

**MINUTES OF THE
SENATE COMMITTEE ON REVENUE**

**Seventy-sixth Session
May 17, 2011**

The Senate Committee on Revenue was called to order by Chair Sheila Leslie at 1:11 p.m. on Tuesday, May 17, 2011, in Room 2134 of the Legislative Building, Carson City, Nevada. The meeting was videoconferenced to the Grant Sawyer State Office Building, Room 4412, 555 East Washington Avenue, Las Vegas, Nevada. [Exhibit A](#) is the Agenda. [Exhibit B](#) is the Attendance Roster. All exhibits are available and on file in the Research Library of the Legislative Counsel Bureau.

COMMITTEE MEMBERS PRESENT:

Senator Sheila Leslie, Chair
Senator Steven A. Horsford, Vice Chair
Senator Michael A. Schneider
Senator Moises (Mo) Denis
Senator Mike McGinness
Senator Joseph (Joe) P. Hardy
Senator Elizabeth Halseth

STAFF MEMBERS PRESENT:

Russell Guindon, Principal Deputy Fiscal Analyst
Joe Reel, Deputy Fiscal Analyst
Brenda Erdoes, Legislative Counsel
Gayle Rankin, Committee Secretary

OTHERS PRESENT:

Helen Foley, National Association of Employee Leasing Companies
Chris Nielsen, Interim Executive Director, Department of Taxation
Brody Leiser, Deputy Executive Director, Department of Taxation
Carole Vilardo, President, Nevada Taxpayers Association
Sylvia Young, President, Sunrise Health System, Las Vegas
Geoffrey Lawrence, Deputy Policy Director, Nevada Policy Research Institute
Eric Roberts, Director, American Institute of Architects
Bill Welch, Nevada Hospital Association
Robert Abbott

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Janine Hansen, President, Nevada Eagle Forum
Kyle George
Michael Flores

CHAIR LESLIE:

Assembly Bill 500 was referred to our Committee, but it is a budget implementation bill that needs to be taken up by the Senate Committee on Finance. I will entertain a motion to rerefer this bill.

ASSEMBLY BILL 500: Temporarily revises distribution of revenue from certain licensing fees for slot machines. (BDR 41-1165)

SENATOR SCHNEIDER MOVED WITHOUT RECOMMENDATION TO REREFER A.B. 500 TO THE SENATE COMMITTEE ON FINANCE.

SENATOR HALSETH SECONDED THE MOTION.

THE MOTION CARRIED UNANIMOUSLY.

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We will begin with Senate Bill (S.B.) 491 and the Proposed Amendment 6801 to S.B. 491, introduced at the May 12 meeting of this Committee. This is the amendment that deals with the proposed Nevada margin tax.

SENATE BILL 491: Makes various changes regarding public revenue and taxation. (BDR 31-1150)

HELEN FOLEY (National Association of Employee Leasing Companies):

During the Seventy-fifth Session of the Nevada Legislature when the Modified Business Tax (MBT) was bifurcated, it put employee leasing companies and all of their clients in a difficult and inequitable situation. When the tax was 0.63 percent and the employee leasing company paid the tax on behalf of all of its employer members, there was no problem because there was only one tax. The bifurcated system—with the first \$62,500 quarterly a lower tax that rose to 1.17 percent—created a disparity. The employee leasing companies would get the benefit of the \$62,500 as if they were one major company instead of each individual small business getting that first \$62,500. Senator Schneider and then-Senator Maggie Carlton made a floor statement about not treating the

employee leasing company clients any differently than other small businesses. Dino DiCianno, ex-Executive Director of the Department of Taxation, felt it would cover the situation but then, after we shut down, Brenda Erdoes, Legislative Counsel, said because it had not been specifically mentioned in statute, she was unable to give that type of opinion.

Assembly Bill 561, section 3, allows for determining the tax separately for each client company to whom the employee leasing company leases employees for their own individual wages and have the tax based on that. This was an amendment we had proposed to the administration and talked to some of you about. It was written by Brenda Erdoes, and she believes it will resolve the problem. It is a question of equity. Most of these companies have an average of 15 to 19 employees and because of the way the statute was written, it ends up treating them unfairly. If this sunsets and we all go back to 0.63 percent, it will be fine. I will get you the language to add an amendment so employee leasing companies can calculate their taxes separately.

ASSEMBLY BILL 561: Makes various changes concerning governmental financial administration. (BDR 31-1166)

CHAIR LESLIE:

Would that amendment be section 3 in A.B. 561?

MS. FOLEY:

Yes, section 3 in A.B. 561.

CHAIR LESLIE:

You explained it well, and we will make a note of that.

