

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

**Seventy-Fifth Session  
March 5, 2009**

The Joint Assembly Committee on Taxation and the Senate Committee on Taxation was called to order by Chair Kathy McClain at 1:37 p.m. on Thursday, March 5, 2009, in Room 4100 of the Legislative Building, 401 South Carson Street, Carson City, Nevada. The meeting was videoconferenced to Room 4401 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/](http://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](mailto: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 Maggie Carlton  
Senator Mike McGinness

Senator Randolph J. Townsend  
Senator Maurice E. Washington

**COMMITTEE MEMBERS ABSENT:**

Senator Terry Care, Vice Chair (Excused)  
Senator Michael A. Schneider (Excused)

**STAFF MEMBERS PRESENT:**

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

**OTHERS PRESENT:**

Bob Fulkerson, Executive Director, Progressive Leadership Alliance of Nevada, Reno, Nevada  
Hugh Jackson, Editor, Las Vegas Gleaner and independent writer and researcher, Las Vegas, Nevada  
Jan Gilbert, Progressive Leadership Alliance of Nevada, Carson City, Nevada  
Tim Crowley, President, Nevada Mining Association, Reno, Nevada  
Richard G. Sims, Ph.D., Chief Economist, National Education Association, Carson City, Nevada  
William Bible, President, Nevada Resort Association, Las Vegas, Nevada  
Danny L. Thompson, Executive Secretary-Treasurer, Nevada State AFL-CIO, Henderson, Nevada  
Al Martinez, President, Local 1107, Service Employees International Union, Las Vegas, Nevada  
Jeff Fontaine, Executive Director, Nevada Association of Counties, Carson City, Nevada  
David Fraser, Executive Director, Nevada League of Cities and Municipalities, Carson City, Nevada  
Alfredo Alonso, Lewis and Roca LLP, Reno, Nevada, representing Nevada Beer Wholesalers Association and Southern Wine and Spirits  
Tim Healion, Founder, Business Advocating Social Equity, Reno, Nevada

Lynn Chapman, Washoe County Chairman and Member, State Executive Board, Independent American Party, Reno, Nevada  
Melanie Meehan Crossley, Private Citizen, Genoa, Nevada  
Chuck Fulkerson, Private Citizen, Reno, Nevada  
Shaun Griffin, Private Citizen, Virginia City, Nevada  
William Smith, representing Nevada Action Coalition, Las Vegas, Nevada  
Estela Vaden, Private Citizen, Las Vegas, Nevada  
Khanh Pham, Private Citizen, Las Vegas, Nevada  
David Schumann, Chairman, Nevada Committee for Full Statehood, Minden, Nevada  
Karel Rice, Private Citizen, Reno, Nevada  
John Hadder, Director, Great Basin Resource Watch, Reno, Nevada  
Kim Bacchus, Private Citizen, Reno, Nevada  
Juanita Clark, Member, Charleston Neighborhood Preservation Board, Las Vegas, Nevada  
John H. O. La Gatta, Private Citizen, Reno, Nevada  
Ray Bacon, Executive Director, Nevada Manufacturers Association, Carson City, Nevada  
Steven D. Hill, Chairman, Las Vegas Chamber of Commerce, Las Vegas, Nevada  
Paul J. Enos, CEO, Nevada Motor Transport Association, Reno, Nevada  
Terry K. Graves, representing Henderson Chamber of Commerce, Henderson, Nevada  
George Flint, Government Relations, Reno, Nevada, representing legal brothels and wedding chapels  
Tray Abney, Director, Government Relations, Reno-Sparks Chamber of Commerce, Reno, Nevada  
Mary Lau, President/CEO, Retail Association of Nevada, Carson City, Nevada  
Robin Vircsik, Private Citizen, Las Vegas, Nevada  
Daniel Braisted, Private Citizen, Las Vegas, Nevada  
Gabriel Raviv, Private Citizen, Las Vegas, Nevada  
Howard Watts, Private Citizen, Las Vegas, Nevada  
Yvonne L. Murphy, Gilman Murphy Group, Reno, Nevada  
Christiane Brown, Private Citizen, Reno, Nevada

**Chair McClain:**

[Called meeting to order at 1:37 p.m. Roll was called; Senator Care and Senator Schneider were absent; excused.] Welcome, everyone. This is a great turnout, and I am glad to see all of you. We announced we wanted public input in this process. We have a budget crisis. We have had several hearings on our

revenue structure, and different ideas have come forth. It is time now to hear from the organizations that are directly impacted and from the public in general.

We have planned to allow people to speak in 15-minute increments, and we have many people signed up for those 15-minute increments. However, we left time open for public input at the end of the formal presentations. I would like to start with the Progressive Leadership Alliance of Nevada (PLAN) and then hear the presentation from the Nevada Mining Association. Then we can hear from the National Education Association (NEA). We will try to accommodate everybody's time schedules. If anybody cannot stay, just let me know or let staff know.

We are videoconferencing the meeting to Las Vegas. Welcome, Las Vegas. If you have a presentation, you will have to go up to the table and wave to let us know you are there.

With that, we can get started. First on the schedule we have two or three people from PLAN.

**Bob Fulkerson, Executive Director, Progressive Leadership Alliance of Nevada, Reno, Nevada:**

[Distributed prepared testimony ([Exhibit C](#)); booklet, *Fool's Gold: The Silver State's Tax Structure—Inadequate and Inequitable* ([Exhibit D](#)); and packet of three handouts: "Nevada: Fiscally conservative or just cheap?" and "Mining Deductions" and "2008 Board of Directors" ([Exhibit E](#)). Read from prepared testimony.] Relative to the size of Nevada's economy, our state spending is the smallest in the United States. This idea that if we cut bloated state spending all our problems would be solved is baloney. What we have is a revenue problem.

**Hugh Jackson, Editor, Las Vegas Gleaner and independent writer and researcher, Las Vegas, Nevada**

[Distributed prepared testimony ([Exhibit F](#)). Read from prepared testimony.]

**Bob Fulkerson:**

[Continued reading the rest of his prepared testimony.]

**Chair McClain:**

Thank you very much. Jan, did you want to add anything?

**Jan Gilbert, Progressive Leadership Alliance of Nevada, Carson City, Nevada:**  
If you have any questions, I can answer them.

**Assemblyman Grady:**

Mr. Jackson, if I heard you right, you said you would like to eliminate all deductions from mining except transportation and a couple of others. If you did that, would they not then be at a disadvantage relative to other businesses?

**Hugh Jackson:**

Do you mean mining in other jurisdictions?

**Assemblyman Grady:**

Just other businesses in the State of Nevada in general. Do you not write off your cost of doing business in various ways on income tax and so forth? I did not quite understand. I am not an advocate for mining; I am just asking. It seems to me that would put mining at a disadvantage relative to other businesses.

**Hugh Jackson:**

They would end up paying more taxes; there is no doubt about that. They would still be making more money than their costs, but their net proceeds would be a smaller amount. Instead of writing off 79 percent or 80 percent of the value of production, which they are doing now, they would be writing off something like 25 percent. They would be paying the constitutionally mandated 5 percent Net Proceeds of Minerals Tax on a much larger portion of the value of their gold, but they would still be selling the gold for as much.

They would be paying more taxes, but I do not know that would put them at a disadvantage against anyone. I do not follow that.

**Assemblyman Grady:**

Do you feel that the Net Proceeds of Minerals Tax is a property tax, or is it a profit tax?

**Hugh Jackson:**

I think it is a bad tax because it has these deductions and because it is in the *Nevada Constitution*. That is my biggest complaint with it. We are in a situation of tinkering with some deductions and wondering how to fix it so the mining industry is paying closer to its fair share. A lot of states with other minerals tend to go with severance taxes or taxes on gross value.

Technically, certainly legally, I think the Net Proceeds of Minerals Tax is a property tax. I am not sure that matters.

**Senator Coffin:**

Among your revenue proposals, you talk about the business profits tax. I would have thought taxes at that rate would yield a little more than you have calculated. Is there something wrong with this? You are talking about 5 percent on businesses with profits of more than \$50,000.

**Jan Gilbert:**

Our consultant out of Chicago helped us formulate these figures. I think it is because the businesses would be able to take deductions off the profits tax. It would be a net profits tax. I was surprised at how low it was, but that is because businesses could take those deductions. This information would come from their income statement with the federal government. That is where we got the statistics.

**Senator Coffin:**

Do you mean the equivalent of the Internal Revenue Service (IRS) form 1040? If so, which line?

**Jan Gilbert:**

Yes, it would be the equivalent of the 1040. As to which line, I am afraid that is over my head.

**Senator Coffin:**

I am curious about that. I do not like what we ended up with in the Modified Business Tax (MBT). That is a regressive tax, except for the credit for health insurance. There is nothing good about anything that has no basis for recompense from the end consumer of a product. I like the thought of a profits tax, if there is such a thing. I will not believe it is any more stable than any other tax, but I am curious about it. These figures just do not seem right; it seems like it should yield more.

**Jan Gilbert:**

Our consultant would be more than happy to speak with you. I can connect you with him; his name is Robert Ginsberg.

**Senator Coffin:**

If he has some way of sharing with us his methodology in calculating this number, I would appreciate it.

**Assemblywoman Leslie:**

My question is about the volatility of that tax. In a year such as this one, we are not going to get as much. I do not know what year Mr. Ginsberg used for

his estimates. When you looked at this tax, did you see any research that showed how much volatility there would be between a good year and a bad year? Forty-seven other states have this as part of their tax structure, so there must be a lot of research available on that.

**Jan Gilbert:**

He based these calculations on the 2006 federal corporate income tax returns. I agree that it would be volatile; there is no question about it.

The issue with the mining tax is actually the exact opposite. The price of gold has gone up enormously. It is now over \$900 an ounce. While the economy is declining, mining is doing very well.

**Assemblywoman Leslie:**

I do not want to talk about mining; I want to talk about net profits. Forty-seven other states have it. Those advertising flyers from big chain stores have driven me crazy since we first began talking about this in 2003. We do not have this tax, and we are getting nothing for it. When we go shopping, we are subsidizing California, Oregon, Utah, and every other state. Forty-seven states cannot be wrong. A net profits tax is not the only answer because other states are struggling as well right now, though not as badly as we are. However, in good years, they are doing much better. In Florida, they simply take it off the federal corporate income tax returns. They get a lot more money in good years.

While it would not help with the volatility and the stability problem we have, it would certainly help in establishing a broad-based tax. I think our biggest weakness is that we do not have a broad-based tax structure. We tax mining; we tax gaming; we have a regressive sales tax. What we do not have is a broad-based business tax. I do not really consider the MBT a broad-based business tax.

**Assemblywoman Pierce:**

Forty-seven other states have a net profits tax. I remember when there was discussion of a gross receipts tax in 2003. We were told in no uncertain terms that if we passed a gross receipts tax, we would all get boils and die a horrible death. One of the other states without a net profits tax is Texas, which now has a gross receipts tax. I am going to investigate the health of the Texans since they passed that gross receipts tax.

**Senator Washington:**

How is PLAN funded? Are you a 501(c)(3), or do you get any federal or state money?

**Bob Fulkerson:**

All of our funding is from private contributions.

**Senator Townsend:**

Thank you for your presentation and for the thoroughness of your document. It is very helpful. Perhaps sometime, not necessarily today, you could provide to the Committee, through your consultant, the list of taxes that were looked at and the decisions that were made on why some of them would not be in your proposal. I would be interested in seeing the analysis of those. A couple of us have sat on this Committee for a long time, and there are not a lot of taxes we have not seen. We would like to know your thought processes, and those of your consultants, as to why you chose the taxes you did.

**Jan Gilbert:**

The consultant gave us a list of recommendations. We mulled this over with our member groups for about six months, meeting about once every three weeks. Getting all our groups to agree is like herding cats, but we did come to these conclusions. We considered lifting the cap on property taxes, as well as a lot of other things we felt were not viable.

Mr. Ginsberg wanted us to designate a certain portion of the mining revenue to go into the Fund to Stabilize the Operation of the State Government (rainy day fund). He made some recommendations we decided to decline in the interest of our groups.

We included, on page 15 of our booklet ([Exhibit D](#)), the teachers' proposal of a room tax. We also went into some long-term strategies, which no one wants to talk about, but which we felt were important to talk about nonetheless, such as unearned income tax, which would tax capital gains and dividends on the very wealthy. We also talked about an income tax, which is the only way to make our state taxes progressive. We also included, on page 16, some other ideas that we are open to.

We look forward to seeing all of the creative ideas you come up with. We are interested in the abatement issue. We are interested in other taxes. A luxury service tax could possibly be created in such a way as to be progressive. We feel strongly that our taxes cannot continue to hurt low- and middle-income



people as they have been doing, and that those at the top level need to be paying their fair share.

**Assemblyman Goedhart:**

You say you were talking to some of your member groups. Who do your member groups primarily consist of?

**Bob Fulkerson:**

A list of our member groups is on page 26 of the booklet. We do work with an association of small businesses, and you will be hearing from them later this afternoon.

**Assemblyman Goedhart:**

Regarding that business profits tax, I noticed a lot of businesses that are losing money this year. It is not a matter of making money. Would that tax be able to be carried forward into a year where they were able to make some money?

**Jan Gilbert:**

We structured our net profits tax specifically so that businesses making under \$50,000 profit a year would not pay anything. We found out from our consultant that 85 percent of the businesses in Nevada make less than \$100,000 profit. I thought that was extremely high. That means only the top 15 percent make over \$100,000. We were trying to protect those at the bottom. We really were concerned for small businesses, and that is why we even adapted the MBT. New ideas are coming up, how do you protect those small businesses? I think there are ways to do it with the MBT just as you do gaming. You have the small, less profitable businesses, and then you have those that are very profitable.

**Chair McClain:**

Thank you very much for your presentation. Is anyone ready from the Nevada Mining Association?

**Tim Crowley, President, Nevada Mining Association, Reno, Nevada:**

[Distributed informational packet from the Nevada Mining Association ([Exhibit G](#)).] This is a serious topic—the most serious topic you are facing this session. I encourage you to read our handout. We have attached some informational material for you to help you better understand the Net Proceeds of Minerals Tax, which is the property tax we pay on our minerals.

We in Nevada's mining industry are proud to have never shirked our responsibilities to roll up our sleeves and solve problems. We are here today to help you solve your fiscal problems.

Mining participated in the 2002 Governor's Task Force on Tax Policy and ultimately supported the MBT that was passed the subsequent year. We also stepped up as recently as December 2008 and supported the prepayment of our Net Proceeds of Minerals Tax. The first payment of this prepayment was made last week. That is not a new tax but an existing tax source. Cash is king now, and we are pleased to be helping with the cash flow issues facing the state.

We suspect the Legislature, as you complete your budgetary work, will find that new revenues are necessary. If this determination is made, we will stand with the rest of our partners in the business community and work with you to find a broad-based business tax that helps provide stability to our tax structure and revenue for the essential services on which all businesses depend.

Contrary to popular belief, mining is just the 16th-largest business sector in the state. We are not the second-largest. Despite our relatively small size, we are proud to make significant tax contributions to the state. Although today we only employ about 12,000 people, we pay more than \$14,000 in taxes per employee. We believe this compares very favorably to other businesses in the state.

