**MINUTES OF THE**
**SENATE COMMITTEE ON REVENUE**

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

The Senate Committee on Revenue was called to order by Chair Sheila Leslie at 1:11 p.m. on Thursday, February 17, 2011, in Room 2134 of the Legislative Building, Carson City, Nevada. Exhibit A is the Agenda. Exhibit B is the Attendance Roster. All exhibits are available and on file in the Research Library of the Legislative Counsel Bureau.

**COMMITTEE MEMBERS PRESENT:**

Senator 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:**

Michael Skaggs, Executive Director, Division of Economic Development
Lindsay Anderson, Director, Business and Research Development, Division of Economic Development
Brian K. Krolicki, Lieutenant Governor

CHAIR LESLIE:
We have a presentation today from the Commission on Economic Development.

MICHAEL SKAGGS (Executive Director, Division of Economic Development):
We have been asked to review the business incentives the Commission governs. Lindsay Anderson, Director, Business and Research Development, Division of Economic Development, works with our incentive packages and clients.

LINDSAY ANDERSON (Director, Business and Research Development, Division of Economic Development):
I have a presentation on the existing incentives available for companies relocating or expanding to Nevada (Exhibit C). These programs are governed by *Nevada Revised Statute* 360.750. They are specific to economic development and not to be confused with other incentive programs such as Sales Tax Anticipated Revenue (STAR) bonds. I am going to explain how companies qualify for these programs and about the abatement programs available, what kind of eligibility requirements they have to meet in order to receive the abatement and what the approval process is. I have a list of companies approved in fiscal year (FY) 2010, Exhibit C, page 18.

Page 3 of Exhibit C lists statutory qualifications. We deal with primary companies. In our regulations, "primary" is defined as a company generating the majority of revenue from outside the State of Nevada. The intention is to bring new revenue into our economy as opposed to circulating revenue within the economy. Our focus is on primary companies. These companies have to agree to a five-year contractual commitment to maintain their business at the level in which they apply. They have to provide health insurance to their employees, cover at least 25 percent of the cost and provide an option for families. They must comply with state, local business and licensing requirements.

The first program is the sales and use tax abatement on page 4 of Exhibit C. All but 2 percent of the sales tax generated from capital expenditures is abated. The business pays 2 percent that goes to the State General Fund. The abatement is only eligible for capital equipment businesses list during the application process. The business indicates what kind of capital it is purchasing as part of the relocation or expansion to Nevada. The business is issued an exemption letter from the Department of Taxation, which allows the business to use the abatement on those purchases. The Department of Taxation uses the list of equipment during the audit to verify the equipment listed in the application was given the privilege of abatement. An example of this is if a company is purchasing $1 million worth of equipment, it would be exempted $57,250 and would pay $20,000. That is the required 2 percent. We can put the business in a deferral program, which is an interest-free payment plan, page 6 of Exhibit C. We would divide the tax over a period of time, with equal monthly payments on the tax due. This tiered system can be from one year to five years to defer payments, depending on the amount of capital purchased. In this case, any equipment valued over $1 million can defer up to five years. It would be divided by 60 months, with equal monthly payments for the tax.

The next program is the Competitive Sales Tax Environment, page 5 of Exhibit C, which is operated regionally in the West. Most of our surrounding states have a production exemption for equipment that produces something and is exempt from sales tax. Companies do not have to go through an abatement process. They fill out a form, much like a nonprofit applying for sales tax exemption in Nevada. Under that legislation, they receive letters to provide to their vendors.

The companies can also be eligible for personal property tax abatements, page 7 of Exhibit C, on the same lists of equipment they submit with their applications. The abatement can be up to 50 percent for up to ten years. That percentage and time frame is at the discretion of the Commission when the application is reviewed. This is only available on the equipment listed, and it is important to make the distinction between personal property and real property. Companies are not eligible for any real property tax abatements under this program, such as land, buildings or fixtures.

CHAIR LESLIE:
Could you give me an example of personal property?

