

**MINUTES OF THE MEETING
OF THE
ASSEMBLY COMMITTEE ON TAXATION**

**Seventy-Sixth Session
February 15, 2011**

The Committee on Taxation was called to order by Chair Marilyn K. Kirkpatrick at 8:02 a.m. on Tuesday, February 15, 2011, in Room 4100 of the Legislative Building, 401 South Carson Street, Carson City, 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/76th2011/committees/. In addition, copies of the audio record may be purchased through the Legislative Counsel Bureau's Publications Office (email: publications@lcb.state.nv.us; telephone: 775-684-6835).

COMMITTEE MEMBERS PRESENT:

Assemblywoman Marilyn K. Kirkpatrick, Chair
Assemblyman Harvey J. Munford, Vice Chair
Assemblyman Elliot T. Anderson
Assemblywoman Teresa Benitez-Thompson
Assemblywoman Irene Bustamante Adams
Assemblyman John Ellison
Assemblywoman Lucy Flores
Assemblyman Ed A. Goedhart
Assemblyman Pete Livermore
Assemblywoman Dina Neal
Assemblywoman Peggy Pierce
Assemblyman Lynn D. Stewart
Assemblywoman Melissa Woodbury

COMMITTEE MEMBERS ABSENT:

None

GUEST LEGISLATORS PRESENT:

None

STAFF MEMBERS PRESENT:

Russell Guindon, Principal Deputy Fiscal Analyst
Michael Nakamoto, Deputy Fiscal Analyst
Cyndie Carter, Committee Manager
Mary Garcia, Committee Secretary
Olivia Lloyd, Committee Assistant

OTHERS PRESENT:

Dino DiCianno, Executive Director, Department of Taxation
Terry Rubald, Chief, Division of Assessment Standards, Department of Taxation
Mark Lipparelli, Chair, State Gaming Control Board
Frank Streshley, CPA, Chief, Tax and License Division, State Gaming Control Board
Stacey Crowley, AIA, LEED AP, Director, Office of Energy, Office of the Governor
Michael Skaggs, Executive Director, Commission on Economic Development
Lindsay Anderson, Director, Business Development and Research, Commission on Economic Development
Ray Bacon, Executive Director, Nevada Manufacturers Association

Chair Kirkpatrick:

[Called the meeting to order. Roll was called.] I am going to change the agenda a little bit. We are going to take the Department of Taxation first, the State Gaming Control Board second, the Office of Energy third, and the Commission on Economic Development last. There are a lot of papers on your desks, and we will go over those at the end. There is no floor session this morning, so we are not quite as rushed. You never know—we may catch a break this morning and get out early. Good morning, Mr. DiCianno and welcome to Taxation.

Dino DiCianno, Executive Director, Department of Taxation:

Before I begin this morning, I want to make sure you have in front of you the materials we provided to your staff. I do not want to inundate you with a lot of paper and not get to the point. You should have an opportunity at a later time to review and digest this information. We would be more than happy to answer any questions associated with those documents either here today or, if you prefer, give us a call and we would be happy to answer at that time.

You should have a copy of a PowerPoint presentation ([Exhibit C](#))—that is what I am going to be talking from specifically this morning. You also should have received a copy of our annual report ([Exhibit D](#)). I will also be speaking from that.

You should also have received a lengthy document—about 100 pages—entitled the “Local Financial Report” ([Exhibit E](#)), which was requested by the Fiscal Analysis Division of the Legislative Counsel Bureau (LCB). I will not go through it page by page. It gives a statewide summary of the counties and cities with respect to their revenues and expenditures for the last several fiscal years. This is an excellent source document put together by our Local Government Finance Division because they review the budgets of all the local governments in the state.

You should also have a copy of a document entitled “Nevada Property Tax: Elements and Applications” ([Exhibit F](#)). I will not be going through that today, either. There is a lot of information there for you to digest. Again, I will make the offer to answer your questions and concerns about this document. If you want to meet with us, that is not a problem; we are more than happy to do that.

Page 2 of the PowerPoint presentation ([Exhibit C](#)) is the mission, philosophy, and goals of the Department of Taxation. They specifically hinge upon our ability to provide taxpayer service. If we cannot provide taxpayer service, we do not collect the revenue, and we have failed to do our job.

The bottom line is we wear the Taxpayer’s Bill of Rights as a badge. We adhere to it, we accept it, and we apply it. Without it, we would not be able to provide what we do to those taxpayers to make sure they are compliant.

Page 3 illustrates where our district offices are. Our main office is here in Carson City. We have district offices in Henderson, Las Vegas, and Reno. As some of you may be aware, due to budget cuts during the last budget cycle, we had to close our Elko field office. The workload of that Elko field office has been absorbed by both the Reno and Las Vegas offices. If a revenue officer or auditor has to go out from our Department, it will be for the rural counties. We will cover all rural issues from those district offices, whether it is Elko, Ely, Jackpot, Denio, or wherever.

I want to spend a bit more time on page 5. This is our organizational structure. I am appointed by the Governor and, as you can see, I answer to the Governor. I also answer to the Nevada Tax Commission, which is the head of the agency, so I have two bosses. Thankfully, they both speak from the same page. There

has never been an issue in the past, and I do not believe there will ever be an issue in the future.

Under me are four specific divisions within the agency. The first one is the Administrative Services Division. That division deals with the administrative functions of the agency and, more critically, the processing of returns; the depositing of money; and accounting, on a monthly basis, for what happens to all the revenues we collect.

The next division is our Information Technology Division. They insure our new computer system, the Unified Tax System (UTS), functions correctly. That system is taxpayer friendly, friendly to us, and it does work. For those of you who are not aware, this system was put in place not too long ago. It came in under budget and on time. We are thankful for that, and we hope to be able to modify the system as long as this body continues to make changes.

Next—and what you probably hear most about—is our Compliance Division. This is where you will find our tax examiners, our revenue officers, and our auditors. They deal with money. The majority of the discussion and any criticism of the Department usually relates to either our ability or our inability to collect revenues owed to the state and to local governments.

There is another division you probably do not hear of much but, as far as I am concerned, is as important, if not more important, than our other divisions. That is our Division of Assessment Standards.

The Division of Assessment Standards acts as the 18th county assessor. The Centrally Assessed Properties section within that Division handles all the appraisals, assessments, and collection associated with utility property, airlines, and things of that nature. They are assessed and billed through that Division.

There is also the Locally Assessed Properties section, which acts as a reviewer or watchdog and reports to the Nevada Tax Commission as to the role and function of all the other county assessors. We conduct, through that Division, what are known as performance audits. We review whether or not the assessors are in compliance with applications of regulations or statutes and ensure the assessments they perform are within the statutory limitation of between 32 percent and 36 percent of taxable value.

Just as important—and the one you will probably have more discussion about later this session—is our Local Government Finance section. This section reviews more than 260 local government budgets on an annual basis. As some of you are aware, there are some provisions within the finance statutes in

Chapters 350 and 354 of *Nevada Revised Statutes* (NRS), which deal with our oversight if it is determined that a local government is having a severe financial emergency. We have done this on a number of occasions. We did the Nye County hospital some time ago, prior to my becoming the Director. Also prior to my becoming the Director, we did the White Pine County School District.

The most challenging situation we faced was the severe financial emergency related to White Pine County. That was the first time ever in the history of this state that a county almost reached the point of bankruptcy. Fortunately for us, that came at a time when the economy was good and strong. What helped was the mining industry within that community, which supports it predominantly through Sales and Use Tax or Net Proceeds of Minerals Tax.

Moving to page 6, the chart on the left, for fiscal year (FY) 2010, illustrates the tax revenue and the relative positioning of each of those taxes as far as how much is collected. More than 70 percent of what we collect comes from Sales and Use Tax. We collect a number of other taxes and fees. In total, the Department of Taxation collects 19 different taxes and fees for the State General Fund and for local governments.

Those of you who were here last session saw one specific tax, the Business License Fee, transferred to the Office of the Secretary of State. We continue to have older accounts receivable with some of the accounts we still administer and collect, and we still distribute those to the State General Fund.

We are currently working hand-in-hand with the Office of the Secretary of State on the new business portal. We are the pilot agency as far as the interface between that portal and our UTS system. The majority of our Information Technology (IT) staff is working with them to make that a success, and I believe it will be a success.

The chart on the right side of page 6 shows the distribution of those revenues. As you can see, the majority of what we collect goes to local governments. Only 43 percent of what we collect goes to the State General Fund.

Assemblywoman Pierce:

Could you just give me five sentences on the Nevada Tax Commission—who the members are, exactly what they do, and that kind of thing?

Dino DiCianno:

The Nevada Tax Commission is made up of eight members. They are part of the business community. They are not public officials per se. They are not elected but are appointed by the Governor. They are afforded a salary for their services on an annual basis. The Governor is the ex officio member of that body.

They are the policy head of the Department of Taxation. If we have an issue with a particular taxpayer—if there is an appeal on an audit or a revenue deficiency, or if there is a question related to a letter of determination we send out to a taxpayer—that taxpayer can appeal the decision I make to the Commission.

They also work with us directly in adopting regulations based on the tax statutes promulgated by the Legislature. We try to maintain the intent, but sometimes it is difficult to read the intent. That is why we have the Commission adopt regulations.

Chair Kirkpatrick:

You made a good point, especially since we have so many new members. You and I have been on the same side most of the time trying to get the legislative intent right, but it is very hard for your office to put things in place when there is not good public record and discussion on what we are trying to do in changing policy.

Dino DiCianno:

If there is anything we can do to assist you in that process, it makes our administration much easier. It makes it cleaner and clearer for taxpayers. If they understand what is required of them, they are compliant taxpayers. That is the bottom line.

I want to make it clear the Department of Taxation does not establish policy. We are an administrative body. Whatever you enact, whatever the Governor signs, and whatever that intent is, that is what we do—nothing more, nothing less.

Chair Kirkpatrick:

Take, for example, the green building fiasco—it took us almost two sessions to get it right because the legislative intent was never stated. It was hard to figure out, 180 days later, what they were supposed to do. That is why I encourage people to ask as many questions as they want. We need to make sure we drill down on it so Mr. DiCianno can do his job.

Assemblyman Anderson:

I have a question about taxes that are earmarked, such as the gas taxes for the State Highway Fund, as they are not included on this graphic on page 6 ([Exhibit C](#)). Does your department collect them?

Dino DiCianno:

Some time back—I believe it was in 1999—we used to collect the fuel tax. The Department no longer collects that tax; it is collected by the Department of Motor Vehicles (DMV). We are not involved in the Tax on Special Fuel, the Jet Fuel Tax, or the Motor Vehicle Fuel Tax. There is nothing we collect specifically, other than the Car Rental Tax, which goes to the State Highway Fund.

Assemblyman Stewart:

I have about a half dozen constituents who are very disappointed with the closure of the Elko office. They often used it because it was less busy and they could actually get a lot done. Keep that in mind if good times ever return.

Dino DiCianno:

I am glad you brought that up. I am going to discuss our call center. The whole point of establishing the call center was to alleviate some of the concerns of those individuals. Taxpayers can go online, register, report, and pay electronically.

Through that process, they also have the ability, once they receive a personal identification number, to go back into the system and review their account. They can actually take charge of their account. If there is an address change or a corporate name change, they can go into the system and provide us with that information.

We are trying to promote having taxpayers go through the call center and the online tax system. It is more efficient and user friendly than walking into an office, standing in line, and trying to get an answer. They can do it by themselves.

There will be specific issues, though, that cannot be addressed online or through a phone call. Sometimes they will have to come in and sit down with someone—either a tax examiner or a revenue officer—to determine what they have to do. We welcome that, but we encourage them to take advantage of the opportunity to take charge of their own accounts by going online and doing it themselves.

Chair Kirkpatrick:

Yesterday we met with business leaders from around the nation. One thing they talked about was that we were catching up by online streamlining processing, and that they can now do in 10 minutes what used to take 6 hours. Kudos to you, because business is starting to recognize that.

Assemblywoman Neal:

You mentioned earlier the intent of the legislation. Do you deal with solutions at all?

Dino DiCianno:

If we are asked, with respect to the administration and the efficiency of a particular policy this body wants to adopt, then we provide that information. As far as directing that policy, absolutely not. You should never ask the tax people to direct tax policy. That is not a good idea.

Chair Kirkpatrick:

Mr. DiCianno can tell you what the pitfalls are as you consider legislation. We got to know each other really well when I failed to ask him what it would take, on his side, to implement a tax. When you get a fiscal note for \$27 million on your first bill as a freshman legislator, you have to ask yourself what is going on. His office is very good about telling you what it takes to implement a tax policy and if it could truly work. That helps with your overall solution. If he cannot implement it and it does not make sense in the accounting world, then, if passed, it could be policy with which we never do anything.

Assemblyman Livermore:

In reference to your comments about the fuel tax, evidently there are many taxes, such as franchise fees, that the Department of Taxation does not collect. Does that mean the money is not mailed to you?

