MINUTES OF THE
SENATE COMMITTEE ON TAXATION

Seventy-fifth Session
February 10, 2009

The Senate Committee on Taxation was called to order by Chair Bob Coffin at 1:44 p.m. on Tuesday, February 10, 2009, in Room 2135 of the Legislative Building, Carson City, Nevada. Exhibit A is the Agenda. Exhibit B is the Attendance Roster. All exhibits are available and on file in the Research Library of the Legislative Counsel Bureau.

COMMITTEE MEMBERS PRESENT:

Senator Bob Coffin, Chair
Senator Terry Care, Vice Chair
Senator Michael A. Schneider
Senator Maggie Carlton
Senator Randolph Townsend
Senator Mike McGinness
Senator Maurice E. Washington

STAFF MEMBERS PRESENT:

Russell J. Guindon, Senior Deputy Fiscal Analyst
Joe Reel, Deputy Fiscal Analyst
Mike Wiley, Committee Secretary

OTHERS PRESENT:

Andrew Clinger, Director, Department of Administration
Josh Hicks, Chief of Staff, Office of the Governor
Jeff Fontaine, Executive Director, Nevada Association of Counties
Robert Hadfield, Nevada Association of Counties
David Humke, Chair, Washoe County Commission
Katy Simon, Washoe County Manager
George Stevens, Chief Financial Officer, Clark County
John Ellison, Elko County Commissioner
Cash Minor, Assistant County Manager, Elko County; Chief Financial Officer, Elko County
Tom Fransway, County Commissioner, Humboldt County

Joni Eastley, Chair, Board of County Commissioners, Nye County
Nancy McDermid, Chair, Board of County Commissioners, Douglas County
Nancy Boland, Commissioner, District 2, Esmeralda County
Robert Crowell, Mayor, Carson City
Hugh Gallagher, Comptroller, Storey County
David Fraser, Executive Director, Nevada League of Cities and Municipalities
Bob Cashell, Mayor, City of Reno
Philip Stoeckinger, Director, Finance, City of North Las Vegas
Mark Vincent, Director, Department of Finance and Business Services, City of Las Vegas
Geno Martini, Mayor, City of Sparks

CHAIR COFFIN:
We are going to have Governor's representatives give an explanation on the planned diversion of tax revenues from counties.

ANDREW CLINGER (Director, Department of Administration):
The Governor's 2009-2011 Biennium Budget Recommendation Estimated Impact to Counties (Exhibit C) has our recommendation on the General Fund commission that is charged by the State for collecting the sales and use tax. It includes the Basic City-County Relief Tax, Supplemental City-County Relief Tax and the local optional sales and use taxes. The recommendation in the Governor's budget is to increase that commission from 0.75 percent to 1.75 percent. The table illustrates for (FY) 2010-2011 what the impact would be on the counties for that recommendation. The second column is the recommendation to redirect 4 cents of Ad Valorem Tax revenue from Clark and Washoe Countries. The intent is the tax would only come from Clark and Washoe Counties. This 4 cents would represent 6.12 percent of the 65.41cents that Clark County receives. In Washoe County, the percentage is less because the property tax rate is higher: the impact is 2.9 percent of their $1.39 property tax rate. Our second handout, *Property Tax Rates for Nevada Local Governments for Fiscal Year 2007-2008* (Exhibit D, original is on file in the Research Library), gives you an idea on the complexity of the property tax issue.

CHAIR COFFIN:
We do not have a bill, but we want to know the why. It would be helpful with a preamble on the why and detail of the bill.

JOSH HICKS (Chief of Staff, Office of the Governor):
We do not have a preamble drafted. The detail of the bill will address the sales tax commission piece and the property tax commission piece. We will be getting into the why after we talk about the details.