Our highest tax contribution comes from Sales and Use Tax. We pay more than most businesses in this category due to the sophisticated and expensive equipment on which we depend. In 2007, we paid over \$90 million in Sales and Use Tax.

Since the state's inception, mining has paid an industry-specific tax in the form of the property tax on minerals. In 2007, we paid \$75 million in this tax. We pay four times more in the Net Proceeds of Minerals Tax than what the conventional property tax would be. That is because we pay 5 percent of 100 percent of the assessed value, whereas, in most cases, property is taxed at 3.6 percent or lower of 35 percent of the assessed value.

Some have wrongly concluded that mining is escaping taxation through constitutional protections. These critics are wrong. Indeed, it is just the opposite. The property tax on minerals is the only industry-specific tax imposed by the *Nevada Constitution*. What is more, we pay four times the existing property tax.

We also pay conventional property taxes, and, as I mentioned earlier, we pay the broad-based MBT. Due to mining's high salaries, we pay a disproportionate share of the MBT. Our salaries are the highest in the state at \$67,000 a year. If you were to segregate just the metal mining, you would get a salary of about \$80,000 a year plus benefits.

I should point out that these mining taxes cannot be passed along to the end consumer. These are operating expenses. Much as Mr. Fulkerson pointed out—and he was not talking about mining taxes at that point—taxes are absorbed in the pricing of products from state to state. The mining industry cannot do that, as our commodity pricing is set on the world market.

We appreciate that the recession has hit businesses hard, and mining is not recession proof. The value of virtually every mineral mined in this state has plummeted, with the exception of gold and silver. Copper has dropped precipitously from \$3.50 a pound at the beginning of 2008 to about \$1.50 today. Lime and gypsum, which are essential to the construction industry, have dropped also. Molybdenum, which was a bright spot in Nevada's economy just a year ago, has also had a precipitous drop. One molybdenum mine has closed in the last year. Two mines are in development now, and their future is uncertain.

Gold, too, is tied to the recession. The demand for fabricated gold is down. Gold stores—jewelry stores—are closing right now. Where there is an increase in demand for gold is through the speculative market. Investors are fleeing the bond and stock market and are parking their money temporarily, we believe, in the gold industry.

We caution the Legislature not to look at this as a place for stability in state funding. The mining industry itself is not counting on the high price of gold. We have seen it rise and drop rapidly—in the last eight days, in fact. Eight days ago gold was at \$1,000 an ounce. Today, it is at about \$925. Yesterday, it was at \$906. Last year's average was \$871.

That price goes up and down, and fluctuations can be pegged to specific things. The price of gold has fluctuated with the Federal Reserve rate cuts, the collapse of Bear Stearns Companies, Inc., the change in oil prices, the bailout of American International Group, Inc. (AIG), the collapse of Lehman Brothers Holdings Inc. and Washington Mutual, Inc., the Israel/Gaza conflict, et cetera.

Nevada's mining industry has been a loyal member of the state's business community since before statehood. We are Nevadans, and the economic health

of the state has, and always has been, of significant importance to us. With regard to solutions, some have suggested a tax on net business income or a corporate income tax. The mining industry has no objection to these solutions as long as they are done fairly and equitably. Nor do we have any objection to any other broad-based solution you may come up with.

Though we comprise only 2 percent of the workforce, mining will not shirk its responsibility to engage in discussions about the future of Nevada. We believe the only sound, long-term, effective solution is to ensure that Nevada's financial prosperity is the responsibility of the entire business community.

**Assemblywoman Leslie:**

Regarding your last comment, how would you define a broad-based business tax? Would you define that as a net profits tax?

**Tim Crowley:**

A net profits tax is something we would support if it were done fairly. A corporate income tax is something else we could support if done fairly. Options are out there. They have been discussed before, and I know you are familiar with them. We are willing to work with you as you back into the hole we know you are going to wind up with, and then help determine the best broad-based business tax that works for you to try to fill that hole.

**Assemblywoman Kirkpatrick:**

I like to see formulas. Could you give me the formula used for calculating your deductions? That way I can actually see numbers and see how it looks on paper. It does not have to be today.

**Tim Crowley:**

The Net Proceeds of Minerals Tax is a difficult tax to understand. We do not take any deductions on the fair market value of the mineral pulled from the ground. We back into that number. The founders of this state came up with that tax, and what they said was, "We need to assess what the fair market value of that property is."

The state knows that the value of an ounce of gold in the ground today is not \$925. They have said the mining industry can pull that ounce of gold out of the ground, process it, take it to market, and get it refined. Those costs are then backed out to determine what the fair market value of that ounce of gold was when it was in the ground. We pay 5 percent of 100 percent of that value.

I will bring you more information on that.

**Assemblywoman Kirkpatrick:**

I want to try to understand it, but I have to see the mathematical formula and how it works. If you could just give it to me, that would be fabulous.

**Tim Crowley:**

Yes, Ma'am.

**Chair McClain:**

Another good resource is the Nevada Taxpayers Association. They publish a whole booklet on the Net Proceeds of Minerals Tax, which I know we all have a copy of.

Are there any other questions for Mr. Crowley? [There were none.] Thank you, Tim; we appreciate it. Next we have Richard Sims from the National Education Association (NEA).

**Richard G. Sims, Ph.D., Chief Economist, National Education Association, Carson City, Nevada:**

[Distributed handout of PowerPoint presentation: "Balancing Taxes, Funding, and Economic Growth" ([Exhibit H](#)).] Education is the largest single component of what you make your decision on and expenditures on. We, as a sector, feel we have more to gain or lose on decisions you make on fiscal affairs than probably anyone. If you will forgive my rural Kentucky upbringing, we are the "top hog at the trough" when it comes to the state budget and the decisions you make.

I would like to show you some of the recent studies and findings we have been looking at on how to fund public services, the effects of taxation, and how to grow economies over the long term. My first point is that your tax system should look like you did it on purpose. This is a pie chart of the Nevada tax system [on page 3 of ([Exhibit H](#)).] showing state and local tax revenues. The thing that stands out, of course, is that there is a zero entry for corporate income tax and personal income tax. Nevada is one of five states with no corporate income tax and one of nine states with no personal income tax. That means your other funding sources have to make up the difference.

You have some distinguishing features that have, in the past, made something doable in Nevada that would not have been doable in other states. You have the gaming industry, which falls into that "other" category. You have hotels and motels that fall into the "excise tax" category. You have been blessed with some additional strengths in your economy that a lot of other states do not have. That has carried you for many years.

Since 1930, Nevada's population has doubled with each decennial census. The first doubling, from 1930 to 1940, was only about 600 additional people. However, we have now grown to where we are no longer a small, unusual state. Nevada is a real state now. We have grown into a diversified economy, so we cannot just depend on our long-term gambling, tourism, and mining sectors. We have many other sectors. If we want to survive the 21st century, we are going to need to have some more sectors and to make some investments into growing the economy for the long term.

Regarding the issue of your system looking like you did it on purpose, I included this table of tax elasticities [on page 4]. That is what economists use when looking at how taxes grow over time. They look at how much a particular tax grows when the economy grows by 1 percent. The table shows that, of the taxes the states have at their disposal—and this is the average for all 50 states—the average state's income tax has an elasticity of about 1.8. That means when the economy grows by 1 percent, the income tax grows about 1.8 percent.

The other taxes—the sales tax, corporate income tax, alcoholic beverage taxes, cigarette taxes, et cetera—all grow at some amount less than 1 percent. When the economy grows 1 percent, they all grow a little bit less. That means that, over time, those taxes do not grow as fast as the economy.

The implication for funding is that a typical income tax that brings in \$1,000 this year would, over the next ten years, grow to about \$3,000. A sales tax on the other hand, with a typical elasticity of 0.81, would grow from \$1,000 this year to about \$1,650 over a ten-year period. That is a big difference over time. It is the magic of compound interest.

Nevada has a situation where we have low levels of taxation and growth because we do not use taxes that grow over time. Individual income tax is actually the only tax that grows over time. We use taxes that do not grow with the growth of the economy. Also, we have a relatively low base overall.

The implication for Nevada is shown on the chart called "State & Local Surplus (Gap) After 8 Years As % of Revenue" [page 7]. This chart looks at what happens over an 8-year period in terms of growth in revenues relative to growth in expenditures. The revenue here shows what happens if you do not change anything in your tax system: you keep the taxes you have in place now, run them out over the next 8 years, look at the revenue you get, compare that to the growth in demands for your public services, and just run what you have now with no new programs or public activities. The chart shows Nevada as

having the second-largest structural deficit in the nation. Only Tennessee does slightly worse.

The majority of states have structural deficits, which is why they continually have to come in and raise taxes year after year or cut budgets. In Nevada, if you enjoy cutting budgets, you are really going to enjoy the future. When you have a structural deficit, your only options are to come back and raise taxes year after year, to cut the budget year after year, or to do both. I do not envy you that task. However, that is what your future looks like because you have a monumental structural deficit in place and those are your only alternatives.

A low level of funding and low growth have some implications. The next chart [page 8] just came out this morning from *Education Week* showing the spending ranking among the states. You can find Nevada by going to the bottom of the chart, ensconced at number 49 in the nation. Being from the South, we always used to say, "Thank God for Mississippi." You will notice Mississippi is just above you now.

Funding matters. The middle chart shows graduation rates. The graduation rate in Nevada is 51st in the nation. The largest percentage of non-graduates in the country is here in Nevada, and that has a cost.

The final chart looks at proficiency scores or proficiency ranking. We also come in near the bottom here at 43rd. That is 8th-grade level proficiency. So funding is tied to completion rates and to academic proficiency.

The dropouts have a profound effect on Nevada and other states. First, they affect future tax revenues. A high school dropout pays \$3,600 a year less in taxes than a high school graduate. I am not talking about a high school graduate who goes on to get a Ph.D. I am talking about a high school graduate who stops with a diploma. That is how much less they pay, and that is how much less Nevada will have to spend on public services.

As to healthcare, each high school dropout is estimated to cost \$39,000 in additional public-provided health care over his lifetime. High school non-completers tend to have jobs that do not have benefits, if they are employed at all. They tend not to have private insurance. They tend to use the hospital emergency room as their first stop for health care. The hospital emergency room is the most expensive health care provider there is, but that is where high school dropouts tend to go. Preventing someone from dropping out of high school saves \$39,000 over that person's lifetime.

Crime is the third big category. A 2007 study from the University of California, Berkeley, found that a 1 percent increase in the high school completion rate for men aged 20 and 60 would save the nation about \$1.4 billion a year. Each additional high school graduate would save taxpayers \$2,100 a year.

Each male aged 21 to 60 who graduates from high school could save Nevada taxpayers somewhere in the range of \$2,100 a year. You can see this by going out to the penitentiary on the outskirts of Carson City and asking the inmates how many are high school graduates. You probably have an idea of what the answer would be—something in the range of 20 percent will be high school graduates. That is not just an incidental connection; it is a causal relationship.

As we all know, Nevada structures its system very regressively. Others have talked about the unfairness of a system where we tax people at the low end of the economic scale at several times the level that we tax the people at the upper end. I want to speak to that from the standpoint of smartness.

One thing we know about low-income people and poor people is they do not have a lot of money. If they are who you depend on for your tax revenue, you are in trouble. If you are a business that depends on poor people for growth, you are probably not going to have a lot of growth.

That is who we depend on, though. We do not depend on upper-income people, and that is where the growth has been for at least the last 30 years. Middle-income taxpayers and below have had no growth at all in their income. A 35-year-old male today earns 12 percent less in real terms than that same 35-year-old male would have made 30 years ago. The growth we see in our income all occurs at the upper income ranges, and we do not tax those in the upper income ranges in Nevada.

We have had substantial growth—I mentioned the doubling of the population every ten years—but there is one implication of that growth we do not always look at. The chart labeled "A Growing Concern: Economic Growth Does Not Come Free" [page 12] shows the taxes paid by a taxpayer's household at different income levels, from \$12,000 to \$2,000,000. I looked at the dollar amount of taxes they pay, and then I added the component of spending per pupil.

On average, each new job we create in Nevada is associated with one new school-age child coming into the education system. According to the most recent data we had, which was from school year 2006, state and local funding was \$6,600 per pupil in Nevada. A worker coming into the state making



\$40,000 a year pays about \$2,600 in taxes, so that worker is paying less than half of the taxes involved in sending his child to public school.

Because of our low level of taxation, the low growth rate of our taxation, and the structure of our tax system, a new income earner in Nevada has to earn about \$140,000 before his taxes are enough to pay just the cost of sending his child to school. That is if all his taxes go for no other purpose than to pay for that education. We do not create a lot of jobs that pay \$140,000 a year in Nevada.

The biggest concern I have over the long term is growth in health care costs. We are fighting just to keep education afloat now. All our growth in revenue, whatever growth we have, is going to go to health care costs over the next decade or two. That is something we need to keep in mind and prepare for. We must develop our structural tax system to address this rise in health care costs.

In studies of business taxation and business climates, we and others have found there is no correlation between taxes on business and economic growth or between taxes on individuals and economic growth. We find there is a strong correlation between education funding and economic growth.

A report I recommend for your consideration came from the Kansas Legislature in August of 2008. That study looked at 114 firms that had received economic development assistance in the year 1998 and found that only one-third of those firms were still in existence in Kansas ten years later. The state had spent \$1.5 billion on economic development over that period, but the firms they had assisted had simply disappeared.

I will make a final observation. I was intrigued by a recent World Bank study that looked at the seven fastest-growing countries in the world to see what their characteristics were. The lead finding they referenced was that there was a strong relationship between public spending and gross domestic product (GDP) per capita growth. The countries that grew the fastest also had high levels of public spending, and the spending went primarily for education of their work force.

A similar study this year, also by the World Bank, found that, in the United States, the taxpayer rate of return on spending for public education was 14.3 percent. A taxpayer who had no child in a public school, who had no interest in the public schools, the curmudgeon on the corner who thought teachers were overpaid and lazy, still received a 14.3 percent return on each tax

dollar of theirs that went toward funding public education. This was because of the increased earning power of the work force and because, as the work force became more educated, it required less public outlays.

**Assemblywoman Kirkpatrick:**

In your presentation, you compared states on state and local surplus after eight years, and you talked about Vermont being at the top, Nevada being at the bottom, and Kentucky somewhere in the middle. One thing I have learned is that, when you compare things across different states, you have to take many different factors into account. Were the demographics taken into account when this study was done?

I have learned this is all about formulas. I look and try to see the hard numbers and what they are made up of. Were the demographics, the economic impact, and the growth rate figured in? Was Vermont growing as fast as Nevada in the last year and a half? I would find that hard to believe. I want to know what this was based on.

**Richard G. Sims:**

No, this does not indicate that Vermont was fast growing. Vermont is a slow-growth state. It gets a positive fiscal structure because it is slow growing and does not have as many demands in the future. The model that drove this study is based on demographic trends. The study was actually done by the National Center for Higher Education Management Systems. The NEA does this same study each year, but I used the center's study precisely because it was not mine. I wanted to use an outside source just for verification.

Yes, the study does take demographic trends into account. The figures for public education expenditures come from the National Center for Education Statistics, which is a subset of the U.S. Department of Education that forecasts public school enrollment by class over the next 14 years. That is the driver on the education component. The U.S. Department of Health and Human Services does the same thing for health care for the elderly, and different public sources provide data that go into calculating the long-term forecast.

