

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

**Seventy-fifth Session
February 26, 2009**

The Joint Meeting of the Senate Committee on Taxation and the Assembly Committee on Taxation was called to order by Chair Bob Coffin at 1:37 p.m. on Thursday, February 26, 2009, in Room 4100 of the Legislative Building, Carson City, Nevada. The meeting was videoconferenced to the Grant Sawyer State Office Building, Room 4406, 555 East Washington Avenue, Las Vegas, Nevada. [Exhibit A](#) is the Agenda. [Exhibit B](#) is the Attendance Roster. All exhibits are available and on file in the Research Library of the Legislative Counsel Bureau.

SENATE COMMITTEE MEMBERS PRESENT:

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

ASSEMBLY COMMITTEE MEMBERS PRESENT:

Assemblywoman Kathryn A. McClain, Chair
Assemblywoman Marilyn K. 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
Assemblyman Richard McArthur
Assemblyman Harry Mortenson
Assemblywoman Peggy Pierce

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SENATE COMMITTEE MEMBERS ABSENT:

Senator Michael A. Schneider (Excused)

ASSEMBLY COMMITTEE MEMBERS ABSENT:

Assemblywoman Sheila Leslie (Excused)

STAFF MEMBERS PRESENT:

Elliot Anderson, Intern, Assemblywoman McClain
Russell J. Guindon, Senior Deputy Fiscal Analyst
Joe Reel, Deputy Fiscal Analyst
Mike Wiley, Committee Secretary

OTHERS PRESENT:

Jeremy A. Aguero, Principal Analyst, Applied Analysis
Guy S. Hobbs, Managing Director, Hobbs, Ong and Associates, Incorporated
Carole Vilardo, President, Nevada Taxpayers Association
Marvin Leavitt, Chair, Legislative Committee for Local Government Finance
Jerry Purdy

CHAIR COFFIN:

Today, we are going to look at the history of our tax system.

ELLIOT ANDERSON (Intern, Assemblywoman McClain):

I plan to cover nine principles for a high-quality revenue system ([Exhibit C](#)). The information comes from the National Conference of State Legislatures. Looking back in history, we can find that in times of crisis, governments have the opportunity to find solutions which are needed but normally unreachable. Not only do we have an opportunity to bring people together to solve our current fiscal crisis, we also have the opportunity to bring people together to find long-term solutions for our State. The State's system has developed gradually, and tax policy is used to address multiple objectives.

Principle No. 1: "A high-quality revenue system comprises elements that are complementary, including the finances of both state and local governments."

The elements of a high-quality state revenue system are complementary rather than contradictory. State policy makers should consider how state tax decisions affect local governments and vice versa. States should not be making decisions which put the counties in a bind, and the counties should not be making decisions which put the states in a bind.

Principle No. 2: "A high-quality revenue system produces revenue in a reliable manner. Reliability involves stability, certainty and sufficiency." Stability: The amount of revenue collected should be relatively constant over time, not subject to unpredictable fluctuations. A high-quality state revenue system promotes stability by imposing a mix of taxes, with some responding less sharply to economic change. Certainty: Certainty provides that the number and types of tax changes should be kept to a minimum. Individuals and businesses should not be subject to frequent changes in tax rates and bases because they interfere with economic choices and long-range plans. Sufficiency: A high-quality revenue system is pay-as-you-go in the short term, correlated with spending priorities. Sufficiency also demands a limited use of tax earmarking. When used, there should be correlation, such as gas taxes for highway funds.

Principle No. 3: "A high-quality revenue system relies on a balanced variety of revenue sources." Revenue should come from a diverse and balanced range of sources. If reliance is divided among numerous sources and their bases are broad, rates can be made low in order to minimize the impact. A broad base helps meet the goal of diversification since it spreads the burden of the tax among more payers than a narrow base does. States and local governments should balance their tax systems through reliance of the three-legged stool on income, sales and property taxes in roughly equal proportions, with excise taxes, business taxes, gaming taxes, severance taxes and user charges playing an important supplemental role. The revenue system should reflect the state's attempt to reach its fiscal policy objectives.

Principle No. 4: "A high-quality revenue system treats individuals equitably. Minimum requirements of an equitable system are that it imposes similar tax burdens on people in similar circumstances, that it minimizes regressivity, and that it minimizes taxes on low-income individuals." Equity traditionally has been measured in individuals' ability to pay taxes and has two main components, horizontal and vertical equity. Horizontal equity requires that people in similar circumstances have similar tax burdens. Vertical equity refers to the distribution

of tax burdens among people in different circumstances. Reliance upon sales, excise and property taxes tends to make local revenue systems regressive, that is, low-income people pay a larger proportion of their income than higher income people do. The progressivity or regressivity of the entire system is more important than that of any particular tax.