MR. CLINGER:
Page D-2 of Exhibit D shows different rates by each district. The left-hand columns show the combination of those rates and how they impact where you live. In the Clark County example on page D-2, entity code 100, you see the 65.41 cents. This is the piece mentioned in our initial recommendation; another handout (Exhibit E) shows Salary Comparison between State and Local Governments. This document was put together by the Department of Personnel (DOP), and it compares job classifications within the State to the different local entities. The first column is Las Vegas, then Washoe County and Clark County as well. If you look at the percentage difference from DOP, you see the pay disparity between counties and State represented in monthly salaries. The average difference from the State to local entities is almost 38 percent. Part of the Governor's budget proposes a 6-percent pay reduction and a reduction in benefits for State employees. We ask that the counties would participate the same way as State employees.

SENATOR TOWNSEND:
On the page that shows where you have the difference from DOP of 37.94 percent, is that salary only or benefits as well?

MR. HICKS:
That does not include benefits. The third bullet point shows you how it is broken down. We used an employer-paid salary structure that does not include benefits. The DOP tried to make these as even as possible on the salary descriptions.

CHAIR COFFIN:
The idea came because counties have money and pay their employees higher. Was this an indicator they could afford to do more?

MR. CLINGER:
That is a recommendation from the Governor's Office on an appropriate way to recoup some of this. If the counties have different ideas, there would be no opposition from the Governor's Office.

CHAIR COFFIN:
The idea could be to reduce the pay of county employees if we could reduce their property tax revenue.

MR. CLINGER:
Yes. That was our thinking.

CHAIR COFFIN:
Why just look at Clark and Washoe Counties and not all 17 counties?

MR. HICKS:
All the counties are included in sales and use tax. The property tax piece is just for Clark and Washoe Counties. These two counties have the higher salaries.

SENATOR CARLTON:
The premise is we impact State employees; therefore, the county should equally impact their employees, and we balance this on the backs of employees. In Exhibit E, page 3, Class Code 13.206, Department of Public Safety (DPS) Officer 2—I am married to a DPS officer, so I can relate to this in the interest of full disclosure—shows $4,503, with a difference of minus 11.96 percent. Are you saying the State pays 11.96 percent less than Washoe County?

MR. CLINGER:
In that example, Washoe County pays 11.96 percent less.

SENATOR CARLTON:
A Clark County DPS officer makes 8.5 percent more than a State DPS officer?

MR. CLINGER:
That is correct.

SENATOR CARLTON
Is this a race to the bottom in terms of pay scales?

MR. HICKS:
It is based on the State's 6-percent recommended reduction. If the counties have a different way to absorb that redirection of revenue without a salary reduction, the administration would be open to the conversation.

MR. CLINGER:
Adding to Mr. Hicks' statement, this disparity exists without any pay reductions; it has existed for a long time.

CHAIR COFFIN:
I was not aware of people paid less than the State. Were Washoe and Clark Counties consulted on the budget?

MR. CLINGER:
We did not consult the Counties.

SENATOR SCHNEIDER:
Did the Governor think the counties and cities were not having the same problems as the State? Does the Governor have any suggestions on what the State can do to help cities and counties fill the holes we create?

MR. CLINGER:
Everybody is having these problems, whether it is states, counties or cities. The information we had showed the county revenue sources were more stable. They were not going down to the same degree as the State.

SENATOR SCHNEIDER:
Does the Governor have any suggestions to help the counties and cities fill their holes?

MR. CLINGER:
We looked at the State salary reductions as temporary, which would be restored when the economy improves.

CHAIR COFFIN:
Let us have cities, counties and the Nevada Association of Counties (NACO) come forward.

JEFF FONTAINE (Executive Director, Nevada Association of Counties):
The NACO contends that any cost shifting or redirecting of county revenues to address the State of Nevada shortfall is not an appropriate solution. Keep the property tax piece in perspective. Indirect impacts include closing rural mental clinics, Tonopah Honor Camp and streamlining the operations of parks and museums. Another budget item is a 5-percent reduction in Medicaid reimbursement rates to hospitals. Direct impacts are less funding for Clark County's University Medical Center (UMC), 4 cents in property taxes from Clark and Washoe Counties, 2.5-cent indigent fund for hospital care and increasing collection fees on sales tax from 0.75 percent to 1.75 percent.