Dino DiCianno:

There are other agencies that do administer fees and types of taxes—for example, the Public Utilities Commission of Nevada (PUC) with respect to franchise fees. You are going to hear from the chairman of the Gaming Control Board today regarding gaming taxes, which we do not collect. We also do not handle the transfer of the Fuel Tax to the DMV or the Business License Fee to the Secretary of State's Office. They collect those. I am not clear as to your next question.

Assemblyman Livermore:

My question is this: You have an audit division that audits an employer or an agency in response to the taxes they report to you. What I heard from businesses during my campaign was in regard to government inquiries into their business and the disruption of their business as they were subjected to one audit after another. Why can we not come to an agreement about consolidating the audits so that, when an audit of a business is conducted, the audit could take a day or two and take care of all the taxes they pay?

Dino DiCianno:

The whole point of the Secretary of State's business portal is to be able to electronically provide taxpayers a single shopping point. Eventually, once we become incorporated, they will incorporate other agencies that deal with licensing issues. That way, if someone needs a business license at the state or local level, and they need a seller's permit from the Department of Taxation, they would have a one-stop shop. That is the reason for the portal, and we support that wholeheartedly. That needs to occur.

With respect to audits, you are asking about the consolidation of a number of different agencies to create a superagency. That has been tried in the past, but unfortunately, it was not very successful. One experiment was the consolidated audit program. At that time, a number of auditors were working for the Employment Security Division (ESD) and Employers Insurance Company of Nevada (EICON), which used to be the State Industrial Insurance System (SIIS). The amount of knowledge that would have been necessary for a super auditor just did not happen.

I agree the situation is unfortunate. We should be able to coordinate with the other agencies as far as someone coming in for an audit from us, from Gaming, or from any other agency that deals with taxes so that the audits would be conducted at one time.

Assemblyman Livermore:

Most businesses that have talked to me would like to see a consolidation of regulations and of audits. It generally costs an employer when an auditor arrives on the premises.

Dino DiCianno:

At one point there were discussions of creating a Department of Revenue. It would have been a consolidation of Gaming, the Department of Taxation, and other agencies. The difficulty with that is these are specialized areas, and they have become specialized because of what they do. It is difficult to teach someone to be a master of all trades. What we want to try to do right now is

to create efficiencies within the agencies so we do not disrupt businesses unnecessarily.

Assemblyman Livermore:

Maybe it is just a simple matter of coordination. I am not sure of the process. I just wanted to ask that question because it is a question that has been asked of me by constituents.

Assemblyman Ellison:

Can you tell us if your budget has been cut in the last two years? If so, in what way and how much?

Dino DiCianno:

Yes, it has. We lost five individuals at the Elko field office.

Assemblyman Ellison:

Did you not put them back into the Carson City and Reno area?

Dino DiCianno:

No. Those positions are gone. We also lost some other vacant positions we had within our Division of Assessment Standards. They are gone.

Assemblyman Ellison:

Is Elko the only office you have cut?

Dino DiCianno:

As far as a field office, yes. During this budget cycle, I have left almost a dozen positions vacant. I will probably lose six of them. I have nine other

Assemblyman Ellison:

Could I get a copy of that? [Mr. DiCianno responded in the affirmative.] I would like to meet with the Governor and you because I have some real concerns about how the Elko office was handled. The construction industry, with the out-of-state people coming in, is not being audited anymore. I think we have lost millions of dollars in the last couple of years. I would like to discuss that in a meeting with the Governor's Office and with you, and I would like to get information on the names and the cuts first.

Dino DiCianno:

It has not been all cuts for the Department of Taxation. In The Executive Budget for this biennium, the Governor's Office has approved, and the Budget Division has agreed, to allow me to hire nine new revenue officers.

For me, it has been both cuts and increases. As an Executive Branch agency, we are not immune to cuts.

Assemblyman Ellison:

But you hired nine new people?

Dino DiCianno:

If The Executive Budget is adopted, we will be allowed to hire new revenue officers. I will also have to lay off other individuals.

Assemblyman Ellison:

I would like to get the cost for those additional nine positions. [Mr. DiCianno said he would get that information.]

Chair Kirkpatrick:

With respect, Mr. Ellison, we have had this debate on how to take from an agency that is out enforcing and collecting revenue. One of the reasons for Assembly Bill No. 193 of the 75th Session was so we could see what was actually being collected. I hope that allocation for the Department of Taxation that is in the budget will pass. At times, though, we tend not to think about the long-term direction.

Assemblyman Ellison:

We spent many hours in Elko trying to resolve this and got nowhere. It was a disaster. Now, with the budget cuts across the state, this is one of the areas we need to look at. I do not think it is fair, and that is why I would like to meet with the Governor. We have areas that are being affected in rural Nevada. I met with the Governor yesterday in the hope that we can consolidate some of the monies to be able to implement some of the programs that were cut.

Chair Kirkpatrick:

Mr. DiCianno, was the business portal not modeled after the one in Virginia? [Mr. DiCianno said he believed so.] Their website is relatively easy to use, and everybody who is asking about the business portal could actually see how it works. It is not that we do not think about the long term, but it takes money to get there. We have to reinvest.

Dino DiCianno:

I could probably make a strong argument, as the representative of a revenue agency, that you should never cut the hand that feeds you. However, the reality is what is happening to our revenue picture. I would like to get into that here.

Page 8 ([Exhibit C](#)) only has to do with sales tax. I know it looks like a lot of numbers on a sheet of paper, but let me simplify it for you. This shows the 2 percent sales tax State General Fund revenue on a monthly basis by fiscal year. The areas highlighted in yellow and in white are either single- or double-digit growth. This state, from fiscal year (FY) 2000 to mid FY 2007, was on an unprecedented growth path. However, from the time the recession hit until the end of FY 2010, we had double-digit negative growth.

We are just now starting to become positive. We have had five months of positive sales tax growth. It is in the range of 3 percent to 5 percent. I want to make something clear. Even if we were to maintain 3 percent to 5 percent growth, it would take us nearly eight years to get back to where we were before. That is the reality we live in right now.

The rest of the slides in the presentation relate to our call center. We were fortunate, and I am very thankful to the Governor's Office, the Budget Division, and to you for allowing us to put in a call center.

The number of taxpayers' complaints were, in my book, unacceptable. It was outrageous. They could not get through to us; they could not talk to a human being; they could not get an answer, and that was not acceptable.

Although the call center has only been in place for a year, we have reduced taxpayer complaints by better than 60 percent. We will never get to zero; there will always be those who will never be satisfied with whatever answer we give them. We realize that, but our goal is to get them an answer as quickly as possible. If a taxpayer is educated and compliant, he will never have to see us. He will never have to have an audit, and never have to get a call from a tax examiner or revenue officer on a collection issue. That is what we want to attain.

There are more slides in the presentation dealing with the Consolidated Tax (CTX) distribution, but we will discuss that at a later date. I will leave that for the Committee members to review. Again, I am ready and willing to address any questions the Committee members might have. We are in this together.

Chair Kirkpatrick:

Everybody wants to talk about CTX.

Dino DiCianno:

You are probably going to hear a lot of bills dealing with the CTX distribution. There is no question about it.

Chair Kirkpatrick:

During the interim, we discussed some tools we could give you. One of the things we found was that there is phantom money out there that does not really exist. We talked about being able to take it off the books. Can you remind me how we needed to do that?

Dino DiCianno:

What you are referring to is A.B. No. 193 of the 75th Session, which requires us, as well as a number of other agencies, to report our accounts receivable to this body on a quarterly basis. My concern is that some of that debt is so old. Accounts receivable is an asset. If that asset is uncollectable, it overstates the value of the state's books.

That is improper. We want to remove those uncollectable accounts receivable and get them completely written off. In current statute, even if we have no ability to collect them, they still remain on the books as a debt owed to the state.

My understanding is that we were going to not only work with this body but also work with Andrew Clinger, Director of the Department of Administration, along with the Board of Examiners. We would go to the State Board of Examiners with a list of the accounts receivable and the amount of money to have them completely written off, just as a business would write them off. They would be gone.

However, we will continue to work, along with the Office of the State Controller, with respect to Assembly Bill No. 87 of the 75th Session, which gives the Controller the authority to hire debt collectors. We have transmitted debt to the Controller to work on. Once the Controller makes the determination that debts are uncollectable, we would also like to have those written off.

The bottom line is that we need specific language in statute to allow us to take this debt to the Board of Examiners to have it completely removed from the books.

Chair Kirkpatrick:

I remember we had millions of dollars that existed, but some of it was over 20 years old. Another thing we had talked about last week was the Net Proceeds of Minerals Tax. Can you go over how that is collected?

Dino DiCianno:

I know the overall picture. Maybe it would be helpful if Terry Rubald, Chief of the Division of Assessment Standards, came up. She works with the

Net Proceeds on a daily basis, so she will probably be able to answer your questions.

Terry Rubald, Chief, Division of Assessment Standards, Department of Taxation:

With regard to your question on the Net Proceeds of Minerals Tax, we have staff who currently send out reporting forms to taxpayers to report. When we get those reports back, we do, not an audit, but a desk review to ensure the deductions that are allowable against the gross yield are, in fact, allowable. They then come up with net proceeds. In 2008, Senate Bill No. 2 of the 25th Special Session provided for a prepayment of the Net Proceeds of Minerals Tax based on a projection for the coming year. For instance, on March 1, 2011, the taxpayers will project what they will be earning in 2011, and they will pay on that amount. Then they have a quarterly reporting system that can update that. They are required to project within 90 percent of their total. Then, come next February, we will have the true-up reports. Of course, what we are receiving right now are the final gross yield reports for 2010. If there is anything remaining that they have not paid, we bill those out at the end of April and collect them in May.

Chair Kirkpatrick:

Does anyone have any follow-up questions? [There was no response.] Thank you very much. At this time we will call the Gaming Control Board to come up.

Mark Lipparelli, Chair, State Gaming Control Board:

I am joined today by Frank Streshley, Chief, Tax and License Division. Frank has an intimate knowledge of all the individual categories of tax that we are responsible for. I will start my presentation with our handout, entitled "Agency and Revenue Overview—Assembly Taxation Committee," dated February 15 ([Exhibit G](#)). Just as a primer for those new to the Committee, the state gaming regulatory apparatus in Nevada is a two-tiered system. The day-to-day functioning of the regulatory body is contained within the three-member Gaming Control Board. There also sits, above us, a five-member Nevada Gaming Commission. Together, we collectively administer all the gaming regulation in the state. We are a taxing body, we issue licenses, we have an enforcement division that I will cover later, and we have a technology division, so all the day-to-day functioning of the agency is contained within the Gaming Control Board.

Slide 3 reflects the Board and Commission members, who are appointed by the Governor. He also appoints a Gaming Policy Committee that meets from time to time when called. All the individual divisions of our agency are contained under the Gaming Control Board. We currently have about 436 employees spread across the state in several different offices. Simply put, the mission of

the Gaming Control Board is contained in statute. We are here to issue licenses; protect the integrity of the industry, with the idea it is an important part of our economic engine; and protect patrons and the reputation of the industry.

Slide 5 gives you a specific distribution of where we are and how we are comprised. We have six divisions—formerly seven divisions. We recently combined the Corporate Securities Division with the Investigations Division. The largest portion of our employee distribution is within the Audit, Enforcement, and Investigations Division. Together with some recent additions to technology in the last couple of legislative sessions, that brings us to a total of 436 employees. The largest portion of our employee base is located in the two main gaming centers in the state, which are the Las Vegas and Reno-Carson City areas. We have offices in Elko and Laughlin as well.

I will go quickly through the individual division slides. You can read those at your leisure. Important to this Committee are two main divisions, although all our divisions are charged with the integrity of tax collection. While the Audit Division is responsible for our group 1 audits, which are the largest casinos in the state, and our Tax and License Division, shown on page 8, is responsible for the compliance reviews and audit reviews of the smaller casinos, each of our divisions has a role to play with respect to the integrity and security of operations.

Chair Kirkpatrick:

What size casino is a group 1 licensee? Could you elaborate a little bit? Is it a 200-room hotel, or is it something different? What may be a large casino in northern Nevada is not necessarily one in southern Nevada. I think we need to define those two groups, at least for the Committee.

Mark Lipparelli:

The designation of a group 1 casino is driven solely by gaming revenue in the statute. Casinos with proceeds of \$5.8 million or more in a year are categorized as group 1 casinos, which are subject to a higher standard of audit and certain other requirements as part of the statute and part of our regulations. Below that \$5.8 million threshold are the group 2 casinos, which are audited by our Tax and License Division. That number moves—I believe it is based on the consumer price index (CPI)—so, as time goes by, that number can adjust depending on the economy at large.

Again, the other divisions are Enforcement, Investigations, and Technology. A lot of new technology is being used for the tracking of gaming revenue. While the Technology Division, in and of itself, is charged with approving

technology for deployment in casinos, the integrity of the tax collection is based on the success of those programs. While the Audit Division and the Tax and License Division are individually responsible for the collection of tax, the other related divisions also contribute to making sure we collect 100 percent of the taxes owed.

Page 10 ([Exhibit G](#)) on funding sources, shows that, since fiscal year (FY) 2006, we have become increasingly funded by direct payments from the industry. As you can see, that used to be about 25 percent in FY 2006. In FY 2011, we will probably finish near the 40 percent level. There were also some increased fees passed in the last legislative session. Those are expected to continue in the projected budgets. Our agency's total budget is projected at just north of \$40 million.