Principle No. 5: "A high-quality revenue system facilitates taxpayer compliance. It is easy to understand and minimizes compliance costs." A high-quality revenue system facilitates taxpayer compliance by avoiding a maze of taxes, forms and filing requirements. The reductions in complexity help taxpayers better understand the system and reduce the cost of compliance. Compliance costs should be minimized for all taxpayers, and policy makers should be aware of special compliance burdens that primarily affect businesses.

Principle No. 6: "A high-quality revenue system promotes fair, efficient and effective administration. It is as simple as possible to administer, raises revenue efficiently, is administered professionally, and is applied uniformly." A tax system that is easy to administer reduces the likelihood of errors and facilitates fairness. Poor tax administration will mean that tax burdens are distributed among taxpayers in ways the law did not intend. If the tax system is administered fairly, individuals and businesses are more likely to pay their rightful share of the tax burden.

Principle No. 7: "A high-quality revenue system is responsive to interstate and international economic competition." Interstate and international economic competition has intensified in the past decade, increasing pressures on policy makers to use revenue systems as a tool of economic development. Any state that imposes a tax burden far different from that of neighboring states runs the risk of hurting its economy. Levels of public services, energy and labor costs, access to markets and availability of capital are some of the other factors affecting economic development.

Principle No. 8: "A high-quality revenue system minimizes its involvement in spending decisions and makes any such involvement explicit." The primary purpose of a revenue system is to raise money. One of the goals of a revenue system is to be economically neutral, a goal that is inconsistent with the use of tax policy to make budget decisions or to influence behavior. Policy makers

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should be certain that these measures not only do what is expected of them but also reach their goal at a reasonable cost.

Principle No. 9: "A high-quality revenue system is accountable to taxpayers." Accountability is that tax laws should be explicit, not hidden. Proposals for changes should be well publicized to stimulate debate. Truths in taxation policies require clearly written notices to taxpayers, and hearings on tax increases are simple methods of providing accountability. Policy makers must examine the cost and benefits of using revenue measures as tools to put nonfiscal policies into effect.

CHAIR COFFIN:

These are the guiding principles that we all should follow. This is an important list that we need to follow.

ASSEMBLYMAN MORTENSON:

Is the graph, [Exhibit C](#) on page 3 a compilation of an average of the whole country?

MR. ANDERSON:

It is state and local government in 2005 as a percentage of total revenue. It includes the entire country.

CHAIR MCCLAIN:

I would like staff to update these numbers to reflect Nevada.

JEREMY A. AGUERO (Principal Analyst, Applied Analysis):

I have provided two sets of material ([Exhibit D](#), original is on file in the Research Library, [Exhibit E](#)). We reviewed the historical reports: the Zubrow Report in 1960, the Lybrand Report in 1966, the Price Waterhouse/Urban Institute Report in 1988, the Legislative Tax Study in 1990 and the Governor's Task Force on Tax Policy Report in 2002. We have provided an overview of each report, reviewing the State's tax system and each report's recommendations. We conclude with recurring themes and final thoughts. Each report will refer to the State's financial condition and offer recommendations.

The 1960 Zubrow, Report "Financing State and Local Government in Nevada," was created by a 1959 legislative act.

State Information:

- Population: 280,000
- Employment: 100,800
- Government employment: 3,200
- Expenditures: \$60 million
- Education: 68 percent of General Fund Expenditures
- General Fund Revenues: \$25 million
- Sales and Use Tax and Gaming Taxes: 75 percent of General Fund Revenues
- State surplus

Recommendations:

- Exempt food from the sales tax base.
- Exempt household effects from the property tax.
- Increase cigarette tax from 2 cents to 5 cents. Significantly increase liquor taxes.
- Increase gaming tax to a scale of 3 percent to 7 percent.

The Lybrand Report, "Study of General Fund Services Revenues of the State of Nevada," created in 1966 by S.C.R. No. 8 of the 12th Special Session.

State Information:

- Population: 419,000
- Revenues: \$178 million
- General Fund Revenues: \$52 million
- Projected revenue shortfall: \$9 million, 14 percent, in 1968 to \$45 million, 35 percent, by 1976
- Initiative petition circulated to raise the gaming tax by 200 percent

Recommendations:

- Increase fees, licenses, fines and charge rates by 100 percent.
- Implement estate tax to allow for the state pick-up.
- Increase liquor taxes by 50 percent and cigarette taxes by 2 cents per pack.
- Increase gaming tax by 50 percent over the next eight years.
- Implement corporate and personal income taxes.