ROBERT HADFIELD (Nevada Association of Counties):
I want to give you a brief history of the Indigent Accident Fund and Supplemental Relief Fund. Nevada's Spending and Government Efficiency Commission (SAGE) recommended taking funds away from the county governments. The NACO was not part of the SAGE Commission discussion on this reduction.

In 1982 and 1983 when I was Douglas County Manager, we came before the Nevada Legislature through NACO to solve a difficult problem that existed for all Nevada counties. The problem was the increasing costs of indigent automobile accident care and the huge medical claims coming into counties which far exceeded their indigent budgets. The counties came before the Legislature with what they thought was a pretty good solution. They asked the Legislature to increase the counties' tax rate to create the Indigent Accident Fund, which would pay these claims. Through the legislative process and in drafting the bill, it was determined the Fund would be located in State government as opposed to having each county collect the $1.50. It was also decided the Board of Trustees, made up of county commissioners, should administer these funds. These funds stopped litigation between county governments, hospitals and medical providers as these claims went unpaid. As a county manager, I went to Washoe Medical Center and negotiated a rate. However, it got to the point where the hospitals could no longer negotiate rates, and they were suing counties for payment of claims for these automobile accidents.

This process was set up and it has been successful. One key point, these two funds are funds of last resort. Once claims are paid by NACO, there will be no further litigation. The SAGE Commission, without the benefit of our input, assumed this was a State tax rate. This is a local tax rate collected Statewide and accumulated in a State fund administered by counties through the Board of Trustees. If these funds are wiped out, the State will create the biggest mess we have ever seen. There will be a lot of litigation, and we will go back to bankrupting hospitals.

CHAIR COFFIN:
I was there at the beginning, and there was good reason for this legislation because of the reasons you have stated.

SENATOR WASHINGTON:
When the economy improves, are there provisions to replace NACO funds?

MR. FONTAINE:
We do not know. The answer may have to come from the Governor's Office.

SENATOR WASHINGTON:
Does it have to be done statutorily?

MR. FONTAINE:
The funds were swept for this fiscal year into the special session, and the plans for the biennium are unknown at this point. A bill will have to be created to change the way these funds are administered. We just do not know.

SENATOR WASHINGTON:
Mr. Chair, we would be interested to know what language should be in a bill to replenish the funds when the economy improves.

CHAIR COFFIN:
We can have the Governor's Office back because there may be things they did not consider. The bill has not been drafted.

SENATOR WASHINGTON:
It may be a bill for consideration.

CHAIR COFFIN:
We may need to consider a bill.

DAVID HUMKE (Chair, Washoe County Commission):
I look forward to seeing that bill; it will certainly contain the legend that a two-thirds vote is required. We had no consultation with the Governor or his staff. The County of Washoe does not have available money. Salaries and other costs have already been reduced. We would be willing to sit down with the Governor's Office and provide him with correct numbers. Our County Manager will point out the incorrect information. Some of the information is historical because of all the cuts we have been making.

KATY SIMON (Washoe County Manager):
I handed out information (Exhibit F, original is on file in the Research Library), I would like to go over with the Committee. In Washoe County, we have 2,900 employees out of a workforce of 3,200 authorized positions. We have 300 positions that are vacant, almost 10 percent of our workforce. As has been noted, we have mandatory collective bargaining; we have eight bargaining units with whom we bargain. Looking at Exhibit F, there was incorrect data by the Department of Employment, Training and Rehabilitation with regard to Washoe County salaries. There was a notation that a 3.5-percent salary increase had been given when no increase had been granted. Our largest labor association agreed to a zero cost-of-living increase and will pose that to their membership for next year as well. They are currently voting on a 2.5-percent pay cut from that zero.