The National Center for Education Statistics puts those numbers together. The assumption is that, given the expected growth in your economy and your current tax structure, this is the revenue that will be produced over time. Compare that to the demands you are expected to see, and the difference is the fiscal deficit.

**Assemblywoman Kirkpatrick:**

I am not trying to pick your study apart, and I am no economist, but when the trends were calculated, what was the economy like nationwide? I am working on looking at abatements and exemptions right now because I believe education does not always get its fair share. My concern is that we see a lot of studies that are based on some formula. Someone sits at a computer and just inputs numbers, and, at the end of the day, the answer that comes out pretty much depends on how the question was asked. I learned that this session.

The basis for this cannot just be demographics that you looked at, and it cannot just be health care. Several components would have gone into the formula to do this. When our growth is taken into account, who would ever have thought our economy today would be in the situation it is in? Looking 14 years out—was that done with growth projected at 2 percent or at 23 percent?

The devil is in the details, and I guess I am the detail queen of this Committee. I want to know how you got your formula. If you could get me that information, it would help me understand this study a lot better.

**Richard G. Sims:**

I would be glad to provide you with the original study. It was designed to go to a full range of state leaders on all sides of the political spectrum, so they were simply addressing the question of, given the current tax structure and our current budgetary policies, what does each state look like in terms of its ability to fund its coming needs, assuming there are no new programs or changes in the tax system.

**Assemblywoman Kirkpatrick:**

I think that helps justify where this study works. I appreciate that.

**Richard G. Sims:**

You mentioned exemptions and credits. That is something we have looked at a lot while looking at the return on business exemptions. Many of them we found to be useful. Many more we found to be not very useful. Nevada, as I recall from when I was living here, does not do a tax expenditure report. That is something you should definitely consider doing on at least a biennial basis.

**Assemblyman Mortenson:**

Let me begin by saying I think your report here has been one of the most interesting and informative that I have seen in this Committee in a long time. However, there are some things that just do not seem right to me. When talking about elasticities, you give sales tax an elasticity of less than 1. That

would seem to indicate that as a state grows, its population gets poorer and the disposable income gets less. Why would that be less than 1?

**Richard G. Sims:**

It is exactly the opposite. As your income rises, you spend less and less on items subject to the Nevada Sales and Use Tax. If you were making \$50,000 one year and your income rises to \$60,000 the next year, first, you probably save a little of that. That is not subject to the sales tax. As your income rises, you also start to spend some on services. You do not tax services. People at low income levels spend every dime they make, and they do not spend much on legal services, accounting services, or financial services. People at the \$100,000 level save some, spend some on services, and spend relatively more outside the state. As your overall income rises, you tend to spend less on items subject to the sales tax. Therefore, sales tax collections as a percent of taxpayer income goes down over time as income goes up.

**Assemblyman Mortenson:**

That is a very good explanation. I can understand that.

**Assemblyman Anderson:**

My question concerns the correlation of the types of jobs available in a state to the education level, and therefore the expectation of someone completing a higher degree. Is there an economic correlation between the types of jobs we have in this state and the educational expectation of attaining a higher degree? Do you see a correlation that is unique to Nevada as compared to some other states?

Also, is there a second chart that shows the correlation between jobs and investment in education?

I ask that question from my own perspective of having two parents who were not high school graduates. I was the first college graduate in the family. In my household there was no question; where I was going was made clear to me at a young age.

**Richard G. Sims:**

To answer your second question, I do not have that information on a chart with me, but I do have that information available. I would be glad to provide it to you.

As to your first question, yes, there is a strong correlation with the educational composition of the state. Within Nevada specifically, my big concerns are

twofold. One is that, at the bottom end, we are producing more high school non-completers than any other state. That is terrifying to anyone concerned about the future of the state because even if you feel those people deserve what they get, we are going to have to pay for them. Rather than being tax producers, they will be tax drains. That is a big threat to Nevada's economy. Also, they do not serve as a magnet for high wage growth.

At the upper level, we have benefited, in the past, by bringing in people with college degrees. We have been an importer of college graduates in that people with college degrees coming across the border from California supplied many of our jobs. Now that our economy has grown, however, we are going to have to provide our own college graduates. Your task is to provide jobs and income for the people we have here. It cannot all come from out-of-state any longer.

We know the most mobile year in people's lives is the year they graduate from college. That is the year they are most likely to leave. It is also the year they are most likely to get married or have their first child. For those reasons, people just out of college tend to focus on, among other things, the quality of the local public school system. That becomes a significant predictor of where they eventually locate.

If we want to develop a work force that is capable of attracting business—and the idea of a quality work force is that it serves as a magnet for attracting business—then we need to start by investing in our kindergarten through grade 12 (K–12) education system. We underinvested in our overall system, which shows in the quality of our work force down the road. Also, we are allowing this high rate of drop-outs, and we are falling back at the higher education level. Across the board, we are slipping backwards, and we are shortchanging our future generations. That is to our own detriment, because we are the ones who are going to have to live with it.

**Assemblyman Anderson:**

If I understand you correctly, the investment in K–12 is important in giving our children the wherewithal to be successful later in life and, therefore, economically sustainable in the state. It is absolutely essential that they have an opportunity to go the next step beyond their diplomas and become college graduates. By doing so, they enhance the opportunity for the state to raise its quality in the future by having a model example in the present. Equally important to the overall health of the educational structure of the state is our investment in higher education.

**Richard G. Sims:**

You have to have the full range of education investments. The area we are seeing the biggest return on is early childhood education. That has a tremendous rate of return, but you cannot stop with early childhood education; you cannot stop with K–12; you cannot stop with community colleges and vocational/technical training. You have to have a full package in order to provide what the business community says it needs.

One of the charts in the handout [page 18 of [Exhibit H](#)] shows a survey, published by the Federal Reserve Bank of Boston, of 4,000 firms that had moved over the last 10-year period. The white collar firms—the kind of firms we like to attract to our state—said the quality of the work force accounted for 72 percent of the reason they picked one location over another. When they were asked about taxes, they said that was about 5 percent of the reason. So, investing in education pays off long-term and very short-term as a business attraction measure.

Education is unique in that it has the highest labor intensity of any industry in America. A typical school budget is about 85 percent labor. That is not the case for any other industry. In a typical industry, labor accounts for only 16 percent to 20 percent of the budget.

**Assemblyman Anderson:**

In your study, do you see any correlation between income level and the amount of investment people have made to pursue their higher education opportunity? If so, can that be expressed as a percentage? I am always concerned that only the economically elite get to go to out-of-state institutions.

I know there are scholarship opportunities, even at the very best schools, that qualified students can get once they make it through their first year. It is that initial year I am concerned about. In your studies, did you find any correlation between income level and the percentage that is invested in education? Also, how many students are really carrying the whole burden on their own?

**Richard G. Sims:**

There is a wide range among states in what kind of return they get at the higher education level. One of the interesting studies we did when I was at the University of Georgia was to look at the Hope Scholarship program. In Georgia, if you go to high school and have four years of a B average, you get four years of college free of cost. I was there when we implemented that. We did a lot of studies on what it meant for the state and on how to attract and retain students in school.

One of the highest returns we saw was from the community colleges, where someone in the community went from being a "shade tree" mechanic to being a skilled mechanic or went from working in a dentist's office to being a skilled dental technician. Those changes led to large increases in those people's earning power, all of which stayed in the community. That was a very high rate of return.

I will share with you some of the studies we looked at on educational effort and returns in the economy.

**Chair McClain:**

Thank you. Have you studied the effects of the Millennium Scholarship? That was basically patterned after the Hope Scholarships in Georgia.

**Richard G. Sims:**

I am familiar with it, but not in detail.

**Chair McClain:**

I would be interested to see if we have gotten some of the same good results.

**Assemblyman Aizley:**

Did I hear you say early childhood education has the greatest rate of return? If so, could you explain that?

**Richard G. Sims:**

The studies we are seeing now show that early childhood education has a taxpayer return of about \$7 for each \$1 invested, which is the highest we have seen on any educational investment. That information comes from some very conservative University of Chicago economists who have studied the question. They say that is where you get the biggest bang for your buck. If you had one more dollar to spend on education, that is where you should put it.

**Assemblyman Aizley:**

Is that because it attracts a different kind of worker, or is it because it actually produces people that have a higher earning capacity?

**Richard G. Sims:**

That is the formative year in the child. If you can get to children—particularly those who might otherwise be challenged in some way—at that 4- to 5-year-old stage and give them the things a child coming from a typical middle-class household might have, if you can help get them engrained into the learning process, that is where you get the return.

It is a very long-term return; you do not start getting it until 18 years later. Over those children's lifetimes, though, it turns out to be a tremendously high return. This is largely due to mainstreaming children who, if left to their own devices and parental upbringing, would not have had that opportunity. They would have wound up performing at the same economic level as their parents. They might not have had the advantage of parents that pushed them along, as some of us have had.

**Chair McClain:**

Are there any other questions? [There were none.] This is fascinating information. Can we get in touch with you if we want more information?

**Richard G. Sims:**

Yes. I will be glad to provide any follow-up information.

**Chair McClain:**

We are going to move down to Las Vegas now. We have Bill Bible of the Nevada Resort Association.

**William Bible, President, Nevada Resort Association, Las Vegas, Nevada:**

[Distributed letter to Chair McClain and Chairman Coffin containing prepared testimony ([Exhibit I](#)). Read from prepared testimony.] I want to put these trends in perspective from my own personal experience. I first came to work for the State of Nevada in 1971. I served in Governor Mike O'Callaghan's Budget Office as his Deputy Budget Director. I served as the Assembly Fiscal Analyst during the 1979 and 1981 Legislative Sessions. During the administration of Governor Richard Bryan, I served as his Budget Director. During the administration of Governor Bob Miller, I served as the Chairman of the State Gaming Control Board. I have spent about 40 years studying the gaming industry and looking at the revenue numbers.

This current situation is, in my experience, completely unprecedented. I have never seen declines as sharp or as deep as these have been. We have, apparently, a small anticipation as to when these declines will end. As we came out of calendar year 2008, most of the pundits and analysts were acting as though 2009 did not exist and were forecasting a recovery at the very end of calendar year 2009 or 2010. Now it appears there is further speculation that the declines will continue throughout not only 2009 but 2010 as well. [At this point, he resumed reading from prepared testimony.]

I indicated earlier I had served as Chairman of the State Gaming Control Board for a ten-year period. During the course of that tenure, a number of companies



entered bankruptcy, but generally they entered it not because of economic conditions but because of other factors. This year is different because it is widespread economic factors that are influencing the health of the industry. [Read remainder of prepared testimony.]

**Assemblywoman Leslie:**

I am interested in your last paragraph where you talk about the broad-based business tax. Are you referring to a net profits tax?

**William Bible:**

There is no specific recommendation in that paragraph. As you and I are both aware, there is already one tax in the state's revenue structure that is classified as a broad-based business tax, and that is the MBT, which was enacted in 2003. You were a member of the Legislature during that session when we talked about gross profits tax and gross receipts tax. I have also heard considerable discussion about sales taxes. If you do need additional revenue, as it looks like you will, I think your approach has to be tailored. . .

**Assemblywoman Leslie:**

Do you have a list of things that would qualify as a broad-based business tax?

**William Bible:**

We have no specific recommendation. We are certainly willing to look at any proposals that are developed in this area. You have indicated that you have considered gross profits tax, gross receipts tax, sales tax on services, and various other taxes. You do already have the MBT, which is currently in existence.

**Assemblywoman Leslie:**

I take it, then, your testimony is that you and your association would be willing to look at any of those sorts of things that are considered.

**William Bible:**

That is correct.

**Chair McClain:**

Are there any other questions? [There were none.] Mr. Danny Thompson, are you here? Are you going to include the Service Employees International Union (SEIU) with you?

**Danny L. Thompson, Executive Secretary-Treasurer, Nevada State AFL-CIO,  
Henderson, Nevada:**

I think it is important to look back historically at how we got where we are today. Back in the late 1970s, there was a man named Howard Jarvis in California who, by the initiative petition process, introduced an initiative called "Proposition 13." Partially in an effort to stop it from spreading to Nevada, the Nevada Legislature, in 1981, enacted the tax shift which, in effect, swapped property taxes and sales taxes with local government, with the state ending up, for the most part, with sales taxes and all the other mechanisms that were put into place to make it work. During those years in the 1980s, when there were needs of the state, the state would go to the gaming industry to seek additional funding.

In the 1980s, the only place you could legally gamble in the United States was right here in this state. Today, I can gamble in Pocatello, Idaho. I can gamble in 46 or 47 states. I should have talked to Mr. Bible before he testified, because he stole a lot of my thunder, and that is this: We have been reliant, since that time, on a single industry for half of our money, and that industry is now experiencing the worst downturn in the history of legalized gambling in Nevada, and at a time when something else factors into that.

The gaming industry pays many unique taxes that no other industries do. They pay gaming tax, slot tax, room tax, entertainment tax, sales tax, property tax, business tax, and unemployment tax. You can say that a lot of those taxes are passed through to the customers, but the reality is that they have to make their businesses work and make the pass-through work on some of those taxes. It really is a tax on the industry. I would submit to you we can no longer afford to do that. We must diversify the tax base. You have to start taxing other industries.

Let me tell you about a few in particular. The gaming industry, for the most part, offers good jobs with health insurance—I can tell you the culinary health plan in Las Vegas is one of the finest in the nation. While you rely on this one industry, you have large retailers coming to this state that often get tax abatements. They often do not provide health insurance to their employees, but rely on the Medicaid you provide to serve as the insurance policy for those employees and their families.

I would submit to you that you can no longer afford to do that. You need to plug all the holes in these economic assessments that are given away, often with no accountability. I am not going to bore you with a story I have told time and time again, but there are literally cases where the farm has been given

away. Now, today, we find ourselves at a place and time where all of this has caught up to us.

The Nevada State AFL-CIO and its 200,000 affiliated members looked at this. This is not some conclusion we just came to. Back six or eight years ago when Senator Neal was here, he proposed increasing the gaming tax. We opposed it for that very reason. We said then you needed to diversify the tax base and not be so reliant on a single industry.

I would echo Mr. Bible's remarks and invoke the name of former Assemblyman Bob Price because every session during my 29 years in this building, he came in with a bill to have an annual session to consider the budget. I am sure if Mr. Price were here today, he would say, "I told you so." Every session, we killed that bill out of fear of what the newspapers would write about what it would cost.

To project a budget out two years in today's economic conditions and guess how much money you will have is insanity. You certainly would not do it in your business, and you certainly would not do it in your private budget at home. That is critical. I know changing the constitution is a long process, but what could happen is the Governor could call a special session to consider the budget. I would call on him to do that. It is the right thing to do and the right thing for the state until we can enact that constitutional change.

**Chair McClain:**

Thank you. I do not think you would get any argument from us about annual sessions. But you are right about it being a long process requiring a constitutional amendment.

Before I moved to Nevada, I had worked on the budget for a school district in Colorado. When I found out you budgeted for two years here, I was amazed. I wondered how in the world you could do that. Everything was rosy then, though, so I guess we figured it worked that way.

You are right, though. It is insane to do it on a two-year basis, especially in this economy. Are there any questions for Mr. Thompson? [There were none.]