The Urban Institute/Price Waterhouse Report, "Fiscal Affairs of State and Local Governments in Nevada, November 1988," was commissioned in 1987 by A.B. No. 397 of the 64th Session. The report followed the tax shift of 1981.

State Information:

- Population: 1.1 million
- Employment: 560,000
- Revenues: \$1.4 billion to \$1.5 billion
- General Fund Revenues: \$613.5 million
- Visitor Volume: 19 million
- Rate of Inflation: 4.1 percent

Recommendations:

- Remove constitutional constraints, revenue earmarking and tight restrictions on local governments that limit the State's ability to adapt to changing market conditions.
- Maintain the business tax advantage; however, business tax could be raised without jeopardizing the State's competitive advantage.
- Target low-income taxpayers with property tax relief measures, not the elderly.
- Increase tax system transparency
- Revisit local government distribution formulas.
- Avoid implementing a state lottery.
- Broaden, on a revenue neutral basis, the general sales tax base to fully include hotels and lodging, food for home consumption, drugs, household fuels and other utilities. To attain revenue neutrality, significantly reduce the State's sales tax rate and to address the regressivity issues, the state should enact a variable vanishing sales tax credit.
- Consider mileage tax fees to provide roadway funding.
- Increase cigarette and liquor taxes.

The December 1990 Legislative Tax Study, "Study of Taxation in Nevada," was created by A.B. No. 801 of the 65th Session and completed by the Legislative Commission. It was directed to consider the equity distribution and adequacy of all taxes and the feasibility of future revenue sources. Local governments negatively impacted by the 1981 tax shift were an area of concern.

State Information:

- Population: 1.24 million
- Employment: 630,000
- Revenues: \$1.7 billion
- General Fund Revenues: \$802 million
- Visitor Volume: 22 million
- Rate of Inflation: 5.4 percent

Recommendations:

- Revisit the formula for distributing supplemental city-county relief tax to use population in place of new property; distribute out-of-state sales based on population, and eliminate obsolete language.
- Limit property tax assessment factors to a range of 32 percent to 36 percent.

Governor's Task Force on Tax Policy, "Analysis of Fiscal Policy in Nevada, November 2002," created in 2001 by A.C.R. No. 1 of the 17th Special Session required that any recommended legislation must include a plan to broaden the tax base so that it is reflective of the diversity of the State's economy. The report was completed in the wake of the tragedy of September 11, 2001 (9/11).

State Information:

- Population: 2.21 million
- Employment: 1.07 million
- Revenues: \$4.1 billion
- General Fund Revenues: \$3.07 billion
- Visitor Volume: 40 million
- Rate of Inflation: 1.6 percent

Recommendations:

- Increase the efficiency of revenues by implementing passive measures.
- Implement a state activity fee of 0.25 percent on all business receipts in excess of \$350,000 per year.
- Increase the business license tax and corporate filing fees.
- Increase slot license fees on restricted licensees by 32 percent.
- Implement a broad-based sales tax on amusement and recreation.
- Implement a 15-cent, flex-property tax rate per \$100 of assessed value and adjust as necessary, depending on the economic cycle.

- Consider expanding the sales and use tax base to include services.
- Establish a committee to study expenditure reform issues.
- Consider the impact of unfunded mandates on local governments.
- Adjust state agency fees to ensure they are consistent with actual costs.
- Increase funding for the Department of Taxation's audit and enforcement functions.

The information covered in these reports is not novel ideas. The Zubrow Report, citing *The Wealth of Nations*, written in 1776 by Adam Smith, states, "The subjects of every state ought to contribute towards the support of the government, as nearly as possible, in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under protection of the state" He further wrote, "The tax which each individual is bound to pay ought to be certain, and not arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought to be clear and plain to the contributor, and to every other person" He wrote, "Every tax ought to be levied at the time, or in the manner in which it is most likely to be convenient for the contributor to pay it" And finally, he wrote, "Every tax ought to be so contrived as both to take out and to keep out of the pockets of the people as little as possible, over and above what brings into the public treasury of the state"

The tax system puzzle should include simplicity, revenue sufficiency, uniformity, integration and political viability. All are important in a tax system. Our review highlights the following recommendations concerning Nevada's tax system.

Equity:

- Nevada's tax system tends to be regressive.
- Gaming and tourism significantly offset the tax burden that would otherwise be borne by residents and business.
- Differences exist between State and local governments and between local governments.

Stability:

- Although stability is a worthy goal, it is difficult to achieve through direct tax policy.
- Nevada's revenue base will tend to decline over time due to structural features but is not necessarily more or less stable than other tax systems.

