

**MINUTES OF THE
SENATE COMMITTEE ON REVENUE AND ECONOMIC DEVELOPMENT**

**Seventy-Seventh Session
April 4, 2013**

The Senate Committee on Revenue and Economic Development was called to order by Chair Ruben J. Kihuen at 1:19 p.m. on Thursday, April 4, 2013, in Room 2134 of the Legislative Building, Carson City, Nevada. The meeting was videoconferenced to Room 4412 of the Grant Sawyer State Office Building, 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 Ruben J. Kihuen, Chair
Senator David R. Parks, Vice Chair
Senator Moises (Mo) Denis
Senator Debbie Smith
Senator Ben Kieckhefer
Senator Michael Roberson
Senator Greg Brower

GUEST LEGISLATORS PRESENT:

Senator Tick Segerblom, Senatorial District No. 3

STAFF MEMBERS PRESENT:

Russell Guindon, Principal Deputy Fiscal Analyst
Joe Reel, Deputy Fiscal Analyst
Bryan Fernley-Gonzalez, Counsel
Kevin Powers, Counsel
Gayle Rankin, Committee Secretary

OTHERS PRESENT:

Carolyn Kelly, Associate Director, Research and Communications, TRIP
John Madole, Associated General Contractors, Nevada Chapter
Darrell Armuth, Nevada Highway Users Coalition
Mary A. Martini, P.E., Nevada Department of Transportation

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Marc Markwell, Sierra Nevada Construction, Inc.
Danny Thompson, Nevada State AFL-CIO
Paul J. Enos, CEO, Nevada Trucking Association
Peter D. Krueger, Nevada Petroleum Marketers and Convenience Store Association
Joanna Jacob, Association of General Contractors, Las Vegas; Nevada Contractors Association
Russell Rowe, American Counsel of Engineering Companies, Nevada Chapter
Carol Howell
Lynn Chapman, State Treasurer, Independent American Party
John P. Sande, III, Western States Petroleum Association
Bryan Wachter, Retail Association of Nevada
Janine Hansen, Nevada Families
Wayne Seidel, Administrator, Motor Carrier Division, Department of Motor Vehicles
Lesley Pittman, Nevada Mineral Exploration Coalition
David R. Shaddrick, President, Nevada Mineral Exploration Coalition
Demar Dahl, Commissioner, Elko County
Naomi S. Duerr, P.G., President, Desert Pacific Exploration, Inc.
Philip S. Hanna, CEO, Battle Mountain General Hospital
Steve Walker, Eureka County
Alan R. Coyner, Administrator, Division of Minerals
Michael Ginsburg, Progressive Leadership Alliance of Nevada
Carole Vilardo, President, Nevada Taxpayers Association
James G. Parrish, CEO, Humboldt General Hospital
Jared Oscarson, Humboldt General Hospital
Louis Mendiola, Humboldt General Hospital
Debra W. Struhsacker, Nevada Mineral Resources Alliance
Chris Nielsen, Executive Director, Department of Taxation

Chair Kihuen:

Senator Segerblom will present Senate Bill (S.B.) 377.

SENATE BILL 377: Revises provisions relating to taxes on fuel. (BDR 32-930)

Senator Tick Segerblom (Senatorial District No. 3):

I am here to present Senate Bill 377. This bill raises gas tax. The public would support money that would go to increase the efficiency of our highways and allow us to get to our destination faster. Our roads are being destroyed at a

record number as you will hear in other testimony. This bill seeks to address that issue by promoting a tax of 2 cents per year for 10 years for a total of 20 cents in the year 2023. With the price of gas over \$4, the 2-cent tax is meaningless. The price of gas goes up and down 10 cents to 20 cents a week at a time. This would amount to \$1 per month for the first year. The flip side is it will generate \$300 million for roads and roads only the first year, and over the course of 10 years it would generate \$3 billion for our highways. It will employ good workers and make our highways better.

My district is downtown Las Vegas. Between Sahara Avenue and the Spaghetti Bowl is a nightmare. The roads on both sides of that area have been increased, but when you get to the bottleneck, the traffic stops. There are always accidents. There is a proposal to widen it and make it better, but if we have to continue the current pay-as-you-go program, it will be 10 years. That 2-mile area will be torn up for 10 years. It will destroy downtown Las Vegas. Anyone trying to go north, south, east or west will have to go through this area. This bill will enable us to prefund it with bonds.

Carolyn Kelly (Associate Director, Research and Communications, TRIP):

I am the author of a new report ([Exhibit C](#)). This report evaluates Nevada road and bridge conditions, traffic congestion, highway safety, economic development and the need for increased transportation funding. I will cover some of the basic findings of the report.

The TRIP is a national nonprofit transportation research organization based in Washington, D.C. We produce nationwide and state-specific reports on transportation issues. Since our organization was founded more than 40 years ago, we have produced more than 500 reports in all 50 states. The most recent report we released is entitled, *Nevada Transportation by the Numbers: Meeting the State's Need for Safe and Efficient Mobility*. This report calculates the cost to Nevada's drivers of using roads that are deteriorated, congested and not as safe as they could be. The TRIP report finds that Nevada roads are full of potholes, are congested, may lack some safety features and cost the State's drivers \$2.1 billion each year. In the Carson City and Reno area, that works out to be \$1,700 per year, per motorist. That is in the form of extra vehicle operating costs because motorists drive on roads riddled with potholes. It also costs lost time and wasted fuel because drivers sit in congestion. It is also the financial costs of traffic accidents. These costs to the motorists are high and

are projected to rise higher in the future unless the State can find additional transportation funding.

According to the TRIP report, 86 percent of major roads in the Reno and Carson City area are in poor or mediocre condition. That costs drivers \$800 each year in extra vehicle operating costs. That includes accelerated vehicle depreciation, additional maintenance costs and increased tire wear because of driving on roads that are beating up vehicles. Statewide, a total of 51 percent of Nevada's roads are in either poor or mediocre condition and in the Las Vegas area, 56 percent of roads are in poor or mediocre condition. The TRIP report also looked at bridge conditions in Nevada. We found that 12 percent of the State's bridges are either structurally deficient or functionally obsolete. These bridges will need repair or, in some cases, replacement.

On top of potholes and deficient bridge conditions, the State's roads are becoming increasingly congested. Since 1990, Nevada's rate of population and vehicle travel have been the fastest-growing in the Nation. The rate of vehicle travel and population growth has far outpaced the rate of capacity on the State's transportation system. That has led to a system of roads and bridges that are increasingly congested. It stifles commuting and commerce and wastes time and fuel every year. According to our report, the average driver in Reno and Carson City loses 27 hours of time stuck sitting in traffic congestion. In the Las Vegas area, it is greater, where drivers spend about 44 hours each year stuck in traffic. That lost time and wasted fuel is coming at a time when many people cannot afford it.

The TRIP report also looked at highway safety in Nevada and found that over the last 5 years, nearly 1,500 people have lost their lives on our roads. In the Reno and Carson City area, we calculated that the crashes in which roadway features were likely a contributing factor cost each driver nearly \$350 each year. This figure represents the financial cost of the traffic accident; medical costs; lost economic and household productivity; property damage; and travel delays. Our report finds the State rural roads are particularly deadly. They have a traffic fatality rate that is double that on all other roads in the State.

Despite some of the deficiencies we have noted in the TRIP report, it is important to keep in mind these deficiencies are not at all a reflection of the ability of either the Nevada Department of Transportation or the municipal organizations to do an effective job of maintaining the roads. They are doing a

tremendous job with the funds they have available. The reality is that the State faces a significant and growing transportation funding shortfall. The backlog to repair all the State's roads and bridges is approximately \$2 billion. Under current funding projections, that will accelerate to \$3.4 billion by 2025. While the State faces a significant challenge and a high cost to repair and maintain its transportation system, the cost and impact of not investing in the transportation system is far greater.