**Al Martinez, President, Local 1107, Service Employees International Union,  
Las Vegas, Nevada:**

We represent over 17,000 employees of both health care and public sectors statewide. We are here to formally go on record regarding our position on Nevada's antiquated tax structure. With the current budget shortfalls, we now

have come to the point where the only solution seems to be deciding which drastic reductions will have the least impact. What does that mean? Will we have to cut health care for children or cancer patients? Or will we cut education or funding for foster children?

Nevadans are no longer willing to repeatedly deal with these harsh realities just so our state can be a tax haven for business. If Nevada is the tax haven it claims to be, and the current tax structure is really working, then where are all these businesses? Clearly they are not here in Nevada.

I can see we are not going to see eye to eye with the chambers of commerce, the commissions on redevelopment, or even the Governor. If these groups are so resolute in promoting business, then they should start focusing on the factors that keep businesses away, such as the broken health care system, the crumbling educational infrastructure, and high crime rates.

Do not get me wrong. I do not think we should throw the baby out with the bathwater. Nevada has the potential to be a pro-business state and to be a state that prioritizes its residents, with all the characteristics to attract families, young couples, and executives. The bottom line is we simply do not generate enough revenue to keep even basic services intact at this point. The inadequate tax structure for businesses is not equitable. We propose eliminating most tax exemptions now granted to Nevada's mining industry, imposing business profit taxes that go up as profits rise, and lastly, doubling the MBT.

Put this all together and what does it mean? The flourishing futures of families from all the way up north to Winnemucca to all the way down south to Laughlin are depending on us to identify and implement solutions to the budget crisis and not to simply triage the problem.

**Chair McClain:**

Thank you. Do we have any questions? [There was no response.] Now we are going to hear from the League of Cities and NACO.

**Jeff Fontaine, Executive Director, Nevada Association of Counties, Carson City, Nevada:**

[Distributed and read from prepared testimony ([Exhibit J](#)).]

**David Fraser, Executive Director, Nevada League of Cities and Municipalities,  
Carson City, Nevada:**

One of the things I have consistently said in my presentation to this and other committees is that, clearly, we as cities and counties in this state are all partners serving the same constituents. We all have our various responsibilities and services that we provide. The last couple of times I appeared before these two Committees, I distributed some PowerPoint presentations that painted a picture of what is going on with cities. One of the connections I tried to make was the fact that we are swimming in the same revenue stream. The same things that are affecting the state are affecting the cities and vice versa. Really, if anybody understands what you are going through, it is cities and counties.

That having been said, I would echo what Jeff said about us wanting to help and participate in finding solutions. In fact, I distributed to the Committee a resolution passed by my board on February 11, 2009, entitled "Resolution #08-01, Encouraging Cooperation in Solving the State Fiscal Crisis" ([Exhibit K](#)). The resolution outlines a lot of the things I presented to you in the past. It essentially delineates our statutory responsibilities—not only the services we are mandated to provide, but the difficulties we are having with our revenue stream.

I just want to focus on the final paragraph where it says:

Now therefore, be it resolved, that the Nevada League of Cities & Municipalities [NLC&M] urges the Legislature and Governor to enact legislation which generates sources of dedicated, long term, sustained funding for State operations. Inasmuch as it is imperative that these funds not be diverted from priority needs at the local level; NLC&M pledges to work with the Legislature in seeking solutions that do not threaten the ability of local governments to provide those services prescribed to them by statute.

Again, my board is clear, of course, on wanting to be able to continue to provide the services we are mandated to provide, but also to work cooperatively with the Legislature in solving the state's short-term and long-term fiscal crises. I would echo what has been said by many individuals, which is that you have both short-term and long-term problems to solve. As you look at long-term solutions, your challenge will be more difficult. You will not only have the lag time of setting up processes for collecting and establishing regulations, but you will also have more difficulty in forecasting what revenues they might provide. As you look at long-term solutions, I hope you will be cognizant of some of the

things available in terms of short-term solutions that might give you a clearer picture of what kind of revenues they will bring in for you.

**Chair McClain:**

For revenue savings in the long term, would it not make sense to look at consolidation of some of our local entities, streamlining some of the services to free up revenues that might be able to go into more direct services? In the long-term plan, could that not be part of your interim discussions?

**David Fraser:**

Though I think you are talking about consolidation on a bigger scale, many of our members have taken long looks at consolidating various services, and many have done that. Interestingly, the League has a bill tomorrow morning in the Assembly Committee on Government Affairs that addresses putting processes into place for when services are transferred from one government entity to another. I think that will include the kinds of situations you are talking about. The League has been proactive in trying to lay out not only opportunities to consolidate, but even setting out procedures this week for how some of those consolidations of services—or transfers of services where it makes more sense for one entity to do it than another—could take place.

**Jeff Fontaine:**

The answer is yes. Clearly, it is time to take a look at some of these services. Right here in northern Nevada, when you can drive in an afternoon and touch five different counties and the government entities that exist within those counties, you have to wonder if some services could not be consolidated or regionalized. I think, as Mr. Fraser indicated, we are going to start looking at those possibilities.

**Chair McClain:**

I like to use the analogy, in southern Nevada, that if you lose your cat on Sahara Boulevard, you had better know whether he went north or south, because it could be either city or county jurisdiction. Do we have any other questions? [There were none.] Mr. Alonso, do you have any comments? After that, we will take public comments.

**Alfredo Alonso, Lewis and Roca LLP, Reno, Nevada, representing Nevada Beer Wholesalers Association and Southern Wine and Spirits:**

Very briefly, for those of you who do not have a good knowledge of how the beer distribution system works in Nevada, it is unique in the sense that our wholesalers pay the tax before they sell the liquor. That puts them in a very precarious situation because they do not sell stock, yet they are paying the full

tax. Obviously, in a down economy, that has been a very difficult situation for them.

One of the most interesting things about our system is that we are very streamlined and self-policing at the tax level. We essentially have two investigators statewide. I believe, due to the freeze, we currently have only one. While the tax, as it is, does cover some policing, the industry itself does a significant amount of that.

Our concern, from a balance standpoint, is there has to be a balance in the western states. As of 2003, we have been at a disadvantage with some of our neighbors because our excise taxes have been a little higher. We are actually higher than California on distilled spirits and wine, and barely lower on beer. Arizona is higher. Idaho just raised theirs recently—because of current budget issues, we will be seeing some of that.

It is important to remember these are families and individuals who have been in our communities for many years, sometimes going back for two or three generations. They have been involved in the community. They have paid their taxes and continue paying taxes that many businesses do not: the federal excise tax, the state excise tax, and all the business taxes that go with it. Their employees are paid well and have full benefits, including health care.

If you get nothing else from my testimony today, there should be some balance. We are willing to come to the table. The beer wholesalers and all the wholesalers have, as in the past, come to the table and participated. We continue to be open minded, but as the tourism economy goes, so do we. It is a unique situation, and it is not a tax that does not affect others within the tourism industry. Our customers, the gaming industry, pay a very large chunk of that.

While raising the liquor tax may sometimes seem like an easy increase and an easy way to help a budget, it is more complicated than that. As we see in other states, as we saw in our own state in 2003, revenues were not there. In fact, if the goal is to get quick revenue, it does not exist on the excise tax. It is a very regressive tax. We have noted recently that sales of premium products have softened significantly, the mid-range products have almost dissipated, and sales of the low-end products have increased. That affects the tax revenues to a great degree.

**Assemblyman Anderson:**

I note you failed to mention the fact that many of the western states, particularly Washington and Utah, have state-controlled and state-operated business, so they are the distributors and get to take the total profit off the top of the sale of alcohol. Nevada does not follow such an example, choosing to sell alcohol on a distributive basis. As to the total volume of sales per capita, I recently read an article that indicated Nevada had a relatively high consumption rate.

**Alfredo Alonso:**

While there are unique circumstances in other states, there are alcohol control bureaus in other states, and in some cases the state is actually selling some. In many cases, distilled spirits are not allowed to be sold at retail establishments, so there is significantly more government involvement in the process. However, that is much more costly. It costs the state a significant amount of money to regulate and to hire individuals to investigate. Nevada spends very little on regulation. The reason our taxes have been lower than other states is because we do not have that bureaucracy to deal with, and the industry is basically self-policing. We have less gray market than in states where the excise tax is extremely high.

As to your question regarding consumption, I believe we are one of the higher-consuming states per capita, but we are also a tourism-driven state. Just based on the type of tourism that comes to Nevada, I think that speaks for itself.

**Assemblyman Anderson:**

I remain concerned about the oversight question. Since oversight is so difficult, maybe we would be better off reducing the locations where alcohol is available so you could not, for example, buy alcohol at a gas station. That way you could only buy it at specific locations that were easily monitored, rather than the local 7-Eleven store.

**Alfredo Alonso:**

The problem with oversight is not the difficulty; it is when you increase excise taxes to the point of diminishing returns. When it becomes easier to bring in gray-market products from other states, then you need the oversight. Right now we do not. Right now we have a very efficient system. By no means do I want this to be interpreted as disinterest in participating on our part. We do want to participate.



The unique thing about this industry is that the distributors here live here, their children go to school here, and they participate in every facet of community life. These folks are here to stay. Their fathers and great grandfathers started their businesses. It is a little bit unique in that sense.

As to the gas station issue, that is a policy decision this body would have to make.

**Chair McClain:**

Are there any other questions? [There was no response.] We are going to take public input, but we have to recess at 4:00 so we can come back at 5:00.

**Assemblyman Grady:**

I have distributed a 5-page handout ([Exhibit L](#)) with some of the headlines that have been in the newspapers during the past month. It is just a reminder of what local governments and businesses have been going through in the state. We put this together to show that everyone is feeling the pain among all the sectors we are dealing with.

**Chair McClain:**

I had some letters from residents, too ([Exhibit M](#)). We will get those compiled and into the record.

We have several citizens who would like to comment. Please come to the table three or four at a time and try to limit your comments to two or three minutes. I would appreciate it.

**Tim Healion, Founder, Business Advocating Social Equity, Reno, Nevada:**

I have been doing business in northern Nevada for about 25 years, mostly in restaurants. I currently have an event promotion business that produces the nationally-acclaimed Tour de Nez bicycle race in the Reno/Tahoe area. I am also representing a business group that I started called Business Advocating Social Equity, or B.A.S.E. We have about 50 members, of which I have a list ([Exhibit N](#)).

As a group, we had an opportunity to review PLAN's tax proposal and, in general, we thought it was a great idea. In particular, although everybody did not agree 100 percent on all the issues, everybody agreed that, with the quality of education and social services and the spending on them, the state's problem does not seem to be a spending issue so much as a revenue issue. We all think a tiered profits tax, and possibly an increase in the MBT—again, we propose a tiered system—might be a partial solution to the problem.

I like living here, and I, for one, would be willing to pay my fair share of dues, which it seems taxes are, to increase the quality of education, transportation, and social services in this state.

**Lynn Chapman, Washoe County Chairman and Member, State Executive Board, Independent American Party, Reno, Nevada:**

As a party, we go out and talk to people about the issues. One issue that is always a hot topic is taxes. We are concerned about some of the things we have heard today. I always come to the Legislature and ask the same question: "How much is enough? When will it be enough?" The answer is there is never enough. There will never be enough money, ever.

Keeping that in mind, when you go to the supermarket, the prices are not going down; they are all going up. If you go to buy something at a store, the prices are not going down; they are all going up. I know many people in businesses, and not one of them has told me they are not going to pass along a tax increase or cost of business. They are not going to sit back and not pass those along to the people. They cannot keep absorbing that expense. I do have a problem with hearing how business will not mind at all, because I know that a lot of people in business do not believe it.

Janine Hansen was not able to be here today. She is in Salt Lake City, Utah, at a conference. I have given you a copy of her letter ([Exhibit O](#)). Her brother had a roofing company, and he would explain to his customers, when giving them an estimate for \$5,000, that \$2,500 of that covered the taxes, fees, and permits. Although they would not see the tax portion on the bill, it was there. Sometimes you have to understand that taxes are hidden. They are included in the cost, but you do not actually see them as taxes.

I know people have been losing their homes, jobs, and retirement money. I am really concerned that if we keep raising our taxes instead of cutting costs, we are going to have a big problem, because there are so many people who are losing everything. In my own family, we handle the situation by cutting back. We rearrange things and have a priority list, and we try to stick to it. That is what we have to do as a family, and I am asking the state to do the same.

I have a couple of different statements by various people. One, said by Winston Churchill, is, "I contend that for a nation to try to tax itself into prosperity is like a man standing in a bucket and trying to lift himself up by the handle." The other one is, "A government big enough to give you everything you want is strong enough to take everything you have." That was said by Thomas Jefferson.

**Melanie Meehan Crossley, Private Citizen, Genoa, Nevada:**

I have lived here in northern Nevada since 1982. Like you, I have seen this boom-and-bust cycle many times. I am now retired from a career in state service. I am here to thank you for having this forum today. I found it very educational, and I am sure you have too.

I am asking you to give serious consideration to PLAN's report, *Fool's Gold*. It is very well thought out and gets right at the problem, which is that the tax structure we have is inadequate and, in my view, has been inadequate since 1982 or before. All of you who have been around awhile have seen how, in a legislative session where things are difficult, the approach is usually a band-aid approach—an attempt to solve an immediate little problem without ever taking a look at the structure as a whole. I especially like PLAN's broad-based approach.

**Chair McClain:**

Thank you, I appreciate it. I agree it is time to look to long-term solutions.

**Assemblyman Mortenson:**

I want to address something to Lynn Chapman. Lynn, you asked, "When is enough enough? When are we going to stop?" The answer is that we have a broken tax system, and it will never stop. The bigger we get, the more we fall behind. Until we fix that structural deficit, we will have to keep raising taxes. For every individual who moves into this state, we have to raise taxes a tiny bit because additional people use up more services and infrastructure than they pay for. Our state, for some unimaginable reason, insists on growing by leaps and bounds. When you multiply that tiny bit per individual by the huge hordes that move in, it will never stop.

**Lynn Chapman:**

Actually, I was asking how much money can be taken from the people. That is what I am asking, because we only have so much, and when it is gone it is gone.

**Chair McClain:**

Think about this. I know everybody is tightening their belts, but all these services cost the state money too. We are tightening our belt. We are trying very hard to be resourceful. We do not have any pork in this budget.

**Chuck Fulkerson, Private Citizen, Reno, Nevada:**

[Submitted prepared notes ([Exhibit P](#)).] Somebody mentioned a two-year budget a while back. Having spent six years running a state budget, I can tell

you a two-year budget is maddening and extremely inefficient. I believe you could save a lot of money by having a 12-month budget.

I want to tell you about taxes. "Taxes" is not a welcome word in public gatherings, but taxes are the price we pay for using all the state services available to most of us. There is no free lunch. I do not know why so many people in Nevada insist on thinking there is a free lunch.

However, some services are not available to all of us. The quality of life is not the same for everybody. Some pay more; some pay less, such as the mining industry and large businesses. We have been indebted to the gaming industry for far too long. It is time to end our reliance on that one industry. We have to let that beast slow down, and it is slowing down by itself.

Taxes have to be structured so they are equitable to everybody. You saw some figures from PLAN showing they are now brutally out of kilter. Nevada has to change its tax system. We all must share in paying for the system. We all have to help pay the light bill.