I would like to have Chris Nielsen, Interim Executive Director, Department of Taxation, go over any potential implementation issues that might come about with the Department of Taxation should the Nevada margin tax be approved.

CHRIS NIELSEN (Interim Executive Director, Department of Taxation):

I have Brody Leiser with me today. Mr. Leiser is the Deputy Director of the Department of Taxation. Thank you for soliciting our input on this as the Department of Taxation would implement this tax. The Governor opposes this bill, but if it comes to fruition, we will administer it in accordance with the law. I have a few comments and some questions.

This tax type is completely different from what the Department has administered. The tax types we have in place are relatively simple in comparison to this tax. None of our tax types have any relation to federal income taxes. We have been going through this bill and trying to understand it. My concern is that in the Proposed Amendment 6801, section 132, the informational return is due January 1, 2012. If this becomes law, given the amount of informational returns filed, not only taxpayers would be exempt or under the \$1 million threshold for the informational return piece, it would be everyone. We have close to 200,000 sales and use tax accounts and those are retailers. The number of informational returns would be at least 200,000. We are talking about a huge amount of returns. We would have to electronically capture it and be able to use that information. We have some concerns about getting that up and running, but we are working on it with our information technology (IT) staff. We will be submitting an amended fiscal note about some of those costs. We are trying to get that to you by the end of the week. We know time is of the essence. I want to assure the Committee we are working on that end. Mr. Leiser has some preliminary costs on the information return.

BRODY LEISER (Deputy Executive Director, Department of Taxation):

We need to collect the informational returns and input that information into an electronic format to provide your staff with the data required under section 132, subsection 4 of the proposed amendment. Initial efforts would require approximately 800 hours of work. Our IT staff is dealing with a full workload of a backlog of system fixes, bugs and enhancement requests. We have to maintain that workload to ensure the Department can administer, collect and distribute the taxes it is currently responsible for in a timely manner. The implementation would require the use of contract staff in addition to existing IT staff. The cost to implement the informational return would be approximately \$110,000. The other difficulty with the timing of the informational return is it would coincide with the same time frame in which we are collecting and processing the year-end returns for sales and use tax, MBT and the other excise taxes. It is one of our busiest times in terms of processing returns. The manual effort to get the informational returns put in the system would require the use of overtime by existing staff. That will be part of the cost we will put together when we remit the amended fiscal note.

Part of the \$110,000 IT cost would allow for a Web component so the taxpayer could go online and remit the informational return electronically. If we could require all the informational returns be remitted via our online system, it would

eliminate any overtime costs with the processing of paper returns. That is something for the Committee to keep in mind.

MR. NIELSEN:

In section 133 of Proposed Amendment 6801 on regulations, there is a mandate that the Department of Taxation or the Tax Commission have regulations in place by January 1, 2012. It is possible to get done, but the regulation process is not a short process. There are a series of public hearings with the Tax Commission and the Legislative Commission. We ask, if that is a firm date, could we receive an exemption from the requirement in *Nevada Revised Statutes* (NRS) 233B requiring us to go to the Legislative Commission in order to streamline those efforts? There should be a public hearing component and a public hearing adoption by the Tax Commission so the public has an opportunity to comment. I request this body consider removing the final step in the next two years.

CHAIR LESLIE:

That seems reasonable.

MR. NIELSEN:

My last comment and question involves filing the tax returns, which would begin in July 2012. I read the bill as you do not have to file if you are exempt. Exempt means you are either a 501(c)(3) charitable organization, or you fall under the \$1 million threshold. If that is the case, the IT costs would be significantly less. Unlike the services tax where we expect new accounts and it is easier to administer, this is more difficult to administer for fewer accounts. If we only have to require lockbox and IT costs for 5,000 or 10,000 accounts, it would cost less than if everyone has to file even when there is no liability, which is much more costly. That is my understanding of the amendment as written now, and I wanted to get it on the record this is a concern of ours. It will affect our cost and our staffing.

CHAIR LESLIE:

Do you understand the intent with the informational return is to get the data so we can answer the question?

MR. NIELSEN:

Yes. I am not here to dispute that policy or reasoning. Once the actual returns are due, we have to have it in our database. It does not make sense to capture

this information to determine which companies are subject to the tax and not be able to use it for the return. That is why it is critical we get it right with the informational return and the regulations. I do not have anything else. We will submit an amended fiscal note, and we have let your staff know we will get it to you by the end of the week.

CHAIR LESLIE:

We appreciate your cooperation. If you need to meet with our fiscal staff to get more clarification, please do not hesitate to call them.