As our report points out, deficient roads placed a heavy financial burden on Nevada's drivers at a time when many of them cannot afford it. Making improvement to the State's roads and bridges will not only leave a lasting asset for further generations, it also creates jobs today and provides a significant economic boost to the State. According to a report by the Federal Highway Administration, every \$1 invested on road and bridge improvement results in a return on that investment of \$5.20 in economic benefits. For every \$1 billion invested in highway construction, nearly 28,000 jobs are supported. Addressing Nevada's need for a safe, efficient and well-maintained transportation system will require a significant boost in investment levels. Not addressing the State's needs for an improved transportation system will result in greater cost to the public.

John Madole (Associated General Contractors, Nevada Chapter):

As Senator Segerblom outlined, this is a modest increase of 2 cents a gallon, which works out to 5 cents a day for an investment in our future. At the end of 10 years, it would be \$3.50 per week, assuming you used 800 gallons per year. That is a little more than the national average. Over 3 decades, I have had the opportunity to serve on several blue ribbon committees for the Nevada Department of Transportation. Despite a lot of good ideas that have come forth, we are failing to address the needs of today. These needs are in the millions of dollars. In the 1980s, a recommendation was made that 10 percent of the vehicle sales tax each year over 10 years be moved to the State Highway Fund so the impact would not have to be so great on the gas tax. That never happened. We hear a lot about the gas tax and wonder if there is a better way, but until we actually do something and find another way, this is the best source. As we get more electric and hybrid cars, this is going to be a bigger and bigger problem. The gas revenues are beginning to decline. The problem needs to be addressed, sooner rather than later. This is a straightforward, 2-cent a gallon tax increase. One provision eliminates an exemption for the bonds issued by nonprofit organizations. The benefit for local government is the money goes

to the Department of Transportation (NDOT), but every road NDOT has is either in a county or a city somewhere in the State. A benefit comes to cities and counties when the State improves their roads. A report issued earlier this year suggests that if we were to get an additional \$285 million a year in revenues to the Department of Transportation, it would take 12 years to catch up on the maintenance schedule NDOT has today. The problem is serious. If you allow a road to degrade, it costs about five times as much to replace it once you let it go completely. One way or another, these roads will be paid for. If we do not do it now with 2 cents, 10 years from now you might be looking at a higher number.

Darrell Armuth (Nevada Highway Users Coalition):

I am a board member of the Nevada Highway Users Coalition. I am here in support of S.B. 377. Nevada Highways are falling apart, and we need more revenue to maintain them.

Mary A. Martini, P.E. (Nevada Department of Transportation):

The Department is neutral on S.B. 377. I was asked to provide technical information on NDOT's programs. I have some comments for the record. The NDOT acknowledges there are many needs in the area of safety, capacity and preservation of our transportation system. Traditional fuel tax revenues are flat and the Nevada Legislature is considering various proposals, including the bill which will allow indexing of fuel tax collected in Clark County to produce a price index. This measure helps address the loss of buying power because of the inflation on transportation projects. In the long term, traditional fuel tax revenues do not sustain the current level of transportation funding.

The NDOT is working with other western states to study the long-term solution known as *Nevada Vehicle Miles Traveled Fee Study* or *VMT* ([Exhibit D](#)) to replace the current method of fuel tax collection. In the meantime, NDOT is taking steps to address congestion in southern Nevada by pursuing a public-private partnership to construct Project Neon. We will be seeking a private partner to fund the project to widen Interstate 15 from Sahara Avenue to the U.S. 95/Interstate 15 Spaghetti Bowl interchange. We also have plans to improve the U.S. 95/215 Northern Beltway interchange and widen U.S. 95 north of Ann Road in the near future.

The NDOT is also requesting tolling authorization in a bill before the Nevada Legislature. As we expand and connect the system of high occupancy vehicle

lanes (HOV) in Las Vegas, we recognize there is room to accommodate vehicles with a single occupant in the HOV lanes. Drivers will have a choice to pay user fees to get to their destination more quickly via HOV lanes or stay in the adjacent general purpose lanes for free. The TRIP report highlights the challenges that we face in improving our system of streets, highways and bridges. With the assistance of the Regional Transportation Commission (RTC) of Southern Nevada and the local public agencies, we are doing our best with available funds to meet those challenges.

Marc Markwell (Sierra Nevada Construction, Inc.):

Nevada Department of Transportation prepared the 2013 *State Highway Preservation Report*, and it is available online. One of the concepts is the importance of preserving our existing roadways, bridges and infrastructure in order to defer costs later. The idea is simple. It is the same reason why you put oil in your car and get the oil changed on a regular basis because you do not want to have to pay a large mechanic's bill later. The idea would flow for the road and bridge preservation. The 2-cent-a-gallon tax would allow us to invest in our infrastructure and reduce costs later.

Danny Thompson (Nevada State AFL-CIO):

We support this measure. Our ability to maintain and construct roads has been impacted by hybrid vehicles and the increased fuel efficiency of other vehicles. This has drained our coffers. This will put people back to work and paying taxes.

Paul J. Enos (CEO, Nevada Trucking Association):

We are here in support of S.B. 377. We believe this mechanism of a straight increase of 2 cents a year for the next 10 years is the best way to raise money for the Highway Fund. We have heard talk about indexing, VMT and toll roads. We support what is in this bill; it is the best way to go. Part of the reason we are supportive of this tax is because it is very cheap to collect a fuel tax. When you are looking at what you get out of a dollar of fuel tax that can go to the roads, for every dollar you collect in fuel taxes, it costs 3 cents to collect that tax. Some of the other options do not meet the mark. This is the best option today. Some people think we are going to stop using fuel in the future. Our mileage is getting better. That is the excuse to not do anything. If you take a truck that does 100,000 miles and gets an average of 6 miles to the gallon, this increase would cost \$330 per year. It is not a substantial hit to the trucking

industry. Looking at a State solution is much better than doing a quick-fix solution as we have seen in some other bills.

We would not have been here a few years ago advocating for an increase in fuel taxes because we did not have the reforms and protections put in place for the taxpayer. We have seen projects done in this State that have not had a positive cost-benefit analysis. Some people living in southern Nevada may see projects done in other places around the State and ask why do we need money when we are wasting money on these projects? In 2007, we required every project that had a threshold of \$25 million or more to go through a cost-benefit analysis in which we look at quantitative data, such as what is this road going to save in time? What is this road going to save as far as lives go? What is it going to save in environmental mitigations, removing people from traffic? We have that cost-benefit analysis in place now. We are not making decisions solely on political juice. Because we have that protection in place is another reason why we are supporting this tax increase.

Peter D. Krueger (Nevada Petroleum Marketers and Convenience Store Association):

I represent the people who collect the fuel tax. In 1991, some of us sat at this table and supported the last statewide gas tax. That was 2.5 cents per year for 2 years. That is the last time the public policy supported a gas tax increase. You have heard from the others, and there is no question we have to do this. We support this proposal. This body has a unique opportunity to make a decision to raise the fuel taxes. There are a couple of options on the table. You cannot do both. Indexing is one thing; this is another. This is a statewide policy that helps all of Nevada, not just one county. We are in support and believe this is the right approach.

Joanna Jacob (Association of General Contractors, Las Vegas; Nevada Contractors Association):

We support this bill. It will bring much-needed improvements to our State's infrastructure and jobs to the construction sector. The construction sector has suffered a huge impact, and this is a good proposal for jobs.