I included page 11 just to give you a sense of the relatively static nature of our agency. We have always been a conservative agency. We have sustained cuts as a result of the last couple of legislative sessions where budgets have been tight. Most of the growth that occurred in our agency has been in the Technology Division, where this body and your colleagues added resources to that Division in order to keep pace. The growth you see in FY 2008 was largely a result of that. Based on the review I have done so far, many of the other agencies essentially have been held static.

Slides 12 and 13 are the ones this Committee would be most interested in. We collect a host of taxes. Clark County generated 85 percent of last year's collections of \$829 million. This total collections number exceeded \$1 billion just a few sessions ago. Like Mr. DiCianno, we have also seen sustained declines in gaming collection, primarily driven by the revenue tax.

Slide 13 shows all the various categories of taxes we administer. Obviously, the Gaming Percentage Fee accounts for better than 75 percent of our total collections. You might want to ask questions about the Live Entertainment Tax, which is a very deep subject.

Chair Kirkpatrick:

Can I get you to go into more detail on what the Gaming Percentage Fee is? Do not necessarily slow down, but let us get a firm grasp on the specifics of how that works.

Mark Lipparelli:

I would be happy to do that. Again, in the table, the Annual Slot Tax amounts to 5.8 percent. The remainder of the taxes we collect account for a total of approximately 5 percent of our collections.

Slide 14 reflects the last two fiscal years of revenue tax, or Gaming Percentage Fee. The revenue tax is administered monthly. Each of our licensees is required to submit a monthly tax form—the Monthly Gross Revenue Statistical Report form NGC-31—to us. The rate of tax is graduated, as you see in the slide, starting with 3.5 percent and topping out at 6.75 percent for all revenue exceeding \$134,000. Was there anything else you wanted me to cover, Madam Chair?

Chair Kirkpatrick:

Last week we went through 60 pages of the *Revenue Reference Manual* in three hours. If you could, just remind the Committee of the details. This applies to all nonrestricted licensees in the state, is that correct?

Mark Lipparelli:

Nonrestricted licensees are those locations with 16 or more machines or any form of live gaming. A smaller, local restricted location does not pay the Gaming Percentage Fee. I will ask Mr. Streshley to correct me if I get any of these things wrong. All of the nonrestricted locations, which, by definition, are those with 16 slot machines or more or any form of live gaming, are required to pay the Gaming Percentage Fee.

The next category is the Live Entertainment Tax. Slide 15 gives an outline of how this is applied. The rate for venues with seating for less than 7,500 is 10 percent of all amounts paid for admission, food, beverage, and merchandise. Even a smaller restricted venue, if it offers live entertainment, does not escape the Live Entertainment Tax. Nonrestricted licensees are charged a rate of 5 percent on admissions only.

The Department of Taxation is responsible for collection of the Live Entertainment Tax of nongaming venues. From time to time, we will get together with them to discuss the tax as it applies to nongaming venues in order to be consistent in the interpretation contained in the *Nevada Administrative Code*.

Assemblywoman Neal:

Last time we discussed the Gaming Percentage Fee, I had a question on whether the handheld electronic games were treated as live games or slots. How are they categorized, and how are they charged?

Mark Lipparelli:

With respect to the devices themselves, we came to the conclusion that if there are sockets on the main computer network that allow for handheld devices to communicate through the network, it is the maximum number of access points

that creates a taxable unit. For purposes of taxation on the annual and quarterly fees, a socket creates capacity, which creates a unit that will be taxed at that rate. The revenue derived is part of the Gaming Percentage Fee, so any revenue derived is traditional gaming revenue. We tried to create a clear record so that if a property wanted to offer 100 mobile units, but there was a maximum capacity of 70 in use at any one time, then 70 was the number we would charge for the tax, as the other 30 would not be operable. If there were 100 units behind the counter so they could be exchanged for units that were down, we determined the socket access was what would be taxed and treated like a slot machine.

Assemblyman Munford:

Where do sporting events fall in all this? They exceed the 7,500-seat capacity.

Mark Lipparelli:

If it is not a gaming venue, it falls to the Department of Taxation to administer. If it is a gaming venue with an arena that seats more than 7,500, there would be an admissions tax. The actual revenue from sports books and race books is contained in the Gaming Percentage Fee. Our Audit Division has a calculation that rolls up revenue from sports books and race books into the required monthly Gaming Percentage Fee.

Chair Kirkpatrick:

Mr. Munford, that question probably does not fall under either Mr. DiCianno's or Mr. Lipparelli's areas, so we will get you that information later.

Assemblyman Ellison:

I have a question about gaming licensees who file for bankruptcy but are still able to operate in other areas. Could you elaborate on that? We just had a casino licensee go bankrupt in Elko, Winnemucca, and Reno, yet he is still operating in Fallon. Is it a common practice in gaming that you can file for bankruptcy and still open down the street? That does not make sense.

Mark Lipparelli:

Our agency has become expert on the subject of bankruptcy in the last 24 months, though not by our choosing. All casinos are required to prepay taxes, and we have a fairly rigid requirement that all taxes be made current at all times. We had a location in the last eight or ten months that was on the verge of not being current with their taxes, and their license would have been taken as a result of the nonpayment of tax.

You may hear from your constituents that we are too rigid. There is almost no ability for someone to operate a casino without having paid their taxes, and that

is why we require prepayments. If you wish, Frank Streshley can go into detail about how that works. The nature of bankruptcy is such that if people file for protection, we are in line as a creditor just like everyone else. Generally speaking, though, we get immediate protection from the court that says gaming taxes must be paid as part of the first day orders of a bankruptcy filing. We benefit from that view of the courts' thus far. With very few exceptions, I do not believe we have been in the position of not collecting taxes because of anyone filing bankruptcy.

Assemblyman Ellison:

If someone files for Chapter 7 bankruptcy under *United States Code*, Title 11, Sections 701 through 784, their license is not pulled?

Mark Lipparelli:

If it is a termination of operations, the location will have closed, and we will have benefited from the prepayment of taxes. The prepayment of tax always keeps them ahead. We always have our licensees with advance payments coming in so, in the eventuality that someone closed their doors owing the state money and filed for bankruptcy under Chapter 7 [11 U.S.C. §§ 701-784], we would not be in the position of being a creditor to the bankruptcy court.

Chair Kirkpatrick:

In southern Nevada, we have seen a lot of examples of vendors not being able to get their money, and many of them are closing because of it. They have to wait two years to get 10 cents on the dollar. The casinos should have to pay everybody like they have to pay the liquor tax or anything else like that. We are actually losing a lot of small businesses.

However, I think Mr. Ellison's question is how can they go from one license to another license and still have all this outstanding debt? You at the Gaming Control Board have a formal process they have to come through. After they declare bankruptcy, is a hold put on their license? Do they have to come back through you to get the monthly report of who comes before you?

Mark Lipparelli:

Thank you for the clarification; I think I know now what you are asking. Each of our licenses is individually issued. In the case of a multiproperty operator, there may be an aggregate corporate entity that holds several licenses, but each of those licenses is individually issued. Due to the fact that they are granted licenses in multiple locations, two or three of those locations could lapse and go out of business while the other one maintains its individual obligations to the state. We look at those licenses individually. Certainly, any action taken by any licensee can be cause for disciplinary action. If there is a belief that

someone is doing something nefarious or out of order, we can use that as cause for disciplinary action against a licensee who holds other gaming licenses. Certainly, if they go away and come back, their history of operations would be part of our investigative process for considerations such as business probity for a future licensing event.

Assemblyman Ellison:

It seems like you are very relaxed about something that is so restrictive in some areas. For example, if you fall within a certain range of the State Contractors' Board, you can lose your license. If you have any bankruptcies or defaults for suppliers, you lose your license, no matter if you have ten of them. With the Gaming Control Board, though, you can open all these different agencies and file bankruptcies all over the place and still operate in other areas. That does not make sense, and I see a real flaw there. I think if they were held accountable, maybe you would not see as many small bankruptcies.

Chair Kirkpatrick:

They are not small.

Assemblyman Stewart:

On slide 10 about the decline in your funds, has that hampered your ability to investigate? I am still struggling with the relationship between the Gaming Commission and the Gaming Control Board. Is it similar to that between a county commission and a county planning commission, where the commission has final authority? The planning commission does certain things, but they are still accountable to the commission? Could you help me with that?

Mark Lipparelli:

Certainly. The Gaming Commission is the ultimate licensing authority, and the Gaming Control Board is the recommending body on licensing events. Take, for example, The Cosmopolitan of Las Vegas, which recently came through as a licensee. The three-member Gaming Control Board would review the investigative report and vote to make a recommendation for licensure. The five-member Gaming Commission is the actual final authority on the licensing of a nonrestricted location.

For example, in player disputes or gaming employee registration, the Commission acts as an appellate body. If a gaming employee loses her work registration, there is first a hearings officer. That issue is referred up to the Gaming Control Board for any consideration of whether they want to overturn the ruling of the hearings officer. The individual would then have to appeal to the Gaming Commission for a reversal of the Gaming Control Board's

determination. Again, the Gaming Commission is the final authority; they have the final vote—the one that counts.

In response to your other question about the impact of any decreases to our budget, the agency has tried to keep pace with the growth of the industry. Some of that is substantial. In a historical review of the agency, any time we lose a person we lose our ability to respond to the various areas that require our attention. If we lose an enforcement agent, it has a direct impact on our ability to respond to a patron dispute. In actuality, a lot of those phone calls come from the operators themselves, whether they have a concern about employee embezzlement, a theft, or they want us to open an investigation on a suspicious matter. Any time we take one of those people out of the field or off the floor, it affects our ability to respond. We have been at that tight staffing level for quite a few years.

In the area of audits, it relates to the audit cycle. Any decrease in staff has an impact on the frequency with which we get in front of our licensees. One of the byproducts of all the bankruptcies has been unscheduled audits. Any time there is a bankruptcy or a change of licensee, we have to send our audit staff out to perform a concluding audit on that location. Those are unscheduled. When you are trying to keep a calendar together, any unscheduled audit—and some of these, as you know have been substantial audits—causes a loss of resources in that area.

I was talking to our chief about this very fact yesterday. If we are not in front of a licensee within a certain period of time, we lose the ability to find out about potential revenue opportunities in the audit process. As the length of the audit cycle stretches out, we are not in front of those licensees as frequently. If we are not, we miss the opportunity to be currently aware of what is going on in those properties. For our staff, a general rule of thumb is that the longer that audit cycle stretches, the better the chance there will be a major impact.

Assemblyman Stewart:

In general, then, it has just been a longer time for the investigation rather than ignoring the investigation? I believe last session we increased the fees you collect for the investigator on a daily basis. Has that been of help to you?

Mark Lipparelli:

That is accurate, and it is reflected in our increase in the fees. I believe the number was \$4 million of added contributions. These are rates that have gone up fairly substantially. I have taken a few phone calls where the cost of the investigation, both for existing licensees and new entrants, has increased dramatically, and that is controversial. There has been a fair amount of

agitation about the fact that these fees have gone up dramatically and, in some cases, have resulted in people actually eliminating jobs. They have said it is just too expensive, and they are going to find another way. Depending on where a person has lived, these investigations can run into the \$70,000 to \$90,000 range. For a person who has lived outside the country, it can exceed \$100,000.

Assemblywoman Neal:

How deeply do you get into the business of some of the gaming companies? Do you look at their Securities and Exchange Commission reports when they take on a second lien? Do you look at the interest rate that may not be conducive to their due date, which may put them in a position where their revenues are down and they are not going to be able to pay?

Mark Lipparelli:

We absolutely do. Our rule of thumb is we look at everything. The corporate structure, any corporate entity, any given private entity is subject to our review as part of the licensing process. Generally speaking, most Board members and Commission members try to stay away from choosing the right balance for any given corporate entity. One of our mantras is we allow people to fail. This is a competitive marketplace.

However, there are specific requirements at the time of licensing that the plan offered up for a license does have sound financial footing. There are requirements within the law and within our regulations that license applicants must demonstrate an ability to succeed financially as part of the licensing.

If we could have reversed the clock to five years ago, I think most CFOs and CEOs would have been sitting before you saying the sky is blue; we are growing; we want to invest; we want to expand. If you could talk to those same people today, they would tell you they could not have anticipated any downsize scenario that would have included any of the declines we have sustained. Obviously, that would not justify the amount of debt or the amount of leverage they had in their various entities. We look at the leverage as part of the licensing process but generally do not make a determination that one level of leverage is better than another.

Chair Kirkpatrick:

Last session there was a lot of fuss about passing Assembly Bill No. 218 of the 75th Session, which would allow governmental entities to have gaming licenses. I voted against it and still feel good about that today. I want to know what it did to help the revenue source because I kept hearing it was going to help the revenue source and that we had to have this. I want to know where it

fits in here. If you do not have the answer today, I am still waiting from last session to get it.