- Budget policies that make the revenue system highly inflexible make it hard for the State to adapt during inevitable downturns.
- There has been a change of consumption in America from dollars being spent on goods to services. In 1947, we were spending 68.5 percent on goods; today, we are spending 40.3 percent.

Revenue Sufficiency:

- There is a significant difference between State tax collections and State tax burdens.
- Several modifications to the tax system have allowed State and local revenues to keep pace with population growth and inflation.
- The question of sufficiency is more a policy question than a technical question.
- There is a recurring expectation that revenues in the future will not be sufficient to maintain existing service levels.
- State General Fund Revenues per capita from 1990 average \$1,013 in constant 2007 dollars. In fiscal year (FY) 2003-2004 through FY 2007-2008, revenues were far above the average. Expectations are that the average will erode over time.

Competitiveness:

- Nevada ranks among the nations lowest in terms of individual and general business tax burdens.
- Nevada should seek to maintain its position as a low-tax state but not to the extent that essential services are threatened.
- Intrastate competition does exist to some extent and should be closely monitored.

Exportability:

- Nevada benefits from shifting a significant portion of tax burden to out-of-state consumers.
- Nevada benefits less so than other states in the ability to pass a portion of its tax burden on to the federal government through federal income tax deductions.

Neutrality:

- Nevada's current tax system has minimal impacts on normal market behaviors.
- Neutrality concerns will be significant if the State chooses to add major new tax sources, significantly increase the tax base or increase tax rates.
- Increasingly, mobile consumers and suppliers make neutrality concerns particularly important.

Transparency:

- Nevada's current tax system is fairly transparent.
- Some transparency concerns exist with the way in which property is assessed and ad valorem taxes are calculated.
- There are often trade-offs between transparency, equity and stability.

Political Viability:

- There is no perfect tax or a perfect tax system.
- Taxes are invariably unpopular, and a sound fiscal policy rarely wins a popularity contest.
- Nevada's tax system is not arbitrary but a clear reflection of the state's history and political will.
- The Nevada tax cycle is clear.

[Exhibit E](#) underscores the idea of the Nevada tax cycle and how it has been pieced together in the history of the Nevada tax system.

Guy S. Hobbs (Managing Director, Hobbs, Ong and Associates, Incorporated):

These reports contain recommendations, and some of the recommendations were consistent from report to report. Notions such as retooling the tax structure to better reflect the economy and other items were common themes through the reports. These were just recommendations, not the actions taken in the wake of these reports. When we are looking from an analytical prospective and apply the principles, it is easy for analysts to weigh the principles and evaluate different sources of revenue against them and come up with a matrix that gives you scoring on which best meets the challenges. It underscores where the political viability comes into conflict with the principles that we know are of extraordinary value in constructing a system. Some of the most visible evidence are those elements of the tax structure that are possibly working their way out of utility in this State. The slide on consumer spending is telling. If the largest source of the State's General Fund is sales tax, the pattern of consumer behavior over the last 50 years is an alarming trend.

If there were no changes from year to year, we would expect a tax source that is completely predicated upon retail purchasing to decline because of change of consumer spending patterns. We have not modified our tax structure in this case or in the other example of tourism per capita dropping. Consequently, to not expect declining revenue per capita—and not be in the position we are today—would be to turn a blind eye to the fact that this has been occurring over the years.

CHAIR COFFIN:

Being part of many of these efforts and having seen most of the efforts fail but always accomplish something that contributes to the welfare of the State, I note that not everything is a total failure. The political viability is the key, which is what the legislative process is all about. It is why we do not have a perfect system and never will.

ASSEMBLYMAN AIZLEY:

Could you explain the 1981 tax shift?

MR. HOBBS:

In the late 1970s, pressure was put on the levels of property taxes in the State. There was an initiative to cap property taxes in the State. The Legislature in 1981 chose to reduce property taxes and replace lost revenue to local governments by increasing sales tax. The shift would increase exportability, understanding that the increase from 0.25 percent to 0.33 percent on sales tax revenue would be borne by tourists. Shifting the property tax over to sales tax would export a larger portion of the overall tax burden.

ASSEMBLYWOMAN PIERCE:

I read in 2003 that Nevada was one of three states where the General Fund had not kept up with the rate of inflation in the preceding ten years. In 1978, a cap was put on the size of the General Fund that would not allow it to grow more than the rate of inflation, and we have never hit that ceiling. Would you explain?