Russell Rowe (American Counsel of Engineering Companies, Nevada Chapter):

Our engineers are design professionals in Nevada who work with State and local governments in designing our transportation infrastructure. They are on the front lines when it comes to new road infrastructure in Nevada. They can speak

directly to the lack of funding to accomplish and move forward the infrastructure we need in this State and for our local governments. We stand in strong support of this legislation. We also support legislation that has been mentioned in previous comments regarding indexing. We are working on legislation in the Assembly regarding enabling legislation to allow Clark County to decide if it wants to index fuel taxes as it was done in Washoe County. Please consider both of these together. You do not want to layer indexing on top of tax increases. There is a way to do that together. This proposal is a good step. It does not provide revenue for the local jurisdictions in order to address their needs at the local level; that is something indexing would do.

Senator Kieckhefer:

You said you do not want to stack indexing and an increase. We have indexing in Washoe County. Why should I vote for this?

Mr. Rowe:

I am saying this is something you need to consider. You need to be careful not to layer additional taxes on top of indexing in a community that has already imposed indexing. Washoe County has been able to address its infrastructure needs with indexing. This body has approved enabling legislation for all the rural counties, but it has not been implemented. The reason for that is because of individual fuel tax thresholds the counties have to meet. Clark County is the only county that has not been granted enabling legislation to decide as a County whether it wants to index its taxes as Washoe County did. That is what the RTC of Southern Nevada and Clark County Commissioners request of the Legislature along with other coalition members. You need to consider both. The proposals are potential options and potential solutions. Indexing allows a county to bring revenue in for local much-needed needs. This proposal will bring much needed money to NDOT. You need to understand there are local needs and proposals to address them. If you move forward with a proposal of this nature, you have to do it in the context of indexing as is happening in Washoe County and what might happen in Clark County.

Chair Kihuen:

Which of the two proposals will bring more money to Clark County?

Mr. Rowe:

I am not the best person to answer that question. Assembly Bill (A.B.) 413 has been proposed in the Assembly and would generate roughly \$28 million a year

for Clark County under a model that has been adopted in Washoe County. The bill gives Clark County great flexibility in the type of index to adopt. It could be something that Washoe County has done or it could be something less. That would be the highest range. I cannot speak to what this would generate on a monthly or annual basis.

Assembly Bill 413: Revises provisions relating to taxation. (BDR 32-1010)

Senator Kieckhefer:

Maybe I misunderstood your testimony, but I thought you said you would not want to do both. Is that what you said?

Mr. Rowe:

That is what I said, and I can clarify that. You would not want to impose a tax in a community that has adopted indexing. There is another proposal to allow Clark County to consider if indexing is something it wants to do for southern Nevada. We ask that you take into consideration that if 2 cents per year is going to be added, that it does not exclude Clark County from considering and adopting its own indexing legislation.

Carol Howell:

There is an issue not being looked at here. My husband and I owned a trucking company. We have hauled tight security items, such as ammunition and explosives, across the United States. I can guarantee you that anytime we had to go into California, we stopped and topped off our tanks here in Nevada, as did all of our drivers. If it was not Nevada, it was Arizona or Oregon. We were only going to spend what we had to in California, and that was the miles driven in that state. What this bill is going to do is make commercial drivers continue to stop, but they will stop in Utah and only get the fuel they need to get in and out of California. You are going to be losing in tax revenues all the sales for meals and items purchased at the truck stops. That can get costly. You might want to take a look at what this is going to do to the commercial drivers passing through Nevada into California. That is a substantial amount of money that will be lost. If I am going to California and I need 50 gallons, instead of topping off at 100 gallons, because our taxes in Nevada are less than in California, I am going to fill it in Nevada, Arizona or anywhere we can save the money. You are going to lose the additional expenditures the truck drivers spend in Nevada by increasing the taxes.

I understand this is only 2 cents. Several of the speakers said it is minimal. When you consider there are 47 taxes now being imposed, either directly or indirectly on the American people, an additional 20 taxes coming in effect with Affordable Care Act and then all of the other taxes you all are looking at in this building, that 2 cents does not become minimal, it becomes a major problem for all the people out of work, fighting to keep their businesses and their homes. Our economy is a disaster. To implement another tax, you need to think about this very hard. Right now the taxes are 17.65 percent. If we cannot take care of our roads at 17.65 percent, what is 2 cents going to do? That is minor compared to what the 17.65 percent should be taking care of now. Maybe you need to look in a different direction rather than increasing taxes.

Senator Roberson:

You said you guaranteed this would cost us money. Do you have any data or statistics to back that up?

Ms. Howell:

I guarantee the drivers are going to look at stopping at places other than in Nevada.

Senator Roberson:

You guarantee that?

Ms. Howell:

Yes, I do. I would and all of our drivers would.

Senator Roberson:

It would be good to have data and statistics to back that up; hopefully, the other side of the argument can supply that to us because we need to get to the factual heart of the matter. If not this tax, how do you propose we fund roads, bridges and transportation projects in this State? I am not saying I support this bill. I am considering it like every other bill we consider this Session. When people come to say, okay, I can accept that, what is your solution?

Ms. Howell:

Look at the other side of asking for more money and look at the spending and the way it is spent. The money contracted out and the overrides are a separate conversation we need to have instead of increasing taxes. We need to look at how to cut costs.

Senator Roberson:

In the 76th Session, Nevada cut a higher percentage of its State General Fund than any state in the Country.

Ms. Howell:

Congratulations—good.

Senator Roberson:

We did that. I am all for finding ways to cut government. How are we going to fund roads, bridges and transportation projects in this State? If this is not the idea you like, I would like you to offer another idea or proposal that we can consider.

Ms. Howell:

I will do that and send it to you.

Lynn Chapman (State Treasurer, Independent American Party):

I have gone to many of the tax hearings this Session, and all I keep hearing is it is only going to be \$8 a month; it is only going to be 2 cents a gallon. All the "onlys" add up. It is difficult for families, such as my husband and me. We are getting older, and we are still living on the same amount he made 8 years ago. He has not had a raise. The manufacturing company he works for has been laying people off. It is getting scary. This all adds up and makes life very difficult. I have talked to people about the roads and taxes on gas. I have friends who say "I take the bus to work." If you walk across the road, you are using the road. If you have a bicycle, you are using the roads. If you take the bus to work, the bus is on the roads. If you go to the grocery store or the hardware store, everything is trucked in. Everybody is benefitting from the roads. Who pays for those roads? It is the people who put gas in their cars. Maybe we could spread it out a little bit more and include everybody who benefits from the roads.

Senator Roberson:

What do you think is the percentage of people in this State who do not own vehicles, and how much more are we going to spread this out by including people who do not own vehicles? I would think it is a small percentage.

Ms. Chapman:

There are a lot of people who take the bus because I have taken the bus down here, and it is always full coming and going.

Senator Roberson:

You want to spread the cost to people who cannot afford vehicles?

Ms. Chapman:

Lots of people cannot afford to pay more money in taxes in gas just to get to and from work. Single moms and older people cannot afford it.

John P. Sande, III (Western States Petroleum Association):

I am testifying on behalf of the Western States Petroleum Association, a nonprofit trade association that represents companies that account for the bulk of petroleum exploration, production, refining and marketing in the six western states of Arizona, California, Hawaii, Oregon, Washington and Nevada. I have some information that I received from the Governor's Office, [Exhibit D](#). Our position is you should be studying this issue on a long-term basis and not have 10 years of increases. A study will help you focus on how to fulfill the Highway Fund shortfall. Most of the states in the Nation are in the same situation now and are studying the best approach for a long-term solution since petroleum use is on the decline. If you do pass this bill, you should be studying the *Nevada Vehicle Miles Traveled Fee Study*, [Exhibit D](#). The Governor's Office has a lot of information. You may want to ask that office to give you some information. Staff is trying to find a way to get away from a fuel tax and go to something that is more fair and acceptable to everybody. The State of Oregon is doing a study now, and other states are too.