One-third reductions in the coming budget year is not part of the answer. Structuring a tax system that will fund the state for decades to come is a huge necessity.

**Shaun Griffin, Private Citizen, Virginia City, Nevada:**

I came to represent the room that is not filled, and that is all the people you are here trying to help. I have run a nonprofit in Virginia City for almost 20 years. I live in Assemblyman Grady's district. I volunteered at the prison for almost 20 years. I teach those men who dropped out. This room is not filled with all the people who do not have a voice in this process, and that is the great sorrow. That is the real sorrow.

We have a lot of important people telling you today what is going on with our tax system. I think most of the information you received today is dead on the mark. What is more, I think you know that and you knew it before you came. We have to muster the conviction to do what is right, and we have to damn the consequences. Listen, we have your backs. We will elect you again. We need to make a change. You know that, I know that, and believe me, the hundreds of people I see every year know that, and they are among the poorest. They will not be in this room to voice their opinions. They will not be present when you vote. They will be the effect of your decision. All of you knew this when you came here in January because you are smart people. That is how

you got this job. You speak for them. You think for them. And it is our turn to act for them. We have to do this now.

**Chair McClain:**

Thank you; I appreciate those words. Now let us hear from some of those in southern Nevada.

**William Smith, representing Nevada Action Coalition, Las Vegas, Nevada:**

We are an independent grassroots movement interested in the tax issues. It seems to me that, throughout the testimony, all we have heard is one thing: how to increase revenues or how to increase taxes. There are other options, such as reducing expenses.

As a group or a body, you are similar to the board of directors of a corporation who have to make decisions. I am retired now, but throughout my career in business, when we had difficult times, if we could not increase revenue, we had to look at decreasing expenses. It becomes that old lifeboat example—how many people do you put in the lifeboat without jeopardizing the rest of society? Sure, there are a lot of wonderful things we need to accomplish, but right now we need to figure a way to live within our budget rather than increase taxes on people like me who are faced with a fixed income.

Every time I go to the supermarket, the costs seem to be escalating out of control. I realize they say inflation is only 2 percent or 3 percent. To me, it looks like 10 percent to 15 percent. We cannot afford to continue incurring expenditures without the proper revenues any longer.

I would like to bring to your attention a report, "Federation for American Immigration Reform, 30 Years, 1979–2009, The Costs of Illegal Immigration to Nevadans, a Report by Jack Martin, Director of Special Projects" ([Exhibit Q](#)). It was done by Zogby International, and has just been completed at the behest of the Federation for American Immigration Reform (FAIR). Our state is spending over \$700 million a year to finance all these services to non-citizens of the United States. It seems to me if we have a budget shortfall of \$900 million, \$700 million would go a long way toward helping you balance your budget.

**Senator Coffin:**

Mr. Smith, would you please leave with our staff the data that indicates the expenditure of \$700 million? If you do not want to leave the original document, we will be happy to make copies for you.

**William Smith:**

I would be happy to leave the original document here. If anybody on the Committee wants me to email this report, I would be happy to do that too.

**Senator Coffin:**

You can do both, but we would like to have the original.

**Estela Vaden, Private Citizen, Las Vegas, Nevada:**

[Read from prepared testimony ([Exhibit R](#)).] I really appreciate this opportunity to speak to you. I became an American citizen in 2000. I have chosen this country for what it can offer. I do not like what I am seeing. It is almost like a lot of people are saying, "Is it time to have tea parties so we can get our country back?" I appreciate your time.

**Assemblywoman Koivisto:**

Thank you for being here today and sharing your thoughts with us. I have to question when you say you came to this country because of what it could offer. Maybe you have a suggestion for which university we should close in this state, which community colleges we should close, which elementary schools, middle schools, and high schools we should close because there is no money to keep them open. Then the services will not be there.

**Estela Vaden:**

I lived in Washington, D.C., for nine years. Washington, D.C., spends the most per capita per student. Their school system is broken beyond repair. I am not advocating that you close any schools or any colleges. I am just asking you, my government, to please be responsible for your actions and require the same of everybody else.

I am responsible for my home budget. I am responsible for my child's education. And I do appreciate the fact that you are taking the time to respond to my comments. I did choose to come to this country, and we came in 1950. In 1950, this country was very different.

**Khanh Pham, Private Citizen, Las Vegas, Nevada:**

I have been a Nevada citizen since 1992. I moved to Nevada because it is the most beautiful state. There is no state income tax, and I have a chance to save a little more money for my retirement and for taking care of my family. Recently, friends, neighbors, and relatives have had to close their businesses. Money is really tight. I see people who have no money to pay for their own medication.

My child is in the school system here. I asked his classmates and friends, as the younger generation, what we can do to fix the situation. They spelled out so much wasted spending in the school system, such as 20 or 30 coffee machines at a couple thousand dollars apiece that the students do not even get to use. I see a lot of money going for administration, but not money going to the children.

I see the price of everything going up. I see seniors every day looking for what they can cut. All I am asking is for you not to raise taxes. I came here with nothing. There is nothing wrong with staying in an apartment and not having a house, because you cannot spend money you do not have. I have lived in an apartment for 15 or 17 years, saving money to buy my own home—a home I can afford. Thank you.

**Chair McClain:**

Thank you very much. Are there any questions? [There were none.]

**David Schumann, Chairman, Nevada Committee for Full Statehood, Minden, Nevada:**

[Distributed handout, "The Federal Land Stranglehold—and What Nevada Can Do About It" ([Exhibit S](#)).] There is more than one way to skin this cat. There are millions of acres of land here that the federal government is holding to pay the Civil War debt. Does anyone here know anyone who fought in the Civil War? No, I did not think so.

The State of Nevada can declare this land its land—those 60-million-some acres. The state can then sell the land and make money that way. You do not have to tax the citizens.

There have been a number of things said here about services and the rest. I am 70 years old, and the only services I am aware I use are the roads, the police, and the firemen. I built my own solar power and wind generator because down in California, where I escaped from, the local officials, such as the mayor of San Jose, would tell power companies they could not put a generator here, and they could not put one there, and coal is evil, and all that nonsense. Maybe some of this electricity came from my solar power or my windmill, because I sell power to NV Energy.

There is this notion that because we are old we require services. Maybe some people do, but I will bet there are hundreds of thousands like me who only use one service—the roads—and that is it. You cannot name another service.

I can suggest a solution for the schools. If you allow vouchers to be issued for 40 percent to 60 percent of what you are currently spending on schools, they will enable a child to go to a non-government school. Not only would you reduce the cost of schools here, but you would improve the education. In 1994, the Organization for Economic Cooperation and Development issued a report—if you wish, I will get it to you next week—that said American government schools are substandard. As far as I am concerned, I am not getting a thing from those government schools. Go for school choice and allow parents to send their children to a school they have control over because if the teachers are not performing, they are out the door.

The gentleman from NEA had an interesting statistic. He said now we are finally a real state. No, we are not. We are an occupied territory, and the federal government controls 86 percent of the land here. That is ridiculous. The *United States Constitution*, Article 1, Section 8, Clause 17, states that if the U.S. government wants land, it comes to you, the Legislature, and, if you are willing to sell it, negotiates a price. If you are not willing to sell it, they do not get it.

I am not one of the rich, but I do not think the right thing to do is go out and tax all the rich people. Here is a lesson in economics: the private sector creates wealth. The government sector taxes those who produce and gives to those who do not. By taking money out of the private sector, you are detracting from the resources available to create new jobs. Raising taxes is not a good idea, and I am here to ask you not to do it.

**Karel Rice, Private Citizen, Reno, Nevada:**

I, too, am a taxpayer. Currently, my husband, who is over 70, and I, who am over 60, are still running, or trying to run, our business. We happen to be landlords, so we have tenants. I see the government as an upside-down pyramid, and you are whittling away at the bottom of the pyramid. As landlords, we have lost most of our landlord rights because Nevada follows California. Whatever California does, Nevada seems to want to do.

I have lived in Nevada since 1964. My husband is a native third-generation Nevadan. He is hard to convince to leave, but I am not that hard to convince. I am ready to sell our property and go back to a state that believes in human rights, civil rights, and people getting to keep what they earn.

I listened to PLAN, and I could not believe what I heard them say. Then I see you all agreeing with them. They started out by saying spending is not a problem. For every problem we have in these economic times, spending is the



problem. Whether it is private spending, individual spending, or government spending, it is a big problem. It is not necessarily the spending; it is the irresponsible spending.

I heard someone up there today say that now, instead of K–12 education, the taxpayers are going to be funding higher education—four-years of college for people who get a B average. You are entitling people to everything. They think the taxpayer is going to pay for every single thing in their lives, and now it is going to be four years of college.

We already have the Millennium Scholarship. The people I know who have used that have abused that. A large number of them think, "My parents do not have to pay for my education. I do not have to pay for my education. I am going to go to school and party." They take five, six, seven years to get through college. It is a four-year program. You go, you finish college, you get out, and you become a productive citizen. That is not what they are doing. Take a walk around the University of Nevada and watch these kids who think they are entitled to everything.

I taught school in Reno for 27 years, and I had to finally get out. Because I am conservative, I left my First Amendment rights at the door in the morning when I walked in. I had no say. I had no input.

I belonged to a union I did not believe in. They did not speak for me politically, but I needed to be protected against being sued. Therefore, I joined the union.

I could not retain students. I had principals and parents pass students beyond my control. I did not sign report cards, and those kids got passed on to the next grade. I am sure they did not graduate being able to do fifth-grade math or reading at a fifth-grade level, because I tried retaining them in the fifth grade and was not allowed to do that.

I still occasionally go back and work as a substitute teacher, but now I can refuse to go back to a school. I have refused to go back to certain specific classrooms.

There is still no discipline. You cannot do anything to the students; they are running the classrooms. Go take a look at these schools and close down some schools where there is no discipline whatsoever. You are told, as a substitute teacher, do not engage these students because you will only escalate the problem. I thought the role of a teacher was to engage the students. When I taught, that was what I tried to do.

When I came today, I did not even want to talk, but when I heard these things—that we have a group of people here who are taking advice from a consultant from Chicago and another group, the NEA, that is citing a study done by the University of Chicago—I thought, "You are kidding me! You are going to listen to people from Chicago?" Thank you for listening.

**Chair McClain:**

We really appreciate it. Thank you.

**John Hadder, Director, Great Basin Resource Watch, Reno, Nevada:**

[Submitted prepared testimony ([Exhibit T](#)). Read from prepared testimony.]

**Kim Bacchus, Private Citizen, Reno, Nevada:**

I am here to put a face on the "filthy rich." I make just enough to be put in the filthy rich category. My husband owns a small business with two partners, and that puts us in a category where our taxes need to go up. Since our taxes need to go up, we are thinking we will work less. In doing so, we will have to lay off some of our eight employees.

I want to put a face on the increase in taxes. I understand there are problems with the economy. I am not so naïve as to think there is only one way to solve problems. But what you are doing, not only to me, my family, and our partners, is asking us to shoulder the state's inefficiency in spending. I ask, if you are doing so, to please do what my husband has been asked to do: first, do no harm.

If you must raise our taxes, do not insult us, please, by continuing programs that have failed business policies. The educational system has been abysmal since I got here in 1980. Why do we continue that business paradigm? Why are we not looking at vouchers? Why are we not looking to Arizona's educational system? Many of Arizona's schools are voucher schools, and they perform in the top 10 percent in the country. Why are we not pursuing vouchers?

If you must make tax changes that would get us out of this emergency, please see to it that they are temporary. Please do not burden my children any further. You are taking whatever my husband made. I am like Mr. Anderson; I am the first to go to college in my family. My husband is a first-generation American. We followed the rules.

What are you going to say to me and my children? Why did I play by the rules? So that somebody who comes into this country illegally and comes to my

emergency room can get free care but my child cannot? Please, do no harm. Thank you.

**Chair McClain:**

Thank you. Just for the record, I would like everybody to understand, too, that we are not full-time politicians. We all have lives. We all have jobs. We have businesses. We know where everybody is coming from, and we appreciate your comments. Thank you for making the trip down here.

**Kim Bacchus:**

The final thing, actually, is, ". . . ask not what your country can do for you—ask what you can do for your country." Ask people to volunteer.

**Juanita Clark, Member, Charleston Neighborhood Preservation, Las Vegas, Nevada:**

[Submitted prepared testimony ([Exhibit U](#)). Read from prepared testimony.] We know there are legions of groups that are railing and threatening, saying you have to pay them—they cannot lose their government positions. You know what? If a privately-owned business can let someone go, so can the government. My local city government is doing that in some ways—probably not as much as it should, but it is being done.

Taxes are forcing people in our neighborhood into a less glamorous existence. I, too, have no cable service, have not had any cable service, and, of course, will not be getting any cable service.

**Chair McClain:**

We are going to take a one-hour recess. We will reconvene at 5:40. [Recessed at 4:38 p.m.]

[Called meeting back to order at 5:49 p.m.] The first person we have on the agenda in this evening session is John La Gatta.

**John H. O. La Gatta, Private Citizen, Reno, Nevada:**

[Distributed prepared testimony ([Exhibit V](#)).] I am deeply interested in public policy and the future of Nevada. In that light, I comment now and again on items like taxation, education, and economic development. It happens that my one-page prepared statement has had complementary things happen today—a lot of talk about education, for instance. The needs of education correspond to a letter that will go out tomorrow from me to you and to constitutional officers. It talks about teachers' pay, the quality of our education, et cetera. So I am

going to add a little to my short presentation, commenting on some of the things that have happened today.

[Read from prepared testimony.] There were seven or eight items spoken of earlier today that I could comment on briefly. There was a dialog that was essentially, "Forty-Eight states have an income tax. Oh, my! We should have one too." That is exactly why we should not. Not having one makes us unique. It will draw intangible industries with high incomes. We should expect our revenues from the MBT, sales tax paid by these people with above-average incomes, and property taxes on above-average housing to do the job. If we concentrate on high incomes, we shall do well.

The second item was structural deficits. I remember hearing about that during Kenny Guinn's tenure. It was one of his ideas. It emanated from a state university in New York, with a professor named Gold. It had such a high correlation to income tax or no income tax that it was a code word for income tax. Several years before Professor Gold died, he said there was no evidence that states with so-called structural deficits had any deficiency in providing the tax revenues they needed.

Teachers' pay is not an issue, according to the American Federation of Teachers. Our teachers are the 19th best paid in the country. It is true, according to the statistics provided by the U.S. Department of Education, that we spend less other money. So, if our teachers are paid enough, but our schools are at the bottom, something is wrong. Let us figure out what that is, such as electronics or other aids that improve education.

Food is exempt from sales tax, and the poor have to eat. After that, you start spending money on sales tax, so I somewhat disagree with the comment from the NEA that sales taxes do not rise with income.

There was a question about where all the businesses are and why they are not coming here. I think if you have the Secretary of State testify, you will hear we are doing a wonderful job of attracting incorporations here and so on without active solicitation of it.

By targeting the kind of industries we want and getting people to come here who already have the education, we will have this education problem. We will have to upgrade it for their children as well as all our children who are here now. But that is not so much a matter of throwing money at it as working hard on the devices and the manner in which children are taught.