MR. AGUERO:

There is a legislatively imposed cap on the *Executive Budget* that requires it to grow no faster than inflation plus population growth. The cap is calculated based on where we were in 1975 and continues to go forward. The cap is elusive in that the cap applies only to the Executive Branch and General Fund

expenditures. Moving monies outside the General Fund or moving monies into capital accounts allows you to evade the expenditure cap. Based on that calculation, we have never gotten back up to that number. We did an analysis in 2002 that demonstrated General Fund expenditures were not keeping pace with inflation plus population growth.

ASSEMBLYWOMAN PIERCE:

Explain the statement that Nevada benefits less than other states in the ability to pass a portion of the burden onto the federal government through federal income tax deductions.

MR. AGUERO:

When itemizing your federal income taxes, you deduct any state taxes paid. If we had a state income tax, you would be able to deduct that income tax and pass the tax burden to the federal government, which other states do.

SENATOR CARE:

Do we need another study?

MR. AGUERO:

No, it will tell you what you already know.

MR. HOBBS:

My answer would also be no. In 2003, we completely modeled the State's fiscal system with data available at the time. We developed a model that could be used in future years with updated information. Not much has changed in the State's tax structure since issuing that report in 2003.

MR. AGUERO:

It would be helpful if the data coming out of the State would allow us to look at how much we are generating and from where. The completeness of the data determines how well we can see where the issues are as opposed to having a complete study. We could have measures to make information that comes out of the system better.

ASSEMBLYWOMAN KIRKPATRICK:

Where do we compare with other states on transparency?

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MR. AGUERO:

Our tax system, with the exception of property tax, is very transparent.

SENATOR WASHINGTON:

You talked about the efficiency of State government. The recommendations from the Spending and Government Efficiency (SAGE) Commission alludes to how State government operates and its efficiency in providing essential services within the current budget. Have you reviewed the revenue stream, taxes and expenditures along with recommendations from the SAGE Commission on the efficiency of State government? How much money it will save or how much money we will need to generate for the General Fund or tax revenue to provide essential State services?

MR. AGUERO:

We have looked at it in two regards, a spending level the State had during the Seventy-fourth Session of the Nevada Legislature and what it would take to provide the same services today. From our perspective, what we have to generate in terms of revenue is a function of what this body determines are those essential services

SENATOR WASHINGTON:

Have you taken into account the stimulus package and what we need to maintain the essential services?

MR. AGUERO:

No.

ASSEMBLYWOMAN PIERCE:

Nevada, in terms of public employees per capita, is the smallest government in the country. Given economies of scale, you would expect one of the larger states to have the smallest number of employees per capita in terms of efficiency.

MR. AGUERO:

It is more a function of the services provided by the government in each area, which would be the greater function of how many public employees they have.

SENATOR WASHINGTON:

We have had a number of initiative petitions to cap property tax in this State, most recently Proposition 1. What cause and effect do initiative petitions generate on our tax structure? Have you taken into account Proposition 1, which deals with tourism and rooming tax? How is this going to affect our tax structure?

MR. AGUERO:

Dealing with initiative petitions ties the hands of the Legislature. The tax system should reflect the will of the people, but to the extent the tax system becomes so encumbered by required expenditures, it has no flexibility. There is a danger in writing tax policy into our State's Constitution. As for Proposition 1, how much revenue the tax is going to generate is overstated. We have to be careful about how things work through our system and how they get integrated into our tax package.

CAROL E. VILARDO (President, Nevada Taxpayers Association):

I would like to comment on the question of initiatives and specifically on room tax initiatives. Ballot-box budgeting is one of the most dangerous things that can occur. A firm is hired by a group to determine the support on an issue. The public will buy any tax they do not have to pay. The room tax initiative is a perfect example because residents of Nevada do not pay it. We have 2 issues: the issue and the funding source for the issue. In ballot-box budgeting you find a consistent theme of earmarking. Ballot-box budgeting through the initiative process is earmarking funds, and it limits your flexibility. You can take a statutory initiative and change it in three years, but when you create a level of expenditure, you cannot take it away. This creates a shortfall.

When we receive federal grants which are very short-lived, we use the money for program expansion or to start a new program. Medicaid is an example of what happens. Money goes into the budget based on what the federal government would match. That number has been eroding, and we have to tell people relying on Medicaid that their level of service will be reduced. Payments are cut to private sector providers, which in turn reduces the number of providers because they cannot operate on what is being paid to them. The State has to make up the loss of funding because it does not want to reduce benefits, which creates escalating expenditures. This is a recurring theme that drives some of the expenditures. Besides the earmarking and ballot-box initiatives, the

other issue is the change from a goods-based economy to a service-based economy as it applies to sales tax. The U.S. Congress needs to enact the streamline sales tax, which does not capture services but allows the tax structure to reflect the way business is done today. It would benefit the State as well as local governments. The other issue is compensated meals as it relates to use tax or sales tax. Legal counsel will need to advise on this issue.