SENATOR HARDY:

Your amended fiscal note will amend it in two different ways if you are allowed to postpone the regulation hearing with the Legislative Commission. Are you going to prepare your fiscal note with two or three scenarios?

MR. NIELSEN:

It is a timing issue for us on the regulations; it will not affect the cost. If it is a simple regulation, it takes three to four months before it becomes law. With any new tax type, there will be a series of public workshops, and it takes some time. If everybody needs to file a return by July 2012, whether or not they have any tax liability, it affects our costs; if not, it will be less expensive.

MR. LEISER:

I want to expand what Mr. Nielsen was saying. With regard to the system change impacts and what we will represent in the fiscal note, we will identify the cost associated with the informational return. We will identify the overtime costs with the paper returns versus some method to require electronic filing. We can look at the additional cost if every business is required to file a return, regardless of the threshold, and do a comparison on the cost. If the true intent is to require those filers over the threshold to file a return, we can split that.

SENATOR HARDY:

I do not know if we have a will of the Committee. It sounds like we need to look at both options.

CHAIR LESLIE:

It would be great to have both options. We open the meeting for additional public comment on S.B. 491.

CAROLE VILARDO (PRESIDENT, Nevada Taxpayers Association):

I have two issues that refer to what was just discussed. There is a deduction in the amendment for the Net Proceeds of Minerals Tax. I understand because that comes from Article 10 of the Nevada Constitution. Why would you not give a deduction to gaming? Gaming is paying the second industry-specific tax for gross revenue on gaming. We recommend you consider a deduction or a credit on the amount paid by a gaming company for the gross gaming tax.

The Committee has talked about not wanting to impact small business and setting the \$1 million threshold. I received a call with this question. The business owners will have \$1 million this year, and next year their income goes over \$1 million by \$100. They did not file this year and are supposed to file the next year. Do they get credit for the \$1 million? How are you to know those businesses by name that are \$1 million and under if they do not file something? We know the numbers can go up and down; one year you can be liable and the next year you are not. It appears you need a filing on everybody to determine the tax. Would it not be easier to say everybody files but everybody gets the first \$1 million off instead of exempting businesses with under \$1 million? This is serious and needs to be looked at, and you need a policy decision on how to handle it.

CHAIR LESLIE:

What about this idea of electronic filing? Do you think that is feasible?

MS. VILARDO:

It is feasible. My concern with electronic filing is if we suddenly see penalties because someone does not do the informational filing. We have small businesses in the rural areas of the state that do not have good Internet access. Depending on how complicated this filing gets, they might be able to do it by phone or Internet.

CHAIR LESLIE:

That seems preferable for everybody as long as there is another option for those area businesses to do it electronically.

MS. VILARDO:

I think it is. I am one of the people who would now have to file under the provisions of the way you have the 501(c)(3) listed.

SYLVIA YOUNG (President, Sunrise Health System, Las Vegas):

I am president of the Las Vegas Sunrise Health System that includes MountainView Hospital, Southern Hills Hospital, Sunrise Hospital and Sunrise Children's Hospital. Together our hospitals have a total complement of over 1,000 beds. We employ 4,658 employees, and in 2010, we had an annual payroll of over \$317 million for an average employee salary of \$68,000. We continued to invest capital in the State of Nevada worth over \$800 million. Recently, *U.S. News & World Report* named Sunrise Hospital the No. 1 hospital in the region. We paid over \$13.9 million in taxes in Nevada in 2010 despite running significant losses in our operations. During this time of economic stress, we have consistently provided high quality jobs and paid taxes in the communities we serve.

Over the years, some Legislators have criticized the fact we have a corporate parent. It is a good thing for our hospitals, patients and Nevada that we do. Without financial support from our corporate office over the past few years, Sunrise Health System could not have sustained our current level of services and operations.

I thank the joint Senate Finance and Assembly Ways and Means Committees for adding back the proposed 5 percent reduction in hospital inpatient Medicaid-reimbursements in the Governor's proposed budget. This leverages up to \$50 million in revenue for the hospital industry as a result of a federal match and the fact that Medicaid-managed care and county indigent medical care payments are all tied to Medicaid rates.

If sufficient new revenue is available, I ask you to reverse the 5 percent Medicaid rate cut we had in the Twenty-fifth Special Session, as we are still below adequate reimbursement levels for treating our growing Medicaid population. Without reversing the budgeted cost, only 53 percent of our costs, not billed charges, of treating Medicaid patients will be reimbursed. The uninsured in our hospitals pay approximately 10 percent of the cost of their care. At Sunrise Children's Hospital, over 69 percent of the patients we serve are either on Medicaid or are uninsured. In the past two years, Sunrise incurred over \$200 million in uncompensated costs treating Medicaid and uninsured patients. When Medicare and other government sources, which pay less than the cost of care, are added, we receive less than the cost of treatment for about 70 percent of our patients.