Page 3, Exhibit F, lists public services; we have a wide array of services we must provide. We are the State's partners in being the safety net for Washoe County residents. Given sources of revenue on page 4, we want to point out that property taxes make up 52 percent of our revenues. As sales taxes have declined, our property taxes have become a more important source of revenue. Page 5 shows where our money goes by function. Of the total, 43 percent goes to public safety and courts. The page 6 chart shows where our property tax goes, just for the Washoe County portion within the Washoe County tax bill. There are two boxes which delineate the legislative-mandated pennies of tax rate and voter-mandated pennies of tax rate. Of the two tax rates in the Legislative overrides both the indigent insurance program 1.5 cents and the 5 cents of the Capital Projects fund have redirected to the State.

Our county commissioners have only 95 cents of tax rate to deal with at their discretion. Washoe County—based on overlapping rates of the Washoe County School District, State, cities and other taxing entities—is already at the $3.64

cap. If 4 cents is redirected, we have no capacity to raise other revenues. Page 7 shows the 3-percent tax bill cap which has resulted in $32 million in revenues that we do not get and have to balance our budget against. Page 8, the economic indicators in Washoe County include consolidated taxes down 13 percent employment up 9 percent, jobs lost increasing to 7,500 and the foreclosure rate.

Next on page 9, we have a summary of our fiscal outlook. Sales taxes have declined 28 of the last 29 months. Two weeks ago, the County Board of Equalization approved the reduction of overall assessed value by 15 percent, on top of a 25-percent to 30-percent reduction earlier this year. We have examples of what the economy is doing to service demand in Washoe County. Monthly emergency room referrals have increased from 800 in FY 2007-2008 to 1,400 in FY 2008-2009. General assistance, which provides welfare assistance support to needy families, is turning away 400 people a month due to a lack of capacity.

CHAIR COFFIN:
What provision of service is the absolute bottom? Is it general assistance?

MS. SIMON:
Because of the limit on the availability of funds, the Board of Commissioners reduces the eligibility requirements, so it becomes harder to qualify. People who formally qualified no longer qualify because the Board of Commissioners has reduced the payout to individual families to meet the budget limit.

CHAIR COFFIN:
Did you deny any assistance to families who had been receiving assistance or are just stopping admission with a waiting list?

MS. SIMON:
I will double-check with staff and get an answer to everyone on the Committee. I do not think we have turned away anyone who had received assistance, but I want to make sure.

SENATOR WASHINGTON:
People who apply for assistance and qualify would only receive assistance for a certain period of time. Is that correct?

MS. SIMON:
That is correct.

SENATOR WASHINGTON:
When the time frame is completed, they move to the State rolls. You are only providing temporary assistance until they qualify for State assistance.

MS. SIMON:
It is called Temporary Assistance for Needy Families. Because of federal limitations, there is a limit on how long people receive aid.

SENATOR WASHINGTON:
Once they complete the time limit, they revert to the State.

MS. SIMON:
That is correct.

SENATOR WASHINGTON:
There is a shared cost between the State and County.

MS. SIMON:
There is. We are your partners with Medicaid and indigent assistance.

SENATOR WASHINGTON:
Just for the record.

MS. SIMON:
We want the Committee to understand that counties have an inverse relationship with the economy. When the economy declines, jail bookings are up, juvenile services bookings are up, child welfare cases are up, and cases of medical assistance and general assistance exceed our capacity. On page 11, Exhibit F, we have forecast three scenarios on our budget for the next biennium. During a meeting with the County Commissioners three weeks ago, we put together three scenarios: best case, optimistic and pessimistic. We identified the best case as what we expect to happen for next year and the following year: $31.5 million shortfall in FY 2009-2010 and a $15.6 million shortfall in FY 2010-2011.