**Assemblyman Mortenson:**

You were not privy to some of the literature we received, but you were privy to the earlier testimony. We have heard, not from one source but over and over again, that taxes, or the lack thereof, are not the primary thing businesses look at when they move to a location. This chart from the Sierra Institute on Applied Economics shows that the number one consideration is education. That is what we lack here.

We are having a hard time getting the kind of industries we want because we do not have the workforce that has the kind of education we need. We must bolster our education if we want good industries here, and there is only one way I know of to bolster our education. Social services and quality of life are other strong factors above taxation or lack of it in many of the studies I have seen, and we are at the bottom of the barrel on all of these.

How do we get out of that hole if we do not institute something like a state income tax? I would also like to know why you think that is so bad.

**John H. O. La Gatta:**

The point is the industries we should want are intangible industries. These industries can be anywhere they want. They will go anywhere there is a good economic climate, including tax stability. They are already professionals and educated. They are different from the kind of industry you may be thinking about.

Their children are important to them, and our children are important to us. I think we should be attracting these intangible industries and also working on whatever is wrong with our education and on the reason our teachers, who are paid adequately, do not have the leverage or modern techniques for providing an education equal to any.

**Assemblyman Mortenson:**

I am guessing that part of the inability to give that education is the lowest amount of expenditures per pupil in the United States. That is part of the problem, and that is what we need to rectify.

**John H. O. La Gatta:**

In this little book, however, you will notice it is the expenditures not on salaries. What is it we are not spending it on that we should be?

**Chair McClain:**

No debates. This meeting is not for debating purposes.

**Assemblywoman Kirkpatrick:**

I am going to save my question, but I have something I want to address to everybody who is left here. I am hoping someone can answer this question: When does it make sense to cut our revenue so much that we lose the people who are enforcing the collections that drive the money train?

We currently have lots of uncollected taxes out there because no one is enforcing the collections. Because of our budget deficit, we cut personnel at the State Gaming Control Board. How smart does it sound to cut the people who go out and enforce the regulation and taxing of the gaming industry?

I wish someone would address those kinds of things today. We could have a philosophical debate all day long about what is good and what is bad, but we need to address when to cut the agencies that generate 65 percent of our budget. If anyone coming forward wants to enlighten me on that, I would be more apt to listen to that type of thing rather than, "Everything is bad," or "Start saving; do not spend any money."

At my house, I do not tell my husband not to put gas in the car because I do not want him to go to work today, so he will not have a paycheck on Friday. It is that simple.

Mr. La Gatta, I do not want you to answer this question now. I will stay behind at the end so you can answer it. I want to hear from a lot of other people. I want us to actually get something out of this discussion.

**Ray Bacon, Executive Director, Nevada Manufacturers Association, Carson City, Nevada:**

[Distributed handout from Nevada Manufacturing Association (NMA) ([Exhibit W](#)).] There are two corrections that need to be made to my handout, both of them on the last page. In the second-to-last paragraph, the phrase, "flakey operation probably does get enough scrutiny," should read, "flakey operation probably does not get enough scrutiny." In the very last line of the handout, the number should read \$0.67 billion. Other than that, I think the document speaks for itself. I have no intention of reading it to you.

Mrs. Kirkpatrick mentioned something I think is a key issue, and that is that we are now in a 30-year job decline. Most of you have not noticed that job decline because there have been huge gains in the productivity of the manufacturing sector. During the same period of time, however, we have not figured out how to gain productivity in the government sector, and I believe there are opportunities we have not exercised.

In an indirect answer to Mrs. Kirkpatrick's earlier comment, we still deal with paper involving tax collection. We send out a piece of paper, somebody fills out a piece of paper, and we send it back to the government.

In the private sector these days, the vast majority of that kind of thing is handled like Amazon.com, Inc. Somebody fills out information online, the computer does the calculations, a credit card or direct pay is used, and all of a sudden the transaction is done.

There is no reason in the world why most of our tax collection could not be done with the taxpayer providing the input document. That way we do not need somebody on this end providing the input. I think there are dramatic productivity gains that we could consider. I am not sure how much of that we can do short-term. It may take awhile to do those things. I also believe that, in many cases, there may be some short-term solutions that can get us a large part of the way there.

Part of our recession is directly related to the fact that we are right next to California. At least one-third of our manufacturing jobs are somewhat related to what goes on in California, and, as we know, they are hemorrhaging a lot.

**Chair McClain:**

I have not read your entire document, but I assume you are advocating for more electronic services at the state level for the collection of fees.

**Ray Bacon:**

Absolutely.

**Assemblyman Anderson:**

I have not read your whole document, either, but I might possibly find my answer in it. Several years ago I attended an educational seminar on the possibility that computers and technology were going to change the relationship between those at the very top of the economic ladder and those toward the middle or the bottom. Technology was supposed to replace middle management jobs in multiple industries.

Do you believe the job losses are a result of the "flat earth" change in the nature of overseas manufacturing? And do you believe the elimination of jobs moving products from source to warehouse was due to technology? Or is the purpose of your report to urge us toward greater technology and the educational need it engenders?

**Ray Bacon:**

I will say yes, because I think both are true. If you go back 30 years, no one could operate a machine shop in most third-world countries because their power systems were not of high enough quality to keep computer numerical controlled (CNC) machines running. That is no longer the case; you can have quality power anywhere in the world.

Simultaneously, as we have gained in productivity throughout the United States, some of the high-labor-intensive processes have moved overseas. Some of them probably should have gone overseas to lower-cost labor markets.

The other side of the coin is that this has allowed people to become considerably more independent. At one time, there was a perception that computers were only going to be available for people at the high end. As we know, due to the current cost of computers, that is not the case. I believe I paid \$6,000 for my first computer. Today the computing power of that machine probably costs \$100, because you can get it in a telephone.

**Assemblyman Anderson:**

I was thinking more of a simple thing like a bar code, which you would not think of as a job loss issue. But people used to stand on a loading dock and check materials as they came off the truck to make sure the truck's manifest matched what was actually being unloaded into the warehouse. Those responsible, well-paying, mid-level jobs have disappeared because of a simple bar code.

Anyone can scan a bar code and keep an accurate inventory. You do not need to count the number of things you have on the shelf because, when you check an item out, inventory control takes care of it. So, all of those jobs have virtually disappeared.

When I used the term "flat earth" earlier, I assumed everyone had heard about the fact that global marketing has changed nations' relationships to one another. That has completely changed the world of work, as well as the tax structure we need to survive. We cannot take a tax structure based on 1864 concepts and apply it to 2012. Is that covered in your report?

**Ray Bacon:**

I think it is covered to some degree, but let me go one step further. If you look at the vast majority of improvements in productivity in the gaming sector, most of those have come from the machines. Today's machines run many times faster than the ones that were in casinos 45 years ago. You grew up in this state, so you remember when 50 percent to as much as 70 percent of gaming



in casinos consisted of table games. Machines do not call in sick, and they run faster. Now machines occupy probably 60 percent to 70 percent of the average gaming floor, if not more. That is the nature of the business.

**Assemblyman Anderson:**

Ten years ago, you would not find the gaming industry giving floor space to penny slot machines. That penny machine, which takes \$0.45 to start, is not even purchased by the casino any more. When I was a child, the machines were purchased. Now casinos lease them because they are too expensive. The inner workings of them are changed too frequently. They are just another pinball machine.

If technology is changing, it has also changed the world of work. Applying a broad, sweeping comparison between 1950 and 2008 is difficult for me. It only points out the need for and importance of education as the only reliable tool for producing a working population that will be effective in today's society.

**Steven D. Hill, Chairman, Las Vegas Chamber of Commerce, Las Vegas, Nevada:**

[Submitted and read from prepared testimony ([Exhibit X](#)).] This was originally meant as a message to our members and not necessarily for the general public, although it has been published.

**Chair McClain:**

Was that a bill you had? What committee were you talking to in the Senate?

**Steven D. Hill:**

It was not a bill. . The meeting was a preliminary hearing in Senate Government Affairs.

**Chair McClain:**

Do you want to share some of those points with us?

**Steven D. Hill:**

I would be happy to summarize them. Our studies found a significant difference between the pay of local government employees and that of state government employees and teachers. Teachers make 93.5 percent of the national average. State government workers make 102 percent of the national average, while local government employees make 131 percent of the national average. The rough difference between the total pay for local workers, if they were making what state government employees make, is about \$1 billion a year.

When it comes to our Public Employees' Retirement System (PERS), we now have a more than \$7 billion unfunded liability. The studies we commissioned show we have the most generous retirement program of any state in the country.

I want to make something very clear: most of the proposals we make are only for new employees. We do not think we should break the promises we have made to our current employees and those who are retired. That is an important point that is often missed.

We do think the promises we make regarding pension benefits should be changed for new employees. We are obviously not putting enough aside to pay for the promises we are making to those employees, hence the unfunded liability, even though we are putting 21.5 percent toward that pension plan, and 37.5 percent for police and fire. It is a very expensive plan, and the unfunded liability continues to grow.

The retirement health care benefit in the Public Employees' Benefits Plan (PEBP) is generally offered only to state employees at this point. Most local government employees do not have that benefit. Virtually all of the private sector in Nevada at this point does not have it. We think that benefit should not be offered for new employees.

We already have a \$4 billion unfunded liability, and we are not funding that program through a trust at all. The difference between funding that program according to the Governmental Accounting Standards Board (GASB) rules and the way it is funded now is an additional \$500 million a biennium. The state is obviously not in a position to do that. We feel we should be able to pay for the promises made to our employees.

We think the Fund to Stabilize the Operation of the State Government should be made more robust, expanded to the point that it does a better job of buffering us in the inevitable ups and downs of the economy. We think a separate budget stabilization fund for K-12 education should be created as well.

**Assemblyman Anderson:**

Of the seven states that are self-funded for the pension—that do not use Social Security—is our plan not the most stable?

**Steven D. Hill:**

That depends.

**Assemblyman Anderson:**

On the investment portfolio and all the rest?

**Steven D. Hill:**

We certainly would like to point out that the PERS system has done a great job of administrating that program. It is actuarially sound. It is actuarially sound because we pour a great deal of money into making it so.

Of that 21.5 percent and the 37.5 percent, a portion of each goes just to maintain the unfunded liability. For this biennium, that amount is \$528 million. In the next biennium, it will be more. It will probably take in excess of \$600 million to simply maintain that unfunded liability. While the PERS program meets the GASB requirements for actuarial soundness, the unfunded liability continues to grow, and it is exceptionally expensive.

**Assemblyman Anderson:**

The amount public employees contribute depends greatly on whether they are at the county or state level, as well as whether they are police or fire personnel. The change in the stock market has been frightening for all of us who, following the recommendation of people like the Chamber of Commerce, invested in our own tax plans rather than relying upon other tax programs to carry us along. All of those programs have faced a dramatic loss of dollars. Do you think we should just abandon that course of action and go over to Social Security? Do you think that would be a better option?

**Steven D. Hill:**

I am sorry. I was not clear on our recommendations. Our recommendations for offering the PERS benefits to new employees involve changing the way we calculate the benefits. We are not recommending a 401(k) program. We are recommending a change to a defined benefit program, and we are only making these recommendations for new employees.

Because our state does not participate in Social Security, Nevada taxpayers take the entire investment risk in the PERS system. If we were in the Social Security program, the federal government would be splitting that investment risk with us.

You are correct; there is a major difference in how state and local government employees are treated. The PERS contribution comes out of the check of the state employee and does not for the local employee.

One recommendation we are making for PERS for new employees is to lengthen the amount of time it takes to vest in the program. Right now, given our current structure, if someone were to start employment here, they would have to work 28 years in order to become fully vested. We think they should have to work longer in order to vest in the system.

We are the only state in the country that does not have a minimum age for retirement. We think there should be a minimum age.

We also think the retirement benefit should be calculated differently because we hear from a lot of sources that there is a certain amount of manipulation of the system going on, and that is partly the cause of the unfunded liability. We think those loopholes should be closed.

**Assemblywoman Pierce:**

On the subject of the seven states, it is my understanding that you cannot get both PERS and Social Security. Is there not a paragraph in your report that says when you factor that in, PERS comes out appearing not nearly as generous as your press releases have so persistently explained?

**Steven D. Hill:**

I appreciate your bringing up that point. There is a marked difference in the relative benefit of that program to our employees based on whether or not they are paying half out of their paychecks. A significant minority, made up predominantly of state employees, have the money taken out of their check to pay half their retirement. I would not say PERS is a generous benefit for them.

On the other hand, a large number of employees in the state do not have money taken out of their paychecks to pay for their retirement, which makes a significant difference. For them, the taxpayers of Nevada pay the entire amount.

That plays into the Social Security question. In the 43 other states where Social Security takes the place of the state retirement system, employees pay for half of that and the employer—the taxpayer—pays for the other half. The total benefit then becomes very similar to what our state's total benefit is, but the employee has made a significant contribution toward that benefit, replacing some of those taxpayer dollars.

**Chair McClain:**

Ms. Pierce, are you talking about the windfall tax? If you retire on PERS and you do not have 40 quarters in on Social Security, you do not get Social Security.

**Steven D. Hill:**

That is correct.

**Assemblywoman Koivisto:**

Even if you do have 40 quarters, your Social Security is cut considerably. When you say the employee does not pay into his PERS, that is incorrect. His salary is adjusted accordingly. When he retires, his pension is then based on what it would be if his salary had not been adjusted down to cover the PERS contribution.

**Steven D. Hill:**

That is correct. I tried to be careful in the way I phrased that by saying those employees do not have that money taken out of their paychecks. It so happens, though, that in an overwhelming majority of cases, the employees who are not having the money taken out of their paychecks are also the local government employees who are making 131 percent of the national average, versus the state employees who are making less money and having the money taken out of their checks.

**Assemblyman Aizley:**

I think some of this is a semantics game. When you hire someone, you do not have just a salary package; you have a compensation package. In the compensation package, no matter who you are talking to, the person pays 100 percent of his retirement. What you are bringing up is an Internal Revenue Service (IRS) situation involving what part is taxable and what is not. The fact is you hire someone on a compensation package, and that includes his or her entire retirement money.

Also, we have just heard a report from the PERS board, which you have said is actuarially sound. There is not a major problem with PERS. I will not say as much for PEBP.

It seems that if you were a CEO applying for a job, and not a public employee, your compensation would be one package. It would not be partly your retirement and partly your benefits; you would be dealing with your total compensation. State employees should be considered the same way. It is a compensation package.

I think you said you want to have a defined benefit for new employees. I think you meant a defined contribution, or is that not correct?

**Steven D. Hill:**

We are recommending a change to the current defined benefit program.

**Assemblyman Aizley:**

But you really meant to say defined contribution?

**Steven D. Hill:**

We have a defined benefit now. We are not recommending that be changed.

**Assemblyman Aizley:**

You are not recommending that be changed. It is a defined benefit now. But I think this other matter of the semantics of who is paying for the retirement is just that. It is semantics. The employees are paying. It is part of their compensation.

**Steven D. Hill:**

I would not necessarily argue with that. Our point is that there is a significant discrepancy between somebody working at the Grant Sawyer State Office Building in Clark County and somebody doing the same job at the county building in Clark County. We do not think that makes sense.

**Assemblyman Aizley:**

I would have to see if it was the same job.

**Chair McClain:**

I am going to have to cut you two off. This is not the place for a debate. We appreciate your coming, and I am sure you are more than willing to work with each of us with our individual questions.