I will give you a few examples of the cutting-edge and cost-intensive services we provide. The best example of this is the level of care we offer at Sunrise Children's Hospital. These services require us to invest in expensive and sophisticated technology to recruit and retain talented staff and to recruit and retain uniquely talented physicians and specialists. Sunrise Children's Hospital is the only hospital in this State to perform open heart surgery. We also have several other services that include pediatric interventional cardiac catheterization, pediatric electrophysiology services, advanced neurobrain surgery that includes treatment of epilepsy and the heart-lung machine also known as ECMO, or extra corporeal membrane oxygenation. These procedures enable most of these children to live wholly productive, normal lives and to be regular working adults who will live to the age of 80. Children come to Sunrise Children's Hospital for these services from all over Nevada, northern Arizona, Idaho, eastern California and Utah.

We face the additional need of patients turning to us without other viable options, such as the patients with psychiatric needs. On average in the pediatric emergency room at Sunrise Children's Hospital, we see 700 pediatric patients a year who are in need of psychiatric help. Attempted suicide and depression are among the top mental health diagnoses for these patients. If they have HMO or PPO coverage, they often receive inpatient placement on the same day. For patients without commercial insurance, it is a different story. Because of cuts in Nevada, what was a scarce resource in our area, psychiatric treatment has now become a much more severe issue. The hospital faces daily issues of children and teenagers needing access to appropriate psychiatric treatment in a timely manner. The problem continues to grow at a rapid pace.

For those without insurance, access to that needed care is difficult. Often Sunrise Children's emergency department is left keeping those patients for several days—sometimes up to two weeks—until appropriate treatment can be found. In addition, because we are a children's hospital, we offer cost-intensive services. Medicaid reimburses us a fraction of the cost of the care for our most vulnerable patient population, our children.

We are the only hospital in the State to provide sophisticated lifesaving heart care for kids. For advanced medical technology, we have a revolutionary catheter ablation treatment for ventricles that requires no opening of the chest, and the child is likely to go home after a few days. A traditional open heart surgery solution would have kept the child in the hospital for a month. For those

who do need congenital repair with heart surgery as the option for survival, we have the only pediatric heart surgeon in the State. The cost to provide this care averages about \$54,000 per case, but Medicaid reimburses \$28,000 per case. Our typical cost for a child with a brain tumor is \$67,000, and Medicaid reimbursement is \$14,000. Our cost to treat a child with scoliosis, which is a severe curvature of the spine, is \$40,000 to \$50,000 for the implantable hardware, and Medicaid reimburses on a standard per day cost of \$1,429.

The payment mechanism is antiquated. It does not differentiate based on a patient's severity of illness. Nevada Medicaid only reimburses those cost-cutting but costly procedures at the standard per diem rate of \$1,429. That is the same as we receive for hospitalization for an ordinary appendectomy. Nevada families rely on our presence and availability to offer these services. The financial burden is such that we have to question if this is a sustainable long-term model. We are essentially running a county hospital without taxpayer assistance. If we cannot provide these procedures, these patients would need to seek treatment out of state. The State would then have to pay for the parents' transportation and hotel costs while they are with their child. Families would be separated at this traumatic time, and the State would be spending significantly more money than if the services were provided in Nevada.

We believe it is in the State's short-term and long-term economic and social interest to avoid any cuts in Medicaid. Like any business, we have to have a positive cash flow to make the investments and improvements needed to maintain access for Nevadans to high quality, cutting-edge care. We have to make up this revenue shortfall either by negotiating higher rates with insurance plans and union trust funds or by eliminating services that lose the most money. We are trying our best to preserve those services most essential to the community for those families and children who rely on us.

Although many of you are concerned about raising taxes, let us be clear: The Medicaid rate cut and sweeping of the Indigent Accident Fund are essentially the financial equivalent of a very significant tax increase to hospitals and the health care industry. A 5 percent cut in Medicaid costs Sunrise Health as much as a proposed margin tax would if it were imposed at 8 percent or 9 percent. I do not think you would impose that on other industries, especially those that provide the essential services we do. Higher costs to insurance plans and health trust funds mean the same thing to consumers' pocketbooks and to the bottom

lines of employers who pay more for their health insurance as do higher taxes. This way, the Legislature can avoid the blame for raising taxes directly. The issue you face is whether Nevadans will have access to the health care they need, as well as the quality and level of care and our ability to keep up with new technology, new medical treatments and new developments. For all of these reasons, Sunrise Health supports ending the sunsets on taxes passed in 2009. We support the proposed transaction tax on services, and we support the margin tax at the rate currently proposed.