Bryan Wachter (Retail Association of Nevada):

Under the new rules, I am not sure if what I am going to say is neutral or opposition. Out of caution, I will be opposing. There is a dual role when you increase fuel costs. That is the increase for a consumer, who buys gasoline or diesel and consumes that product; and for retailers, our prices are increased on our products when transportation costs are increased. That price gets pushed on to the consumer. If we pay more to transport a truckload of frosted flakes, eggs or bread, that does have the potential to raise the costs of consumer goods. It also has the chance of raising consumer goods in the production of these materials. When you manufacture a television and use gasoline or diesel in the production, it raises the cost of producing that good.

Janine Hansen (Nevada Families):

Eight years ago, I moved to Elko. It is a different experience to live there because you are often on the road. If you want to go to doctors or dentists, they may be in Salt Lake City, Twin Falls or Reno. If you want to go to Costco, this same situation exists. If you want to go anywhere, such as the Legislature, it is a 5.5 hour drive. When you live in rural Nevada, you drive more distances than people who live in the city. A lot of people have older cars that get lower gas mileage. I read a report that said 50 percent to 60 percent of family incomes go to federal, state and local taxes, more than people pay in housing, food, education, health care and recreation. A lot of those taxes are hidden.

My brother used to have a roofing company. When he would give people an estimate on how much a roof would cost, half of the cost was in fees, taxes and permits. When you pay \$5,000 for a new roof, only half is for your roof. As we continue beyond the point of average families paying 50 percent to 60 percent of their income, we have to ask, when is it enough? It becomes prohibitive.

The last few years have been difficult for a lot of people. My husband has been out of work. My son-in-law is still out of work. My stepson lost his job twice. He left Reno and got a job in Elko as an engineer. My daughter was out of work. A lot of people are living on the edge. I have had to look for ways to save money. This tax increase is not 2 cents. Instead of 17.65 percent, it will be increased to 37.65 cents. That is more than a double increase over what we are paying now. When people are considering how to just make minimum payments and cut budgets, it is not so easy to say we have to have it.

I spent 4 months in discussions in Elko County last fall about raising the gas tax. Senator Roberson asked what would you suggest for this. The road committee went through alternatives and other answers about how to resolve the difficulty of raising money to do the roads. We found many suggestions from the community on how to take care of problems with the roads in Elko County that would save hundreds of thousands of dollars. A \$600,000 project was resolved for \$25,000. When we discuss the issue of how do we reexamine this, we have to take a close look, especially when families are figuring out how to go to the grocery store and buy what they need while cutting their budgets. We need to have serious oversight. Perhaps there needs to be an adjustment with prevailing wage.

Chair Kihuen:

Do you think there is a limit we can cut?

Ms. Hansen:

I think there is a limit that people can continue to pay.

Chair Kihuen:

What is that limit?

Ms. Hansen:

The people cannot pay any more now. Families are beginning to disintegrate because the financial pressures are so great. The people who will suffer the most are the low-income people who can least afford it, including the people in rural counties. I understand you are in a dilemma. I also understand there are a lot of families in Nevada who wonder how they are going to make that next house payment, like my son, who lost his home. This is a serious issue. Government needs to be as careful about spending our tax money as we have to be about spending our personal funds and living within our budgets.

Chair Kihuen:

We wish you and your family luck in finding employment.

Senator Smith:

This bill would be a big job generator. It would put a lot of people back to work. We just heard about an unemployed engineer. That is one of the great side benefits of this legislation. We get to keep our roads in repair, and we get to create a lot of jobs at the same time. They are good paying jobs and help to sustain our middle class. We are shifting money out of our Highway Fund in this Legislative Session. We need to look at how we can keep that money where it belongs so it will create more jobs.

Wayne Seidel (Administrator, Motor Carrier Division, Department of Motor Vehicles):

We are neutral on the bill. We have provided the Committee the calculations we see ([Exhibit E](#)). In fiscal year 2012, Nevada consumed approximately 1.7 billion gallons of fuel. Based on those statistics and projections, 2 cents per year will add approximately \$28 million per year. Approximately 600 hours of computer programming will be required to implement this bill. We suggest you go to July 1 of every year. This will reduce our programming to under 200 hours.

Senator Denis:

We have talked about how we are taking money from the Highway Fund. We have more and more needs. If we do not keep our roads and bridges up and we have a major accident, that is going to cost a lot. We have to find ways to maintain our roads if we want commerce and tourists to go through our State. We need to look for ways to save, but we need to think about safety.

Chair Kihuen:

In the Governor's Executive Budget, \$125 million is being removed from the Highway Fund for the General Fund, and we have to find ways to replace it.

Senator Segerblom:

I want to comment on the statement made by the lady who said the truckers were going to fill up their trucks in another state; there is an international fuel agreement where truckers pay by the miles they drive in a state. No matter where they fill up their tank, they pay the same rate regardless if this tax is approved or not. There is no way they can avoid paying this tax; we will get our money. On the indexing tax, I am not sure if that will go to something like Interstate 15. I hope you will consider that. What I am concerned about is between Sahara Avenue and the Spaghetti Bowl. If we have orange cones on that for 10 years, the amount of traffic jams it will cause coupled with the lost hours for people sitting and waiting for that to be completed will be a nightmare. If this legislation shortens that up because we were able to bond it and build it faster, I cannot believe we would not want to do that.

Chair Kihuen:

I will close the hearing on S.B. 377. I will open up the hearing on S.B. 400.

SENATE BILL 400: Revises provisions governing the taxation of mines and mining claims and provides for the taxation of certain items relating to mines, mining claims, mineral deposits and extracted minerals. (BDR 32-620)

Senator Segerblom:

Senate Bill 400 may not be needed if it passes. It is designed to take effect if Senate Joint Resolution (S.J.R.) 15 of the 76th Session passes the Legislature and goes to a vote of the people and is approved. James Wadhams testified if S.J.R. 15 of the 76th Session passes, Nevada is going to suffer a decrease in

revenue. Senate Bill 400 is designed to make sure there is no decrease in revenue if S.J.R. 15 of the 76th Session passes.

SENATE JOINT RESOLUTION 15 OF THE 76TH SESSION: Proposes to amend the Nevada Constitution to remove the separate tax rate and manner of assessing and distributing the tax on mines and the proceeds of mines. (BDR C-1151)

If S.J.R. 15 of the 76th Session passes and nothing else changes, the Net Proceeds of Minerals Tax (NPOMT) currently in place will stay. The NPOMT is 5 percent. The property taxes that do not apply to mines will be allowed to come back into play. Certain statutory exemptions will be taken out. The property value of mines will be taken into account. There are two kinds of property. Real property is the ground the mine is on and where the minerals are, and then personal property is where the gold comes out of the ground. This bill provides for two provisions. First, it provides for the real property, which is the ground and includes the value of what is in the ground. If you have a piece of property that has gold underneath it, the value of that gold is also included in the value of the property and is taxed. There have been questions about how will you know how much gold is in the ground. The reality is if you have not started to mine it, or there has not been a sale of the property, you would not know the value and there would not be much tax. Take a piece of property that someone explores and determines there is \$1 billion of gold in the ground. Once that property sells for \$1 billion, the value for the property is set.