Just in the two weeks since we talked to the Board of Commissioners, we are looking at Scenario 3, the pessimistic outlook. We will have to cut $47 million from next year's budget and $16 million from the following year. On page 12 of Exhibit F, the shortfall of $47 million does not include any property tax shift to the State, any service shifts or new responsibilities the State might shift the County. We also have binding labor arbitration, pending property tax court cases and a Nevada Supreme Court case regarding indigent defense counsel. While $6 million each year for the biennium may not seem like a lot to the Governor's Office, it is an amount compounded by many other factors for Washoe County. Washoe County is the only county that has a self-imposed, ten-year cap on budget growth. The County has a limit by Consumer Price Index and Population on how much the budget can grow from year to year. When the economy was strong, we were able to retain excess revenues for reserves and fund balances. We have used up those reserves; in FY 2009-2010, we will run out of fund balance.

We have been working in the fiscal crises for the last three years by cutting $64 million from our budget expenses. We do not have the capacity to replace revenues if they are diverted, and we are at the $3.64 cap.

SENATOR CARLTON:
Does the term "referral" mean visit on page 10, Exhibit F?

MS. SIMON:
It means referred by the hospital to our eligibility workers for payment.

SENATOR CARLTON:
Would you keep track of the impact on your emergency rooms and forward the information to the Committee? Information I have received from national groups shows the rate of uninsured coming at us in the next six months is staggering.

MS. SIMON:
We will be happy to do so.

SENATOR TOWNSEND:
On page 11 of Exhibit F, does Scenario 3 of $47.1 million in FY 2009-2010 include the recent court decision against Washoe County regarding Incline Village?

MS. SIMON:
No, the outstanding court case is not included. As you know, it would potentially roll back 9,000 properties in Incline Village to FY 2002-2003 levels.

GEORGE STEVENS (Chief Financial Officer, Clark County):
We did not have the opportunity to discuss this proposal with the Governor's Office, and we do not have a bill. The Board of County Commissioners has not taken a position on the proposal to divert property taxes from Clark County. However, next week's Commission agenda has an item concerning this matter; the Board of Commissioners will take a formal position at that time. I have been working in local government for 23 years; it is commonly believed that property taxes fund local services but not State services. Over the years, there have been a number of proposals by the Legislature to take a larger share of property taxes for the State.

Page 3 of our presentation, (Exhibit G, original is on file in the Research Library) shows a typical property tax bill in Clark County that is complicated because of 17 different rate components. The property tax rate is $2.9260 for unincorporated Clark County. There are three columns on this page: those under control of the local governing body, portions of the rate that are voter-approved and portions of the rate that are controlled by legislative enactment. In Clark County, there is a disparity across southern Nevada in terms of the rate you pay, depending on where you live. The range is from the $3.3954 tax rate in Mount Charleston to a $2.4404 tax rate in Boulder City. In FY 2009, there was $2.6 billion projected for collection in Clark County property taxes. This is significantly less than what would have been levied without the benefit of the property tax caps enacted two sessions ago. Approximately $900 million of property tax in Clark County is being abated.

The Clark County School District receives the largest amount of property tax collections, about 42 percent. The State does benefit from 50 percent of the property tax collections in Clark County. These taxes go directly into the State General Fund to fund public education. Things have changed in Clark County in terms of assessed valuations and how much property taxes will be collected going forward. We have always benefited from a healthy increase in assessed valuation in property taxes. We have 724,000 parcels in Clark County. The Board of Equalization just completed a review and 99 percent of these parcels have declined in value. In FY 2010, over half of the property owners in Clark County will pay less property tax. We project property taxes in Clark County will be flat this year. In terms of the impact of the Governor's proposal of taking 4 cents from Clark County, Mr. Clinger used a rate of 65 cents, which is not correct. If the State were to take 4 cents of property taxes off the top, it would go against the county-wide operating rate which is approximately 46 cents. Components that go into the 46 cents are: 2 cents for family court, 3.5 cents for Health District, 14 cents for Social Services, 1 cent for UMC emergency room admits and 26 cents for general county services. Out of the $32 million being diverted, $14 million would come out of social services.