MS. ANDERSON:
The technical definition in statute is items that qualify for section 179 depreciation under the federal Internal Revenue Service tax rules. Think of it the easy way: if it can be moved, then it is personal property. If it is a fixture of the building, it is assessed as real property and not eligible. If it is a piece of equipment, then it is eligible.

Companies can also be eligible for Modified Business Tax abatements, page 7 of Exhibit C. It is 50 percent for four years on new employees hired as part of a relocation or expansion. We have a nontax incentive program called Train Employees Now, page 8 of Exhibit C. It is a short-term training program for new jobs created in Nevada to get the skills of Nevada citizens to the level a company needs to start its operations or expansion. It is for full-time, primary jobs. We grant money to the Nevada System of Higher Education (NSHE), which coordinates the training program. Nevada Industry Excellence—formerly known as MAP—generally coordinates the training. It provides this across the State, except in Washoe County where Truckee Meadows Community College coordinates the training plan. Nevada Industry Excellence works out the training plan with the company and brings it to us as part of the application; it is reviewed by our Commission and then approved. The company must cover at least 25 percent of the training costs. Originally, there was a General Fund allocation for this program. That has been eliminated, but we have joined in a cooperative agreement with the Department of Employment, Training and Rehabilitation (DETR), which allocates a portion of funds to us as part of the Train Employees Now program. It is a partnership between the Commission and DETR.

Next are the eligibility requirements for these programs. There is a matrix for urban companies, page 10 of Exhibit C, locating to Washoe and Clark Counties; a matrix for companies locating to the rural counties, page 11 of Exhibit C; and a matrix for companies already in Nevada that are engaging in significant expansions, page 12 of Exhibit C. You can see the thresholds and how to qualify for these programs. The general rule is two out of three of these parameters—capital investment, number of jobs and hourly wage—are required. In urban areas it is 75 jobs at an average wage of $19.93 per hour, which is the statewide average wage as determined by DETR, and $1 million in capital investment. On personal property tax abatement for an industrial company, it needs to make a $50 million capital investment, which is substantial. This eliminates the opportunity for a lot of companies relocating. We see few companies making a $50 million capital investment. Personal property tax abatement is also unique because instead of two out of three, businesses specifically have to meet the capital investment and the average hourly wage in order to qualify for that program.

Page 11 of Exhibit C shows the requirements for rural companies that are substantially less than those for urban companies. It requires the same hourly wage, 15 jobs and a $250,000 capital investment for most programs with $5 million for personal property tax abatement.

Page 12 of Exhibit C is for companies in Nevada that are engaging in a significant expansion. They have to increase capital investment by at least

20 percent of existing value, increase jobs by 10 percent or 6 percent, whichever is greater, and meet two out of three requirements for expansions. We do have special legislation that allows lower thresholds for a company's intellectual property, page 13 of Exhibit C; it has to meet ten jobs and a $500,000 capital investment. That is statewide legislation.

There are recycling incentives for companies that are recycling at least 50 percent of product on-site to generate electricity, page 14 of Exhibit C. This is one of the only programs where we can also abate real property taxes for companies under the same threshold.

The application and approval process for these programs is on pages 15 and 16 of Exhibit C. Applications are received in our office from local development authorities. The Commission has a statewide network of development authorities that represent each county. As experts in their regions, the authorities work directly with the companies to help prepare applications. We receive the application and do a compliance and fiscal analysis review to make sure the companies qualify. We are required to notify every affected tax entity 30 days before the meeting. We notify the school district, city, county or anyone affected by the abatement about the upcoming meeting. The application is heard at a monthly Commission meeting. The Commission is composed of seven members and chaired by the Lieutenant Governor. There are two members from Clark County, two members from Washoe County and two members who represent the rural part of the state. We meet on a monthly basis to review these applications. After approval, we draft a legal contract that makes the applicants commit to what they applied for and what was approved. They have to maintain those levels for at least five years. They are audited by the Department of Taxation at two- and five-year intervals to ensure compliance. If they are not in compliance with the original agreement, companies have to repay all taxes abated including interest.