That is how the property tax is based. The property owner may not take the gold out for several years, but we will collect the tax on that property at the fair market price based on the value of the gold. If you have 100 feet of property, it is not worth anything; but if you have 100 feet of property on The Strip, it is worth \$1 billion. The property on The Strip is taxed at the value of the property because it is on The Strip. The same analogy should apply to a piece of property where there are known gold reserves and the value has been set by a sale.

If S.J.R. 15 of the 76th Session passes and S.B. 400 does not pass, you could not tax the value of the mineral in the ground. There is an exemption for personal property. When gold comes out of the ground, it becomes exempt personal property. This bill takes out the exemption. The property would be taxed when it is in the ground, and when it comes out of the ground, it would be taxed. It would be taxed at the property rate, which is up to 3.6 percent for

both. Then there would be the NPOMT, which is 5 percent, minus all the deductions and, as we know, there is not much tax there. This is not designed to make additional revenue; it is designed so that if S.J.R. 15 of the 76th Session passes, there is no loss to the State—which has been the biggest argument against S.J.R. 15 of the 76th Session.

Chair Kihuen:

Mr. Powers, was he right?

Kevin Powers (Counsel):

The overview of the bill was correct.

Senator Denis:

If you own a piece of property and you have not done any exploration, is the value of the property the current value?

Senator Segerblom:

Just the land value. If you have an acre of land in Elko, it is probably worth \$100. If there is a mining claim without an actual sale, it is still worth \$100 because you have no idea what is under the ground. It is when you are able to accurately determine the value under the ground that this tax would kick in. If anybody sold a piece of property to a gold mining company for \$1 billion, the company has \$1 billion worth of property. That sets the value of what is under the ground, and then it could be taxed.

Senator Denis:

If you have a company that bought land, explored it and found it is worth \$1 billion but has not sold it, would that come into play?

Senator Segerblom:

If assessors could prove the property was worth that, they could tax it at the higher rate. Until there is a market value set on the property, assessors cannot ask for your secret data on what you discovered when you drilled.

Senator Roberson has a similar bill, but his excludes everything under the ground. The argument is if you start to tax things under the ground, the exploration companies have to pay taxes. The reality is until a market value is set and the property sold, there is no way an assessor may determine what is under the ground. The problem with Senator Roberson's bill is if you did find a

piece of property and sold it for \$1 billion, based on what was under the ground, you would not tax that \$1 billion of value until the company started taking it out of the ground. A mining company could sit on a valuable piece of land for 10 or 20 years. Like the vacant piece of property on The Strip, we place value on it based on the sales price, not after they build the resort. Why should the piece of property in Las Vegas be treated differently than the piece of property in Elko?

Senator Kieckhefer:

If you are acknowledging it would be impossible for assessors to value mineral deposits under the ground, are you setting them up to fail by mandating they create assessments for that?

Senator Segerblom:

I do not believe so. You do not have to assess something unless there is a sales price or some way to value that property. If there is some type of price set for that land other than the raw value, then the assessor should ask how did someone arrive at that price? If it is based on the fact that there are known deposits of gold under the ground, then why would we exclude it from being taxed as part of the value of the property?

Senator Kieckhefer:

Maybe I disagree with what you are saying. Section 4, subsection 5 of the bill reads "the value of any mineral deposit in its natural state attached to the property must be included in the computation of the taxable value." It is not based on sales price, it is based on the presumed value of the mineral in its natural state. It will be very difficult to implement.

Lesley Pittman (Nevada Mineral Exploration Coalition):

We have submitted a proposed conceptual amendment ([Exhibit F](#)) to S.B. 400. It excludes nonproducing, unpatented mining claims in the value of any mineral deposit in its natural state attached to a property from the provisions of the bill. Mineral exploration is the research and development segment of the mining industry. We are small companies comprised of geoscientists and rely on our ability to secure venture capital to help us determine whether there may be valuable minerals under the surface. This is a long and expensive process. Sometimes we find minerals under the surface and determine if they are sufficient quality and grade for mining. Until commercial production begins, the claims have no real value. Less than 1 percent of the claims staked actually

become ore deposits to be mined. We can mine it ourselves or we can sell the deposit to mining producers and the proceeds from that sale are taxed in the same manner as other revenues in Nevada.

We generate no revenue, and we produce no minerals. We take nothing from the State, but we bring in outside investment capital that creates jobs and economic activity in our communities. Unpatented mining claims allow the opportunity for us to explore the land and provide certainty that if valuable mineral deposits are found, the explorers will then have clear title to them. Nonproducing unpatented mining claims are different from patented mining claims. Patented mining claims are understood as real property and are taxed that way—when the claim holder has full fee title to the surface and the minerals of a parcel of land and the U.S. government has no interest in the land. Unpatented mining claims are those with a possessory interest, which is conditioned on and subject to all sorts of controls and conditions of the federal government, and the federal government still has title to the land.

We ask for your support for this amendment and in doing so, we would like to remind you of our industry experience from the 26th Special Session when we were in the midst of our State budget crisis and the Legislature approved significant increases in our claim fees. The realization of the unintended and devastating impact the claim fee increases would have had on our industry and future mining opportunities in Nevada prompted the 76th Session to repeal that increase retroactively. I bring that up because I want to urge you to please not create a similar situation through S.B. 400 by unintentionally capturing the mineral exploration industry in this bill.

Chair Kihuen:

Have you had a chance to go over the amendment with the sponsor of the bill?

Ms. Pittman:

I submitted it through email two nights ago. I hope the sponsor has had the opportunity to look it over.

Chair Kihuen:

For the record, Senator Segerblom does not support the amendment. It is up to our Committee to decide if we adopt it.

Senator Denis:

Are you saying when you explore, you are asking for an exemption? Property would not be taxed until you sold it. As an explorer, you find minerals underground, but you do not sell the property and you would not be paying. Once you find the property has something and you sell it to someone, you have put a value to it. I am trying to understand how your amendment fits in with that discussion.

Ms. Pittman:

I do not think that is clear in S.B. 400 as written. That is where our greatest concern is. We are trying to clarify in the language of the bill, unless it is producing or patented, those mining claims would not be taxed from a property tax standpoint.

David R. Shaddrick (President, Nevada Mineral Exploration Coalition):

The critical distinction is in the unpatented mining claims and the nature of the ownership of those claims. Even if you do discover valuable minerals under an unpatented mining claim, if you happen to neglect to make your payments to the Bureau of Land Management, you lose those mining claims and minerals. It is an uncertain situation until you are actually producing minerals from the ground. The logical time to be taxed is when you are generating revenue.

Senator Denis:

Are you exploring a piece of land to see if there is anything there?

Mr. Shaddrick:

If we are lucky enough to find a viable economic mineral deposit, we form an operating company and begin to produce the gold and not just on one claim. You have to have a large number of claims or sell to a willing buyer. The value of the property that is going into production reflects the market value.

Senator Denis:

If you explore a piece of property and find that there is value and you decide to create a production company, you would not actually pay the tax until you started producing because there is no value on it until you start producing. If you sell it to someone else, then there is a value and it would get taxed. I do not see how you would have to worry about getting taxed until you started producing or you sold it when there is a value.

Mr. Shaddrick:

From my standpoint, if that kind of situation existed, I would not buy a property. If you buy property and you do not have it in production, 2 years from now it could be nonviable. The only time you really know what you have is when you get the mineral out of the ground and sell it. Otherwise, everything can come and go with increases and decreases in the market and changes in government regulations. Until the mineral actually comes out of the ground, it should not be taxed.

Senator Denis:

If you go find something and sell it, are you selling it for a higher value than what it was worth before you found something?

Mr. Shaddrick:

It is a very difficult distinction. You need an economist to explain this. Our business is such that there is no definitive, factual certainty that the mineral exists. Many ore deposits have been opened up and the companies found what they thought was there was not there. That is the kind of risk we take. We take big risks all the way along. You do not know what you have, so how could you be taxed on it?