**Steven D. Hill:**

Certainly; I would be happy to.

**Senator Coffin:**

We have not had many good witnesses today in some ways. A lot of the witnesses were just people railing against government spending. They really have no idea if they are going to get taxed; they just fear huge taxes. When the taxes do get passed, they will not be that bad.

On the other hand, we have someone like Mr. Hill, who is a good witness. He is active in the community, and he is learning more about this than he ever dreamed he could. He has been part of the negotiations on the Senate side, trying to put a rational budget together. He is in business for himself; he is doing this free of charge. The people he represents are counting on him to do a lot of work. If he can be satisfied with what happens up here, that says a lot because he represents people who can help support what we put together. I think that is important.

**Paul J. Enos, CEO, Nevada Motor Transport Association, Reno, Nevada:**

We represent the trucking industry. I do understand and appreciate the magnitude of the problem you, as legislators, are facing. There is an absolute and direct correlation between shrinking public-sector revenue and what is happening in the private sector right now.

Over the last year, the trucking industry has faced numerous challenges. First, we had a huge spike in fuel costs. That put a lot of the smaller operators out of business. At that time, the Association lost about 10 percent of its members. These were small trucking companies—little mom and pop enterprises. Once they go away, they likely will not be coming back.

We are hurting right now, not because of the fuel prices that we have seen some relief on, but because the other industries are hurting. We see that the contractors, the retailers, the manufacturers, the restaurants, and the car dealers are hurting. This has an impact on us because they are all our customers. Anybody right now who is a car hauler, who has a flat bed, or who moves dirt is in for some very tough times.

I have some statistics. Assemblyman Aizley and I talked about hard numbers and soft numbers, and these are some pretty hard numbers from the Department of Motor Vehicles (DMV) concerning some of the carriers that pay taxes to Nevada through the International Fuel Tax Agreement (IFTA). These companies are not necessarily based in Nevada, but they do travel through here. In 2006, we had 2,707 IFTA carriers. Today, we have 1,547. That is a decrease of 44 percent. The number of trucks registered in our state has

decreased from 33,184 in 2006 to 26,616 today. That is almost a 20 percent decrease.

These are trucking companies that have been around for a number of years, many of them multi-generational. One down in Las Vegas had about 200 employees. They are now down to about 50. They are paying their insurance premiums as they sell off trucks. Another member in a small town in Nevada has 26 trucks. He is running 7 of them right now.

I do not want to sound all doom and gloom. Assemblyman Anderson talked about jobs that were outsourced and about Thomas Friedman's "flat earth" concept. Trucking is one job that cannot be outsourced.

I think Nevada is in a position where we can grow our economy and expand jobs. I know it is tough to think about the future right now while we are in this economic situation, but that is something we should be driving toward. We can become a logistics and distribution center in the West.

Our neighbors in California are doing some things that are driving people I represent out of business there. The California Air Resources Board has cost a lot of trucking companies 40 percent more for the new engines they need in order to become compliant. They are looking elsewhere, and one of the places they are looking to is here.

I want to make sure we can see where California went wrong. We are working with some different business groups right now to organize a meeting in Reno on April 24, and I want to invite everybody in this room and in this Legislature to attend. We have even had some California businesses and California lawmakers contact us about coming here and talking about why there was an exodus from California.

Why are they coming to Nevada? We can create a new economy here. If Arizona can attract steamship lines, Nevada surely can attract distribution and logistics companies.

Look at gaming, which has been our economic engine for so long, and the people working in those jobs. We could have a fairly seamless integration into a logistics and distribution sector. These are some things we can do. Some absolutely amazing things are going on right now up in northern Nevada because people who have vision, such as Yvonne Murphy with the Tahoe-Reno Industrial Center, see this as an opportunity. They say, "We can have



distribution centers here. We can have manufacturing centers here. We can create this new economy in Nevada."

The largest industrial park in the world is being built 13 miles outside of Sparks. That is pretty amazing. We can put the state in a tremendous position if we do the right things. Down in southern Nevada we have Ivanpah Valley. There is a tremendous opportunity in creating and building that. Is it going to require some investments and some infrastructure? Yes, but if we do these things it will help our economy expand and grow and diversify. These are all good things we can move forward on as future economic engines for our state.

Also, to address Assemblywoman Kirkpatrick's question about what we can do to make collecting taxes easier, I think Secretary of State Ross Miller and Assemblyman Ocegüera, the Assembly Majority Floor Leader, are looking at a great start with that business portal. I sat on a committee in Washoe County that talked about business license fees. A lot of people do not know how to pay them, because it is rather complicated.

Say, for example, I want to open a realty office that will be doing business in Sparks, Carson City, and Reno. Integrating that process and making it a one-stop shop is a small fix now, but it will mean a lot for the future. These are good things. They are little things, but they are things we should be talking about.

Please do not underestimate the fragility of the economy right now. Some of our members are barely holding on, and they are worried about what is going to happen here in Nevada. They are worried about what is going to happen in Washington, D.C. They are worried about what is going to happen in their own towns.

Too often we get caught up in this adversarial process where it is us against them. We need everybody involved—the business community, the labor unions and the decision makers—to work together to craft a solution that is not going to damage our ability to attract and grow new businesses and is not going to damage the pro-business attitude Nevada has become so famous for. I am committed to working with you as we drive toward that solution.

**Chair McClain:**

Can we get those new centers all open by July 1, and how many people will they hire?

**Paul Enos:**

I do not know that we can, but I would like to organize to see what is happening out at the Tahoe-Reno Industrial Center so we can get an idea. I do not know how many people up here have been out there, but it is absolutely amazing. It is the result of people in the private sector who said, "You know, Nevada is a great place to do business." They have vision, and they have invested a lot of money to go out there and create something phenomenal.

These are people who called the phone company and said they wanted phone service at their industrial center. The phone company told them that would cost \$4 million, and they would bring copper to the perimeter of the property. So these people started their own phone company with all fiber optic lines.

I sat down with Guy Rocha the week of Thanksgiving and spent about three hours with him. We talked about the history of Nevada, about gaming, and about things Nevadans had done in the past to attract business here. I think we are in a situation now where we need to look at how we can attract, expand, and diversify our economy into the future.

**Chair McClain:**

Nobody is arguing with you, but we have an immediate problem too.

**Terry K. Graves, representing Henderson Chamber of Commerce, Henderson, Nevada:**

I will be very brief. As some of you know, we have a very active legislative committee that meets weekly. Some of you have participated. Our Chamber is watching this issue and getting educated as we go, as are you. We just want to state today that we are following the issue. As we get more educated, we hope to contribute positively to solving these problems.

**Chair McClain:**

Are there any questions? [There was no response.]

**George Flint, Government Relations, Reno, Nevada, representing legal brothels and wedding chapels:**

I have represented legal brothels since 1985 and wedding chapels since 1963. I have been around here a long time, and this is one wonderful opportunity to sit before my friends and talk about this issue. Nobody here tonight has referred to your four points, which you told me yesterday to stay within. I am going to refer to your four points.

1. What is your perception of the problem? My perception of the problem is that we have finally proven that Nevada is not recession proof. We have also proven that we are scaring ourselves to death. I realize that is an easy thing to say, and it does not put money in your pocket right now, but 76 years ago yesterday, Franklin D. Roosevelt was sworn into office. He got up on that day and said, "All we have to fear is fear itself." That is what I am feeling in these hallways: fear. I picked up a copy of the *Nevada Business Journal* on my way here today, and by the time I got from Reno to Carson City, I was scared to death. I must tell you, with all due respect, that we need to do some positive things that are not even financial to address this matter.
2. What suggestions do you have for solving the problem? We need to reassure the public that we are not flushing ourselves down the toilet and we are not going to die. Speaker Buckley told me the other day she had a state on her hands that was in fiscal collapse. We need to reassure the public right now that we are not going to fail. We are going to prevail. We are going to pull together. I sat in a meeting of 40 business-related lobbyists on Tuesday and told them what we have to do is project to the 63 members of the Legislature that we are not here to rail on government or rail on you; we are here to show you we are going to do whatever we have to do to make this work.

When Mr. Bible talks about a broad-based business tax, it scares the heck out of me, because I am aware of the fact that we have a lot of businesses in this state that are just sitting on a fine edge. Whatever we do to put an additional tax burden on them may cause them to collapse. I am in the wedding chapel business, and I am writing a check every Monday out of my retirement to help keep that chapel afloat and keep my people on the payroll. I have been doing it now for about 15 weeks because I know it is going to get better.

I have met with your colleague in the other house, Madam Chair, and I have already committed the brothels in the state—in spite of the fact that they are down 19 percent to 80 percent from last year; is that not horrible?—to coming to the plate and paying our fair share. It is not going to be a huge amount, and it is not going to solve the problem completely.

3. What is your level of support for increasing revenues, including specific recommendations? If I were in your shoes, I would probably say, "Let us raise the sales tax two percent for the next 18–24 months and get the

pressure off." I do not think it is a bad idea to revisit the idea of tax on services. We have had that debate on and off for years around here. If you were to levy wedding chapel fees, it would raise a few million dollars statewide. That is not going to be a lot of money, but we are going to come to the table with that and a with brothel tax. We are ready to attempt to pay our fair share.

In the last two years, the wedding visitors to this state—visitors coming to get married in Nevada—has shrunk by 20,000 couples. That is about 350,000 total visitors to this state and represents about \$2 million to \$3 million in total sales. We need to do a better job of getting those people back. One way we can do it is by not making everybody think Nevada is about to fall off the edge of the earth.

4. What is your opposition to specific recommendations and why? I am not going to give you any objections. When I opened the paper this morning, I read that MGM MIRAGE may default and not be able to pay their debts. I might default and not pay mine either if I run out of money, but I believe my businesses will survive this.

We put a \$50 discount coupon on the Internet about six months ago, and it has brought us about 300 weddings all coming in with their \$50 discount coupons. It is time the rest of the state and the little businesses start thinking the same way. What happened to the old days of the free drink or the free shrimp cocktail? There are a lot of things we can do that will swell business and will eventually, as Mr. Reagan used to say, trickle down.

I had the pleasure of meeting a young senator from Massachusetts over 50 years ago and shaking his hand. Later, he became President John F. Kennedy. On his inauguration day, he said, ". . . ask not what your country can do for you—ask what you can do for your country." I have a very novel idea. I am sure it will not fly, but I have to share it with you. There are a lot of rich people in this state who would be glad to help. Although businesses are hurting, some of us have quite a bit of money in the bank, and I am one of them. I will write a check to the State of Nevada tomorrow for \$5,000. All I want in return is a little gold pin that says "Nevada patriot."

I would bet you we could raise \$500 million just from the wealthy in this state. They may not want their businesses taxed because they are on the edge, but they might be willing to write a check to the state because this is a great place to live. If there are thousands and thousands of people who feel that way,

I think this is worth thinking about. All I want is a little pin that says "Nevada patriot," and I will write the first \$5,000 check.

**Clair McClain:**

Thank you, George. Does anybody have any questions? [There was no response.]

**Tray Abney, Director, Government Relations, Reno-Sparks Chamber of Commerce, Reno, Nevada:**

[Submitted letter from Ralph Hartmann, Chair, Reno-Sparks Chamber of Commerce ([Exhibit Y](#)).] We have all heard the news about the bankruptcies, layoffs, and business closures that have occurred in recent months. In 2008 alone, more than 60 retail establishments closed in Washoe County. We have seen the highest commercial vacancy rate in that county in 25 years. International Game Technology (IGT), which is currently Washoe County's largest private sector employer, has laid off hundreds of people.

One of the Chamber's members, Moana Nursery, is down almost \$11 million in the last two years and has laid off over 150 employees. They have given their employees no raises or bonuses and are struggling to pay for health insurance for their remaining employees. Moana Nursery has had to bid jobs at or below cost just to get the business. The inflated prevailing wage rates make it difficult even to fulfill public works contract obligations.

Our members are struggling, and they worry any additional cost will force more of them to close their doors. The Reno-Sparks Chamber of Commerce is, therefore, urging the Legislature to make substantial progress on the following spending issues before asking the people of Nevada to pay still-higher taxes:

- Examine and implement the Spending and Government Efficiency (SAGE) Commission recommendations, which have a potential savings of over \$1 billion over five years.
- Pass much-needed reforms to PERS and PEBP. I believe Steven Hill outlined that much more articulately than I ever could.
- Revise the prevailing wage laws so they do not drive up the cost of public construction projects. We believe the laws that govern public employee labor contracts should make the process more transparent and accountable to the public.

- Mrs. Kirkpatrick, we think we need to adopt expedited and enhanced collection of uncollected fees owed to the government. Mr. Enos mentioned the business portal concept, of which this Chamber is very supportive. I serve as the Vice Chair of the City of Reno's Business License Task Force, and we are working right now to make that process much simpler in Reno. The first step is to go online just to do renewals, and then we are hoping to do everything online. Of course, as with everything, the start-up cost is the issue.
- Finally, we support the implementation of a spending cap and the creation of stable reserve accounts. There have been a few efforts in the Assembly, including one bill by Speaker Buckley, on the reserve accounts, and we applaud those efforts. We believe the Legislature has an obligation to ensure government services are delivered as efficiently as possible and to wring every last efficiency out of the dollars the state receives before asking our struggling citizens for more money.

We need a functioning, viable private sector in order to have a functioning, viable public sector. We all want healthy, robust tax revenues to be created that can then be used to pay for needed basic services. That will require this state to remain competitive and to take advantage of the mistakes of our neighbors. The decisions that are made during this session will have long-lasting consequences. I urge this body to consider the implications for our 1,500 members and especially for their many employees, as well as for the rest of the state, as you move this discussion forward.

Our local governments in Washoe County have stepped up to the plate during these tough times, and they have made some very hard decisions. We applaud them for that. All of you have very difficult decisions to make, and we are committed to working with you for the people of Nevada.

**Chair McClain:**

I do not mean to pick on you, but I know you go to meetings with all the business people. If we do all of this—if we implement the SAGE Commission recommendations, we reform PERS and PEBP, we collect every nickel we can get hold of, and we implement spending caps—and we are still short, what are we supposed to do then?

**Tray Abney:**

I would consider it a three-step process. One of them you are already going through in the Assembly Ways and Means and Senate Finance Committees, deciding what you absolutely need to fund. The second leg is what we

proposed here—to wring every last efficiency out of the dollars you have. At that point, we should have a discussion about where we are and where we need to be.

**Chair McClain:**  
And ... .

**Tray Abney:**  
And we should have that discussion once all those things are done.

**Chair McClain:**  
Okay, but do you know what? We have discussed this in every one of the six sessions I have been here, and we have studied taxes to death.

**Tray Abney:**  
I am not calling for any more tax studies.

**Chair McClain:**  
Does anybody have any questions? [There were none.]

**Mary Lau, President/CEO, Retail Association of Nevada, Carson City, Nevada:**  
[Submitted and read from prepared testimony ([Exhibit Z](#)).]

**Chair McClain:**  
Do we have any questions? [There were none.]

**Robin Vircsik, Private Citizen, Las Vegas, Nevada:**  
I teach kindergarten in the Clark County School District. [Submitted and read from prepared testimony ([Exhibit AA](#)).]

