentives Presentation, BDR #48"
	F	Russell Guindon	Handout: "Examples of How Property Taxes Are Calculated and Distributed for a Redevelopment Area (RDA) Pursuant to NRS Chapter 279" and associated tables
	G	Assemblywoman Debbie Smith	Handout: "Notes on Kansas STAR Bonds, December 29, 2008"
	H	Michael Nakamoto	*Report on the Assessment of Churches and Religious Organizations Located Within Local Improvement Districts*
	I	Lisa A. Gianoli	PowerPoint presentation: "Washoe County Presentation to Joint

			Senate & Assembly Taxation Committees, Nevada Legislature, 75th Session, February 19, 2009"
	J	Sabra Smith-Newby	PowerPoint presentation: "Clark County, Nevada, Revenue Sources, presentation to Joint Taxation, February 19, 2009"
	K	J. David Fraser	PowerPoint presentation: "Nevada League of Cities, Prepared for the Senate & Assembly Taxation Committees, February 19, 2009"