SENATOR HORSFORD:

Sylvia Young was one of the members of the Nevada Vision Stakeholder Group that met over the year to come up with the strategic plan for the State. The health care portion of that plan is something Ms. Young and people from the health care sector helped to shape. You said the 5 percent Medicaid reduction under the Governor's budget plus sweeping the Indigent Accident Fund would be comparable to an 8 percent or 9 percent rate on the margin tax?

MS. YOUNG:

Yes, when you look at the cut, what it means and what we would pay under a new tax.

SENATOR HORSFORD:

We are not anywhere near that. The bill, as written, is 0.8 percent. Is this more of a fair and equitable way to handle the State's problems?

MS. YOUNG:

Yes. It is important to see the effects of cutting funding for Medicaid—and it is not covering 54 percent of our cost structure. It is imperative to look at it in a different way and compare it to the margin tax. We support the margin tax. We need more revenue in the system.

SENATOR HORSFORD:

You have looked at this bill and how it would apply to your hospitals. Have you done the analysis to determine how the margin tax would apply to your business operation?

MS. YOUNG:

Yes. That is under the assumption that the MBT is phased out over time.

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SENATOR HORSFORD:

That is absolutely the intent. Thank you.

CHAIR LESLIE:

I want to point out and have you confirm that during the Twenty-sixth Special Session, we cut Medicaid payments to the hospitals by 5 percent. The 5 percent the joint money committees put back was the second 5 percent. You have already experienced losing an equivalent of that money since we met during the Twenty-sixth Special Session.

MS. YOUNG:

Yes. I want to emphasize it is not just hospital providers, it is also physician providers. We are now finding physicians who are in Medicaid dependent practices start to limit or ration the care they can provide and the number of Medicaid patients they will see because they also suffered under the cuts.

GEOFFREY LAWRENCE (Deputy Policy Director, Nevada Policy Research Institute):
I have prepared testimony ([Exhibit C](#)).

SENATOR HORSFORD:

Would the Nevada Policy Research Institute position on the margin tax be the same if it were revenue-neutral?

MR. LAWRENCE:

The margin tax has some unique distortions caused by the pyramiding effect. It is a concern of ours even if it were revenue-neutral. We have looked into revenue-neutral tax reform, and there is clearly a case for that in Nevada. We have a relatively volatile tax structure that could be improved. The way we chose to do that in our modeling was through a revenue-neutral expansion of the sales tax base because it avoids the pyramiding effect.

SENATOR HORSFORD:

There is no pyramiding in the services tax?

MR. LAWRENCE:

It depends how the services tax is defined in legislation. Our intent is that it would be for end-use consumer products or end-use consumer services and not business-to-business transactions.

SENATOR HORSFORD:

Give me an example of a pyramiding scenario under the margin tax.

MR. LAWRENCE:

Solar energy production is an example. The solar panels used for solar energy production are very complicated. You have to get silicon which has to come from mining rare minerals. The mineral has to be refined. At each stage of production, the company doing each one of the processes would be subject to the margin tax. As each component is developed, it goes into a solar panel. The panel is then trucked down to southern Nevada where an installer has to put it in place. If this is all done by separate companies, my understanding is that each one would be subject to the margin tax. Otherwise, you are likely to see increased vertical mergers where all these functions would be consolidated into one company and, to the extent that is created through the tax code, it may lead to less efficient production.

SENATOR HORSFORD:

How does that apply to the MBT where businesses are taxed in the same way, on a different basis, but the same businesses perform the same type of work?

MR. LAWRENCE:

The MBT has the same impact. We have also recommended an elimination of the MBT. We have proposed those revenues be replaced through sales tax revenues. If the margin tax was revenue-neutral and you were using those revenues to replace the MBT, I do not know if NPRI would take a stand one way or the other.

SENATOR DENIS:

In the solar panels example you gave, were you saying one company would do the work or would other companies do it? Would it be multiple companies which would be taxed along the way?

MR. LAWRENCE:

The example I gave was multiple companies each performing one unique function along the supply chain. It is possible if you have a high tax structure with a high tax rate, that would encourage vertical merger. One company might buy out everyone else and take over each component in order to avoid some of the accumulated tax liability. That may be a way companies can get around this, even if it were not economically efficient in absence of the tax.

SENATOR DENIS:

Could companies do the reverse of that and split it out if they wanted to get under the \$1 million threshold? If they are doing business with other smaller businesses doing this, their tax would be zero. There would not be an accumulation.