Mark Lipparelli:

I will give you an answer that I think addresses your question. Because of a quirk in the way the law was written, a government agency could actually become a licensee. I believe the corrected language was that it would require the government entity to be licensed in order to operate in the state. If that is the instance you are speaking about, I think the Attorney General pointed out that, without that change, a government entity could actually come in and make an argument that they were not subject to licensing.

Chair Kirkpatrick:

We have the highest international standards on how gaming should be done. I see that, as technology comes in and different things change, we tend not to have such high standards. I do not want to say we are going backwards, but we tend to make a lot more concessions than we have ever made. I think we set the international policy on how gaming works, and it seems that since we went through the merger process in allowing some of the bigger hotels to consolidate some of their efforts, our revenue streams have really changed. So many different facets are no longer getting that independence, so when they file for things such as bankruptcy, it has a huge impact on the rest of the state.

When Herbst Gaming Incorporated went through it, there must have been 150 vendors who went out of business behind it because, although they are paying their gaming tax up front, a lot of hotels seem to be somewhere between 30 days and 150 days out in paying their vendors. They seem to be telling the vendors to wait for them to pay later, but they will take their 2 percent anyway. Maybe it works for the state, but as the entire economy is affected by it, it seems we are not as strict as we should be on some things.

Mark Lipparelli:

I think Nevada does set a very high bar for entrance in both technology and licensing of operations. There has been more capital investment in this state in the last ten years than in any other state. I think that is a result of what this body has historically done with the treatment of our licensees and the treatment of the industry.

There is a reason MGM Resorts International chose to invest the money they invested here. There is a reason Deutsche Bank is an investor here. There is a reason people are looking to make the Las Vegas Strip an irreplaceable venue. In cases where there have been bankruptcies or reorganizations, individuals have come to this state recognizing an opportunity.

One who comes to mind is Phil Ruffin, who came in with a \$750 million cash payment for the Treasure Island Hotel & Casino. Incidents such as that are significant capital investments that do not get made if there is not a sense that this is a stable environment and a stable regulatory market.

They can succeed; they can fail. The downside, as you mentioned, is that when they do fail, unfortunately there is a great impact on a cluster of providers. Those are people who have been getting paid 90 days out, 120 days out, or even longer. Theirs can be substantial relationships, and when they come to an end, there is an unfortunate downside, and we recognize that.

The only benefit—and that is what bankruptcies are designed for—is to create operating structures. The one you mentioned, Herbst Gaming, is now in a completely different place from where they were upon entering bankruptcy. One could argue the new organization is on a much more sound financial footing with much less leverage. They are off and running and reestablishing those vendor relationships.

Chair Kirkpatrick:

When they do come in and they get reorganized, a lot of those things, such as outstanding debts to vendors, are taken into consideration going forward, are they not?

Mark Lipparelli:

There is no question. That becomes part of the analysis for relicensing, and the operator of those locations is often a different entity. In several cases, owners who had 95 percent ownership of the company now have zero ownership. Somebody else is now standing in their shoes.

Assemblyman Munford:

How many Indian casinos are operating in Nevada, and where are they located?

Frank Streshley, CPA, Chief, Tax and License Division, State Gaming Control Board:

I believe we currently have five or six compacts. There are approximately four operating entities, with the largest being the Avi Resort & Casino outside Laughlin

Assemblyman Munford:

If the casino is on a reservation, is it eligible for exemptions because it is on federal land?

Frank Streshley:

Not to the extent of any exemptions. They do not pay the Gaming Percentage Fee, but we do collect a fee equal to our administrative cost. The way the compacts are written, the Indian casinos are set up to be on a level playing field—with respect to payouts, procedures, and internal controls—with our nonrestricted licensees.

Assemblyman Munford:

So they follow the same guidelines and standards as all the other casinos?

Frank Streshley:

The great majority of them do, yes.

Assemblyman Livermore:

My question concerns the Carson Nugget, which is run by the Hop and Mae Adams Foundation. Is that the only nonprofit foundation under section 501(c)(3) of the *Internal Revenue Code* to hold a gaming license in Nevada?

Mark Lipparelli:

I believe it is. I have not had a long tenure on the Board, but our cycle of licensing is such that they should come up within any 24-month period. The Hop and Mae Adams Foundation is the only such foundation I am aware of, although there are other organizations that would be considered nontraditional owners—private equity, for example—who hold licenses through various structures.

Assemblyman Livermore:

In regard to bankruptcies and insolvencies, how would you treat that licensee compared to others?

Mark Lipparelli:

All licensees have their own obligations to the state. Once nonrestricted licensees are put before the Board and Commission, they all have the same obligations. There is no change in the obligations of a licensee based on its organizational structure.

Assemblywoman Neal:

Going back to a previous question, I am starting to think about triggers. For example—I don't know if this is proprietary information—if MGM Resorts International had an owner who sold a large amount of shares, say maybe \$4 million, would that be a trigger for you? Do you start to ask additional questions about what is going on, such as whether there may be a bankruptcy or why this person is disposing of so many shares?

Mark Lipparelli:

There is a section within our Investigations Division called Corporate Securities. They monitor all ownership of any licensee. There are certain kinds of federal reporting requirements for anyone who holds greater than 5 percent ownership. People buy and sell for all kinds of reasons. Any individual sale of any individual security is ultimately the decision of that individual person.

The Gaming Control Board is one of these groups with great reverse vision. Any decision you make is subject to our interpretation after the fact. You may make a decision that, on its face and at the time, does not naturally trigger suspicion on our part for any reason. However, you will be held accountable for all the decisions you do make, and we get the benefit of hindsight. In a sense, we are Monday morning quarterbacks, so if those decisions are improper decisions, they will be subject to the review of the Board in any part of a licensing event. If you have made a decision that is not a proper one, you will have to explain it.

Assemblyman Anderson:

I became curious when you were talking about public entities and governmental agencies operating games. I can think of the airport as possibly qualifying, but that is about all. Are there any other public entities that operate games, and how do you go about regulating a governmental agency?

Mark Lipparelli:

Generally speaking, the governmental agency will submit a bid to a private operator. In the case of an airport authority, gaming at McCarran International Airport in Las Vegas and the Reno-Tahoe International Airport in Reno are both concessions, so traditional licensees lease those facilities in an arm's-length commercial relationship with the governmental body. It is not the body itself that is being licensed.

Assemblyman Anderson:

Basically, you do not do anything differently at all? It is just another slot route?

Mark Lipparelli:

In both of those cases, I believe they are both licensed as slot operations. The one at McCarran might be nonrestricted.

Getting back to our presentation with slide 16, there is a bullet point for each category that actually describes the amount of collection. For example, the quarterly Nonrestricted Slot License Fee is \$20 per machine. For the Restricted Slot License Fee, there is a range that is different and that tries, over time, to account for the fact that restricted locations do not pay a Gaming Percentage Fee. That is why their fee is higher.

The quarterly Nonrestricted Game Fee relates to live games in a casino. The Advance License Fee payments are those required to be paid for new licensees to keep in the position of being current with taxes.

The Manufacturer and Distributor License Fees are just that. Individual companies that provide technology to the industry have to be licensed, and these are the fees they pay for those licenses.

The Slot Route Operator Fee is the same thing—the actual fee for someone holding a license. The same is also true of the Race Wire License Fee and the Pari-mutuel Wagering Tax.

The Annual Slot Tax is discussed separately because there are targets for the revenue that is collected. This is the Annual Slot Tax that applies to all slot machines in the state. The first \$5 million collected from the \$250 Slot Fee, which was established in 1987, goes directly to the Capital Construction Fund for Higher Education. Twenty percent of the tax goes to the Special Capital Construction Fund for Higher Education. The remainder goes to the State Distributive School Account.

The Annual Games Fee is a distribution that goes to the counties. I would be happy to answer any questions on those fees and taxes, or on any other matter the Chair wishes to have addressed.

Chair Kirkpatrick:

In southern Nevada, we have heard a lot about the restricted slot locations. Is not the definition, as far as planning across the state, somewhat consistent? Should they not have food or beverages or different things? I thought the whole reason they got the lower dollar values was because they were restricted, and they were going to bring in other entertainment as well to contribute.

Mark Lipparelli:

There is a long history behind the interpretation of what a restricted location can be. We can try to shed some light on it here, or I can follow up with you individually or with any of the members who wish to do that.

The restricted licensees are those with 15 machines or less. Over time, the Gaming Commission—again, it is the policy-setting organization for the Gaming Control Board—would interpret the regulations to limit restricted gaming to certain kinds of locations. In 1990, when these were first discussed, certain locations were identified as eligible to hold restricted gaming licenses. Such venues as bars, taverns, and supper clubs were actually identified in the regulations, as were the requirements for someone to be granted a restricted license.

Since then, there have been different interpretations by different commissioners of what would be required. In the case of a tavern license, there are some who line up on the side saying they have brought a tavern license to the table, so they have met the requirements of the regulation. A person on the other side of the spectrum would say that is only the first part of the test; the second part is the gaming activity that occurs at the tavern incidental to the business. Those are where the interpretations are at the moment.

Each commission is free to make those determinations as those licenses come before us. There is some debate currently taking place in Clark County over whether having been issued a tavern license is enough to meet the standard or presumption that someone should be granted a restricted license, or if the Gaming Commission is required to interpret that more definitively as meaning that a tavern license is one requirement. There is also an analysis that must be performed by the Board and Commission as to whether that tavern license is enough to grant a restricted gaming license. That is where there is going to be a lot of discussion and debate.

Chair Kirkpatrick:

Going back to the handheld gaming devices, the Legislature made that complicated to handle. Is it something that needs to be addressed for the long term? I know we like to put things in regulations so we can be flexible and change, but is it something that needs to be done in statute? Even within Clark County, there are five different jurisdictional issues, each with a different thought on how it works. That makes things inconsistent when trying to do business. If we are trying to be more efficient, does it not need to be addressed in statute as opposed to regulation?

Mark Lipparelli:

You have zeroed in on the complexity. Just as there are five different jurisdictions within Clark County, there are sixteen other counties that also have various licensing criteria. I have been in conversations with the chairman of the Gaming Commission regarding phone calls and letters I have gotten from various constituents, and there clearly are differences of opinion. My view is that the Board and Commission need to revisit this again to clarify our intent. That is where the policy gets established with respect to licensees.

This began in 1990. There were other meetings in 1995, and actual regulation changes took place. It is probably time for us to come back to it now. People are very creative in their businesses, and we want to revisit these things as they come up. It will be the same debate you would have at the Legislature, and I do not want to usurp any opportunity of yours to consider this. However, we will certainly consider it at the Board and Commission level.

Chair Kirkpatrick:

It is great if you consider it and make the changes. However, unless local governments go through and make their changes within a consistent policy [per *Nevada Constitution*, Article 4, Section 25], such as Title 17 that gives all of their zoning codes, we will continue to have the same problem. It seems like a revolving door—we can fix it for a few years.

Mark Lipparelli:

I believe the local governments look to us, the state, for general guidance. We are not going to make an impact on their individual localities regarding how many bars and taverns should be on a given street or in a given zone. That is the purview of the localities. Those will take their own course.

What the local governments look to us for is the state's standards for restricted gaming. The people I have talked to have said they would be happy to follow whatever guidelines the state establishes. They will make the determinations such as distances from schools.

Chair Kirkpatrick:

It is more than that, because every city attorney or district attorney has a different interpretation. I just hope the record is clear because it never comes down to 15 machines or less. You never hear that discussion. I just hope the Board puts a lot of that on the record so it is clear for every attorney who gets paid a lot of money to interpret whatever for whomever.

Mark Lipparelli:

The current historical file is about two feet thick already, so there will be a lot of people doing a lot of reading about that interpretation.

Assemblyman Livermore:

How would you perceive the Commission's role with respect to its licensees? There has been a proposed project here in town—the Nugget project—that involved a government department potentially leasing property from a licensee. Is that good policy? I was a city supervisor at the time that proposal came out. A gentleman from the Gaming Control Board suggested they would be interested in leasing property from that licensee. What would the perception be if you were to enter into an agreement like that?

Mark Lipparelli:

I am not precisely familiar with that proposal, so I am not sure I can address it. Clearly, we maintain independence in all kinds of different ways; it is a hallmark of our agency. Any time there would be even an appearance of doing business with a licensee, I would demand multiple levels of disclosure or some type of oversight before allowing that to occur. We have all kinds of internal policies and requirements with respect to what our employees can do vis-à-vis licensees. Anything that would be considered would have to be vetted in all kinds of ways in that regard.

Assemblyman Livermore:

You might check on that.

Mark Lipparelli:

I will be happy to.

Chair Kirkpatrick:

Are there any other questions? [There was no response.] With that, I am thankful we were able to ask a lot of questions, and we appreciate you coming before us.

Mark Lipparelli:

If you want any more follow-up, do not hesitate to reach out to us. We will be happy to respond.

Chair Kirkpatrick:

At this time, we will hear from the Energy Office.

Stacey Crowley, AIA, LEED AP, Director, Office of Energy, Office of the Governor:

I have just a brief presentation ([Exhibit H](#)) to go over the two tax abatement projects handled by our Office.

Chair Kirkpatrick:

Let me just tell the Committee they can find your presentation on the Nevada Electronic Legislative Information System (NELIS), and you can get them hard copies later.