CHAIR COFFIN:

Give us your take on issues adopted or not adopted in past sessions that can be completed for this Session.

MS. VILARDO:

We need to resolve the sales tax issues and review exemptions that could possibly be repealed. We need to review the amusement and admissions tax. Studies have shown the area of amusements and admissions are progressive, not regressive. If level one is used as the neutral point, everything tested for amusements and admissions goes over one. That could be an area of expansion. It is not a sales tax but a transaction tax. We recommend it at a 65-percent level. In reviewing all the taxes to see where changes were needed because of changes in the economy, we found that the casino entertainment tax, the old cabaret tax, was dropped by the federal government and picked up by the State. The way that tax was structured no longer reflected the way entertainment was provided in Las Vegas. It is not a popular tax, which is why it was not enacted. It is direct taxation, which is very transparent.

ASSEMBLYWOMAN PIERCE:

The example you gave on Medicaid—are you suggesting that we should not participate because the dollars might go away?

MS. VILARDO:

What I am suggesting is expenditures and growth have not always been in the control of the Legislature because the federal government changes the funding formula. When the Economic Forum on May 1, 2001, projected a greater revenue amount, a percentage of the revenue should have been used to purchase technology, train employees, put more money in the Rainy Day Fund and set aside money for grants so we could receive the matching funds.

SENATOR WASHINGTON:

The presentation by Mr. Aguero referenced the sin tax: alcohol, cigarettes and the oldest profession known to man. Has the Nevada Taxpayers Association considered what the potential revenue might be from an entertainment tax?

MS. VILARDO:

In 1991, it was characterized as a transaction tax. We have not put together any numbers.

ASSEMBLYMAN AIZLEY:

When comparing services to goods, I understand goods, but I am not as clear on services. What taxes would not be covered under services?

MS. VILARDO:

The 1985 service census survey reflected Nevada as the first state whose gross state product became service-based from goods-based. Nevada is a tourism-based economy: the services can include entertainment, taxicabs, concierge services, dry cleaning and booking agencies. Service also reflects medical, accounting and attorneys. Those become policy decisions. The State gross product reflects on services because of the nature of our economy.

CHAIR COFFIN:

Marvin Leavitt was a participant in the 1970s about what this State would do to counteract the looming voter rebellion about property tax, and he helped address the issue whether we should go along or counter it.

MARVIN LEAVITT (Chair, Legislative Committee for Local Government Finance):

If we look back in time and look at the tax structure today, it is very close to the tax structure established following the switch in 1981. The State has increased a number of taxes: cigarette tax, liquor tax, real property transfer tax, business license taxes and entertainment tax. The local school support tax changed from 1 percent in FY 1979-1980 to 2.25 percent and was moved in and out of property tax. The other taxes adjusted from the local government come from the vote of the people at the local level, then are enacted by the Legislature. Examples include flood control districts, road issues in southern Nevada, as well as issues on water and the Las Vegas Metropolitan Police Department. All those are local government issues, which are special purpose levies and do not go into the general funds of the cities and counties. If you

look at the structure of the State and its finances, it is the same as FY 1980-1981 after the switch. In revenue estimates for next year, the Economic Forum had 59 percent of the revenue going into the State General Fund from two sources, gaming and sales tax. If you include the local school support tax, which is 2.25 percent, then 70 percent of your total revenue comes from sales tax and gaming tax. That is a very high percentage from those two taxes. Everything else makes up the other 30 percent. The State is heavily dependent on those two taxes when we look at the whole thing in combination. The State has the benefit of property taxes, which is the 75 cents levied on behalf of the schools plus the 17 cents levied by the State.

Something has happened in this recession that I have never seen happen regarding property tax. In 2005, we put limits on the levy of the property tax. On owner-occupied property, the tax could not grow more than 3 percent in any one year. On other types of property, the maximum was 8 percent. If you take the bill from the prior year and multiply by one of those two percentages, you get the limit on the property tax. If you take the assessed valuation of the property and multiply by the rate, the difference is called abatement.