MR. LAWRENCE:

It is hard to predict how people will react to a new tax.

SENATOR DENIS:

It is based on 0.8 percent; the tax would be minimal depending on how much production companies do.

MR. LAWRENCE:

It depends on the margin of the company. A very profitable company might think 0.8 percent is not enough to affect its behavior. Others operating with smaller margins may be encouraged to restructure the way they do things, shrink their labor force or react in other ways.

SENATOR DENIS:

Companies are allowed to deduct that because their labor and cost of doing business would be aggregated, and they could subtract it from the revenue.

MR. LAWRENCE:

Your tax liability is an overhead fixed cost. The company has to pay a fixed cost but can adjust the variable costs, which are labor and utilities. If a company is going to cut back, it will be within one of those areas.

SENATOR DENIS:

Do you think the margin tax could create a level of stability with business? We hear that businesses want to know, and they want it to be simple. They do not want it to vary from year to year. Would a margin tax do that?

MR. LAWRENCE:

That is a difficult question to answer without knowing what the Legislators will do in two years or ten years from now. If there were a change in the tax code that allowed us to stop talking about the tax code every few years, it might create that stability.

SENATOR DENIS:

We would need to do something that would allow long-term stability.

MR. LAWRENCE:

Yes, that could be on the revenue side or the spending side.

ERIC ROBERTS (Director, American Institute of Architects):

I represent over 1,000 architects and their families across the State. I am part of an organization of over 85,000 architects nationally. I am here to testify in support of Proposed Amendment 6801 to S.B. 491. Our industry has been adversely affected by the current financial crisis with a nearly 70 percent unemployment rate. Our hope is that many of these architects who would not now be impacted by this tax would one day have the opportunity to pay the tax based on the funds raised and the finances brought to the State. We are in support of diversifying and stabilizing our taxation base in Nevada. Nevada needs stability for business and government so we can move forward and grow. Our greatest fear is our lack of a livable Nevada. Our lack of a quality education system based on a lack of funding will create a bleak and dark future for Nevada and its children. We will have children ill-prepared to cope with the world to which send them.

CHAIR LESLIE:

Do you know how many of your members would be paying the margin tax as you understand it at this time?

MR. ROBERTS:

We have looked through the amendment, and the majority of architects in the State would fall into the \$1million to \$5 million range for small business. More and more architects are falling under the \$1 million threshold. There are approximately 1,000 architects in the State. Of those architects, 25 percent to 30 percent of them would be in the \$1 million to \$5 million range at this time.

BILL WELCH (Nevada Hospital Association):

I am here to support S.B. 491. We know the challenges before this legislative body and the administration are difficult. We understand we cannot tax ourselves into prosperity, but we also cannot cut ourselves into prosperity. Twenty of the 33 acute-care hospitals are in critical condition. These hospitals provide 24-hour, 365 days-a-year access to emergency medical care services. In 2008, we were being reimbursed at 63 percent of our cost to provide Medicaid

hospital services. This costs us millions of dollars in uncompensated costs annually. Since that time we have taken another 5 percent cut in our Medicaid reimbursement, which costs us approximately \$24 million a year and close to \$55 million over the biennium.

We took a cut in the Indigent Accident Fund. The fund was created to cover those who had catastrophic illnesses or were injured on Nevada highways and had no insurance coverage. That costs us \$25 million a year and \$50 million over the biennium. The 5 percent additional cuts being proposed in the Governor's budget for inpatient Medicaid services and the 15 percent on hospital outpatient services amounts to over \$150 million in reductions in reimbursements of cost of health care services to Medicaid recipients. Nevada hospitals can no longer sustain this. We are looking at \$450 million over a biennium of unfunded costs of health care services provided to Nevada's Medicaid population. This is a tax on the hospitals and the patients we serve, but not all the patients we serve.

We have two options on how we deal with these shortfalls. We can reduce services, which we have, or we can shift that cost to the extent possible. When we shift the cost, not all Nevada's hospital patients cover that cost. Only one-third of the patients who present at the hospitals have a payment source that covers cost-plus. Every \$1 of uncompensated charges costs that person \$3 to help absorb the shortfall. When we are looking at \$450 million, that is a big tab for the insured population to absorb.

On the other hand, we have an opportunity before us with this legislation and other legislation being considered. While we do not believe it is realistic that we can fill the \$450 million shortfall in the Medicaid account over the next biennium, if we could cover the 5 percent cut that was approved in the Twenty-fifth Special Session and restore the proposed cuts in this current budget, we would be able to increase funding and reduce that hole by \$110 million a year. The State would accomplish that by investing \$30 million. That is a good return on your investment. We ask that this legislation be supported and the funding be used partially to restore these cuts. We appreciate the action taken on Saturday by the money committees.