Stacey Crowley:

As I said, we have two tax abatement projects through our Office. The first is the green building or Leadership in Energy and Environmental Design (LEED) certification, tax abatement. That covers buildings or structures that meet the equivalent of the LEED silver level or higher rating. That LEED rating system is maintained through the U.S. Green Building Council, and we review that annually. We recently adopted the 2009 versions of those LEED programs.

Within that abatement, the building or structure can abate property taxes for up to ten years, which amounts to an annual 25 percent tax abatement for the silver level rating, 30 percent for a gold level rating, and 35 percent for a platinum level rating.

There have been 45 projects under that LEED tax abatement program that have gone through our office. Twenty have received certificates of eligibility. There were 39 fiscal notes developed for the 45 projects. The other six projects have not yet been calculated.

The second program is through the Office of Energy, and is administered through the Renewable Energy and Energy Efficiency Authority (REEEA). As of tomorrow, I will be the acting commissioner of that body as well. That program gives tax abatements from both property and Sales and Use taxes for renewable energy generation or transmission projects. These projects can receive up to a 55 percent property tax abatement for up to 20 years. For up to three years, those same projects can receive a sales tax abatement of 2.6 percent until June 30 of this year and 2.25 percent thereafter.

Projects receiving abatements under the second program have requirements for local construction jobs and for health insurance and such. For projects in larger communities, at least 75 full-time construction employees need to be working during the second quarter of that construction period. There are some other requirements for these projects.

A hearing was held yesterday on one project, the Silver State North Solar Project in Clark County. Its capacity consists of 50 megawatts of solar photovoltaic (PV). That project was approved at the hearing, so they will abate about \$6 million worth of taxes.

I also included three examples of what a fiscal note looks like ([Exhibit H](#)) for the LEED tax abatement projects. Depending on what certification level the project receives, there is a varying degree of tax abatement that follows. You can see how that works for the three projects we have included.

Assemblywoman Bustamante Adams:

Can you go into a little more detail about the tax abatement hearing? How does that work? Is a hearing required to be held?

Stacey Crowley:

At the moment, a hearing is required. I sat in on my first hearing yesterday. Hatice Gecol is the current commissioner as of today, and she runs it very thoroughly. The hearing is intended to be an open and transparent process so questions can be asked of the public. The hearing essentially goes through various requirements, making sure each project adheres to the requirements based on the established regulations. Then the Commissioner makes a judgment based on those facts.

Assemblywoman Flores:

It says the abatement can continue for up to 20 years. How do you determine the length of the actual abatement?

Stacey Crowley:

If the project is still under compliance by the rating system and the regulations set forth, then it can be up to the 20 years. If we find the project does not adhere to those regulations, we can review that.

Assemblywoman Flores:

So when they initially receive the abatement, it is not known how long they will actually have it. Is there any way to determine the project will have the abatement for, say, the next five years in order to determine future abatement? Is there any way to determine at that time how long they will have it, or is it just an annual renewal type of process?

Stacey Crowley:

It is an annual review process. A building could go out of conformance or a company could go under—there could be various circumstances—so it is hard to determine the stability of that tax abatement.

Chair Kirkpatrick:

I think we are muddying the two abatements. I think the LEED abatement does one thing and the abatement established by Assembly Bill No. 522 of the 75th Session does another.

Assemblyman Goedhart:

Regarding abatements awarded to solar projects, some people see those as the state giving green energy a free ride. Last session, though, I enlisted the help of Wayne Thorley, a program analyst from the Research Division of the Legislative Counsel Bureau (LCB). We took a hypothetical concentrating solar power (CSP) project. We looked at the investment, even with the 45 percent abatement. We then broke it down into property tax paid per kilowatt-hour.

Even with the abatements, we are charging roughly 15 times as much property tax per kilowatt-hour for green energy as we are for conventional coal- and natural gas-fired power. I think that is something that should be brought to bear. When we are talking about tax abatements, we are still talking about taxing these projects at 15 times the rate that we do conventional power plants. The reason for that is the natural gas or coal used in generating electricity is not taxed, whereas a big solar array is taxed. In a way, we are taxing the power block and not just the generating portion of that utility.

Chair Kirkpatrick:

I understood the LEED abatements, according to Assembly Bill No. 621 of the 74th Session, were administratively approved.

Stacey Crowley:

That is correct. I apologize for the confusion. The LEED green building tax abatements are administratively approved. There is a formal hearing for the renewable energy and transmission tax abatements.

Chair Kirkpatrick:

The perception is, with the new 2009 building codes, that we probably need to step up our green energy efficiency so we do not have 1,045,000 people getting an abatement. Is that a fair statement?

Stacey Crowley:

I believe it is. It is getting easier to build green. The contractors are savvier about the resources, the materials, and those types of construction methods.

Chair Kirkpatrick:

As part of the process on the LEED abatements, we notify local governments and we allow everybody to stay in the know. We do not necessarily have hearings on the green building, though, because there is a large list of requirements they have to comply with that is very transparent. Is that correct?

Stacey Crowley:

That is correct. The applications are distributed to local county entities, the Commission on Economic Development, the Department of Taxation, and the Budget Division.

Chair Kirkpatrick:

As for the tax abatements in A.B. No. 522 of the 75th Session for renewable energy, they were, for some time, under Economic Development, but there was a change of venue. It was either that or we were going to lose them. Rather than lose them, they went to this new entity the Governor recommended in The Executive Budget to consolidate the process. Because the counties are asked to give up additional property tax for a longer time, there is an impact statement. I am sure it was clear yesterday what the economic impact is as well as the negative fiscal impact.

Stacey Crowley:

That is correct. There was an analysis done, and the tax abated for that project was far less than the taxes that would have been collected from the project and the employment.

Chair Kirkpatrick:

I can tell you, at least from what I know, that the 20 years for the energy tax abatements for the transmission and bigger projects are for the financing because they have to have something in place for almost the life of the project, and I believe that is half the life of the project. Is that correct?

Stacey Crowley:

I think it depends on the project, but financing for those large projects absolutely does take longer periods to pay out.

Assemblyman Stewart:

On the page about employment, one thing that has always concerned me is that we build these plants and give them the abatements, and the actual jobs created are minimal. I noticed geothermal has many more permanent employees per megawatt than the others. Is it a general condition that geothermal tends to employ more people than solar?

Stacey Crowley:

That is my understanding. Once a solar facility is constructed, there is very little maintenance required. There are more moving parts in a geothermal system, so I believe that is where the extra employees come from.

Assemblyman Stewart:

Is it also true that wind requires more employees?

Stacey Crowley:

I believe so.

Assemblyman Stewart:

Have we had much disapproval of abatements and, if so, why were they disapproved?

Stacey Crowley:

I will have to check, and I will get that to you.

Chair Kirkpatrick:

Mr. Stewart, that is why A.B. No. 522 of the 75th Session was so imperative. We were actually getting higher-paying construction jobs because we got the construction jobs up front at 150 percent of the median wage. What happened in the past was we never really looked at the construction, and that is really where the jobs start for most renewable projects.

The way technology is constantly changing with renewable energy, it just did not generate jobs at the end. We worked very hard last session to make sure we got the up-front jobs and the capital investment. We upped the ante a lot last session to get them to do more. We have several projects that are coming; people are still interested.

I do not know that we have had any waivers on employment, and I hope we would never do that. We are giving them a tax abatement, so the least they can do is hire the people we have asked them to.

Assemblywoman Neal:

Does that mean they are getting paid more than prevailing wage?

Chair Kirkpatrick:

Prevailing wage does not apply because these are private jobs. I think the average wage ended up being around \$29 or \$30 across the board, and that is pretty good when you have 150 employees. That generates revenue within our state.

Assemblywoman Neal:

I just want some clarification on the abatement. On page 2 of your handout, it says it does not apply during any period in which the facility is receiving another abatement. So, basically, if they are receiving the property tax abatement, they will not get the local sales tax abatement at the same time? It is not conjunctive?

Stacey Crowley:

No, I believe a facility can receive both the sales and property tax abatements under this category. If, however, it intended to receive an abatement under another category, it could not do that.

Chair Kirkpatrick:

Ms. Crowley has done a great job considering she has only been here a month. One of the things we saw in the 2007 Session with LEED was that people were double and triple dipping. This way, they cannot double or triple dip. They were getting an equity bond for this part of the facility and a sales and use tax exemption for some of their materials. By the end of the day we were paying them to build, and that is why we fixed that.

If there are no other questions, we will invite Economic Development to come up.

Michael Skaggs, Executive Director, Commission on Economic Development:

Today we are going to cover economic development incentives for you. Ms. Anderson, Director of Business Development and Research, is going to walk you through this presentation ([Exhibit I](#)).

Lindsay Anderson, Director, Business Development and Research, Commission on Economic Development:

We are going to cover the economic development incentives that are allowed, through legislation, in *Nevada Revised Statutes* (NRS) 360.750, not to be confused with other abatements such as the energy abatements, the LEED abatements, sales tax anticipated revenue (STAR) bonds—those are outside our purview. These are truly just economic development-related incentives. I am going to tell you a little about the qualifications for the programs—what you have to do to be eligible. I will discuss the approval process, and we have provided a list of the companies that were approved for these programs in fiscal year (FY) 2010.

We deal with companies we call primary. Primary is defined in regulations as companies and jobs that are generating revenue from outside the economic

region. The intention of that is to bring new revenue into the economy rather than circulate it within the economy. We at the Commission on Economic Development define that as generating at least half their revenue from outside the state.

The companies will sign a five-year contractual commitment to maintain the business they apply with. They have to provide health insurance for their employees, cover at least 25 percent of their cost, and include an option for their families. They must also comply with all the state and local business licensing requirements. These are the qualifications just to get in the door to talk to us and fill out an application.

The first program we are going to discuss is the Sales and Use Tax abatement. The way this program works is that all but 2 percent of the sales tax is abated regardless of the rate in the city or county where they are operating. That 2 percent goes to the State General Fund. The abatement is applicable only for the capital equipment they list in their application process so, as part of the application process, they have to say they are going to buy \$5 million worth of equipment and list what it is. When the Department of Taxation audits their abatement file, they are only allowed to receive an abatement on those items. It is not for general operating expenses; it is truly for capital expenditures.

There is a table here on page 4 ([Exhibit I](#)) that shows how it works. If they buy \$1 million worth of equipment, they will pay \$20,000 in sales tax and be abated the remaining \$57,250.

The next slide tells something about the operating environment we work in as far as sales tax goes. A lot of our competing states exempt manufacturing equipment from sales tax in general, so we have a program that can help them, although often it is not as competitive as what they can get in other places.

For the 2 percent of sales tax they do have to pay, we can set up a payment plan. Basically, we call it a deferral. We take the amount of sales tax we expect them to owe and divide it over a period of months, rather like a car payment, so we can help improve their cash flow at the beginning of their project. It is a tiered system; it varies from one year to five years depending on the amount of investment they are making.

The next page details how our property tax abatements work. Applicants may be eligible for up to a 50 percent abatement for up to ten years. Those terms are up to our Commission based on the application. The abatement is for personal property, not for real property, and it only applies to equipment listed in the application.

Projects can also be eligible for a Modified Business Tax (MBT) abatement. That abatement is 50 percent for four years only on the new jobs created as part of their operation.

We do have a nontax incentive—a training fund—that we have set up in coordination with the Department of Employment, Training and Rehabilitation (DETR) to get access to some of their Career Enhancement Program (CEP) funds. We allocate that training for new companies coming into the state or companies engaging in expansion that will be creating new full-time, primary jobs.

This program is generally administered through the Nevada Industry Excellence group, formerly known as the Management Assistance Partnership, through the Nevada System of Higher Education—Truckee Meadows Community College (TMCC) if the company is in Washoe County. They set up a training plan. The company has to cover at least 25 percent of the cost. Then we can subsidize the cost of the training program for their new employees.

The next section addresses eligibility requirements. In order to get access to these programs, we have a couple of matrices here for you. There is a matrix used by companies in Clark and Washoe Counties, which are our urban counties. There are different thresholds for each of the programs. You can see that, for a Sales and Use Tax abatement, they require a capital investment of at least \$1 million, 75 new jobs, and an average hourly wage of \$19.93. That hourly wage is set by DETR on an annual basis. They have to meet two out of three of those requirements in order to qualify for these programs.

You can see the threshold for a new company coming to Nevada to qualify for personal property tax abatement is a \$50 million capital investment. In our statutes for personal property tax abatement, they have to meet the capital investment and hourly wage requirements. Instead of just two out of three, in this case it is those two out of three.

Michael Skaggs:

The reason we circled some of the numbers on the matrix in red is because those are some of the barriers we are running into. When you look at the personal property tax abatement, the industrial capital investment of \$50 million and the number of jobs set at 75 have really given us a competitive disadvantage. Most of the unemployed we are trying to address by creating jobs through these programs are in the metropolitan areas. As Lindsay proceeds through this presentation, you will see the rural criteria are much less.