Senator Denis:

The buyer is willing to pay more money for the property because there is the possibility of some type of mineral. Because you found something, the value has gone up. If a person purchased the property at a higher price and finds nothing is there, the value of it goes down. How do you value a piece of property that does not have minerals in it? It is a risk to buy a piece of property and pay a higher price—and find out there are no minerals.

Senator Kieckhefer:

I will try to clarify. Senator Denis is talking about a transaction tax or a sales tax on a mining claim versus what this bill refers to in terms of the valuation of that claim from a tax point by the original claimant. Those are two separate issues and not touched on in this bill or the next one.

Senator Denis:

I thought I was hearing if you pay \$100 for a piece of land, explore it and find there are minerals underground, you can turn around and sell the property for \$100,000. The purchasers are paying this price because they believe there are

minerals in the land. My understanding is that property is now worth \$100,000 because somebody was willing to pay for it. It would get taxed on the \$100,000.

Mr. Powers:

The issue is the assessment of the mining claim for real property taxes. Under S.B. 400, those mining claims would be assessed for real property if it sold for its full cash value at \$100,000. That is what the assessor would use in determining each year's assessment on how to determine how much property tax to collect. If those mining claims are subject to real property tax under S.B. 400, then the full cash value will be the starting point for collecting the real property tax. The market value of that property would be a factor that the assessor took into consideration. Senate Bill 400 also provides when you are determining the value of the property for the real property tax, you are also going to take into consideration the value of the minerals beneath the surface of the property. The assessors will have to come up with a formula for determining how you estimate the value of the minerals beneath the property.

Senator Brower:

This is not something the assessors have ever had to do in the past?

Mr. Powers:

That is correct. The 1863 Territorial Legislature taxed possessory interest of unpatented mining claims. That occurred before the Constitution was adopted in 1864.

Senator Brower:

That was not the right way to do it, and we have not done it since.

Mr. Powers:

That is correct.

Senator Smith:

The word I would use is "speculative." What we are talking about on the exploration side is speculative. When someone sells or buys a mining claim, he or she does not necessarily know what is in the ground and the value of that claim. You refer to a \$100,000 sale, but the prospector may have spent \$90,000 to get there. It is an unknown entity. I do not know how you could get a realistic value or estimate.

Demar Dahl (Commissioner, Elko County):

In Elko County, we have a good example to demonstrate what we are talking about. We have a big mine that just bought a little mine for over \$1 billion. If I understood this correctly, Senator Segerblom said if a mine pays \$1 billion for a piece of property and sits on it, what is under the surface should be taxed because we know it is there, otherwise the mine would not have paid \$1 billion. The way to keep the big mine from buying the little mine is to tell the big mine if you buy it, we are going to tax you for what you pay for it because that is what you think it is worth. If a big mine buys a little mine when gold is worth \$1,700 per ounce and when the company takes it out of the ground, it is worth \$240 an ounce, how does that compute? When the company buys the piece of property for \$1 billion and before it actually produces any minerals, the company may invest another \$1 billion into the property.

Mining is important for us in Elko County. Our biggest problem in Elko County is a housing shortage because our economy is so good. We are very smart about how we do things because we have seen the volatile nature of mining. It goes up, and it comes down. When it comes down, you have to be prepared. Two years ago we owed about \$25 million in Elko County, and now we owe \$240,000. We are ready for the price to come down. You hear people say the gold companies are not going to shut down and go to another country and start looking for a new mine. They are not leaving because they already have those mines. The companies are already there. They put their money and their resources where they get the best return. If it is an unfriendly environment here, they will go to another country. We need to consider this when talking about companies spending \$1 billion for a property and taxing them for that \$1 billion before they get a chance to spend the \$1 billion to develop it without knowing if anything is there.

What are the fiscal impacts to the counties? What are the distribution rates? One half of the mining taxes go to the State and half to the counties. Will mining taxes change from centrally to locally assessed? If so, will the county treasurers take over auditing responsibilities? Will mine property be assessed at 35 percent value like other properties? Another important aspect to any state land owner is if you own the surface, then you own the mineral rights. Does this apply to oil, gas and geothermal?

Section 4, subsection 5 reads "In determining the taxable value of property, the value of any mineral deposit in its natural state attached to the property must be included in the computation of the taxable value of the property."

The only reference we were able to find for "mineral" is in *Nevada Revised Statutes* 360. Mineral includes oil, gas and other hydrocarbons but does not include sand, gravel or water except hot water or steam in an operation extracting geothermal resources for profit. If I own property in Dixie Valley with a hot spring, that is not a mineral until we bring it out of the ground and we start generating electricity with it. I have an uncle who is a water witch. If you want to drill a well, he can go around with a piece of wire and tell if water is there. He can also sometimes tell how much water is down there. This bill has a lot of problems.

Naomi S. Duerr, P.G. (President, Desert Pacific Exploration, Inc.):

I am objecting to S.B. 400, and I have testimony to submit ([Exhibit G](#)).

Chair Kihuen:

Thank you for the tough task ahead of us in the next 8 weeks.

Philip S. Hanna (CEO, Battle Mountain General Hospital):

I have written testimony ([Exhibit H](#)).

Steve Walker (Eureka County):

Please see the letter of opposition from the Eureka County Board of Commissioners ([Exhibit I](#)).

Alan R. Coyner (Administrator, Division of Minerals):

The Division is neutral on S.B. 400 and S.B. 401. Please refer to my two handouts ([Exhibit J](#) and [Exhibit K](#)) that provide some numbers regarding actions to which these bills apply. The exhibits contain information on exploration dollars that would be spent in the State and the number of mining claims in Nevada. The major concern for the Division of Minerals is 80 percent of the revenue of our Division is received from mining claim fees. Changes in the number of mining claim fees have a strong impact on our budget.

SENATE BILL 401: Revises provisions governing the taxation of mines and mining claims and excludes the value of certain mineral deposits from the taxable value of property. (BDR 32-910)

[Exhibit J](#) is a graph that shows the number of mining claims in Nevada. There are unpatented mining claims and patented mining claims. Unpatented mining claims make up the majority of what is in Nevada. We currently have 200,000 unpatented mining claims. The claim holders pay a federal fee and a county fee once a year; a portion of the county fee comes to the Division of Minerals. The graph, [Exhibit J](#), shows over the past 5 years, despite the rapidly increasing price of gold, the number of mining claims has stayed stable at 200,000. Both [S.B. 400](#) and [S.B. 401](#) affect the number of mining claims and could contribute to that number declining.

[Exhibit K](#) documents a study the Division did on economic impacts from exploration, such as the amount of money that is spent in Nevada. This document shows \$700 million was spent on exploration. As a trained exploration geologist and a certified professional geologist, I can attest to the fact that a lot of money is spent in Nevada every year from outside our state in a somewhat hopeless quest to find a gold mine. Gold is rare. It is difficult to find, and I have spent millions of dollars of my company's money trying to find one. About 200 claims in Nevada are producing claims where actual valuable mineral is coming out of the ground. That leaves over 200,000 claims that people are holding and speculating in hopes that there are minerals.

The Division of Minerals is also in charge of the *Annual Status and Production Report*. In 2011, Nevada came close to \$10 billion in hard rock mineral production. We are the largest hard rock mineral producer in the U.S., and \$8.5 billion of that is from gold and silver mining. It is a huge economic engine in the State. The focus needs to remain on production. The exploration and the future are speculative.