SENATOR HORSFORD:

The 5 percent rate reduction under Medicaid is how much?

MR. WELCH:

The 5 percent costs the State approximately \$13 million, and that translates into approximately \$30 million in reimbursement to the hospital.

SENATOR HORSFORD:

In addition to the 5 percent, you said something else. This is not a continuation, this is in addition to?

MR. WELCH:

That is correct. There were two 5 percents. The 5 percent passed in December 2008 has continued to roll forward since 2008 and is in this proposed budget to roll forward with another 5 percent on top of that and 15 percent on outpatient services. To restore those would cost approximately \$29 million. It would impact reimbursement to the hospitals \$110 million, still leaving \$330 million of unfunded Medicaid cost.

ROBERT ABBOTT:

I am an average citizen and a resident of Reno. If you need to tax me, you should tax me. I am willing to pay taxes. I do not have anybody who may be hurt directly by these budget cuts, but I am a citizen of this State and compared to other states, we do not pay any taxes. We do not pay an income tax, we do pay a sales tax and that is fine. We need to fund education and government services, and as a citizen, I am willing to pay taxes.

CHAIR LESLIE:

That is very refreshing to hear. We appreciate your coming here to testify.

JANINE HANSEN (President, Nevada Eagle Forum):

I appreciate the discussions today. The State has many difficult issues to face. Many people in the State are facing difficult issues. Last year, my husband, stepson, son and son-in-law were out of work. They have found jobs except for my stepson. Significant financial issues cannot be resolved by raising taxes. Those are the issues of encouraging businesses to continue to flourish in our State. The average American spends 50 percent to 60 percent of his or her income in federal, state and local taxes. Most of us have no idea it is that high because many of those taxes are hidden.

My brother used to have a roofing business in Sparks. When he gave an estimate to a customer for \$5,000, he would tell them the roof costs \$2,500

and the remaining \$2,500 is in taxes, fees and permits. That is the reality of what we face today. Many of the taxes we do not see because they are hidden.

My daughter is starting a new business in Reno next week. I told her about these taxes and repealing the sunset on the Modified Business Tax. She pays for a business license in Reno and one for the State. She had to pay her rent last week on the building, and she almost did not make the rent. There was no money for her to take home. She does not know if she can pay the \$200 when she goes to pay the business tax to keep her business open.

There are many hardships, and they are real. They are on every level because of the economy and our Nation. We are all concerned and compassionate about those who are suffering. You tell the people the taxes are to sunset, then you repeal the sunsets and pass another tax that is a bridge. Why should the people believe you? Why should the people believe you when you do not do what you are supposed to do in the first place? My brother did not believe there would ever be a sunset on the tax. That is a sad thing to say about our government.

More taxes put more pressure on big and small businesses. They are the ones that create the jobs and will hopefully pull us out of this abysmal hole. They may decide they cannot do it or make it. One more little business will not be created and will not go forward in Nevada. There are two sides to this story for those who are trying to pay those taxes. They are not here today; they are working hard to make a living and take care of their families and obligations.

SENATOR HORSFORD:

Are you aware under S.B. 491 there is a \$1 million threshold where there is no tax on the margin? Many of the businesses you represent would not pay any tax. They would not pay the MBT once that is rolled out and no one is offering any suggestion about how to lift that burden. How do you reconcile that within the bill?

MS. HANSEN:

I am not a tax expert. I cannot answer technical questions. I understand the margin tax is on big businesses. I also understand big businesses create the most jobs and the MBT will be phased out. I was referring to the Business License Fee with my daughter's business. She is not in the category to pay the margin tax, and she does not have any employees and would not pay the MBT. I appreciate your clarification and I do understand.

SENATOR HORSFORD:

It is a concern for many of us that small businesses are not the priority of our current tax policy, and we want to address that. Is your concern with the \$200 annual Business License Fee, and your daughter is not able to pay the \$200 to have an operational license with the State?

MS. HANSEN:

That is a personal issue with me. I am here to express concerns about the entire tax policy and increasing the taxes on businesses because they affect all of our people. My daughter is just one example of how the Business License Fee has impacted her. That does not mean I do not have concerns about the other ones.

CHAIR LESLIE:

It is helpful to have real life examples. The point is any small business that does not meet the \$1 million threshold when the MBT goes away is only left with the \$200 fee.

SENATOR DENIS:

We have these different things going on. What would you envision our tax policy to be? I have had businesses in the past. It is hard to get them going. The majority of new small businesses fail within the first three years. There are a lot of costs involved. Any Legislature in the future could come back and change this. Do you want us to create a tax policy that creates stability for a business?