Pages 16 and 17 of Exhibit C show examples of companies that have been through the process. In FY 2010, 18 companies created 936 new jobs, $38 million in new wages and $110 million in capital investment. The last page lists companies on a spreadsheet with more detail about each of those operations and the impact on our state.

CHAIR LESLIE:
Questions for our speakers?

SENATOR HARDY:
How are we doing on the business portal with these companies coming to Nevada?

MS. ANDERSON:
The Office of the Secretary of State has taken a lead on that. We are supportive of the concept; we have not had direct involvement.

CHAIR LESLIE:
Mr. Skaggs, when you are trying to recruit these businesses, are they looking for certain holes in our incentive program; is there a trend?

MR. SKAGGS:
To be competitive, we are restricting the urban areas too much. That is where the majority of the unemployment is occurring. When we have a 75 job minimum and $50 million minimum on investment on an industrial concern, it is most difficult for our clients to meet those criteria. Our normal client now has 30 to 40 employees and a $20 million investment. These statutes were written some time ago, and they have some age from the heavy industrial days with the $50 million figure. Clark and Washoe Counties have trouble being competitive with this. I met with a food company last week. It was a nice, well-funded company with 30 employees and a $12 million investment. Nothing here is going to work for the company because the characteristics of its labor force are rather sophisticated. The company wants to be in a metropolitan area because it would have the potential of getting those skills, but it could not meet the thresholds.

SENATOR SCHNEIDER:
What is the No. 1 reason businesses do not locate here?

MR. SKAGGS:
The No. 1 reason is we do not have skilled manufacturing labor available. Over time, that playing field is going to even out. As we start recovering, we are going to see fewer individuals with skilled labor experience waiting for a job because the skilled labor people across the U.S. will find employment in the next 12 months. We are going to be relied on for training dollars to match with companies. In the perfect storm, they would come to us and find 100 machinists in the unemployment pool who they could hire tomorrow.

SENATOR SCHNEIDER:
We have not trained a lot of machinists in Nevada. You are looking at manufacturing jobs, but what about the high-tech companies?

MR. SKAGGS:
Those needs are quite different. On a technology start, there are three areas of emphasis: engineering skills, as that is normally associated with the product development; marketing skills, because somebody has to market the output of that company; and financial skills to be responsible for the fund-raising. It is more in line with a business school and the engineering output from the universities to start those companies. We met with a company last week in the information technology business. It has actively been trying to hire here and is finding that we do not have a pool of information technology workers available, so it is importing. We are behind the curve on a lot of technology skills in the marketplace.

SENATOR SCHNEIDER:
We are not producing skilled employees out of the Nevada System of Higher Education?

MR. SKAGGS:
We have not had the demand. Although we have graduated individuals with those skills, there is a history of these individuals leaving the state because of jobs not developing in that area. You are correct as far as manufacturing goes, and the community colleges are a good resource for that. They have manufacturing curriculum. One of the responsibilities we have is our engagement between the business community, which does the hiring, and NSHE. General Electric, in Minden, made a cash gift to the engineering school at the University of Nevada, Reno, so the school would train to its specifications. There needs to be a direct connection between the universities that try to get graduates hired locally and the business community.

SENATOR HALSETH:
I own a technology company, and I have found we have great neighbors. California, Oregon and Washington are great technology hubs. If we can get more technology companies to come here, we have the best environment for it across the Country. If we focus on doing that, we can expand our economy greatly.

CHAIR LESLIE:
Who sets this chart? Is it the Commission or is it in statute? Has the Commission reviewed it recently?

BRIAN K. KROLICKI (Lieutenant Governor):
I was not aware of any effort to change these until the last few years when Mr. Skaggs joined us. Looking at our future economy and what we are going to need, everyone is discussing more of a task force or stakeholders group. The Governor works with the Majority Leader and Speaker, and we are focused on the dramatic things in the structure itself. These pieces will be part of the bill draft request (BDR).

CHAIR LESLIE:
Are you saying there will be something in the BDR, but Mr. Skaggs does not know about it? Should they be consulting with Mr. Skaggs to get his ideas?