**Daniel Braisted, Private Citizen, Las Vegas, Nevada:**  
[Submitted handout containing Internet addresses with information relating to his testimony ([Exhibit BB](#)).] I feel I am talking to someone who wants me to donate to their business. When I look behind them, they have a lot of stock that has not been sold. You want us to give to universities; you want us to give to school districts; and you want us to give to people with health challenges.

I will start with the universities. A university needs some way to measure how productive it is. In the airline business it is called passenger seat/miles or revenue per mile. I challenge the Legislature to have the Certified Public Accountants (CPAs) come up with a way of measuring how successful

universities are in managing their auditoriums and their individual classrooms. Classes are not filled. On Fridays and weekends, they are almost empty.

I attended a class with continuing education. There were 16 people in a classroom that could hold 40. Down the hall was an empty classroom that could hold 250. Why did they not discount the class and get more people in? Why did they not advertise it? The colleges are teaching people how to market. If colleges cannot market themselves, then why are they in the business?

I attended a basketball game recently. They had all kinds of signs up marketing everybody else's products. They had booths marketing everybody else's products. But there was no sign telling people about classes or urging them to take classes. There were no booths asking people to sign up for different continuing education classes.

We have a university. We are a 24-hour town in a 24-hour state. We should have tuition during the day of, say, \$10,000 a semester. For the swing shift, it should cost \$6,000. Graveyard shift should cost \$2,000. We have so many people getting off work at midnight; let us encourage them to take a class or two at night. These are challenges we have to give the universities that are asking for money.

*The Rebel Yell* newspaper had an ad in it saying some band wanted money to go to some city to play. Why did the Chancellor not turn to them and say, "Go sell five of my classes and I will give you the money you want"? These are just basic marketing ideas.

We have a school district that is asking for money, but it has a Public Broadcasting Service (PBS) studio that is a not-for-profit center. That studio should be advertising and doing features on all the conventions that come to town so people across the country can see all the advancements that are coming to town for our conventions. Our high schools have sports every Saturday morning. Why are the computer labs and chemistry labs not being used? We have auditoriums that are sitting idle.

Back in 1984, when I was here, Stephen Covey came to Las Vegas twice to speak at the John S. Park-Edison Elementary School at Franklin Avenue and South 8th Street. He filled it both times at \$10 a head. For 2,000 seats, that comes to \$20,000. After paying his fee, there was still plenty left.

There are assets that are not being used. We have cafeterias that are sitting idle in the evenings and on weekends. Why are they not turned over to other



organizations to use? We should encourage third-party companies to bid on the ability to market the idle time at the school districts. Honor students should be asked to teach classes.

We are always asked to give money to people who are unhealthy, whether it is hepatitis C, cancer, diabetes, Alzheimer's disease, Parkinson's disease, AIDS, or obesity. We cannot say cure, but I work with an individual who can reverse all those diseases. He reverses AIDS 100 percent. He reverses diabetes and cancer. The technology is out there. The consultant to the Legislature on health, whoever that is, needs to contact Dr. Robert O. Young, who is currently teaching over in Europe. His email address is listed on my handout.

All disease is reversible. All disease is due to too much acidity. Cancer and all ailments are by-products of what people are eating. If you ask the Youngs to prepare the menus for two or three prisons, you would see all degenerative disease drop significantly. Why should we deal with it?

Two companies in Nevada are leaders in the ionized water business. I work with them. They are also listed on my handout. One is up in Reno, and one of them is down in Las Vegas. Ionized water is healthier. The body functions on electrons. Homeless people should be offered that instead of sodas and coffee. We have unhealthy people, we are giving them unhealthy solutions, and they are getting more unhealthy and asking for more assistance.

We should have someone coach the disabled veterans' groups to get together with the movie animation companies. The voice-overs should be done by disabled veterans. They should not be done by some Hollywood actors who are making zillions of dollars.

There are so many people in government who hold master's degrees. Why are they not turning around and using some of their skills? The government should be asking all the county governments to ask all their Chambers of Commerce to do polls within the counties to find out what people are buying outside the county and outside the state. That tally should be made public. If 5,000 companies are each buying \$1,000 worth of labels from out-of-state, then maybe we should find some way of manufacturing those in town.

The state put out a colorful brochure showing all the Nevada businesses, yet it did not list Shelby Automobiles, Inc., out at the Las Vegas Motor Speedway. It did not list the titanium plant in Henderson. It did not list every machine shop and every carpentry shop in this state. We do so much more in this state, and we need to promote it.

In Las Vegas, we are underutilizing assets. We have convention centers and showrooms sitting idle that need to be used to make Las Vegas the networking capital of the world. People should come here to listen to good speakers, and not just for entertainment. The speakers could speak from 9:00 a.m. to 5:00 p.m. for a fee. Then, in the evening, let the entertainers take over.

Bring in people like Lee Iacocca, Stephen Covey, Art Williams, and Hector Lemark. Draw speakers in to teach people about their businesses. The people from California could get a tax write-off on their state and federal income taxes if they just drove here to learn something about running their businesses.

We ought to turn this city into something new. We should challenge the city and the state to promote the conventions coming to town. One of the greatest conventions that came to Las Vegas was the International Consumer Electronics Show (CES).

**Chair McClain:**

Mr. Braisted, it looks like you have an awful lot of information in front of you. Would you mind putting all your suggestions in writing? We would be happy to put them in the record.

**Daniel Braisted:**

Could I just summarize it? The chairman of Cisco Systems, Inc., was at the International CES. It was a free event, yet we had none of the politicians there, none of the high school students there, and none of the college students there. Here is a man who is very successful teaching people how to do the same. We had the National Association of Broadcasters (NAB) here. We should challenge any business in Nevada that sends a bill outside the state to include an insert encouraging their customers to attend the NAB Show.

I would like to see the Legislature set up two or three companies in Nevada that we could go to with ideas and have them help us sell them to the state. I have ideas that would be great to market.

**Chair McClain:**

I have a couple of suggestions for you. There is a website, [www.nv2020.com](http://www.nv2020.com), where you can post your suggestions and they will get to all of us. If you want to type them up and send them to Senator Coffin and me at our legislative email addresses, we will make sure the Committee members get them.

**Gabriel Raviv, Private Citizen, Las Vegas, Nevada:**

I am a law student at the William S. Boyd School of Law, University of Nevada, Las Vegas.

Our current economic situation reminds me of a man who goes to the doctor and says, "Doctor, I am very sick." The doctor says, "What is the matter?" He says, "When I touch my head, it hurts. When I touch my arm, it hurts. When I touch my stomach, it hurts. When I touch my leg, it hurts." The doctor examines him and says, "You know, your body is fine. You have a broken finger."

The broken finger in the economy is the government interfering in so many aspects and doing so many things. I look at what is happening in Washington, D.C., and I look at the proposals in Nevada, and it concerns me. The only way we can solve our problem is to face the fact that there is a shortfall in money. There is just not going to be the money there was before.

There is no point in recriminations about what should have been saved in the past. Today, we have less money. We are going to have to take a cut. If a person does not have money, he cannot spend it. Taxing may, in the short run, create some sort of revenue, but, in the long run, it just makes the problem worse.

We are competing, not just with other states and municipalities, but in a global economy. We have seen how much manufacturing has left the country. We have seen the outsourcing of services. We see what the national trade balance is every month. We see where we stand with China, Japan, Singapore, and Malaysia. Go to Wal-Mart and try to buy something made here.

We need an environment that is good. I am in the University of Nevada system, and I see what goes on there. There absolutely are places where we can cut spending. As a person who has been a Nevadan since age five—and very proud to be a Nevadan—I say we, both government workers and the people of Nevada, really need to stand up and make some sacrifices.

Why do we have a newly-created office at the University for a Vice President of Diversity Affairs? Why do we outsource the creation of school catalogs when we have an art department with students who are supposedly getting degrees in graphics design?

Clearly, there are places where we can act more wisely and try to save money, but that is not going to solve the problem. We are just going to have to tighten our belts.

**Chair McClain:**

Thank you very much. We appreciate your suggestions. Feel free to type up a paper and get it to us. Are there any questions? [There were none.]

This is for Daniel Braisted: One of the things we are working on this session is to make sure that, when the state contracts purchasing and construction jobs, we try to keep Nevadans working instead of sending contracts out-of-state.

**Howard Watts, Private Citizen, Las Vegas, Nevada:**

I would like to express a few of my personal feelings about the economic situation we are in and what I believe a reasonable response to it would be. I was born and raised in Las Vegas, and I am a University of Nevada, Las Vegas, student. I have been very interested in the proposals I have heard today.

It is obvious we are experiencing a major budget shortfall, and we need to come up with solutions. I think the Legislature is already taking some very good, proactive measures toward looking at the budget to see if anything can be cut. My personal feeling is that, even after those programs and services that may be deemed unnecessary are cut, we are still going to have a shortfall.

I personally have seen the effects of the \$1.5 billion in cuts that have occurred in the past year to various services and to education. I have visited my high school teachers and seen them have to figure out how to ration school supplies and have to pay even more out of their own pockets than they have in the past to help cover the basic needs for educating our children.

My feeling is that we do need to raise revenue sources to provide the services that are an essential safety net in looking out for the people of Nevada. I was raised to believe people should be able to do things for themselves, but that there are occasionally circumstances in life that prevent that. I also believe that Government should be a positive agent to help lift you back on your feet and not let you slip through the cracks. In order to facilitate that, we are going to have to raise some new revenue. The planned tax proposal has some really good, interesting ideas for achieving that.

I am not opposed to paying more taxes myself. It is not something I am giddy about. However, I understand there are people who need to be looked out for, and I am willing to step in to help make that happen.

In the current economic downturn, everyone is going to be shopping at Wal-Mart because it is the cheapest place to go, and Wal-Mart is still going to be turning a profit. I see no reason why the State of Nevada should not tax their profits and the profits of other businesses that are still profitable.

I support trying to mitigate the impacts on small businesses with smaller profits to help stimulate their growth and not punish businesses that are trying to survive during this recession. At the same time, we definitely need to look at people who are either not paying their fair share or who can afford to make a contribution to help look out for Nevadans.

**Chair McClain:**

That was very astute. Are there any questions? [There was no response.]

**Yvonne L. Murphy, Gilman Murphy Group, Reno, Nevada:**

With reference to the late hour, let me simply go on record as saying, on behalf of my clients, which include Tahoe-Reno Industrial Park and four or five others, I volunteered to work with your Committee on whatever it is my clients and I can do to help create a solution to the problem.

You have heard a lot of negative gloom and doom today about what the problem is. I know all of you understand we have a problem. I feel frustrated with all of this. I was sitting here thinking what my grandmother would say if she were still alive. She would say that everybody wants to go to Heaven, but nobody wants to die.

That is sort of the reality when you are talking about raising money. I do not offer any great epiphany. I am not a fiscal expert of any kind. But I am a Nevadan, and I love my state. I am very proud of this legislative process I have been a part of for a long time, and I volunteer to help this Committee in any way I can.

**Chair McClain:**

There is another great saying: The only good tax is one somebody else pays.

**Christiane Brown, Private Citizen, Reno, Nevada:**

I am the wife of a state employee. I have two children currently in middle school who will, I hope, be attending college in Nevada.

I am concerned about what kind of state we are going to turn into if we cut the kinds of vital programs we are talking about, and if we squeeze the turnip dry to the point where there is nothing left. We may talk about trying to draw businesses here, but why would they want to come to a community that does not have the kinds of vital services they need to make that community viable? Why would people want to bring their families to a state that has cut education? Why would people want to come to a state that has the highest rate of new applications for food stamps?

I listened to the head of the truckers' group talking about all the truckers that are losing jobs. Where do you think they are going to go once they have lost their jobs? They are going to go to these state programs. They are going to ask for the food stamps we are thinking about cutting. They are going to ask for some of the services that will be needed by the people hurt by this economic crisis.

I know people do not like to hear about gloom and doom, but I would like to hear about reality. I would like to deal with the realistic situation we are facing in Nevada. Unfortunately, that is going to mean having to look in other places for revenue. There simply is not enough revenue. In terms of everything we try to cut in the state budget, in terms of all the programs we have to cut, I really believe we are going to reach a point where we are going to have to say it is not enough.

We need to look at the businesses that are doing well. We need to look at the tax structure to see where it is fair and where it could be more equitable. We need to move forward with new ideas in our state, because we are moving into a new time. If we are going to survive in the long term, this is what we have to do.

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As a concerned citizen, I think we need to consider revenue. We need to consider taxes. I know everybody fears that word, but we need to use common sense.

**Chair McClain:**

That was a good one to wrap up with. I do not see anybody who wants to say anything. Is that correct? Thank you, everybody, for participating. We are adjourned [at 7:41 p.m.]

RESPECTFULLY SUBMITTED:

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Mary Garcia  
Committee Secretary

APPROVED BY:

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Assemblywoman Kathy McClain, Chair

DATE: \_\_\_\_\_

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Senator Bob Coffin, Chair

DATE: \_\_\_\_\_

## EXHIBITS

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

**Date:** March 5, 2009

**Time of Meeting:** 1:37 p.m.

Bill	Exhibit	Witness / Agency	Description
	A		Agenda
	B		Attendance roster
	C	Bob Fulkerson	Prepared testimony
	D	Bob Fulkerson	Booklet: <i>Fool's Gold: The Silver State's Tax Structure, Inadequate and Inequitable</i>
	E	Bob Fulkerson	Packet of 3 handouts: "Nevada: Fiscally conservative or just cheap?" and "Mining Deductions" and "2008 Board of Directors"
	F	Hugh Jackson	Prepared testimony
	G	Tim Crowley	Informational packet from the Nevada Mining Association
	H	Richard G. Sims	PowerPoint presentation: "Balancing Taxes, Funding, and Economic Growth"
	I	William Bible	Letter to Chair McClain and Chairman Coffin containing prepared testimony
	J	Jeff Fontaine	Prepared testimony
	K	David Fraser	Handout: "Resolution #08-01, Encouraging Cooperation in Solving the State Fiscal Crisis"
	L	Assemblyman Tom Grady	Informational packet containing newspaper



			headlines
	M	Assemblywoman Kathy McClain, Chair	Packet containing letters and emails from citizens
	N	Tim Healion	Handout describing Business Advocating Social Equity (B.A.S.E.)
	O	Lynn Chapman	Letter from Janine Hansen, State President, Nevada Eagle Forum
	P	Chuck Fulkerson	Notes for testimony
	Q	William Smith	Handout: "Federation for American Immigration Reform, 30 Years, 1979– 2009, The Costs of Illegal Immigration to Nevadans, a Report by Jack Martin, Director of Special Projects"
	R	Estela Vaden	Prepared testimony
	S	David Schumann	Handout: "The Federal Land Stranglehold—and What Nevada Can Do About It"
	T	John Hadder	Prepared testimony and corrected prepared testimony
	U	Juanita Clark	Prepared testimony
	V	John H. O. La Gatta	Prepared testimony
	W	Ray Bacon	Handout from Nevada Manufacturers Association (NMA)
	X	Steven D. Hill	Prepared testimony
	Y	Tray Abney	Letter from Ralph Hartmann, Chair, Reno-Sparks Chamber of Commerce
	Z	Mary Lau	Letter from Retail Association of Nevada (RAN)
	AA	Robin Vircsik	Prepared testimony
	BB	Daniel Braisted	Notes for testimony