MS. HANSEN:

It is a good goal to move in that direction. I am not an expert on tax stability or on taxes. I would not give you a good answer. I have read the Nevada Policy Research Institute information on stabilizing the taxes. It has fewer pitfalls than some of these other issues you are considering. I do not believe there is any perfect solution. Whatever tax you impose will be hard on some people more than others. That is the reality and I understand that. I am just one person here. I represent individual families who have no voice here and cannot come.

SENATOR DENIS:

I do not want your opinion as an expert. Most people are not experts in tax and finance, and they are trying to understand it. I am trying to see if we can create something simpler and keep from messing with it once it is in place. We need to make a good environment for small business to thrive and broaden what we do

now so all people pay their fair share as opposed to now where some pay more and some pay hardly any taxes.

MS. HANSEN:

I appreciate that. One of the things that comes to mind is what the hospitals mentioned today. That is a critical issue. I was in the hospital last year for a ruptured appendix, and I had no insurance. It cost over \$30,000. I understand who pays those bills that somebody else is not paying. It is a concern to all of us. It is a good idea to have a goal to come up with the most fair, equitable and stable tax plan. All of this has changed with our economy. I agree with your goals, and I understand the difficulty. There are not any easy solutions.

CHAIR LESLIE:

I want to welcome all the students. I see a number of you signed in. We will devote the remainder of the hearing for your testimony.

KYLE GEORGE:

There are several points I want to touch on that came up from listening to the previous speakers. I live in Senator Halseth's district. One of the first misconceptions I would like to correct is that we are students. We are, in fact, taxpayers, and we understand difficulty. I own a home in Las Vegas and I am \$120,000 upside down on my home. I chose not to walk away from it like so many others have. My fiancée is a small business owner. She has six employees at her business. We understand many of these concerns, and this bill addresses many of the things that she, as a business owner, would be concerned about, especially the \$1 million threshold.

As students, we need to keep in mind the object of this revenue. Part of that will be to shore up education in this State. As everyone knows, education is the foundation for a stable economy and for growth in any given state.

Recently, at a national level, we have adopted the stance that taxes are bad and inherently damaging to businesses. The states with the highest tax rates, New York and California, are also home to the biggest corporations in the world and the most businesses. Similarly, the Tax Foundation names Nevada fourth for the most favorable tax climate in the Country. Look at where we are today. We need to remove the rhetoric that taxes kill jobs.

Education creates jobs. I am in favor of this bill for that reason. It will shore up our education system, particularly higher education. My area of research is solar energy at the University of Nevada, Las Vegas. We can talk about bringing solar cells here, but unless we can do real research on it at the universities, we do not advance this technology. We are stuck in an outdated mindset. We need to look forward into the future and make sure education plays an important part in the State's future.

MICHAEL FLORES:

A lot of the people in this room are camping outside. It is not warm and fuzzy outside. It is cold and rainy; it is tough times outside and it is tough times in our State. I know there are some empty chairs in Las Vegas, but we are here. We rode a long way to be here. We are not here because we have nothing else to do or because we are bored; we are here because this is a serious situation. I met with Heidi Gansert, the Governor's Chief of Staff, this morning. The Governor does not want to work on anything to bring more revenue to this State. This is all in your hands. Republicans and Democrats, it does not matter. We need both parties to work on this.

I grew up in the business environment in Las Vegas. My mom was a small business owner. I was a busboy by the time I was four years old. I was a cashier at the age of five. I was sleeping in booths while my mom was working. It is a hard life. I understand that this bill will not hurt small businesses. This is a good solution, and we all should be paying attention to it. We all need to make sure we are doing everything we can to address these issues.

What is so important on your computers that you cannot pay attention to everybody who is testifying? I am tired, and we all deserve a little bit of attention for what we are doing for the State of Nevada. I work with a lot of kids in projects who have nothing. I do not know what I am supposed to tell these kids whose mothers are on drugs and their dads are dead. Education is their way out, but our education system is garbage. We need reform and we need money for reform. We need to do all we can and come together. If we made anybody feel uncomfortable, I apologize. We are trying to make sure something is done.

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CHAIR LESLIE:
This meeting is adjourned at 2:36 p.m.

RESPECTFULLY SUBMITTED:

Gayle Rankin,
Committee Secretary

APPROVED BY:

Senator Sheila Leslie, Chair

DATE: _____

<u>EXHIBITS</u>			
Bill	Exhibit	Witness / Agency	Description
	A		Agenda
	B		Attendance Roster
S.B. 491	C	Geoffrey Lawrence	Prepared Testimony