LT. GOVERNOR KROLICKI:
Yes, they should consult. There are multiple efforts regarding this, and it has not come together. We have significant input to add to statute. We have been working with Assemblywoman Marilyn Kirkpatrick. When the BDR does arrive, this will be part of it or we will incorporate it.

MR. SKAGGS:
After the 2009 Session, this started looming in the Assembly. Ms. Kirkpatrick did start engaging us as to how we can design something to work better. She is to have a bill entitled “tiered manufacturing” that addresses this issue, so at lower levels of employment, companies could access a percentage of the incentives available.

CHAIR LESLIE:
That makes me feel better.

LT. GOVERNOR KROLICKI:
Incentives are a topic of conversation. Two years ago, I am not sure if incentives were considered productive. This is a data point, but it is a break point. What areas will be helpful to us to get the kind of companies we want? It has been a legislative tradition on how much incentive we want to provide.

CHAIR LESLIE:
The other part to that question is to make sure we are getting results. Are we giving money away and not able to measure results? From those conversations, I recall an effort to tighten up the results so it is something we can measure. We do not want to be saying, “Here you go, take the money.” You say 75 jobs, but what happens if there are not 75 jobs? Both pieces go together, and I want to make sure you are involved. You are our experts, and it sounds like you have been giving some input. I expect to see some legislation.

MR. SKAGGS:
I appreciate this opportunity. The State makes money on incentive packages. Members need to be shown examples so they can get more comfortable. That is what these charts intend to illustrate.

LT. GOVERNOR KROLICKI:
We have redesigned the packets that go to the Commission. Econometric modeling shows when abatement reaches a point where it is producing for the State. The Department of Taxation attends our meetings and conducts audits in years two and five. If a business is not complying, it yields back the abatement. An accountability process is working and in place.

CHAIR LESLIE:
How many offenders do you find that are not meeting the requirements?

LT. GOVERNOR KROLICKI:
Offenders are infrequent, but sometimes things do change. A company may get purchased or close down a facility to consolidate elsewhere. Over the last few years, those things have happened. Because of a decision to change how companies do something, they are no longer in compliance. There is now dialogue with these companies about their changes and jobs moving.

CHAIR LESLIE:
If things change, and sometimes there are good reasons for things to change, do you adjust or change the abatements then?

MR. SKAGGS:
We can do a rehearing. Ms. Anderson can explain that process. In the market conditions we are facing today, if a company delays meeting these requirements, the Commissioners will look at it and take that into consideration.

MS. ANDERSON:
We call it reconsideration. We ask the company to come back before us and describe what has happened. The commissioners have the opportunity to vote. It can be a renegotiation of the original contract. We can adjust the job count, wages, capital or whatever is changing because of the business plan alteration.

CHAIR LESLIE:
We do have one other item of business, Senate Bill (S.B.) 146. It makes various changes relating to biodiesel. This was referred to us, but after further examination, most of this bill relates to the Committee on Natural Resources. Based on advice from our legal counsel, we will take a motion to report this bill back to the Senate floor with no recommendation. It will then be referred to the proper committee.

**SENATE BILL 146**: Makes various changes relating to biodiesel. (BDR 32-218)

SENATOR HARDY MOVED WITHOUT RECOMMENDATION TO REREFER S.B. 146 TO THE SENATE FLOOR.

SENATOR DENIS SECONDED THE MOTION.

THE MOTION CARRIED UNANIMOUSLY.

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CHAIR LESLIE:
Any additional comments? Seeing none, and with no further business to come before the Committee on Revenue, the meeting is adjourned at 1:40 p.m.

RESPECTFULLY SUBMITTED:

Gayle Rankin,
Committee Secretary

APPROVED BY:

Senator Sheila Leslie, Chair

DATE:

## EXHIBITS

**Committee Name: Committee on Revenue**

**Date: February 17, 2011** **Time of Meeting: 1:00 p.m.**

| Bill | Exhibit | Witness / Agency | Description |
|---|---|---|---|
| | A | | Agenda |
| | B | | Attendance Roster |
| | C | Lindsay Anderson | Presentation – Nevada Commission on Economic Development |