I met with representatives of a food processing company just last week, and they were quite taken aback by the \$75 million investment. That is a substantial amount of funding. Normal capital investment numbers for our clients are \$20 million to \$25 million, and the number of jobs is 25 and up. Something we will want to talk about with this Committee is reconsideration of these thresholds, particularly in the areas we have noted.

[Chair Kirkpatrick left the room and handed the gavel to the Vice Chair.]

Vice Chair Munford:

Do any members have any questions?

Assemblywoman Neal:

Do you want the number of jobs to be reduced or to have it tiered so there is a rural number and an urban number?

Michael Skaggs:

There are different minimum criteria for the rural counties in effect already. The urban numbers are much higher. We are interested in seeing some sort of tiered system in the urban counties to help us lower those thresholds in order to incentivize jobs in the urban areas.

Assemblywoman Neal:

Referring to the page labeled "Non-tax Incentives," can you give a specific example of how you are working with DETR in creating those new jobs?

Lindsay Anderson:

Basically, DETR is our funding source. Historically, the Commission on Economic Development has received a State General Fund allocation for the Train Employees Now (TEN) program. That has been eliminated, so we have set up a cooperative arrangement with DETR to continue to have access to some funding for these training programs. So one way we work with DETR is to help get some of the money they have for training into economic development programs.

You may have heard of a solar manufacturing company called Amonix, Incorporated, which started their operation in North Las Vegas. I believe we were able to provide them with \$4,000 per employee to get those employees the skills necessary to operate the equipment used to manufacture solar panels. That funding was through our cooperative agreement with DETR.

Michael Skaggs:

This agreement with DETR has enabled us to be more flexible. We are trying to come as close as we can to the actual cost to the company to take some Nevada citizens' skill sets from where they are today to being able to go to work and perform the job for this company.

Historically, we had always been able to contribute about \$1,000 a job no matter what the cost was. We have been able to be more flexible and aggressive so we can truly upgrade an individual's skills. For instance, we can take someone from his old job of homebuilding to actual solar panel manufacturing, which is quite a comprehensive skill set. Then that Nevada citizen has that skill the rest of his life. That is a good investment.

Vice Chair Munford:

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

Lindsay Anderson:

We will move on to the next slide, which is the matrix for the rural counties, or every county besides Clark and Washoe. You can see, as Mr. Skaggs pointed out, the thresholds here are significantly lower. Capital investment requirements are lower, as are the number of jobs. Again, the requirement is to meet two out of three of the thresholds to qualify for these programs.

These programs are also available to existing companies in Nevada. If a company is going through a sizeable expansion and is going to increase their workforce, they can also access some of these tax abatement programs. In order to get access, they have to be increasing the value of their personal property by at least 20 percent and hiring at least an additional 10 percent of their workforce or 6 employees, whichever is greater. Again, they have to meet two out of the three requirements to qualify.

We do have a couple of special programs that allow access to these abatement programs for companies that do not meet those thresholds. For example, in our statutes we have a special allowance for intellectual property development companies. If they truly have new intellectual property, they obviously are not going to be making the same type of capital investment or job hiring that a manufacturing company would make. In this case, they would only have to hire 10 new employees and make a capital investment of \$500,000 in order to get access to these programs. That is specific for companies that are furthering intellectual development.

We also continue to have jurisdiction over recycling incentives as described in Chapter 701A of *Nevada Revised Statutes* (NRS). A lot of these were in

conjunction with the renewable energy abatements that used to be part of our office, and you just heard about them from Director Crowley. Companies recycling at least 50 percent of their product on-site are also eligible for these programs in addition to a real property tax abatement. The only time our agency gets involved in a real property tax abatement is for recycling companies.

[Chair Kirkpatrick returned to room, but the Vice Chair retained the gavel.]

Assemblywoman Kirkpatrick:

I used to be the one wanting to get rid of every tax abatement, but I have since figured out it is really an investment in our communities. However, we have to be careful not to give away the farm while investing in people.

Are there any abatements where we are not staying on the cutting edge? That is what I worry about. This abatement for recycling has been in effect since 1997, and I think only one company has even attempted it. How do we keep on the cutting edge of offering outside the box incentives as well as abatements? It is not always about the bottom line. It could be training or structures or assets. Are there any we could do away with, or could we develop a better master plan for manufacturing so that we tiered it based on wages for the long term? Are there things we can do to help our state be a little more universal as opposed to being locked in a box?

Michael Skaggs:

If we are able to reach some understanding about what we can do about lowering the threshold on manufacturing, that would, for instance, have an impact on recycling with the smaller companies. I would like to see us move down that road. A trend we are seeing is that our average employment is in the range of 20 employees or slightly more. Recyclers are sometimes even smaller than that. As long as we keep this tied to the other incentives as far as their ability to get these abatements, I think changing those two thresholds will have a positive effect on the recyclers.

That is the only place I feel we are out of line with the market. Being able to provide training funds is one place members of the Legislature and my team are on the same page. We are basically investing in some Nevadans' futures by giving them these skills. That is probably the best incentive we have.

Assemblyman Stewart:

In the past, we have had some concerns from companies coming in about the education system here. For example, I understand IKEA was planning on coming here, but they were concerned about our education in Nevada. In your

experience dealing with companies coming in, is that a general problem, or is that overemphasized?

Michael Skaggs:

It continues to come up because of the skills companies need. For instance, they want to know the workforce here has math and science skills appropriate to a manufacturing environment. There is always a discussion about available skills in the workforce, which is why we are so reliant on training programs. That was a measure put in place to accelerate the skills the unemployed have right now. That program is trying to address the fact that those skills were not attained by people who went through the educational system, whether they left the system or whatever.

You are right on point; education is an important issue. I was in a meeting with company executives yesterday. They were asked what they considered the most important factor. They said you need these incentive packages to get on our radar. Then once we sit down with you, we need to understand how you are going to train our workforce through your education system.

Assemblyman Stewart:

As I see it, there are two parts to the education issue. First, the executives and other employees of a company coming here are concerned about their children not being educated adequately. Second, they are concerned about their workforce not being educated adequately. Are we making progress on the second part as far as collaboration with the education system, with DETR, and with our community colleges to try to train people to match the skills needed by the companies coming in?

Michael Skaggs:

I am really proud of the job the community colleges are doing in stepping up to help us train the manufacturing workforce. They share a curriculum. We have a curriculum for manufacturing training that they have adopted and put in place. One of the things we need to do is acquaint more school-aged people, whether it is kindergarten through Grade 12 (K-12) or higher education, with the opportunities in manufacturing and what those opportunities really mean, in order to bolster that enrollment and help more people understand what those careers are like and what is available.

I gave testimony this summer to a different committee, and the perception was that the skill sets needed by manufacturers were those of some monkey in a metal building in the hot air banging around in the middle. That is not today's manufacturing environment. Today's manufacturing environment is guided by team-building skills, computer skills, verbal skills, and math and science.

Community colleges have a good curriculum. We need to make more of our citizens aware of that curriculum because that is where the jobs are going to be in this economy.

Assemblywoman Neal:

Ms. Anderson, for expanding companies, I know you have the list of criteria for getting in, but does this apply to local companies that are seeking to expand their base?

Lindsay Anderson:

Absolutely. It is for companies already operating in Nevada that are adding another product line or increasing their workforce so they can be ready to get a new contract. It is available to existing companies in Nevada.

Assemblyman Ellison:

How close do you work with Nevadaworks? Do you use any of their agencies, because they get federal grants and state money also?

Michael Skaggs:

You are exactly right; they are a part of the delivery system. Nevadaworks is one of the DETR-funded agencies that distribute the federal funds. We have monthly meetings with them. One of the things we do as an agency to help guide them is to sit with our development authorities and forecast the job content of their prospects—companies that are not yet committed but are in serious negotiation with us—so we can actually give them a picture of what is probably going to occur in terms of skill demands. That helps them use their capital—whether it is federal or state training dollars—and know those projects could be coming and be prepared to address them. That communication is so important.

Assemblywoman Bustamante Adams:

Going back to the expanding companies, how do you communicate with the companies to let them know this is available?

Lindsay Anderson:

For this presentation, we were not asked to go into how we use our statewide network. We have a statewide network of what we call regional development authorities, or local development authorities. They have an agency that represents every county. We reach out to them to make sure they have a relationship with the business community in their county and that they are making people aware of the existence of these programs that are available.

Vice Chair Munford:

I have a question for Mr. Skaggs. It probably falls to the Lieutenant Governor, but I am sure you and he work together. Has there been any effort on the part of the State of Nevada to have any alliances with foreign companies or countries to come and invest in Nevada? Of course, everyone seems to be looking toward the Chinese or maybe the Japanese, since they seem to have more money to throw around. Are we in Nevada forming any alliances with those countries?

Michael Skaggs:

Yes, we are, through the global division of the agency. One of the reasons we hear so much more about the Chinese is that the Lieutenant Governor and I went to Phoenix in July 2008, where we signed a memorandum of understanding with the Chinese government that allows Chinese companies to invest in Nevada. Previous to that, only the Chinese government could invest in projects in the state, but this opened it up to Chinese companies. We call that direct investment when they are taking a look at either investing in a business proposition or possibly putting something like a solar manufacturing plant here, because that is one of their appetites.

We do have foreign trade representatives in several countries to help us fulfill that mission, but foreign investment is capital that can help fuel this recovery. We are very interested in it and deal with it every day.

Vice Chair Munford:

I worked with a few people who have access to a program that was established quite some time ago. I do not know what presidential administration that was, but it was the EB-5 Immigrant Investor Program and those types of things. They are still trying to work on it, and I do not know if they have been successful. I even spoke with the Chairman about it one time.

Assemblyman Goedhart:

You sometimes hear about free trade zones (FTZ). Do we currently have any in process here in Nevada?

Lindsay Anderson:

There are a couple of issues of semantics we need to address. In my book, FTZ actually stands for foreign-trade zone. We have two foreign-trade zones in Nevada, one in the north and one in the south. Being in those FTZs can help companies that are importing raw materials defer or reduce the cost of the duties they have to pay on those materials before they manufacture and finish the product and ship it to its final destination. The FTZ in northern Nevada just went through a federal process to be classified as an alternative site framework,

which allows a much easier and quicker application process to designate a building or an area as an FTZ. That will greatly improve the competitive nature of those areas.

Assemblyman Goedhart:

Are they basically appurtenant to one geographical area that has to be contiguous and conterminous? Is it one piece of land that is the foreign-trade zone?

Lindsay Anderson:

It used to be, and that is how foreign-trade zones historically have been designated as individual sites. However, the process they just went through in the northern FTZ designates a large area as sort of a blanket area. Any area within that designated area that, I believe, covers six counties, can go through a 30-day application process to be approved as a foreign-trade zone site. Without that alternative site framework, the process can be very long.

The "Approval Process" slide (page 15, [Exhibit I](#)) is one of my favorite slides to talk about because of all the misinformation about how the process works. A local development authority—one of our network of such local authorities across the state—will work with a company to prepare an application for tax incentives. That application is then sent to our office. We process it, complete a compliance and fiscal analysis to make sure it meets the program parameters, and calculate estimates of economic impacts of the new company or expansion and the tax abatement.

We then send a letter 30 days before the meeting to all affected local taxing authorities, notifying them of the application and the date of the meeting when the application will be heard. The application is then reviewed by our Commission, which is chaired by the Lieutenant Governor and which has six other members—two from Clark County, two from Washoe County, and two representing the rural part of the state. They meet on a monthly basis. One meeting is this afternoon at 1:30 p.m., in case you are interested—and review these applications and conduct other business.

The company comes to the meeting and presents the application. The commissioners are then allowed to ask questions, get clarification on the application, and then they give their approval or denial at that meeting.

Once that is finished, we sign a legal contract with the company outlining what it is they have to do to remain in compliance with the tax abatement. They are audited by our friends at the Department of Taxation after two years, which is when their sales tax exemption expires, and then again after five years to make

sure they have maintained the employment and wage levels and the capital investment agreed to at the Commission meeting. If they have not, there will be a clawback, and they will have to repay all the taxes that were abated plus interest.

The last two or three slides are an overview of what companies and products were approved in fiscal year (FY) 2010. Eighteen companies went through the process, creating 936 new jobs, \$38 million in new wages, and \$110 million in capital investments. The last page contains a spreadsheet with information about the companies, the jobs created, and the economic and fiscal impact.

Assemblywoman Neal:

How often do you do presentations in Clark County to let local businesses become aware of these programs? I know that businesses in my district, and even a lot of the businesses that overlap into Mr. Munford's district, do not know about this. I was actively talking about it during my campaign.

Lindsay Anderson:

For most of the outreach to expanding businesses, we rely on those local development authorities. For example, in Clark County, the Nevada Development Authority (NDA) is the one that administers these programs on our behalf. They are charged with educating their local community.

Assemblywoman Kirkpatrick:

The Commission has an office in southern Nevada. Frank Woodbeck is very helpful. He has been to town hall meetings within my district so that people understand this. I know the process is really to go through the NDA but, at the same time, they are a state agency that works with us. It is not a turf issue; it is about making businesses come here and expand. The NDA is very resourceful and helpful in their participation in the districts.