As their chief financial officer, my concern is the impact on UMC. The proposal to divert the Indigent Accident Fund and Supplemental Relief Fund will impact UMC by $13 million this fiscal year and next fiscal year. Because these funds are allocated at the end of the year, we have not seen the impact. In the next 18 months, we will be impacted by another $26 million. This total impact to UMC is about $40 million. We are currently running an annual operating deficit of $60 million which is $20 million more than anticipated.

Additional impacts are: $4.2 million, State sales and use tax; $32 million, property taxes; $13 million, Indigent Accident Fund; $2.5 million, child welfare integration system; $4.5 million, Temporary Assistance for Needy Families: $2 million, emergency shelter fund; $410,000, graduate medical education; $1 million, Medicare Part D for the County match. We anticipate the need to cut in excess of $50 million from the current year budget and $70 million from next year's budget, without any impacts of the proposed budget reductions from the State.

SENATOR TOWNSEND:
On Exhibit G, page 9, do you have any sense of what year these assessed values are now matching?

MR. STEVENS:
I will get you more detail. I sense we are rolling back values to 2004 levels. One other point on the abatements, they were 30 percent of the tax roll last year, around $900 million. More that half of the abatement has been wiped out in one year.

SENATOR CARLTON:
When you are looking at University Medical Center, how much should a county hospital be allowed to go into a hole financially? How would UMC compare to other hospitals around the country? Where should UMC be financially?

MR. STEVENS:
I am not sure I can tell you where it should be. I can give you a historical prospective. We are running a $60 million operating deficit. A few years ago, that deficit had never been above $20 million. We have to go back to the history of the tax shift. The county tax structure was property tax-based and changed to a sales tax base. The UMC was losing a few million dollars and not a big share of the County general fund. Over the years, it has grown to over $100 million of the County general fund. The basic problem is not how much we can afford to lose at UMC, but how the tax structure of the County is built to absorb the deficit at UMC. We are rapidly approaching the point were we can not afford to absorb those and continue to do basic core services.

SENATOR CARLTON:
The losses would seem to correlate with the size of the County and rate of the uninsured.

MR. STEVENS:
That is true.

SENATOR CARLTON:
Do you know how we compare with counties like Los Angeles and Maricopa?

MR. STEVENS:
I do not have those numbers today, but I can get them for you.

JOHN ELLISON (Elko County Commissioner):
Mandated services are at maximum, indigent fund and geothermal licensing reductions are impacting Elko County. The recent fires and drought had a large impact on the agricultural and recreational areas. I am going to have Cash Minor update the Committee.

CASH MINOR (Assistant County Manager, Elko County; Chief Financial Officer, Elko County):
Mining has held up in the recession and accounts for 80 percent of our economic activity. What I have found interesting today is with the 4 cents reallocated to the State, we are expected to reduce salaries by 6 percent to cover that cost. We are subject to collective bargaining, and that has not been on the table at this point. We have implemented a position of no new hires in the next fiscal year, implemented our attrition policies and will redo budgets in June based on the legislative plans. Counties will not see the impact of the Indigent Accident Fund (IAF) and Supplemental Relief Fund for a year or two. I would see potential lawsuits from hospitals seeking reimbursements. We lost $1 million in the Twenty-fifth Special Session from the geothermal lease income which the State swept for their budget issues.

TOM FRANSWAY (County Commissioner, Humboldt County):
I will cover the handout furnished to the Committee (Exhibit H). Residents of Humboldt County have had one of the lowest tax rates in Nevada. In the last 11 years, Humboldt County has raised property taxes twice for a total of 11.5 cents. We have attached a schedule showing our tax rates in Exhibit H. In FY 2007-2008, Humboldt County received a total of $6.5 million in property tax revenues; of this, $237,315 was returned to the State for the Indigent Accident Fund, Medical Indigent Fund and China Spring Youth Camp. Property tax receipts minus proceeds have been flat for the last 10 years. Property taxes account for 25 percent of all revenues received by Humboldt County. Property taxes are 15 percent of the total. Any reduction or redistribution of property tax revenue will have consequences to Humboldt County.