Michael Ginsburg (Progressive Leadership Alliance of Nevada):

We are neutral on [S.B. 400](#). We want to applaud Senator Segerblom and Senator Roberson for bringing these issues to light. We are pleased to see the attention and interest in ensuring Nevada benefits from its wealth of natural resources. We are happy to see interest placed in mitigating the environmental devastation brought on by hard rock mining to make sure many of these multinational corporations contribute to our future instead of undermining it.

The main reason for our neutrality is we want to caution against inadvertently taking us from the current tax cap on NPOMT at 5 percent and putting us under a different system where the minerals are assessed and taxed at 35 percent of

their assessed value along with the 3 percent property tax cap. This may diminish the appetite for future exploration of mining taxation if this is seen as the replacement tax. We would prefer an independent severance tax removed from property and other issues so that other businesses and individuals were not caught up in so many of these debates. Both of these bills have great ideas. We think the removal of the exception for unpatented mines should have occurred a long time ago or it should never have been enacted in the first place. As for the key difference in the property taxes and using the values of the deposit to assess that property tax, we would caution against that also. It may inadvertently force a landowner or a homeowner to either pay that tax, sell the property in order to pay it or start digging. If you decide you will combine these bills, then we would ask the unpatented mines exception remain. We are opposed to the amendment discussed earlier.

Senator Roberson:

I am confused. Why are you opposed to the amendment that would exempt unpatented mining claims from ad valorem taxation? We are talking about a speculative industry; nothing has been produced, no income has been generated.

Mr. Ginsburg:

We understand the amendment would reverse what is in S.B. 401, which is to take the exception out.

Senator Roberson:

The amendment that Ms. Pittman proposed is consistent with S.B. 401.

Carole Vilardo (President, Nevada Taxpayers Association):

I have no position. I did not survey the bills, but I have a whole host of questions that both of these bills open up. I do not see any answers for them. There will be unintended consequences you will regret unless you get the answers to the questions. I will be happy to put them in writing and get them to you next week.

Senator Roberson:

I would like to hear your comments to S.B. 401 today after I testify. I would like your input. We are trying to identify a potential problem we want solved. Between S.B. 400 and S.B. 401, hopefully we can solve that problem with input from many people.

Chair Kihuen:

I will close the hearing on S.B. 400 and invite Senator Roberson to present S.B. 401.

Senator Michael Roberson (Senatorial District No. 20):

Senator Segerblom presented S.B. 400. Our bills do have some similarities but at least two significant differences. As with S.B. 400, this bill will not go into effect unless S.J.R. 15 of the 76th Session is passed a second time by the Legislature and then passed by the voters at the 2014 general election. If the Nevada Constitution is amended to remove the special treatment of mining, the existing exemptions and exclusions from property tax of minerals and mines will no longer be constitutional. Therefore, much of this bill simply removes existing language that excludes the NPOMT from statutes on assessed valuation and calculations of property tax in various formulas and repeals statutes with exemptions for mines.

There are two major differences between S.B. 400 and S.B. 401. In section 4, S.B. 401 adds mines and mining claims to the types of real estate that are not subject to property tax even if used as a residence or by a for-profit business. A friendly amendment to section 4, subsection 2, paragraph (o) changes the wording on the exemption to nonproducing unpatented mining claims. The second biggest difference is in section 5, subsection 5, which adds a provision to the statute defining the taxable value of property to exclude the value of minerals in their natural state and still attached to the land that is not mined from a determination of taxable value.

Senator Segerblom has good intentions for his bill. He is approaching this from a different direction, and I do not think his bill is good policy. Senator Segerblom and I both support S.J.R. 15 of the 76th Session. We believe the special protection the mining industry has in the Constitution should be removed. A lot of claims by opponents of S.J.R. 15 of the 76th Session are incorrect and not supported by the evidence. We have tried to address other concerns that have some validity. One of the concerns involves exploration companies with unpatented mining claims or patented mining claims. They have not found any minerals, and they have not produced any minerals. We would like to minimize any adverse treatment to those mining claims based on passage of S.J.R. 15 of the 76th Session. Patented and unpatented mining claims are exempt from ad valorem taxation. We would like to be as consistent with that as we can. That is not the point of S.J.R. 15 of the 76th Session. That is not

where the big revenue is. To do as S.B. 400 and try to guess the value of mineral deposits under the ground is difficult and likely impossible for the county assessors to determine. It would also discourage exploration activity.

I respect Senator Segerblom's attempt to address a potential issue. We are both trying to clarify the treatment of unpatented and patented mining claims. His bill clarifies it in the wrong direction. We need to focus on the taxation of the production of active mines at the extraction and production sale level, not on what underground minerals may exist before any income has been produced or any extraction or production has been generated. It does not make sense.

Ms. Pittman:

I want to express my appreciation for Senator Roberson bringing forward this legislation to help clarify the treatment of mining claims relating to ad valorem property tax. We support the legislation with amendment. We think it is important to distinguish between patented and unpatented mining claims. The amendment would make it consistent with the language we brought forward for S.B. 400.

James G. Parrish (CEO, Humboldt General Hospital):

I have two of our first responders here with me. We are in opposition of S.B. 400 and S.B. 401. Our concern is the NPOMT and the distribution model. We receive approximately \$1.6 million a year in NPOMT. We purchase ambulances, train paramedics and staff our ambulances with those funds. We respond to the mines, Interstate 80 and U.S. Highway 95. One rescue unit costs \$350,000. The responders are not self-supporting. They serve the public. Without the NPOMT, our ability to service that population would be greatly diminished.

Senator Roberson:

Do you understand this bill has nothing to do with the NPOMT? Senate Bill 400 tries to keep the ad valorem taxation on patented and unpatented mining claims consistent with where it is today. This has nothing to do with the taxation of the NPOMT.

Mr. Parrish:

I was not completely aware of that when I read the bill. I would like to ask the Committee that the distribution levels remain the same.

Jared Oscarson (Humboldt General Hospital):

I would like to second Mr. Parrish. We are in the outlying area and we rely on these funds tremendously to have staff and critical care transport because we are so far away. Sometimes we cannot get air resources to accommodate patients and provide access to health care in the rural communities.

Louis Mendiola (Humboldt General Hospital):

I would like to echo what was said by my colleagues. I would like more clarification on the questions we have.

Senator Roberson:

It is important for everyone to understand what this bill does. We intend to maintain status quo to the extent we can on the taxation on unpatented and patented mining claims. I am trying to prevent adverse objections to S.J.R. 15 of the 76th Session. You can agree or disagree with that. That is not what we are talking about today. This bill is to protect exploration companies when they are working on patented and unpatented mining claims. It does not affect the taxation of NPOMT. I want to be clear about that. It is very different than S.B. 400.

Mr. Coyner:

According to our calculations and records, approximately 60 percent of the gold produced in Nevada comes from private property and 40 percent from public property. That is important to consider because unpatented mining claims only exist on public land. There are not just unpatented claims and patented claims, there is private property. Production occurs on three categories of land. I cannot give you the split on private property for patented versus unpatented claims. We do have a large amount of railroad land and other private land.

Many times companies in our State buy other companies. That is very common. A small Canadian company is absorbed by a larger one. A few years ago, Newmont Mining Corporation bought Fronteer Gold, Inc. It is a package deal—the larger company buys the entire small company for stock, cash or considerations. Individual properties within that package are not identified as far as value goes. It is a simple case when one person sells a mining claim to another. When you get into the larger aspect, it is very difficult to make those distinctions.