In Las Vegas for FY 2008-2009, the levy of property tax is approximately \$115 million and the abatement is \$42.5 million. In the next year, looking at the same situation, the levy is \$111 million and the abatement is \$10,478,000. The abatement goes from \$42 million to \$10 million in one year because the assessed valuation is decreasing. If the limits were not put in place in 2005, property tax in Las Vegas would go down by 22.67 percent in this one year. It is greater than the reduction in sales tax, and it is the first time I can remember seeing this exist in property tax. Two years ago, property tax was the most stable revenue for the State and local governments. We have had unusual adjustments in property tax, and a good share is from residential. Abatements in Clark County this year show 85 percent are commercial properties and 15 percent are residential. This is something to consider when we look to the future for all tax policy. It is possible to take our existing taxes and make them more stable. Looking at sales tax, certain components of the sales tax are more volatile than other components. We look at sales tax coming from construction activities and from large purchases such as automobiles tend to move around more than sales tax from other types. If we were to use a portion of the less volatile part of sales tax for ongoing operations and use the most volatile for capital, we would create more stability. This Session, we know the State is

going to need cash quickly. Because of action taken during the Twenty-fifth Special Session, the State will have enough cash to operate through June 30. Depending on the budget, the State will need additional cash to operate because we do not have large reserves. Any revenue enhancements need to be things that will happen quickly. New taxes will not come online until January 1, 2010; you will still have a big revenue problem for the last six months of 2009. This has to be a major consideration in thinking about when revenue can be levied. The other thing you can do is increase everything. The Legislature has a whole measure of taxes available, and it may be possible to increase everything by some percentage. The State has the ability to increase everything except the 2-percent sales tax, but that can be taken care of through the local school support tax, which is the sales tax that you have the ability to change.

MS. MCCLAIN:

I need information on the 1981 tax shift.

MR. LEAVITT:

What had happened in the 1978 election, the voters had approved for the first time a proposed constitutional amendment that would changed the Nevada system for property tax, very similar to the Question 13 system in California. The voters had approved that for the first time in the 1978 election.

When the Legislature met in 1979, the State at that moment in time had a surplus, a fairly substantial surplus, and so they were in a period of relatively high inflation at that time. And property values had been increasing fairly rapidly, and so the State was experiencing a surplus, and so what essentially happened is the State reduced—the State was levying 25 cents of property tax. At that moment in time, the schools were levying \$1.50: 70 cents mandatory, 80 cents discretionary on the part of the schools. There was an 11-cent Medicaid that had to be submitted, it was levied by the county, but had to be distributed to the State. So essentially, if we add the 70-cent mandatory, the State removed 30 cents of the 80 cents of the school option, well that's a dollar. You take the 25 cents of the state levy and the 11-cent Medicaid,

that is \$1.36. If we subtract \$1.36 from \$5, we get the \$3.64 limit that we've had in place ever since. That happened in 1979 when, and additionally, there was an expenditure limit placed on local governments during that same Session, with the idea being that the expenditure limit would control the revenue side of local governments. The expenditure limit did not work very well, partly because some local governments played with it and moved things in and out of their general funds and those kinds of things, it didn't work very well.

And property taxes, the value just continued to rise, and so the, a number of the Legislators during the subsequent election in 1980 promised the voters that if you don't approve this property tax initiative, if you don't approve it, we're going to come back in 1981 and we're going to lower property taxes substantially. And so, when they came back, the initial plan was to eliminate property taxes, essentially, for all operations and leave property taxes only for debt. But when you started to run the numbers for that, we found that the increase in sales tax would just be too great. And so, the, eventually, the, we established a new tax called the supplemental city-county relief tax, which was levied at the rate of 1.75-cents, and that was a direct offset against property tax. And so what happened is that the local governments lowered their property tax by an amount equivalent to the 1.75-cent sales tax levy. There was a direct relationship; you simply took an amount, you subtracted the amount of the sales tax levy in each local jurisdiction, and that told you the amount of property tax that you could levy. And so the State, is going through one of these fiscal cycles like you do, was not in the financial condition in '81 that you had been in '79. So they also increased the local school support taxes at that time, even though it was not a really a part of the tax-switch package, and it was increased from 1 percent to 1.5 percent.

And then 10 years later, it was increased to the 2.25 [percent] that we now have. But, just to give you an example, I've got some tax rates; let me run them through several years and you can see the effect. For instance, in the '78-'79 year, the tax rate in almost

all the urban areas of the State was \$5 or very close thereto. After the Legislation in 1979 when you decreased the total of allowed rate to \$3.64, the rate, say for instance in Las Vegas, decreased to \$3.59, and then after the switch in '81-'82, the total tax rate was \$2.20. So you see the property tax rate went from \$5 dollars to essentially \$3.64, just almost \$3.64, to \$2.20 as the result of that switch. And like I mentioned, the local school support tax, unrelated to that, was also increased at that time to provide additional revenue, essentially for the State, because you were short of funds in that time. I did not mention, also in 1979, the sales tax was removed from food, and that, of course, had an effect on the total revenue from the sales tax and, undoubtedly, made it more volatile. You know, I'm not saying it's a bad thing because we know the tax on food made it more regressive: the removing the sales tax on food also made it more volatile. That is essentially what happened in between those two Sessions. And what we have now, even though you have increased some of those, is still, essentially, the same plan for both the State and local governments that we had subsequent to the '81 Session of the Legislature.