Vice Chair Munford:

I can piggyback on that, too, because I met with Mr. Skaggs many times. I brought in many ventures that wanted to relocate at the time, and he was always accessible and available to me. We also met in the Grant Sawyer State Office Building. If you live in the south, he will gladly make arrangements to meet with you. We have done that many times.

Michael Skaggs:

One way we can probably do better is to work with legislators to get into your networks with these companies so you can do direct referrals to us. The Chair and Vice Chair have obviously done that, and it works. If you come across

businesses that have that potential or are interested in something like this, just give us a quick call. We will follow up on it. Each of you has a network of businesses we can help; we just do not know about those opportunities. Please do that, because we could help a lot more people through your contacts.

Assemblyman Stewart:

Thank you for the good work you are doing. I would like to include a new column on your chart on the last page ([Exhibit I](#)) as to where these new businesses are located. Could you put that in for us next time or bring it up to date? [Mr. Skaggs indicated he would.]

Assemblyman Goedhart:

I have a question for Mr. Skaggs. For some of these new businesses we have been able to successfully relocate or start here in Nevada, do you have any type of follow-up questionnaire with such questions as, "What was a pleasant experience about moving to Nevada?" or "Where did we do a good job, and where could we use some improvement?" Have you done that?

Lindsay Anderson:

We do have that process in place for companies that come through our incentives programs. After we are finished with the meeting and we send them a contract, we do send them a survey to ask them how their experience was and such questions as you just mentioned. We have that in place for companies that are incentivized because we truly have the closest relationship with, and the most contact with, those companies. We could probably encourage our development authorities to do that on our behalf, and we could probably expand that scope.

Assemblywoman Neal:

I was looking at that chart. When you look at the jobs created, you were not able to give me information on what kinds of openings these businesses had or what positions they were looking for. The reason I had asked was that there may have been openings, but they were not hiring—there was something like a freeze. You said you work closely with them and have a lot of contact with them, so do they give that information to you at any point, or do you even get any kind of trail on "they may have 50 positions because they are expanding and they are doing such great business?"

Lindsay Anderson:

At least for the incentives process, what we get is a list of positions they will be hiring. Depending on the timing of the application, we do not necessarily have contact with them when they are starting to hire, so we do not probably have as good a feedback loop on that as we could. We are working with the

Workforce Investment System, especially if they are granted training money through our program, to encourage them to use the state system in order to hire those people, so we would get a better follow-up on what positions they are actually looking for. However, we do not necessarily have great contact when they are actually starting the hiring process.

[At this time, Chair Kirkpatrick resumed chairing the meeting.]

Chair Kirkpatrick:

Ms. Neal, Mr. Skaggs and I were in a meeting yesterday with the Governor, the Lieutenant Governor, the Speaker of the Assembly, the Senate Majority Leader, and some businesspeople. That is something which we all recognize we could do better as a state. When these companies do come here, we need to know what kind of workforce they are looking for, yet we have no database to give them. Maybe we do not have all our tools in the basket at this time, but we have a lot of tools working toward being able to have that great garden for the future.

We really do have a lot of tools. We just have not taken the time to work cooperatively. That was definitely brought up yesterday. Senator Horsford submitted a bill last session that started DETR moving more in that direction. Many of us have had conversations with construction workers who are out of work, and with those 50- to 62-year-olds who are stuck. They are overqualified to work at a grocery store. They are very qualified for other things, but they cannot or do not want to start over for many different reasons.

Thank you very much. We appreciate you coming. I am going to go now to some slides prepared by our staff based on our questions from the last meeting.

**Michael Nakamoto, Deputy Fiscal Analyst, Fiscal Analysis Division,
Legislative Counsel Bureau:**

Members of the Committee all have four handouts ([Exhibit J](#), [Exhibit K](#), [Exhibit L](#), and [Exhibit M](#)). The first one I will go through is titled "Distribution of 5-Cent Capital Construction Rate (NRS 354.59815) Pursuant to AB 595 (2007) and AB 543 (2009)." This was a handout the Chair requested, illustrating the distribution of this 5-cent capital rate between the counties, the State Highway Fund, and the State General Fund for fiscal year (FY) 2009, FY 2010, FY 2011, and so forth, as a result of the two bills mentioned in the title of the handout. If you remember, Assembly Bill No. 595 of the 74th Session took this rate, as imposed in Clark and Washoe Counties, and directed 0.6 cent to the State Highway Fund while the remaining 4.4 cents remained with Clark and Washoe Counties. The share going to the State Highway Fund would then increase by 0.6 cent each year until FY 2013. In FY 2013 and subsequent

years, the distribution of that would be 3 cents to the State Highway Fund and 2 cents to remain in Clark and Washoe Counties. You can see that in FY 2010 and FY 2011, the portion in red, which would have gone to Washoe and Clark Counties pursuant to A.B. No. 595 of the 74th Session, is instead directed to the State General Fund pursuant to Assembly Bill No. 543 of the 75th Session.

Page 2 of this handout shows a distribution of the revenue between the State Highway Fund, the State General Fund, and the portion that remained within the county. The actual amounts are listed for FY 2009 and FY 2010. The amounts listed for FY 2011, FY 2012, and FY 2013 are estimates prepared by the Fiscal Analysis Division and the Budget Division of the Department of Administration.

The next handout ([Exhibit K](#)) I will cover is titled "Nevada Population Estimates (FY 1990–FY 2009) and Projections (FY 2010–FY 2013)." On the left-hand side of this particular document, you can see the actual population estimates certified by the Governor pursuant to *Nevada Revised Statutes* (NRS) 360.285. This statute requires that, on or before March 1 of each year, the Governor is required to certify the population of each county, city, township, and town in this state as of July 1 of the prior year.

These determinations are to be made by the Department of Taxation, specifically the State Demographer, whose position is located within the Department of Taxation. What you see there for FY 1990 through FY 2009 are those estimates prepared by the State Demographer and certified by the Governor.

The estimate for July 1, 2010, must be certified by the Governor on or before March 1 of this year, so the number you see for FY 2010 is a projection of what the population will be that was prepared by the State Demographer. Likewise, the numbers listed for FY 2011, FY 2012, and FY 2013 are also projections that have been prepared by the State Demographer.

Assemblyman Goedhart:

According to those projections and what we have experienced since FY 2007, it looks like we are in a period of about seven years where the population will have remained just about even. Is that correct?

Michael Nakamoto:

That would be correct, with the exception of growth of about 20,000 between FY 2007 and FY 2008. The population has been hovering right around that

2.7 million number or slightly above it, with a projection of a slight increase to 2.73 million by FY 2013.

The next handout I will go through is the larger one titled "Local Option Sales and Use Taxes That May Be Imposed in Nevada Counties by Authority Granted in NRS or Special Acts" ([Exhibit L](#)). This contains all of the statutorily authorized Sales and Use Tax rates that may be imposed at the county level, either by actions within *Nevada Revised Statutes* (NRS) or by various special acts that were passed by the Legislature.

For example, on page 1, you will see the extraordinary maintenance, repair, or improvement of school facilities that can be imposed in certain instances pursuant to NRS 374A.010. White Pine County is the only county that is imposing that. The other 16 counties, as long as they meet the requirements listed there, could impose this rate.

You can see, on pages 1 and 2, various rates that can be imposed, through NRS 377A.020, for public transit systems, construction and maintenance of roads, and promotion of tourism. On page 2, you can see that NRS 377A.020 allows for the management of libraries, parks, recreational programs, senior facilities, the preservation and protection of agriculture, and the support and maintenance of a county swimming pool and recreational facility.

The tables show how all these rates are enacted. Many of them require an ordinance to be passed by the county board. The tables will also show the maximum rate that may be imposed, the counties that can impose the rate by statutory authority, the counties that are imposing it, and the counties that are not imposing it.

In the middle of page 3, beginning with the Carson City Open Space Tax, the table lists the various special acts that have authorized a county rate to be imposed. There is at least one instance where multiple counties may impose the rate under the special act, but in the vast majority of these instances, it is limited to only one county. If there are any questions on any particular table, I can answer them at this time.

Chair Kirkpatrick:

I think we answered everybody's questions from the very first meeting. Mr. Guindon has one more handout to go over. Our staff is fabulous, and they are staying on top of everything, so be kind to them.

Russell Guindon, Principal Deputy Fiscal Analyst:

You should have a 2-page document ([Exhibit M](#)) entitled “Example of Gaming Revenue, Taxable Gaming Revenue and Percentage Fee Tax for a Hypothetical New Nonrestricted Gaming Establishment.” There were some questions from members of the Committee about the intricacies of how the gaming revenues and the Gaming Percentage Fee worked. There were also questions about the Advance License Fee.

This is a hypothetical example I put together to walk the members and the public through. A lot of people think they understand this—and I may be one of them—but do not realize they do not until they try to put a spreadsheet together.

The blue line at the top of the table, entitled “Gross Gaming Revenue (Gaming Win),” is the total win. That is what the Gaming Control Board reports every month as the amount of winnings held by the nonrestricted licensed gaming establishments in the State of Nevada.

The purple line is what is called “Taxable Gross Gaming Revenue (TGR),” and I will go through adjustments to that. That is the revenue item the various tax rates are actually applied to—remember, we have a three-tier tax rate system.

The red line is the Gaming Percentage Fee taxes reported by the Gaming Control Board every month. That is what is forecast by the Economic Forum, and that is what we monitor as the actual revenue and compare to the forecast to see how we are doing.

Those are the three major items. You see the numbers on the blue line and the red line reported by the Gaming Control Board every month. That purple line is the one people like Michael and I pay attention to because that is the underlying taxable activity.

We are going to assume this table reflects the first full month’s business of a new casino. They had \$5 million in gross gaming revenue. To generate that, they extended \$2 million in credit to their patrons while they were gambling. During that business activity period, they actually collected \$1 million back on the credit. There is still \$1 million in credit outstanding.

In calculating the gross gaming revenue, credit is not actually deemed taxable until it is collected. The number on the blue line has the credit built in because that credit was used to generate gaming win, but we do not actually tax it until it is collected by the casino. You can see that in January, although they had \$5 million in gaming win, they only had \$4 million in taxable gaming revenue.

The next block down is the Gaming Percentage Fee due before the estimated fee adjustment (EFA). Given their taxable gaming revenue, they paid 3.5 percent per month up to \$50,000, 4.5 percent on anything over \$50,000, up to and including \$134,000, and 6.75 percent on anything over \$134,000.

I did the calculations in the table so you can see how it looks in terms of how the casino would pay if they made just enough to meet the maximum in the first bracket, the maximum in the second bracket, and what they would pay in the third bracket. For your convenience, I included what the effective tax rate would be for the taxpayer, which is what the casino paid in total tax divided by taxable gaming revenue.

Since this is a new casino, there is no EFA in the first month, but they are required to pay three times their taxes due, and that is the Advance License Fee. The orange block at the bottom of the January column is their Advance License Fee payment. This casino would be required to pay the \$268,735 to the Gaming Control Board, which would be reported as their Gaming Percentage Fee. They would also pay the \$806,205, which would be recorded as the Advanced License Fee.

As they go into their second month, February 2011, they took in \$6 million. They extended \$3 million in credit, but there is still credit outstanding. Their taxes due before the EFA are the \$336,235 shaded in green. In practice, we take one-third of the Advance License Fee, \$268,735, which is what we are going to use to calculate the EFA. The \$336,235 is what is actually due under their taxable gaming revenue for that month.

The \$268,735 is their advance payment for that month, so they owe the difference between that and the \$336,235, or \$67,500. That \$67,500 is their EFA. The net amount this establishment is required to pay to the Gaming Control Board as Gaming Percentage Fee is the \$336,235 plus the \$67,500, which comes to \$403,735 for the month of February.

You can see that, for March and April, there are different numbers but the same process. The thing to note is that, in March, they actually collected some of that credit extended during prior periods. More credit was collected than was extended, so taxable gaming revenue is actually higher than their win. That makes the EFA even larger because their advance payment based on the first month was not enough.

In the May column, the business has been in place for four months. You can see that their tax due before the EFA is calculated is shaded in green. The net Gaming Percentage Fee due is the \$538,735 on the red line. Now their

payment from three months prior, the \$336,235—which is in green so you can match up the numbers—is going to be used to determine the EFA. Their payment from three months prior was lower than they actually owed in taxes, so they have to pay another \$202,500.

In June, I matched up the numbers in yellow. That is the way it will go every month. The casino looks at their win for the month, their credit position, the resulting taxable gaming revenue, their taxes due on that revenue, and the taxes they paid three months prior. Then they adjust accordingly. That process simply continues for the casinos

One thing Mr. Lipparelli testified to was that, because of the Advance License Fee, if a casino were to go out of business, the state would already have a little bit. However, if a casino lost its license or went out of business, we might not be holding enough. We could still go after them for the amount due, but at least the whole liability would not still be sitting out there.

Assemblyman Stewart:

We are often criticized for not taxing gaming enough. Do other states utilize this same system of taxation? I know there is an issue of competition, but do they basically use the same system we do?

Russell Guindon:

That is a good question. Just off the top of my head, I believe Mississippi's statutes are very close. They probably took our statutes and replaced "Nevada" with "Mississippi." That is neither derogatory toward them nor complimentary toward us. We have a reputation such that other states tend to use our laws and regulations.