Debra W. Struhsacker (Nevada Mineral Resources Alliance):

I am neutral on S.B. 401, and I would have testified in opposition to S.B. 400. We are very appreciative of the efforts put forth in S.B. 401 by Senator Roberson to protect unpatented mining claims. We have some concerns about potential complexities and unintended consequences and would be happy to work with you to address those. I would like to follow up on Mr. Coyner's comments about the big mining transactions that are package deals. The billions of dollars you are hearing about are not for a project valuation of gold, copper or silver; it is for buying a company. There are certainly transactions for properties that do not have an identified resource or reserve. That happens all the time in the mining industry. What a willing buyer is purchasing is not any kind of valuation of what is known or thought to be in the ground; the purchaser is buying an opportunity to continue to explore for those minerals with the hopes of making a discovery that could eventually meet the criteria that Ms. Duerr was describing earlier. A rigorous, technical criteria set before the U.S. Securities and Exchange Commission, the Toronto Securities Commission or the British Columbia Securities Commission allows companies to describe what they have as resources or reserves to which you could potentially assign a valuation. That is very far down into the exploration process.

Exploration is a process of collecting data. It takes a long time to collect enough data so you could put a valuation on what the minerals in the ground would be worth. Up until then, you are buying a guess. Any transactions in properties before that point of discovery are valued on the basis of an opportunity to continue to explore. I submitted a companion graph ([Exhibit L](#)) to the one Mr. Coyner showed. This graph, prepared by the Bureau of Mines and Geology, shows the annual gold production for every year since 1978. You can see the top gold production of 9 million ounces in 1998. Since that time, our gold production has been declining dramatically. The production of gold and other minerals comprises your tax base.

As this Committee deals with the issue of how you craft a new scheme for taxing mining, it is important to keep in mind that you need to enact policy that stops the erosion of this tax base. We need to be increasing gold production, and mineral exploration is an essential element of accomplishing that objective. Exploration discovers the mineral deposits that can become a producing mine and a source of tax revenue for the State. You heard from Mr. Coyner that the exploration sector of the industry brought in \$700 million in the last year from investors. Exploration companies use this money to drill holes and find and

discover those deposits in Nevada. As you consider the complex issue for an appropriate taxation scheme for mining, keep in mind the important role the exploration part of the industry plays in keeping the tax base level.

Senator Roberson:

I encourage you to work with me on this bill. If there are unintended consequences, we want to address those. We want to get good policy out of this Committee.

Chris Nielsen (Executive Director, Department of Taxation):

We are neutral on this bill. The Legislative Counsel Bureau Fiscal Division requested us to provide a fiscal note. We took this opportunity to go through the bill section by section. This is a technical bill. We want to make the Committee aware we did provide this fiscal note, and we found there may be unintended consequences above and beyond what the policy is of this bill.

Ms. Vilardo:

I thought Senator Roberson had a question for me.

Senator Roberson:

If you have concerns with the bill and any ideas on how we can make the bill better, I would like to hear that. We want to get this right.

Ms. Vilardo:

I have a lot of questions that can potentially lead to unintended consequences. The questions may help you identify potential problems that you would need to work out with assessors, treasurers and the Department of Taxation. This captures more than gold or silver. There has to be a realization. Gold and silver we all relate to. We do not relate to things like lithium and opals. People do not think of gypsum. Everything you do in the bill impacts those other industries. The whole emphasis has been on gold. You need to reach out to those industries.

Senator Robertson:

I want to be clear. We are attempting to maintain the status quo to the extent we can on the current ad valorem tax of mining claims. We do not want to have the undetermined value of the mineral underneath the ground included in computing the taxable value of mining claims. We are trying to avoid any

unforeseen consequences of S.J.R. 15 of the 76th Session to the mining claims.

Chair Kihuen:

We are going to close the hearing on S.B. 401. We will open the work session. We have five bills to consider.

Joe Reel (Deputy Fiscal Analyst):

I provided a summary of S.B. 172 in the work session document ([Exhibit M](#)). We have one amendment.

SENATE BILL 172: Provides a deduction from the payroll tax for newly hired full-time employees under certain circumstances. (BDR 32-537)

SENATOR KIECKHEFER MOVED TO AMEND AND DO PASS AS AMENDED S.B. 172.

SENATOR PARKS SECONDED THE MOTION.

THE MOTION CARRIED UNANIMOUSLY.

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Mr. Reel:

There was no testimony or opposition to S.B. 209, as noted in the work session document. There is one amendment ([Exhibit N](#)).

SENATE BILL 209: Requires the Board of Economic Development to develop and carry out a recruiting and marketing effort to attract professionals and businesses to this State. (BDR 18-854)

SENATOR DENIS MOVED TO AMEND AND DO PASS AS AMENDED S.B. 209.

SENATOR PARKS SECONDED THE MOTION.

THE MOTION CARRIED UNANIMOUSLY.

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Mr. Reel:

Senate Bill 215 provides for various changes to provisions governing county assessors ([Exhibit O](#)). There was no opposition.

SENATE BILL 215: Makes various changes relating to the taxation of property.
(BDR 32-569)

SENATOR DENIS MOVED TO DO PASS S.B. 215.

SENATOR SMITH SECONDED THE MOTION.

THE MOTION CARRIED UNANIMOUSLY.

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Mr. Reel:

Senate Bill 216 authorizes county treasurers to provide tax bills in an electronic format ([Exhibit P](#)).

SENATE BILL 216: Revises certain procedures for the billing and collection of property taxes. (BDR 32-560)

SENATOR DENIS MOVED TO DO PASS S.B. 216.

SENATOR KIECKHEFER SECONDED THE MOTION.

THE MOTION CARRIED UNANIMOUSLY.

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Mr. Reel:

Senate Bill 281 provides for a property tax exemption for the Thunderbird Lodge Preservation Society ([Exhibit Q](#)).

SENATE BILL 281: Exempts certain property from taxation. (BDR 32-975)

SENATOR SMITH MOVED TO DO PASS S.B. 281.

SENATOR PARKS SECONDED THE MOTION.

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THE MOTION CARRIED UNANIMOUSLY.

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Chair Kihuen:

The meeting is adjourned at 3:46 p.m.

RESPECTFULLY SUBMITTED:

Gayle Rankin,
Committee Secretary

APPROVED BY:

Senator Ruben J. Kihuen, Chair

DATE: _____

| Bill | Exhibit | | Witness / Agency | Description |
|-----------------------------|---------|----|---|---|
| | A | 2 | | Agenda |
| | B | 11 | | Attendance Roster |
| S.B. 377 | C | 22 | Carolyn Kelly | TRIP Report |
| S.B. 377 | D | 2 | Mary A. Martini | Nevada Vehicle Miles Traveled Fee Study |
| S.B. 377 | E | 1 | Wayne Seidel | DMV Gas/Diesel Spreadsheet |
| S.B. 400 | F | 2 | Lesley Pittman | Proposed Amendment |
| S.B. 400 | G | 6 | Naomi Duerr | Written Testimony |
| S.B. 400 and S.B. 401 | H | 5 | Philip S. Hanna | Written Testimony |
| S.B. 400 and S.B. 401 | I | 2 | Eureka County Board of Commissioners | Letter of Opposition |
| S.B. 400 and S.B. 401 | J | 1 | Alan R. Coyner | Active Claims and Gold Prices Handout |
| S.B. 400 and S.B. 401 | K | 1 | Alan R. Coyner | Mineral and Energy Exploration Industry Handout |
| S.B. 401 | L | 1 | Debra W. Struhsacker | Gold Production Handout |
| S.B. 172 | M | 3 | Joe Reel | Work Session Document |
| S.B. 209 | N | 3 | Joe Reel | Work Session Document |
| S.B. 215 | O | 2 | Joe Reel | Work Session Document |
| S.B. 216 | P | 1 | Joe Reel | Work Session Document |
| S.B. 281 | Q | 1 | Joe Reel | Work Session Document |