JONI EASTLEY (Chair, Board of Commissioners, Nye County):
We are the third-largest county in the United States. Our population is less then 50,000. Nye County is spread out over an 18,000-square-mile area. The services we are mandated to deliver are from the extreme northern part of the County to the southern part of the County. The federal government either owns, controls or manages 98 percent of our County. We generate revenues from 2 percent of our land. Our concerns were well addressed by Mr. Fontaine from NACO. The citizens of our County cannot access our services because we have no public transportation in rural Nevada.

CHAIR COFFIN:
Were any of you consulted by the Department of Administration? Nye County, Elko County and Humboldt County responded no.

NANCY MCDERMID (Chair, Board of County Commissioners, Douglas County):
Nevada Revised Statute 428 mandates that every county provide care, support and relief to the poor, and this includes medical care. In the recent past, we raised our medical assistant guidelines above the minimums to more accurately reflect the indigent population and assist our local hospitals on unpaid bills. The Relief Fund has paid hospitals for bills in excess of $25,000 after a county exhausts 90 percent of their funds allocated for medical care. The recent sweep of IAF and hospital Supplemental funds has caused Douglas County to reconsider our medical guidelines and what we can afford. If the Governor's budget is enacted as presented, Douglas County would be gambling that we do not have any major automobile accidents or catastrophic medical claims in the future. During the past four years, nearly $2.5 million has been paid on behalf of Douglas County for IAF and Supplemental funds. With no pooling of funds as insurance and no promise to hold the counties harmless in the event of catastrophic medical bills, Douglas County will have no choice but to reduce our medical assisted guidelines back to the minimums set in NRS 428. These funds represent a 25-yearlong, extremely successful public/private partnership between counties and hospitals. Prior to these funds, Douglas County and many other counties faced regular threats of lawsuits to recover payment for the medically indigent. Douglas County, in the first five months of this fiscal year, experienced an 11-percent decline in sales tax. In the same period, the State had a 5.4-percent decline in sales tax.

NANCY BOLAND (Commissioner, District 2, Esmeralda County):
I have prepared testimony (Exhibit I). My main concern is that we do not get the majority of our revenue from property taxes but consolidated sales tax; 82 percent of our revenues come from things other than property tax. We are conservative on our planning and maintain large fund balances. The downside is that county equipment and facilities go without replacement and repair. We cannot always take advantage of grants because we cannot be certain of matching funds. My fear is that taking away this source of funding will cause large problems.

ROBERT CROWELL (Mayor, Carson City):
Carson City started a program to manage our money two years ago; we froze 37 vacant positions, stopped capital spending except for health and welfare, and implemented an early retirement program. We were able to save $12 million. Our sales tax rate is 7.125 percent and we have no additional options. We could raise sales tax for special purposes or infrastructure but not for operations. We are at 3.12 percent on property tax, a mandated cap put in place by the Legislature. Forty percent of our budget relates to the Consolidated Tax Distribution. Carson City has a 23-percent decline in sales taxes last year and a 20-percent reduction in property sales value in the last two years. Our property tax percentage of our budget is 24 percent. We have $14 million in our abatement. The .75 cent increase in state collection fees would cost Carson City about $196,000. The IAF 2.5-cent sweep would cost Carson City $460,000.