CHAIR COFFIN:

I would like Mr. Leavitt's comments on the 1981 tax shift transcribed in verbatim.

MR. LEAVITT:

The sales tax in 1981 did not perform according to estimates, and so the property tax was lower than it would have been had we really understood. There are advantages and disadvantages to the tax shift. Sales tax does very well in times of growth, and the property tax does poorly in recessions. We have had huge growth in this State since 1981. Part of that growth was financed by bonds, which have been repaid by property tax levies. Prior to the 1979 Session of the Legislature, we were at the \$5 limit. Had we stayed there, we would not have been able to finance this growth.

ASSEMBLYMAN MORTENSON:

If we tried to put in a stable tax that might help in the future, it will not help much today. Is it possible, based on a tax where you can calculate the income in future years, to bond against that future tax?

MR. LEAVITT:

I would not suggest bonding for operating purposes. If the bondholder knows the repayment of a debt is from a source that has not been tried, you are going to pay interest rates that relate to that. Now is not a good time to issue bonds of any kind; the market is too difficult. The bonds that are special obligation, to be paid from a special revenue source, would be difficult to issue. The interest would be one you would not want to pay. I would never recommend paying for operating expenses out of debt.

JERRY PURDY:

I'm retired federal highway engineer who lived in Nevada most of our lives, 60s, 80s and that sort of thing. And I was on the editorial board [*Reno*] *Gazette-Journal*. And some elected official came one time to make a presentation to us, and they passed out a handout entitled—it's put out by the Nevada Economic development Forum and they have a number of handouts; this particular one is entitled "Why Nevada? Why Should Businesses Locate in Nevada?" Well, it's because we don't have any corporate tax, we don't have any tax on corporate shares, we don't have any franchise tax, we don't have any inventory tax, we don't have any personal income tax, we don't have inheritance tax, we don't have a gift tax, we don't have a Unitarian tax, we don't have a sales tax, we got nominal annual business fees, and we got nominal property taxes, low unemployment, minimal employee insurance, and then we've got a whole list of legal structures that give businesses a break. Well, it's been pretty successful because according to the handout, the Secretary of State of Nevada said there's over 300,000 corporations located here in Nevada that doesn't really hardly pay any taxes, and that number increases around 35 to 40,000 every year.

Well, the last comment I would like to make was the other day in the *Gazette-Journal*, February 14, 09: "Nevada exports increase,

businesses ship out \$6 billion in goods that we don't tax". How in god's world can we do that and say we don't have tax problems? Well and it gets worse, if you permit me one last thing to run through it quick. From 2000 to 2007, the mining industry in Nevada extracted \$25 billion in gold. That's a one-shot thing; when it's gone, it's out of the ground and you're never going to get back at it. And uh, they paid \$125 million which was a half a percent. All that money in gold, that was taken out of this State and they paid half a percent interest.

I'm a retired senior citizen guy, and uh we got one of the most regressive tax structures of any state in the country. The lowest income people like a lot of us living on retirement, we pay 3 percent: the wealthiest of us in Nevada that make over \$297,000 a year, they pay 2 percent. And that didn't happen overnight, that was something that's been going on in this institution here for a lot of years that we've been involved. And I got to think a big part of it that disturbs me as much as anything, since been living here, is the lobbyists are kind of taken over this building. There's swarms of them everywhere they're coming and going. It's a pretty serious thing, they outnumber you people by however many times you say they do. And these exceptions and these deductions and these things didn't happen on your own. It was put in over time, one at a time, by people protecting their little niche special interest, and uh I think it's wrong. And uh there's a huge area. We can fix our taxes; if we'd have done 6 percent on the mine, you wouldn't be having the budget problem. If you would have charged taxes on all of these businesses that made the money—6 billion, you would not be here today talking about tax problems. You can do better, and I think the people in this State deserve better. Let's thin out the lobbyists.

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CHAIR MCCLAIN:

We say Nevada has the best tax climate, and it is how we get businesses to come here. But we have one of the worst education systems, quality of life is more important to businesses when they bring employees here. We adjourn this joint committee meeting at 3:45 p.m.

RESPECTFULLY SUBMITTED:

Mike Wiley,
Committee Secretary

APPROVED BY:

Senator Bob Coffin, Chair

DATE: _____

Assemblywoman Kathryn A. McClain, Chair

DATE: _____