I think most of the states that tax gaming do not deem credit to be taxable until it is actually collected. Regarding the advance payment mechanism, I am not sure any states other than Mississippi follow that. We can look into that and get back to you.

If you are asking about the different rates that are imposed, that is a harder question. I, as an economist, look at it this way: Nevada has an open, competitive gaming market. Say Assemblyman Stewart and I wanted to start a casino. If we could find the financial backing and could get a license, we could operate one.

Many of the other states have a closed or semiclosed gaming market. They only allow so many casinos in their state. For instance, there are only three licenses in Detroit.

In some of the states with higher gaming rates, the companies would be willing to enter the market and pay a higher rate because they do not have to worry about competition. They do not have to worry about Assemblyman Stewart and me coming in and opening a casino next to them. In other states that may only have ten licenses, if you can get one of those licenses then you can compete for a share of the market.

The American Gaming Association puts out a very informative report showing the structure of the different states and their taxes, how many casinos they allow, the types of casinos, et cetera. If you would like, we could get copies of that to the members of the Committee.

Assemblywoman Flores:

Is there ever a time when the EFA is actually negative? Is it possible their revenue could go down so much they ended up overpaying, or would that credit balance then just carry over?

Russell Guindon:

That is a good point. I was trying to manipulate the numbers to show all the different scenarios, but I failed. It is true the EFA could be negative. Say a casino owed \$200,000 but the EFA was -\$25,000. That amount would be subtracted, and the difference would be the amount actually paid for the Gaming Percentage Fee. That scenario could happen.

Assemblywoman Flores:

Has it ever happened?

Russell Guindon:

Yes, it does happen in the real world. You may think the numbers on this table are large, but there probably 23 casinos on the Las Vegas Strip bringing in \$72 million or more in gross gaming revenue a year. There are some that are very big. An annual gaming revenue of \$72 million amounts to \$6 million per month. If one of these big casinos extends a lot of credit one month so they do not have much gaming revenue that is taxable, but three months prior they did have a lot of taxable revenue, the EFA would be negative.

Assemblyman Ellison:

Do expenditures play a role in this, or is this just wins? Can casinos offset this with their expenditures?

Russell Guindon:

The answer is no. The only adjustment to the gross gaming revenue is for credit and marker play and returned checks. They cannot deduct labor costs,

utility costs, or anything like that. This is, in a sense, a gross receipts tax with adjustments for credit.

Table 2, on page 2 ([Exhibit M](#)) shows three years of actual real world data provided by Mr. Streshley. It is not easy to stratify the taxable gaming revenue into the three brackets because the Gaming Control Board does not track that as a reportable monthly statistic.

You can see, going from fiscal year (FY) 2008 to FY 2009 and FY 2010, the declines we have seen in the gross revenue. You can see how this becomes difficult to track and forecast. You can see the growth rates that occur between the gross revenue versus the taxable revenue versus the Gaming Percentage Fee collections. You can also see the impact of the estimated fee adjustment (EFA) across those three years.

It was interesting when I first came to the state in 1994 and started looking at these reports. You can see here the credit extended in FY 2008 was \$8.8 billion. There are banks that do not do that volume of credit. The amount collected back was \$8.2 billion. That is a collection ratio of roughly 93 percent. The actual ratio of taxable gaming revenue is about 95 percent. Last year, FY 2010, was a lower year, and there was a lot of credit activity in the baccarat market with players from the Pacific Rim.

I wanted to show you some real world data to illustrate the orders of magnitude we are talking about in terms of the amount of gross gaming revenue and taxable gaming revenue. The collections from that are the state's tax.

Assemblyman Anderson:

Could you explain the estimated fee adjustment (EFA) one more time?

Russell Guindon:

The casino is required to calculate the taxes due on its taxable gaming revenue every month. That goes on the books as their estimated payment for three months into the future. Every month they are truing up their actual tax due, based on actual business activity, against the estimate of three months prior. Every month, the EFA is the actual tax revenue due for that month compared to the taxes paid on taxable gaming revenue three months in the past.

If the taxes due this month are greater than the estimate from three months prior, the casino owes more, which is the positive EFA. However, it could be that the tax due on the actual activity from this current month is less than three months prior, in which case there is a negative EFA.

Each month, every casino is calculating what it actually owes versus what it paid three months prior. The adjustment is then made to find what is actually due for that current month.

Assemblyman Anderson:

So, just like the state, gaming was optimistic in their estimates of what they were going to pay. The EFA ended up being a negative amount because the tourism did not come in and they did not collect that money.

Russell Guindon:

There is some truth to that. If you look at FY 2009 on table 2, you can see the EFA was a net -\$33.6 million. Probably one of the leading reasons for that was the gaming market was contracting. As things contract, there is a negative EFA. As a result, the fiscal year ended with a net negative EFA.

That is not always what happens. I have a table here that I can get for the Committee, which is the history of these figures going back to FY 1995. As it shows, the EFA is not always negative. The peak of gaming win was FY 2007, and we have been contracting since then. That is why it is not a surprise to me or to Assemblyman Anderson that the EFA is in a net negative position. However, we would expect the EFA to be in a net positive position once the recovery sets in and takes hold.

Assemblyman Ellison:

I think that answers the question of whether they are paying their fair share. If you look at these percentages based on the casinos' actual expenditures—and who knows what those are—their employment rates, and the other taxes they pay, I would say yes.

Chair Kirkpatrick:

Are there any other questions? At this time, would anyone like to come up and offer public comment?

Ray Bacon, Executive Director, Nevada Manufacturers Association:

This is, more or less, quick reinforcement of the comments Mr. Skaggs and Ms. Anderson made. The education issue is an issue at two levels. It becomes an issue as far as the basic skill sets of our graduates or nongraduates coming out of our K-12 system and whether they are ready for the employment base. It also becomes an issue as far as promotability for somebody whose skill set is lacking, particularly in math and science.

There is a program that just started in Carson City to take existing employees and improve their skill sets through the community college. The first class is

going through right now. I could say we know it is working, but I would be lying because it is too soon to tell.

You mentioned Senator Horsford had a bill last session to force the Department of Employment, Training and Rehabilitation (DETR) to take a look at those sectors and see what they were doing. The manufacturing sector was one of those. As of about three days ago, when we had a meeting, the manufacturing sector in this state had lost about 8,000 jobs during this recession. We had a base of about 46,000 jobs going into the recession, and we are now down to a little more than 38,000.

Our sector breaks out into four pieces as far as what we make in this state. We make a lot of building materials. About 70 plants have closed in that sector in the last three years. If we are not building housing, and there are no prospects for a huge increase in the housing sector or even commercial construction, that dampens the building materials sector considerably.

That is where most of the job losses occurred. At this stage of the game, I would like to tell you they will come back soon. If you tell me when housing is going to start again, I will tell you when we are going to begin reoccupying those factories. Some of them have been mothballed; some are just closed and gone.

The second sector is gaming. Even though most of us do not think of it this way, the gaming sector requires a lot of support. We make not only the gaming machines, but also a lot of paper products. A lot of consumable goods are made here and used here.

One of the bigger support industries is printing. The next time you wander through a casino, which I am sure every one of you does every night, I want you to look at their printed material. Five years ago, the vast majority of their high-end printed material tended to be dated. If you take a look at it now, most of it is undated because the dated material now goes on the Internet. Printing is getting hit with a loss of volume not only because business is down, but also because a lot of the dated material is being transferred to the Internet, so those issues are gone.

The third sector, as far as manufacturing goes, includes companies here that primarily supply the West Coast markets, whether they are in Reno where they can get to just about anywhere on the West Coast in a day to a day and a half, or they are in southern Nevada where they can get, overnight, to all the markets in Southern California. Those companies in general have done all right, but it is always a function of what their customer base is.

Clearwater Paper makes various types of paper towels, napkins, and toilet papers. It does not matter what brand it is. If it is a store brand, it probably was made there. As such, all their grocery distribution operations are in Southern California. Everybody who brings groceries into southern Nevada packs their trucks with paper from Clearwater Paper and takes it back into the Southern California markets.

That is a perfect operation. Those consumables have not changed a lot with this recession, so their business has been fairly stable. Other people have had dramatic changes.

The last sector includes those companies making products that could be made anywhere in the world, but they just happen to be here. In some cases, the owner wanted to live close to the ski slopes so there is an important connection with lifestyle. In some cases, they want to be fairly close to the western ports because they are exporting to Asia. In other cases, this is where they happened to start.

We have companies in that sector experiencing 30 percent growth, and they have done so all the way through the recession. We have other companies in that sector that are gone. We have everything in between.

Part of our discussion with DETR last week in this manufacturing sector council, which is just getting off to a good start, was about the 130,000 people on the unemployment list right now. Obviously, we are not going to make a huge dent in that. What we are asking them to do is go through and sort out those people who have the skills and abilities we can potentially put to work.

The Department of Employment, Training and Rehabilitation (DETR) thinks that, within this decade, but not soon, we will bring back about 5,000 of those jobs. I think that number is probably reasonably accurate because a lot of the building materials sector will not come back. Most of the manufacturing companies have been the leaders in the world as far as productivity gains. Once you eliminate a job because of productivity gain, I am sorry, but it is gone forever.

What DETR has agreed to do is help us sort through the 130,000 on the unemployment list and see how many we can make into manufacturing employees. At this stage of the game, we have no idea what that number is, but they have agreed to sort out the drug testing and literacy testing so we can get to the point where we can work on it. They are working to find out how many on the unemployed list are lacking fundamental skills. I think the number is going to scare us when we see it, but we have not seen it yet.

Chair Kirkpatrick:

One of the things the companies said yesterday was that with technology in manufacturing nowadays, with some of these million-dollar machines, you have to be very much on your game to make sure they run properly. It is no longer just turning a crank—the workhorse part of it.

Ray Bacon:

Just to put things in perspective, the printing presses at R.R. Donnelley & Sons Company, which is north of Reno, are high-end. They print the *Star* and the *National Enquirer*, as well as advertisements for JCPenney, Sears, and Target stores for a major portion of the country. The dividing line between that plant and its sister plant is basically the Mississippi River. If a newspaper insert is intended for distribution west of the Mississippi River, it is almost certainly printed here. The *Star* and the *National Enquirer* are actually printed in a couple of other locations.

Two years ago, the plant manager—who has since retired—and I sat down and had a discussion. That plant, at that time, had about 700 employees. If they had been using the old technology and the printing mechanism he and I started with—I was a printer during my college days—that plant would have had close to 5,000 employees. That is how much the productivity gains are in the printing sector. What he said, to put it bluntly, was, “If you think I am going to let a dummy run one of my million-dollar printing presses, you are wrong.” Most of the people with their hands on the control knobs have at least a technician’s degree. About half of them have four-year degrees.

Chair Kirkpatrick:

Thank you. We look forward to working with you this session. Does anybody else from the public want to testify? [There was no response.]

With that, I have just a bit of housekeeping. On Thursday, we are going to finish up with the revenue model and any unanswered questions we need to get answered. The following week we will probably start hearing bills. If there is something you do not fully understand, I want to make sure, before we go into the bill process, that people understand where we are. On Thursday, we do

have a couple more presentations, but that should give us an overall overview of where we are in our state so we can start hearing bills.

We are going to adjourn until Thursday, and we will have a Government Affairs meeting at 8 a.m. tomorrow. We are adjourned [at 11:11 a.m.].

RESPECTFULLY SUBMITTED:

Mary Garcia
Committee Secretary

APPROVED BY:

Assemblywoman Marilyn K. Kirkpatrick, Chair

DATE: _____

EXHIBITS

Committee Name: Committee on Taxation

Date: February 15, 2011

Time of Meeting: 8:02 a.m.

Bill	Exhibit	Witness / Agency	Description
	A		Agenda
	B		Attendance Roster
	C	Dino DiCianno	PowerPoint presentation
	D	Dino DiCianno	Annual Report, Fiscal 2009-2010
	E	Dino DiCianno	Local Financial Report, Statewide Summary Report, Cities & Counties
	F	Dino DiCianno	Nevada Property Tax: Elements and Application
	G	Mark Lipparelli	PowerPoint presentation: Agency and Revenue Overview
	H	Stacey Crowley	Overview of agency tax abatement programs
	I	Lindsay Anderson	PowerPoint presentation: Welcome to a Brighter Nevada, Founded on Independence, Opportunity and Natural Resources, Driven by Innovation, Diversity, and Renewable Energy
	J	Michael Nakamoto	Handout: Distribution of 5-cent Capital Construction Rate (NRS 354.59815) Pursuant to AB 595 (2007) and AB 543 (2009)

	K	Michael Nakamoto	Handout: Nevada Population Estimates (FY 1990–FY 2009) and Projections (FY 2010–FY 2013)
	L	Michael Nakamoto	Handout: Local Option Sales and Use Taxes That May Be Imposed In Nevada Counties by Authority Granted in NRS or Special Acts
	M	Russell Guindon	Handout: Gaming Revenue, Taxable Gaming Revenue, and Percentage Fee Tax for a Hypothetical New Nonrestricted Gaming Establishment