HUGH GALLAGHER (Comptroller, Storey County):
I have furnished a handout, (Exhibit J). Storey County was put on the map in 1859 when gold was deposited and classified as the biggest strike in the world in that period of time. Virginia City, which was once the biggest city between Kansas City and San Francisco, has now declined to about 500 people with a county population of 4,000. We got into a public/private partnership with Tahoe-Reno Industrial Center (TRI). Located east of Reno/Sparks, it has been called one of the biggest technologically and environmentally sophisticated industrial parks in the country. With that came a shot in the arm for a county that desperately needed funds to operate. The County and TRI have slowed considerably; consequently, property and sales taxes are no longer what they were—in fact, sales tax is half of what it was. Because this is a public/private partnership, we are obligated to pay back $31 million in infrastructure. With the uncertainty of the economic events, Storey County is planning for all possible situations. We do not want to lose quality jobs. We have three unions operating on the Comstock, and agreements will be renegotiated over the next two years.

SENATOR SCHNEIDER:
Ms. Boland, did the Governor consult with any of you?

MS. BOLAND:
No, he did not. The NACO arranged a meeting with the Governor's Office, Mr. Fontaine, county commissioners and me. We expressed our concerns about what happened in the Twenty-fifth Special Session. We asked the Governor's

Office if we could be included in the loop in the budgeting process. That did not happen.

SENATOR SCHNEIDER:
I am sure Senator McGinness would be happy to sit down with you since he represents your counties.

MS. BOLAND:
We did meet on behalf of NACO, so all the counties could be involved in the conversation.

CHAIR COFFIN:
We did not anticipate the cities were going to be impacted, but determined later the cities would be affected in ways we had not thought about.

DAVID FRASER (Executive Director, Nevada League of Cities and Municipalities):
We have furnished you with a handout (Exhibit K). We depend on the same revenue as the State. Because we do depend on that stream, we are seeing the effect of the downturn in the economy. Our workforces are bare-boned; we have made budget reductions and reductions in services and programs. We also share in the same growth revenues, sales taxes, property taxes, construction and the gaming industry. Please refer to Exhibit K on page 2.

BOB CASHELL (Mayor, City of Reno):
These reductions are going to affect us. If money is taken from the county, the city will have money taken away as well. We do not have the ability to increase revenue. We are going to have an issue with shared services between city and county. We are all in this together—cutting expenses, laying off people, renegotiating contracts and eliminating cost-of-living increases. Let the counties and cities work with the State to resolve these budget issues.

PHILIP STOECKINGER (Director, Finance, City of North Las Vegas):
The largest revenue source for the State, counties and cities is all sales tax. The county's largest revenue source is the Consolidated Tax; 85 percent of that is sales tax-based. We already have a 0.75-percent administrative fee we pay the State. The additional 1 percent equates to over $20 million for the biennium. Cities are at revenue levels of FY 2004-2005. Over the last 60 years, we have moved from a goods-based society to a sales-based society. Over 70 percent of

all sales were from goods and 30 percent from services. The trend has completely reversed, as depicted in Exhibit K.

MARK VINCENT (Director, Department of Finance and Business Services, City of Las Vegas):

A good chunk of the property taxes from Clark and Washoe Counties goes to the school systems. When you look at the total distribution of revenues, the cities are very small pieces. Clark County is about 13 percent of the overlapping taxes and Washoe is about 17 percent. It is our second largest-revenue source. When revenues are diverted from cities or counties, we cannot raise property tax rates. We were also impacted by the 5-cent tax diverted for transportation issues. On the retail side, sales tax is going to impact commercial properties, such as foreclosures.

SENATOR CARE:

I have a bill this Session which would allow political subdivisions to reduce certain taxes without coming to Carson City.

GENO MARTINI (Mayor, City of Sparks):

We have been proactive for the last three years in reducing our city's expenses. We just completed 35 layoffs and cut fire departments to 3-man engine companies when we are required to have 4. We have reduced our fund balance to 5 percent. Fiscally, we cannot go any lower.

CHAIR COFFIN:
This meeting of the Senate Committee on Taxation is adjourned 3:38 p.m.

RESPECTFULLY SUBMITTED:

Mike Wiley,
Committee Secretary

APPROVED BY:

Senator Bob Coffin, Chair

DATE: