

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

**Seventy-Eighth Session  
May 5, 2015**

The Committee on Taxation was called to order by Chairman Derek Armstrong at 1:47 p.m. on Tuesday, May 5, 2015, in Room 4100 of the Legislative Building, 401 South Carson Street, Carson City, Nevada. The meeting was videoconferenced to Room 4406 of the Grant Sawyer State Office Building, 555 East Washington Avenue, Las Vegas, Nevada. Copies of the minutes, including the Agenda ([Exhibit A](#)), the Attendance Roster ([Exhibit B](#)), and other substantive exhibits, are available and on file in the Research Library of the Legislative Counsel Bureau and on the Nevada Legislature's website at [www.leg.state.nv.us/App/NELIS/REL/78th2015](http://www.leg.state.nv.us/App/NELIS/REL/78th2015). In addition, copies of the audio or video of the meeting may be purchased, for personal use only, through the Legislative Counsel Bureau's Publications Office (email: [publications@lcb.state.nv.us](mailto:publications@lcb.state.nv.us); telephone: 775-684-6835).

**COMMITTEE MEMBERS PRESENT:**

Assemblyman Derek Armstrong, Chairman  
Assemblyman Randy Kirner, Vice Chairman  
Assemblywoman Teresa Benitez-Thompson  
Assemblywoman Irene Bustamante Adams  
Assemblywoman Olivia Diaz  
Assemblywoman Jill Dickman  
Assemblyman John Hambrick  
Assemblyman Pat Hickey  
Assemblywoman Marilyn K. Kirkpatrick  
Assemblywoman Dina Neal  
Assemblyman Erven T. Nelson  
Assemblyman Glenn E. Trowbridge

**COMMITTEE MEMBERS ABSENT:**

None

**GUEST LEGISLATORS PRESENT:**

Senator Debbie Smith, Senate District No. 13

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**STAFF MEMBERS PRESENT:**

Russell Guindon, Principal Deputy Fiscal Analyst  
Michael Nakamoto, Deputy Fiscal Analyst  
Bryan Fernley, Committee Counsel  
Gina Hall, Committee Secretary  
Olivia Lloyd, Committee Assistant

**OTHERS PRESENT:**

Peter Etchart, Chief Operations Officer, Operations Department, Washoe County School District  
Mike Kazmierski, President and Chief Executive Officer, Economic Development Authority of Western Nevada  
Tray Abney, Director of Government Relations, Chamber of Commerce of Reno, Sparks, and Northern Nevada  
Todd Koch, President, Building and Construction Trades Council of Northern Nevada  
Jenny Reese, representing Nevada Association of Realtors  
Adam Mayberry, Manager, Community and Government Relations, City of Sparks  
Bryan Wachter, Senior Vice President, Retail Association of Nevada  
Jessica Ferrato, representing Nevada Association of School Boards  
Mary Pierczynski, representing Nevada Association of School Superintendents  
Jay Parmer, representing Builders Association of Northern Nevada  
Ray Bacon, representing Nevada Manufacturers Association  
Dana Galvin, President, Washoe Education Association, and representing Nevada State Education Association  
Lea Cartwright, representing Nevada Chapter, Associated General Contractors of America, Inc.  
Patrick T. Sanderson, representing Local 872, Laborers International Union  
Jill Tolles, Private Citizen, Reno, Nevada  
Victoria Carreón, Director of Education Policy, Guinn Center for Policy Priorities  
Carole Vilardo, President, Nevada Taxpayers Association  
Joshua Hicks, representing Southern Nevada Home Builders Association  
Lindsay Anderson, Director, Government Affairs, Washoe County School District  
Steve Hill, Executive Director, Office of Economic Development, Office of the Governor

**Chairman Armstrong:**

[Roll was called and housekeeping items discussed.] Today on the agenda we have two bills, Senate Bill 74 (1st Reprint) and Senate Bill 411 (1st Reprint). We are going to go out of order. I will open the hearing on S.B. 411 (R1).

**Senate Bill 411 (1st Reprint): Allows the imposition of additional statutory taxes in a county to fund capital projects of the school district based on the recommendations of a Public Schools Overcrowding and Repair Needs Committee and voter approval. (BDR S-140)**

**Senator Debbie Smith, Senate District No. 13:**

I am here today to introduce Senate Bill 411 (1st Reprint), as amended in the Senate. This bill is the culmination of a lot of work, by a lot of people, for a long time, to deal with the well-documented need for additional funding to build more schools to alleviate overcrowding, and to prevent worsening overcrowding as the economy expands and the student population grows. We all know the need for renovation and rehabilitation in our older schools.

While my motivation is primarily the situation in Washoe County, we know that other counties are also suffering from a backlog of needed repairs and maintenance. To address this, S.B. 411 (R1) allows the board of trustees of any school district in our state to establish by resolution a Public Schools Overcrowding and Repair Needs Committee.

Section 1 of the bill spells out the composition of the committee, which would include state and local elected officials, along with representatives of the business community, labor and teacher organizations, and the public. Section 1 was amended in the Senate at the urging of business interests, to ensure that they had adequate representation on the committee.

Specifically, the amendment added representatives appointed by the regional economic development authority, the local chamber of commerce, and the homebuilder's association or, if there is no such association, then the school board must appoint someone to represent the interests of homebuilders in the county. Although the original version of the bill had a gaming industry representative, the amendment provides that the gaming association is the entity that chooses its representative.

Section 2 requires the Overcrowding and Repairs Committee to make recommendations on the imposition of a tax that could be used to fund school construction, repairs, remodeling, and site acquisition, and to purchase new or replacement vehicles, equipment, and furniture. We all know the lack of funding to address school overcrowding and repairs is a community problem,

and it needs a community solution. That is why this bill creates a broad-based citizens' committee to look into the needs, to come up with the best solution it can, and then ask the whole community to weigh in at the ballot box.

Section 2 also requires that the committee's recommendations be forwarded to the county commission, which will submit the tax recommendations to the voters as a question on the 2016 general election ballot. If the voters approve the recommended tax, the county commission is then obligated to impose the tax by the adoption of an ordinance.

Section 3 protects the proceeds of the tax from being used for settling or arbitrating labor disputes, or making districtwide adjustments to school district employees.

We recognized that deciding what tax works best for the community to fund school construction would and should depend on what happens this session with taxes and education funding in general. That is why this bill is set up to have the community look at these issues immediately following the end of the legislative session.

Although I sponsored this bill with the Washoe County School District (WCSD) in mind, I am happy to work with any other school district or county that has an issue with any part of this bill and, in fact, there will be an amendment presented today that I am comfortable with ([Exhibit C](#)).

In closing, while the recent bond rollover bill [[Senate Bill 207](#)] will help, it only covers a portion of the need that has built up over the years. In fact, there is a well-documented need for additional funding for the WCSD to build more schools to alleviate current overcrowding and prevent further overcrowding as the economy and region grow. As I indicated, the recent bond rollover will help, but it only covers a portion of the need.

Others testifying today will speak to the specifics of the need. As I said, the lack of funding to address school overcrowding and repairs is a community problem and needs a community solution. That is why this bill creates a citizens' committee to look into and come up with the best solution. What tax works best for the community to fund school construction will, and should, depend on what happens this session. As I previously stated, this bill was sponsored specifically with the WCSD in mind because the need is so extreme.

**Assemblyman Nelson:**

My only question on the bill was requiring the county commissioners to do something rather than suggesting that they do it, or encouraging them to do it.

Was there any talk about that, as to the rationale for forcing them to do something?

**Senator Smith:**

We went down the path of enabling them last session and it did not work out. I think the outcome of that made this an obvious solution.

**Chairman Armstrong:**

My question is about the total need, those dollars. I see from the testimony that is brought by the Kenny Guinn Center for Policy Priorities ([Exhibit D](#)) that for Clark County, even after the rollover, it is about \$3.8 billion short, and Washoe County is \$514 million short. The rural counties are a lot more. Is that consistent with what you have seen? In your mind would that be accurate?

**Senator Smith:**

Absolutely. We have heard it over and over for the last two or three sessions, and we continue to get further and further behind. We would not do that with our own homes, so it does not make sense to me that we would do it with our assets of the state.

**Assemblyman Hickey:**

I just wanted to clarify your answer to my colleague from southern Nevada. As I understand it, the bill does require the county commission to bring forth a measure for the public to approve. Is that not correct?

**Senator Smith:**

Correct.

**Assemblyman Hickey:**

Once the committee forms its proposal, based on the needs, the county commission would be required to submit a ballot question, but not pass the tax?

**Senator Smith:**

That is right, but they would not be enabled to do that; they would be required to do it. That is the difference between last session's bill and this one.

**Assemblywoman Neal:**

In section 4, the expiration date of April 2, 2016, is an odd date. Why is that date there?

**Senator Smith:**

I will defer to the school district to answer that question.

**Chairman Armstrong:**

I wonder if that is in relation to when a ballot initiative has to be presented?

**Senator Smith:**

It must be.

**Chairman Armstrong:**

We will get that clarified. With that, we will move to testimony. Is there anyone you wanted to bring up first?

**Senator Smith:**

The Washoe County School District; I think Mike Kazmierski from the Economic Development Authority of Western Nevada (EDAWN); and Tray Abney from the Chamber of Commerce of Reno, Sparks, and Northern Nevada.

**Chairman Armstrong:**

We will move to testimony in support of S.B. 411 (R1).

**Peter Etchart, Chief Operations Officer, Operations Department, Washoe County School District:**

I want to first thank the Legislature for addressing the bond rollover extension. This was incredibly important to the WCSD, as well as the other school districts in the state. Unfortunately, based on our bonding capacity, the passage of the bond rollover extension provides on average about \$20 million per year through the year 2023. That amount is roughly what the district needs for critical repairs to our existing facilities, to continue the process of renovating our 40-plus-year-old schools.

What this rollover bond extension does not provide is the financial resources to deal with anticipated growth. Overall, as a district we are at full capacity. We could fill at least three new schools today, not even considering anticipated growth in the region.

As a school district, I always want to emphasize that we do not forecast growth; however, we do utilize the growth projections provided by experts to determine the anticipated impact to the district. We have worked closely with regional planning. We have worked closely with EDAWN regarding growth projections and the impacts to our schools.

Based on the possibly conservative consensus forecast numbers, we were looking at needing to build 14 schools over the next nine or ten years. The recent Economic Planning Indicators Committee (EPIC) study, which my

group has taken the lead on, shows numbers that are 21 percent higher than the consensus forecast numbers we were previously using, so it is probably a lot more than 14 schools over the next nine to ten years.

With S.B. 411 (R1) I look forward to the opportunity to work with the community in regard to the district's needs and finding a solution.

**Assemblyman Kirner:**

I certainly understand the rollover bonds are probably not sufficient to meet all of our needs. One of my concerns is that in my district there are two elementary schools that are sitting at over 900 students, with collectively about nine portable buildings.

We already own the land to build another school. Are you going to be able to build that school with the funds that are available through the rollover, or is that going to be dependent on something that might come out of S.B. 411 (R1)?

**Pete Etchart:**

We are talking about that issue, but our first priority as a school district is to maintain the assets we own. We have 93 schools, and based on our calculations, we need about \$20 million per year just to maintain our existing assets. We need \$5 million per year to renovate our 40-plus-year-old schools, so that makes it \$25 million. The bond rollover provides up \$20 million.

We do own land in the Damonte Ranch area that you are talking about. We will want to go forward with designing and being ready to build a school, but as our board has mentioned before, we need to maintain our existing assets, and building one school in the Damonte Ranch area is not going to solve any of the problems for us, when we look at needing up to 14 schools, maybe more, over the next nine to ten years. I would say our first priority is maintaining our existing assets and then looking for a solution to a sustainable revenue source to address growth.

**Assemblyman Kirner:**

I certainly appreciate that and I understand the fiscal responsibility we have for maintaining our facilities. What I worry about, and sitting at the table with you is EDAWN, is that we have Tesla Motors coming and they are going to begin hiring seriously on a larger scale probably within three or four years, so for me this bill is very important. I do not know that it offers a final solution. We will see what their recommendation is, but we need to build infrastructure so that when they arrive we are prepared, as opposed to waiting until they are here and trying to figure out where we are going to put them.

**Mike Kazmierski, President and Chief Executive Officer, Economic Development Authority of Western Nevada:**

We are thrilled Senator Smith and the Legislature overall are looking at this as really the only solution for what we see as an impending crisis. I get to use the word crisis because we truly see it as that. We are at capacity now. We need 14 schools in ten years, but I will tell you we need probably eight schools in five years, and we have jobs coming in at a rate that is far greater than we ever projected. We are already about two or three years behind our needs as evidenced by the 228 portables we already have students in.

Think about that. We already have 228 portables and if we do not have enough funding to just do the maintenance, much less build new schools, where are we going to get the money to buy the 200 to 400 more portables? We need to accommodate these additional students, and we have quite a few students.

The EPIC study report, which will come out formally this month, shows over 50,000 new jobs to the region, with at least 5,000, if not 7,000 more students, in just the next five years. We have no funding anywhere in the pipeline to address those needs.

This is very concerning from an economic development perspective. We have companies asking us about this. As they look at neighborhoods they are seeing more and more portables. When these portables are used, they take up parking space and playground space. It is not the right image for a region that is trying to promote itself as a place for Tesla employees, a place for advanced manufacturing technology employees, the kind of workforce that really expects an educated workforce and a school system that can support them. From an economic development perspective this is absolutely essential, and probably three or five years too late.

**Tray Abney, Director of Government Relations, Chamber of Commerce of Reno, Sparks, and Northern Nevada:**

I want to thank Senator Smith for working so hard on this, and I can confirm she was hard at work on this bill even when she was not here in this building. We appreciate her time and effort. The Chamber entirely supports this effort, and we want to work together with other groups you will hear from that are listed in this bill to come up with a solution.

A lot of times in this building, especially in this room, we have the business community line up in support of a bill or in opposition to a bill and the labor community will be on the other side. This is a bill that crosses party lines, crosses the business community-labor union lines, and we will again all work together on this.



This is modeled very closely on Senate Bill No. 154 of the 74th Session, for those of you who were around in 2007. This created a very similar committee that was Washoe County-specific to work on this issue. Those of you who were here last session remember Assembly Bill No. 46 of the 77th Session that proposed a direct tax increase of property and sales tax for capital construction for schools. The Chamber supported this bill.

We are here today to support this method. We think this is the best way to get community support—come around, analyze it, work hard to put it on the ballot, raise the funds, and run a campaign to do it.

Mr. Kazmierski mentioned the 228 portables we have in our district. This is unacceptable. On a personal level, my son Noah will be starting full-day kindergarten at Brown Elementary School, one of the schools Assemblyman Kirner mentioned that has something like 900 children in it. We need to do something about this.

Washoe County is the only county in this state with no third revenue source to build schools. We cannot fit the children we have now, much less the Tesla children and others that are coming. We think this is vitally important for economic development reasons, for quality of life reasons, and for education reasons. We urge you to support this bill.

**Todd Koch, President, Building and Construction Trades Council of Northern Nevada:**

I want to echo what Mr. Abney said, and add on to his comment about Brown Elementary School. My daughter attended Brown Elementary School about 20 years ago. It was an excellent school then; it is an excellent school now, but it needs our help.

The Building and Construction Trades Council of Northern Nevada entirely supports this effort, and as has been said, it is a community problem and it needs to be a community solution. We are eager for this bill to pass and to be part of the solution going forward.

The 2008 ballot measure did fail; however, I believe that it was not the fault of the measure, the committee, or the work of anything or anyone other than the timing—the economy had just crashed. Following two-plus months of the scariest economic collapse in many of our lifetimes, no one was about to vote for a tax increase in November 2008.

For anyone who still believes funding is not the issue for school construction and repairs, I hope that going forward they will make their case to the committee this bill creates. If they make a strong enough case, the committee is not required to propose a ballot initiative. That said, much of the community is already on board with the need. It is the solution that needs work, and we look forward to helping with that.

A huge number of diverse groups worked together closely in support of Assembly Bill No. 46 of the 77th Session, well beyond even the spectrum you see represented here at the table and others you will hear from today. We look forward to working together with the people in our community on this again.

I would like to close by saying, in my professional career I have been fortunate enough to work with Senator Smith now for about 20 years, and as I have said before, nobody has been a bigger advocate for our schoolchildren. I am very happy she is back in the building and thank her.

**Jenny Reese, representing Nevada Association of Realtors:**

The Realtors have been engaged in trying to find additional resources for the WCSD since 2006. We appreciate Senator Smith bringing this bill forward. We fully support it.

**Adam Mayberry, Manager, Community and Government Relations, City of Sparks:**

We spend a lot of time on local government issues. Rarely do we testify on an education-related bill, but we strongly support S.B. 411(R1) and appreciate Senator Smith's leadership on this bill.

We have 25 schools in the City of Sparks, many of which are in dire need of repair, so we appreciate the opportunity to bring some key folks together and to allow our voters to have the chance to vote on it.

**Bryan Wachter, Senior Vice President, Retail Association of Nevada:**

I would like to talk about State Question No. 3 from the 2014 general election ballot and how it ties in to the conversation here today. That was an instance where one entity was pushing something on the public and on the state that was not talked about. There was no coalition. There was no conversation. There was no wider conversation.

I think S.B. 411 (R1) is more appropriate, as it is a new model, in attempting to say all of the stakeholders, all of the business community, and the workers should really get together to address an issue and to make a recommendation to a county commission to put that question on the ballot. This way there is some

vetting, there is a conversation, and there is a process that allows some agreement before parties end up spending millions and millions of dollars one way or the other on whether or not there should be a tax increase.

We appreciate Senator Smith and this model, and in the bill the Retail Association of Nevada is part of this. We have pledged to be part of this conversation and go forward, and we are excited to see and prove the model correct.

**Jessica Ferrato, representing Nevada Association of School Boards:**

We wanted to thank Senator Smith for all the work that has been put into this bill. We think this is an excellent solution to a massive problem we have throughout the state.

You have heard plenty of testimony about the dire need, especially in Washoe County. I am also a resident of Assemblyman Kirner's district and my three-year-old will be attending a school in that area. We understand the needs and the overcrowding. The elementary school we are zoned for is more crowded than the high school I attended in Washoe County, so just as a parent I understand the need, not just in Washoe County, but throughout the state.

I think this is a solution that involves not only the public, but the government, and brings everyone to the table to solve a problem, so we can be comprehensive in a solution.

**Mary Pierczynski, representing Nevada Association of School Superintendents:**

We would also like to thank Senator Smith for bringing this bill forward, and we are in support of S.B. 411 (R1).

**Jay Parmer, representing Builders Association of Northern Nevada:**

We are here in support of S.B. 411 (R1), and we appreciate Senator Smith for bringing this bill forward. We appreciate the inclusiveness this bill allows. The Builders Association of Northern Nevada has always been in support of school bond issues in Washoe County, contributing manpower as well as funding to that effort.

In 2007 the paradigm changed somewhat. That year Senate Bill No. 154 of the 74th Session was the product of a committee that brought stakeholders and interested parties from throughout the region together to talk about crafting an appropriate measure to raise funds to build schools in our community. While that effort failed, it was very collaborative and it was very positive. It helped the community decide on what was the best method for funding school

construction. We believe this bill will allow us that opportunity again. We were a full participant on that committee in 2007, and we are looking forward to designating an individual from the Builders Association who will commit the time and energy to help make this process a success. We thank you for your time and consideration, and would appreciate your support for this bill.

**Ray Bacon, representing Nevada Manufacturers Association:**

I want to echo the comments that were made by Mr. Wachter from the Retail Association of Nevada, but let me add a couple of comments.

I think everybody on this Committee pretty much knows that the Nevada Manufacturers Association and I have been involved in education issues for 25 years now, and the quality of education has been one of those issues.

The building issue needs to be looked at from more than just a Washoe County situation because it is a statewide issue. Even some of the rural counties have a capacity problem, and I believe the way this bill is written it can be handled in those areas as well, where those counties and those communities step up.

Some of the things we know are working exceedingly well are the career and technical education (CTE) schools, the career and technical academy (CTA) schools in southern Nevada, and the signature programs in Washoe County. These are, in fact, some of the most effective schools in this state.

Keep in mind that this committee will probably open up some doors that we have not necessarily taken a look at before. They may take a look at our large amount of industrial space that is empty, and how with a CTE program we do not necessarily need a new building, and we do not necessarily need a 15-acre campus; we can do a smaller and more focused CTE program. Those programs have 95 to 99 percent graduation rates, with kids who are ready to go to work as soon as they finish, or to go on to college. This opens up opportunities that truly can change the equation for where we are going, and it needs to be done. We need to take a fresh look at things.

For those of you who are not aware, there was an announcement last night by Chrysler Corporation that will impact this state. They announced last night they are going to give a free college education, with some parameters involved and starting in the Southern states, to all the employees in their dealerships around the country. Their turnover is in the 40 percent range and they believe that a college education will keep people locked in for a period of time while they are going to college. That is a big deal, and we need to be in place to the point where we can take advantage of that.

**Dana Galvin, President, Washoe Education Association, and representing Nevada State Education Association:**

Although I signed in as neutral, we have information from Senator Smith's office, and she spoke of it when she opened the hearing, regarding the Nevada State Education Association amendment ([Exhibit C](#)), so I would like to change that to being very much in support of this bill. I want to thank Senator Smith so much for bringing this bill to you.

**Lea Cartwright, representing Nevada Chapter, Associated General Contractors of America, Inc.:**

We are pleased to see the business community coming together to support capital improvement funding for our schools. We look forward to working with everyone and urge the Committee to vote yes to help alleviate overcrowding and fund these needed improvements for our school districts.

**Patrick T. Sanderson, representing Local 872, Laborers International Union:**

I was born and raised here in northern Nevada. I worked on many of the high schools. This is a very important issue, and probably the most important thing Senator Smith said is about the maintenance on these schools. It is exactly like our highways. If you maintain them to start with, it will cost you half as much to fix them. If we can put money into maintenance of the older schools as well as building the new schools, we will be moving forward. I do not think there is anyone who is against moving forward.

**Jill Tolles, Private Citizen, Reno, Nevada:**

I would like to thank Senator Smith for bringing this bill forward. I am a resident of Washoe County and I was also the cochair of the Say Yes for Kids committee that worked diligently on A.B. No. 46 of the 77th Session, at both the state and the local level.

It was a broad-based coalition of community organizations in support of capital funding for the WCSD. I will keep my statements brief to not be repetitive, but I wanted to list the organizations that were in support of that: the Chamber, Council for Excellence in Education, Nevada Association of Realtors, Builders Association of Northern Nevada, Associated General Contractors, National Association of Industrial and Office Parks, Education Alliance, Parent Leaders for Education, Teacher's Association, and the Parent Teacher's Association, among others. Even though the outcome was not what we wanted, it was a good experience seeing bipartisan support for capital funding in Washoe County.

For those reasons we also support this bill and the opportunity for local analysis of our unique needs, as well as the opportunity for voter approval based on recommendations, and we hope that the needs of our schools and community will be addressed.

**Chairman Armstrong:**

Is there anyone else who would like to speak in support of S.B. 411 (R1)? Seeing no one, we will move to those who want to speak in opposition to S.B. 411 (R1). Would anyone like to speak in opposition? Seeing no one, we will move to the neutral position. Is there anyone who would like to speak as neutral on S.B. 411 (R1), either in Carson City or Las Vegas?

**Victoria Carreón, Director of Education Policy, Guinn Center for Policy Priorities:**

Thank you for the opportunity to testify on this bill from Las Vegas. I am testifying neutral on S.B. 411 (R1). I just wanted to reiterate some of the things that were mentioned earlier, and identify a few concerns for your consideration.

We conducted an analysis of all the school facility issues in the state, and even with the rollover bonds that were recently approved by the Legislature, there are significant needs throughout the state. In our testimony we detail some of those needs ([Exhibit D](#)). Although you have heard a lot about the WCSD, within the Clark County School District they have \$7.3 billion in needs identified, of which only \$3.5 billion can be funded with existing sources, including the rollover bonds. That leaves \$3.8 billion still unfunded, and that does not even include growth in future students.

The information we have for the rural districts is not as positive, but we do know there is \$450 million in replacement costs for buildings that are over 50 years old, and there are other unquantified needs. They really have a challenge in the rural districts because their tax base is too small to generate sufficient funds to build a new school, and many of those schools are aging.

The existing voter approval options are limited. Under current law voters can approve ad valorem taxes, either pay-as-you-go or general obligation bonds. Elko is the only district that has the pay-as-you-go taxes. There are 11 school districts with rollover bonds and 5 districts that have no voter approved facilities funding. As you have heard before, there are a lot of school districts that are at or near their caps in ad valorem taxes, so they cannot go for another voter approved initiative. In addition, some of the property tax abatements that are in effect constrain growth in tax revenues, so even if you did increase taxes you would have difficulty actually generating significant additional revenue.

We do think that exploration of additional voter approved taxes can be a very important part of the solution, and this bill has a lot of positive aspects. It is very flexible because it allows you to provide options for many different types of taxes, including property taxes, sales taxes, room taxes, real property transfer taxes, and governmental services taxes. Those are just some examples, so the taxes can actually fit the needs of an individual community and the types of things they might be able to generate.

There are some cautions. Voter approval can be challenging. You heard about the 2008 measure that was not approved in Washoe County. In addition, in 2012 the Clark County voters rejected a pay-as-you-go tax, and in 2014 there were three rollover bond measures in the rural counties and all of them failed—in Lyon, Mineral, and Nye Counties. Voter approval is a more difficult road to go down.

One thing we thought you might want to consider, as an amendment, is to clarify that any ad valorem taxes recommended can exceed the existing statutory tax cap of \$3.64 per \$100, plus the extra \$.02 for the state, and also allow creating exemptions from the tax abatements. That way it opens it up to some of those rural districts, and for Washoe County as well, to be able to put property taxes on the table as part of one of these measures that you would be putting forward.

In our full report ([Exhibit D](#)) we do have a variety of other recommendations. Just to go through a couple of them quickly, we think the state really needs to look at:

- A statewide funding mechanism for school facilities. Taxes at the local level are only going to get you so far, especially in the rural areas.
- Providing school districts with the ability to create special improvement districts, which they cannot do now.
- Exploring the feasibility of creating multicounty tax districts for rollover bonds.
- Changing some of the existing laws related to tax caps and abatements, which I spoke to earlier.
- Encouraging the Office of Economic Development in the Office of the Governor to conduct a school facilities impact study and develop a funding plan prior to approval of development incentives.

**Assemblyman Hickey:**

This may be a question raised from the testimony from the Guinn Center, that Legal might need or want to address. Are there any restrictions in the language of the bill regarding the types of taxes the community committee can

recommend or propose? Obviously one is a sales tax, but the other reference was there would be something in Washoe County, since we are already at the cap, and they would have to go above the cap. I am wondering if legally there is a precedent for that, or what needs to be included or covered within the language of the bill, as was just suggested?

**Bryan Fernley, Committee Counsel:**

My reading of the bill is that the committee could propose an increase in really any statutory tax or taxes. That would be any tax or taxes that are imposed under the current statutes, so it could be property tax or it could be a sales tax, and the proceeds of that tax would go to school construction. Under the current bill the only restriction on the type of tax you could impose is that it has to be a tax that is already in statute.

As far as the cap issue, that is something we in the Legal Division would need to do more research on and we can report back to the Committee as to whether the bill addresses if the tax could go outside the cap or whether something would have to be done with the bill to address that concern.

**Carole Vilardo, President, Nevada Taxpayers Association:**

I am testifying in neutral, and this all deals with section 2, and possibly I can address one of the questions Assemblyman Hickey asked relative to property tax. Understand that any concern I raise right now is totally solvable by an amendment. There are corrections that I believe need to be made.

For instance, as was identified, this speaks to any tax in statute and I am not quite sure the Legislature wants to give up its sole revenue sources. For example, live entertainment tax (LET) right now is a state revenue source and modified business tax (MBT) is a state revenue source. I would think that, through an amendment, you would want to specify those taxes that could be considered. Relative to property tax, and looking at the issue that could arise with property taxes as articulated by Ms. Carreón and the questions asked by Assemblyman Hickey, we have gone outside of the \$3.64 cap and we did it with voter approval. I believe we have some 14 entities that have a property tax rate of \$3.66. It was done, as memory serves, in the 1991 Session. It was on the 1992 ballot to allow 2 cents for the improvement of state parks, et cetera, with Lake Tahoe being a major concern. The way the legislation was written at that time, the approval for the money—a set amount of \$20 million—was through legislative intent determined that it would not exceed 2 cents per \$100 of assessed valuation. The bill from that session had language specifying voter approval. Senate Bill 411 (R1) already requires voter approval, so I assume there could be some flexibility if that was the way the Legislature wanted to go.



Currently, relative to the issue of abatements, the Legislature gave the authority to the Committee on Local Government Finance, easily 10 to 15 years ago, to create ballot templates and those ballot templates provide for school issues. There is a separate section. They are on the Department of Taxation's website under local government. The way those work is you have a template for school bond rollovers, you have a template for pay-as-you-go, and you have a template as to whether you put it outside the abatement or have it inside and do not request approval of the voters to go outside the abatement. These are some of the things that are totally solvable. In some cases I would think nothing more than a statutory reference would be required.

The other issue you have is when you go to the sales tax. I think you want to be specific as to the section of sales tax. This is relative to something that would be an option such as we do currently. We currently have 19 local options. If you used sales tax for schools, that is the way I think I would go to create this option section for sales tax.

I believe that *Nevada Revised Statutes* (NRS) 387.328 does have specificity to 20 years, as is referenced in section 3 on line 27, but I would not like to see any of the taxes that are approved by the voters exceed a 20-year length of time. I understand the current concerns in what we are doing, but every one of us has been around long enough to know that things do not stay the same. Whoever thought you would have virtual schools? At one time that was considered anathema. Who knows what is going to happen in 20 years?

If NRS 387.328 does not specify that funds to go into capital projects to be for 20 years, I would request you put a 20-year sunset on any of the taxes that are voter approved. That would be pretty standard if you are looking at a property tax issue, but not standard with other tax issues. It is 30 years on sales tax, just so you know that.

Those are some of the comments that I had. Everything is solvable that we have raised, but I really think if you want this to work, and not have us coming back in the next session, there are glitches that require amendments to address the issues.

**Joshua Hicks, representing Southern Nevada Home Builders Association:**

It is always great testifying right after Ms. Vilardo because I can say I agree with everything she said, and she articulates it so well. I do want to add a couple of comments.

The Southern Nevada Home Builders Association is supportive of this concept of building schools. It is a very important factor. New neighborhoods need new schools, and we applaud Senator Smith for bringing this forward. We are supportive of section 1, which actually gives the home builders a seat at the table. The only reason we are here in neutral is because we share many of the same concerns Ms. Vilardo raised, which really follow the concerns of unintended consequences, and issues that could be out there that could actually prevent this bill from working the way it should.

I think we have the exact same concern about what taxes are included in this. It is very broad right now and you do not know. The cap and the abatement are big issues that ought to be clarified in this bill. I think you could be asking for some trouble if you just assume those are going to be addressed one way or another. I would suggest you think about actually doing that in the bill.

Probably one of the biggest concerns I would raise is in section 2 of the bill, and I would say exactly the same as Ms. Vilardo that these can be remedied. If you look at section 2, the way this is set up you would actually have whatever tax is recommended put in via an ordinance. You would also put in all the procedures for the administration and enforcement of the ordinance, and anything that is contrary in statute is effectively overridden by it. You have a situation where you have dual tracks of whatever a tax is. You have some parameters set forth in the ordinance and some in the statutes. If you have some problems between those two you could really have an issue.

One example is exemptions to a tax. There are a variety of exemptions for the sales tax. If you did not have those exemptions in the ordinance, would they then be overridden and not applicable to that tax piece of the ordinance, or contrary? If you were to do that in that ordinance, then could the ordinance be changed in the future, and some of those be changed around?

I think those can all be addressed if you just worded some of this a little differently. Some of these issues out there make me nervous enough that I think there could be some issues with this that really ought to be tightened up before this bill goes out. Then it can do what it is intended to do.

**Chairman Armstrong:**

Would anyone else like to speak as neutral on S.B. 411 (R1)? Seeing no one, Senator Smith, we have a question for you.

**Assemblywoman Bustamante Adams:**

I was looking at the composition of the committee. I think there are about 12 members, but it could grow even larger from what I read. If you could help

me, in section 1 it says one member of the Assembly, but it also could include other legislators if their districts are covered by the area. Is that correct? Is that how you read it?

**Senator Smith:**

Yes.

**Assemblywoman Bustamante Adams:**

Help me with the north. So that could include up to how many? Instead of one it could be perhaps four more individuals? Is that how it would work?

**Senator Smith:**

I think so.

**Assemblywoman Bustamante Adams:**

So the committee could potentially grow to almost 19 people, because the Assembly could add members, and I think also the Senate could. My question is in your thinking on putting together the committee, would it be too large, so that it would not be functional? Does that concern you at all?

**Senator Smith:**

I served on the committee for Senate Bill No. 500 of the 74th Session back in 2007, and it was a large committee. We did come out with a recommendation.

**Chairman Armstrong:**

I want to jump in and clarify this, because I read it slightly differently, and maybe we can get some clarification as well. In a situation where there are multiple members from the Assembly appointed, then they jointly shall appoint the member to serve.

**Senator Smith:**

I think Ms. Anderson can help clarify.

**Lindsay Anderson, Director, Government Affairs, Washoe County School District:**

I would disagree with what you said. It would be one member from each house, jointly appointed by the group that the county covers.

**Chairman Armstrong:**

Are there any other questions? Do you have any final thoughts, Senator Smith?

**Senator Smith:**

This is long overdue. We tried very hard to fix this last session and were not able to do so. I implore you to do something now. It is time to show some leadership and get this done. As I said before, we would not do this with our personal property, so I do not think we should do it with state property either.

**Chairman Armstrong:**

I will close the hearing on Senate Bill 411 (1st Reprint) and open the hearing on Senate Bill 74 (1st Reprint).

**Senate Bill 74 (1st Reprint): Revises provisions governing the abatement of certain taxes for economic development purposes. (BDR 32-293)**

**Steve Hill, Executive Director, Office of Economic Development, Office of the Governor:**

I am here to discuss with you Senate Bill 74 (1st Reprint). This bill does a couple of different things. It makes some clarifications to language. There are about six or seven of those clarifications that we are actually implementing and practice now, but we felt that it was important to have those practices reflected in the law, both for clarity to companies looking at the state and for our administration as our organization goes forward.

There is one policy change in that language clarification that is different from what we are currently doing in practice, and that is it requests that in the applications, in the subsequent performance by companies, and during the audit process that companies be given eight quarters to create the jobs that they commit to create, rather than the current situation in which they have four quarters, or basically a year, to create those jobs.

There are two reasons for that request. One is that the Department of Taxation audits at the end of Year 2 and the end of Year 5, so we do have a requirement that they create those jobs within one year, but we do not actually audit until the end of the second year.

The second reason—the more functional reason in the process—is that a company that is looking to either expand in Nevada or move to Nevada certainly may be looking at building a facility. The permitting process in most locations in Nevada takes about six months. The construction process is six to nine months, depending on the sophistication of the construction, so the period of time during which a company is required to have reached their committed full-time employment is often absorbed by the construction cycle, and it makes it very difficult for them to do that. We have tried to work with them through a contractual process that is somewhat difficult, but we feel that

since most companies are going through some type of construction process, allowing them two years instead of one makes sense.

Virtually all of these changes are contained in section 1, subsection 2, with the last one in section 1, subsection 13. Those are the jobs that are associated with the company that would be incentivized. They are primary jobs. We have talked about economic development being about bringing money from out of state into Nevada. Jobs at companies that do that are considered primary jobs, and those companies are considered primary companies.

The second change is that the effective date of the contract that we actually sign with each of these companies cannot predate the date of their application.

The third administrative change is to change the requirement for health care regulation, to remove the language that says it will be based on cost and install language that says it will be based on the regulations that our Office puts in place. The reason for that is cost of health care is an indicator of the quality of the health care, but it is not an absolute definition of the quality of that health care, so we have gone a little deeper into that analysis. We have a list of 10 or 12 provisions of specific health care benefits that companies must provide their employees, as well as some financial ratios as to how much it can cost an employee and how much it costs the company. This provides the opportunity to have a broader view of the health care benefits companies provide their employees.

There is a provision in the bill that requires companies to include all of the employees they will be growing with over those next two and five years. This eliminates the potential for companies to cherry-pick the highest-paid jobs in their application and meet a minimum average wage by only reporting their top-paid employees and not all of the employees that will be subjects of the application.

The change in section 1, subsection 13, is a definition of a full-time employee. It is 30 hours regularly scheduled and eligible for the health care that is the subject of the regulation we talked about earlier.

As I said, we are implementing those now, but they are not part of the law, other than the requirement currently to create jobs within four quarters, and we are requesting the ability to do it within eight quarters.

I will pause to answer any questions the Committee has on those sections of the bill.

**Assemblywoman Kirkpatrick:**

In the first section it talks about eight calendar quarters, so that is two years before they have to come up with their employees. That is a long time to wait to see a return on our investment. I want to understand what sectors were truly having a problem with that. It is hard to justify two years to constituents, because we will be back here before that two years happens.

On page 6 (section 1, subsections 4 and 5), if we put it in statute, what happens if unemployment goes below 6 percent? Do we then not have to offer any more abatements? Is that the deal? I just want to clarify that.

I want to understand on page 7, section 1, subsection 5, paragraph (b), subparagraph (3), are you saying that we can never use local sales and use tax? Are you protecting that for me?

**Steve Hill:**

It may have been helpful if I had just gone ahead and explained the core policy change in the bill, which I will do shortly, and that will address your last two questions, Assemblywoman Kirkpatrick.

**Assemblywoman Kirkpatrick:**

I do have to step out for a different meeting, but if he can answer it, I will circle back, just so it is on the record.

**Steve Hill:**

The core issue we have with the request to go from four to eight quarters is that many of the companies that look to expand in Nevada are going through a construction process in order to facilitate that. For example, if in May 2015 we receive an application and approve that application, they would then start the construction process. We have a contract that basically starts when that approval happens. The construction process takes about one year. Getting to the point where they can actually break ground usually takes about six months, and then it takes about six months to build the facility. Even tenant improvements are not going to shorten that too much. So we have a contract with them that says by the time their construction period is over they have to have all of their employees, and that typically does not work. We have tried to stagger that. We have tried to work with them on the abatements that would be theirs during the construction cycle, and slide the contract somewhat forward to give them that opportunity, but it can be fairly awkward, and frankly it is not possible to have the construction cycle and the employment cycle happen within that four-quarter period.

**Assemblywoman Kirkpatrick:**

We have had this discussion before, when we were working with the solar industry. So in Assembly Bill No. 522 of the 75th Session we actually made the application so they had a time frame when their jobs had to start. Typically they are not going to come to you without a vision. We at least had some language within that bill that gave them the ramp-up time they needed because they cannot even get laydown yards and all that other good stuff going. It started their employment numbers, so they had to at the very least have construction workers on the site within this time frame.

My concern would be that at some point it is hard to hold them accountable and track them. You are great at doing it, but if you ever decide to leave and retire we would have to cut your head off to keep all the knowledge. Do you understand what I am saying? There has to be a way to track it so there is some documentation, and at least what worked when we did solar. We said their jobs had to start by a certain time, but two years is a long time.

How crazy it is that they should even be coming before you, because we cannot even plan what those abatements would look like, or what those employment dollars should be. I am not comfortable with the two solid years, because we are in a legislative session every two years. If there is no history for other legislators to see, why would they continue to further economic development?

**Steve Hill:**

I am happy to talk later, but the one thing I would point out is right now we are only auditing for the first time after two years, so that also coincides with the request, which was part of the rationale.

**Assemblywoman Neal:**

I had a question regarding page 6, section 1, subsection 4, paragraph (a), lines 11 through 17. It is the 6 percent language, but it is applied differently in different scenarios. Help me understand because I have seen this language in other bills you have brought forward. In paragraph (a), when it says if "The applicant intends to locate or expand in a county in which the rate of unemployment is 6 percent or more...." My question is, what county is that? When you look at the unemployment rate right now, we have been consistently dropping, but subgroups remain high. Do subgroups fall into the calculation or are you going on the total aggregate calculation that comes out?

**Steve Hill:**

To explain what the core policy of the bill is, we provided a handout ([Exhibit E](#)). On the last page of the handout is a chart. I am hopeful this will help in guiding the explanation of this language as it can be a little difficult to read.

There is a line going up and down in the center of the page. On the left side is the situation where in each county the employment is 6 percent or higher, which is the current status of every county in Nevada. On the right side of the page is the situation from an abatement standpoint that we are proposing in this bill for companies that are looking to expand or move to that county when the unemployment in any particular county is below 6 percent. The percentage numbers on the far left of the page are the percentage of the state average wage the company is committing to pay. So, at 100 percent of the state average wage—which right now is \$20.62 an hour, or around \$43,000 per year—if they are paying above that, they are eligible for all the abatements currently available in statute. At other levels of the average wage the abatements are reduced. Looking at the left side of the page we see that if we are in the situation we are right now, where unemployment is 6 percent or higher in counties, a company must pay at least 80 percent of the state average wage in order to receive all of the abatements that are available. Eighty percent is approximately \$16.35 per hour, which also happens to correspond to the answer to a question that Assemblywoman Carlton asked me in a committee that some of you participated in a couple weeks ago, as to what is the state's median average wage. The state's median average wage is \$16.33 per hour. It is about 80 percent of the state's average wage. That is very comparable nationally. Nevada's state average wage is 30th in the nation. Our state median wage is 31st in the nation.

If a company is going to pay less on average than 80 percent of the state average wage, which is roughly \$16.35 per hour, then the abatements that are available to that company for MBT and personal property tax would be cut in half. They would get a 25 percent abatement rather than a 50 percent abatement. If they paid below 65 percent of the state average wage, which gets down to about the \$13.50 range—5 percent is roughly \$1—they would not be eligible for abatements.

Currently in statute there is no minimum a company must pay in order to receive abatements. Frankly, there is very much a one-size-fits-all currently in our statute for abatements. We have MBT, personal property tax, and sales tax abatements available potentially to any company that meets two of three criteria. We think the average wage criteria is important as we move forward and, as our unemployment is reduced, we think providing incentives for a company to come to Nevada should be partially for the purpose of improving and increasing both the state average and the state median wage.

On the right side of the page we see that we are making it a little tougher when our economic times are good. In a situation where we have less than 6 percent unemployment, which is where Nevada was for a long period of time before the



recent recession, for a company to receive all of the potential abatements they would have to at least pay the state average wage. If they paid between 80 and 100 percent of the state average wage, we would reduce what they would be eligible for. The MBT would be a 25 percent abatement rather than a 50 percent abatement, personal property tax would be 25 percent rather than 50 percent, and the sales and use tax would go from the prevailing rate in the county down to 4.6 percent, rather than down to 2 percent. What that would require is that company pay the local sales and use tax of 2.6 percent and the 2 percent State General Fund portion.

The language on pages 6 and 7 of the bill is what is described more clearly in the chart at the back of that handout ([Exhibit E](#)).

**Assemblywoman Neal:**

When your office gives the report about how effective the abatement was, based on page 25, line 22, and the insertion of the word "new," does that mean that we would know about the business, but we would only get an indicator on the five new employees they brought into their business?

What was the cost benefit of those five new employees to that abatement level? Why would we not capture all? We want to know how well you are treating all of your employees, not just the new ones. What if it is like a data center where typically there are only ten employees? They may get two additional people but because their base is ten, when you look at the percentage it would look like they did really well.

**Steve Hill:**

The data center bill inclusion [[Senate Bill 170 \(1st Reprint\)](#)] in that conversation confuses it a little bit. Separating that particular potential bill out, our abatements and the agreements that we have to provide abatements—contracts we enter into with companies—only include their growth component.

One of the things that is really important to understand in a number of conversations is that if a current company exists and they look to grow in Nevada, the building they have, the personal property they have, the employees they have are not eligible for the MBT or personal property tax abatement. All of what is currently there they are going to continue to pay the tax they are now paying on it, and that is not a part of the application or what we look at. We are here to incentivize growth, whether that is a new company coming to Nevada or a company that is here and looking to grow.

The application they submit to us only addresses growth, and the abatements that we offer only apply to those areas of growth. So yes, we only look at the new employees, the new construction, and the new personal property that is over and above what they already have.

**Assemblyman Nelson:**

You mentioned the contracts you enter into. Is that where you specify how long these abatements will last? Are they five years, ten years, or does it depend?

**Steve Hill:**

The statute defines what is possible. The standard sales tax abatement is for two years. The MBT abatement is for four years. The personal property tax abatement is for ten years. We have the ability to reach an agreement by contract with a company inside of those parameters. Those are the parameters permitted in statute, but we could make those time frames shorter.

**Assemblywoman Bustamante Adams:**

My question has to do with section 1 of the bill, page 2, where it talks about primary jobs. On the Senate side I think it was amended out. I just want to get it on the record what you mean by primary jobs and why was it amended out.

**Steve Hill:**

The reason it was amended out was through a couple of discussions we had on the Senate side. It was felt the definition was best captured in regulation, and not necessarily in statute.

What we mean by a primary job is a job that produces a product or service that is exported outside of Nevada. A primary company is a company that produces a product or service that is exported out of Nevada, or said a little differently—because it is important to understand that the gaming industry is a primary industry—if it is bringing money from outside of Nevada into the state. The tourism industry is a primary industry, but their customers have to come here in order to purchase the service. Most of the time you think about manufacturing something and shipping that product out of the state, but it certainly can apply to professional services.

Basically a lot of our targeted industries—all of them to some extent with health care being the only partial exception—are primary industries, such as aerospace and defense, and information technology. Those are the industries that drive an economy.

The construction industry is a service industry, and it goes where its customers are. The customers are there because those primary companies have decided to locate there. They could be elsewhere, and all of the service industries follow those primary companies around. That is why solid economic development policy says, restrict the incentives and abatements to those primary companies because they will drive the rest of the economy.

**Chairman Armstrong:**

In section 8 of the bill, on page 25, lines 31 and 32, where we are crossing out "by regulation pursuant to subsection 8 of NRS 360.750," is that because your office is going to determine the regulations?

**Steve Hill:**

The health care regulation will still be a part of our regulatory process. It will include more than just the cost.

**Assemblywoman Benitez-Thompson:**

I have a question in that same part of the bill. You are taking out the regulation but are still going to have it in regulation. Could you clarify what you mean exactly?

**Steve Hill:**

In our minds what we are doing is taking out the requirement to only consider cost. For example, right now what we are required to do by statute is say this has to cost the company \$5,000 per year, but you have to provide these ten benefits to employees, and you cannot charge an employee more than "x" amount as their portion of the cost of health care. What we are eliminating is a requirement on us to only consider the cost of the health care, and allow us to consider cost in addition to the benefit for the employee.

**Assemblywoman Benitez-Thompson:**

So there is an actual regulation that has been developed, and instead of that regulation you want just the statutory language that says the health care benefits the business provides to its employees, without any other kind of qualifications or definitions within it?

**Steve Hill:**

The way we read this is we still have a requirement to go through the regulatory rule-making process and include the health care benefits as a part of that process. What we are trying to do is provide the ability for our office to do that and consider a broader range of issues than just the cost of that health care.

**Assemblywoman Benitez-Thompson:**

I think where I am getting confused is when we are striking out the mandate to do something by regulation and we strike out the word regulation, we are still saying that you are going to have it in regulation. That is where I am getting confused. I guess I would look to somewhere else in the language where it is going to allow you more flexibility in what that regulation looks like. Is that what I am looking for?

**Steve Hill:**

Yes, I believe that is correct.

**Assemblywoman Benitez-Thompson:**

Where would I be looking for the mandate to have such regulations? What I am thinking is regulation is where we give the ability to be more flexible, to pull something out of statute and have requirements, but make them more broad and more inclusive of things that we do not necessarily want to build into statute. What I am wondering is why would you not just want this built into regulations, as kind of the tools you need for this equation that you are working on? Instead of just a regulation contemplating cost, why would you not say cost and/or benefits in the regulation? Am I making sense?

**Chairman Armstrong:**

Subsection 8, paragraphs (a) and (b), of NRS 360.750 may clarify that section of the bill. It says the Office of Economic Development shall "adopt regulations relating to the minimum level of health care benefits that a business must provide to its employees" and "may adopt such other regulations as the Office of Economic Development determines to be necessary to carry out the provisions of this section and NRS 360.755."

I read that as in section 8, subsection 4, paragraph (c), subparagraph (3)(II), to be the "benefits the business provides to its employees in this State will meet the minimum requirements for benefits established by the Office." It seems repetitive of that regulation. It seems that striking out clarifies one or the other, rather than having it be redundant.

**Assemblywoman Benitez-Thompson:**

Mr. Chairman, which part of the bill are you referring to?

**Chairman Armstrong:**

We are still in section 8?

**Assemblywoman Benitez-Thompson:**

I was referring to section 1.

**Chairman Armstrong:**

I apologize.

**Assemblywoman Benitez-Thompson:**

We see it in section 1, subsection 2, paragraph (e), subparagraph (3)(II), we see it in section 8, and we see it in a couple of different places. I just wanted to make sure at some point it was all coming back together.

**Chairman Armstrong:**

I think it probably just eliminates the redundancy. That is the way I read it.

**Steve Hill:**

I probably should just say yes. It is 90 percent yes. The cost issue to us misses the point of what the regulation really should address. The cost that the business incurs is not really all that indicative of the benefit the employee receives. We think the regulation should address the benefit the employee receives, and the way we read the current statute, it prohibits it from doing that.

We are reporting on that now and we have started that analysis. We get the health care books from each company and we go through that process. We think the regulations should reflect that.

The rest of the elimination of language in this bill I think is what the Chairman pointed out. We still have a requirement in statute to provide regulations for Chapter 360 of NRS. This eliminates that duplication.

**Assemblyman Nelson:**

How often do you look back and analyze these abatements, to see whether they have been profitable to the state and whether they have achieved what we wanted, not just in economic growth but in specific return of taxes, General Fund payments, things like that?

**Steve Hill:**

The starting point for that analysis is the audit process the Department of Taxation goes through, and then it provides the information that comes to us as a result of those audits. On our website we have backdated all that information, which took a good amount of work on the part of our folks and the Department of Taxation as well. We have a kind of history of the success of these programs. You can see the companies that were approved that did not actually make it to contract, which companies did not make it from the contract period to actually implementing their plan, and all the way through to the ones this worked really well for.

That changes somewhat with the economic times as well. We saw companies be approved and then not follow through during the recession more often certainly than we have seen lately. For example, 47 companies were approved last year and all of them went to contract. Five years ago it was more of a 50 percent ratio.

To answer your question directly, we analyze the abatements about once a year. We have been building past information while we are looking at current information, so we can have some comparative analysis. That was completed toward the end of the last calendar year.

**Assemblyman Nelson:**

Generally speaking, how have we done? I guess it depends on the economy and various companies. When we look at a company like Tesla, or something giant like that, it makes me wonder how we have done in the last ten years or so.

**Steve Hill:**

I think the definition of success actually changes somewhat based on the economic time. Our boards kind of live through that, and the Legislature has, as well, over the past six to ten years.

The bill that is before you today is a result of that analysis and the thinking that the Board of Economic Development has had as we have gone through periods of time where we are in 12 and 13 percent unemployment, and now things have improved dramatically. Our goal in 2011 and 2012 was at least partially just to help people get back to work. Now we are shifting that goal, at least internally and through our Board, to help to improve the state average wage and the state median wage through the abatement and incentive process, not necessarily just to keep more and more relatively low-paying jobs coming to the state.

We talk a lot about how many jobs we were able to recruit in this process and if we can improve those numbers. I would submit that over the next couple of years, as our economy improves, the definition of success should shift much more to the quality of the jobs that we are bringing to Nevada, not simply the number of jobs that we are helping to bring or helping to grow in Nevada.

**Assemblyman Trowbridge:**

Let me ask a few questions to wrap this up. We are proposing a plan here that is going to provide for abatements, and the requirements are that the employer have 50 full-time employees within the first two years. We are silent as to whether they are new employees or existing employees. They are required to

keep the employees for five years after the abatement begins. The investment is \$1 million. Is that new capital investment or just new existing investment?

**Steve Hill:**

Again the abatements that are contained in the summary of what we currently have on the page prior to this chart (page 3, [Exhibit E](#)) are what is currently in statute. They only apply to things that are new—new construction, new personal property that is purchased, or new employees. We are not silent on the 50. Those are new employees.

**Assemblyman Trowbridge:**

We need the word "new" stuck in there. So meeting those requirements, if the employment level is greater than 6 percent and they pay 100 percent of the state wage, they get no abatements? When I look at that it shows a blank square. If they pay 80 percent, the abatement is reduced to 25 percent for personal property for ten years, as I believe you mentioned, but for the MBT they get a 25 percent reduction for a five-year period.

**Steve Hill:**

I apologize. I did not start with a big enough picture view of the bill. This may be helpful. We currently have abatements in statute. They are described on page 3 ([Exhibit E](#)).

**Assemblyman Trowbridge:**

It is titled "Large County Abatements." What about the smaller counties?

**Steve Hill:**

It is a similar process, just fewer requirements. Those are in place regardless of what the average wage for a company potentially is because the company only has to meet two of the three criteria. This bill narrows the abatements that are available for companies that pay either less than 100 percent of the state average wage or less than 80 percent of the state average wage. What I have reflected on page 4 ([Exhibit E](#)) is the amount of narrowing that we are doing to companies. The blank spaces up above either 80 percent or 100 percent means the current situation remains unchanged. They are eligible for the full abatements if they are paying more than 80 percent and we have higher than 6 percent unemployment. They are eligible for all of the abatements if we have less than 6 percent unemployment and they are paying more than 100 percent of the state average wage.

**Assemblyman Trowbridge:**

On page 3 ([Exhibit E](#)) you are talking about "proposed changes." Currently it is no minimum number of employees and in the right-hand column it is a minimum of ten employees. What are we talking about there? Is it 50 on the new program, or is it 10, or is it 60?

**Steve Hill:**

For large counties we currently have three criteria. The company has to meet two of the three in order to be eligible, which means there is really no minimum for any of the three as long as they meet the criteria for the other two. They could, and we have had a couple of instances where a company has, come in with one employee but \$1 million of investment and they pay the employee more than the state average wage. They would then qualify by statute. They could have 800 employees and pay the minimum wage, but invest \$1 million, and they would be eligible. So what we are doing in S.B. 74 (R1) is putting some floors underneath what can be a complete hole in the criteria, because you only have to meet two of the three. You can be completely at the bottom end of the spectrum on the third. We are saying right now, instead of the possibility of having just one employee, you have to have at least ten to qualify at all. Now if you are going to choose employees as one of the two of three criteria, that number has to be 50.

**Assemblyman Trowbridge:**

I will not belabor the point, but I did not see that any place until you mentioned it. There are two of three criteria to get the write-off.

It is only going to be a matter of days before we will be asked to look at taxes for existing people, and here we are proposing sales tax reductions and abatements for property tax, personal tax, and MBT. At what point with businesses that qualify for this would the state start to break even? Giving somebody a ten-year abatement on personal property taxes is a significant amount of money. When you are paying \$16.30, nobody is getting rich.

**Steve Hill:**

Again, and this is a really important point, all of the abatements—the company process we are talking about, the employees—currently do not exist in Nevada. They would all be new. For example, as the Economic Forum looks at revenue they are not considering abatements. They do consider the transferrable tax plans, but the abatements that we are discussing in S.B. 74 (R1) only apply to something that is not here right now, so that is not a reduction of the revenue we are counting on or we currently have.



You may have been asking that question a different way, and what does the fiscal analysis look like? The companies that are eligible by statute, and that we look at for abatements and incentives, are only those primary companies. The indirect impact they have, all of the other service industries in the state that are driving this, should be considered, and we do consider them. Legislation during the last session required us to consider the indirect impact as well.

Where the state breaks even on that is a function of more things than I could really get into, but you touched on the core of it, and that is how much the average wage of their employees is going to be. The higher the wage the greater the fiscal impact of that job, and that is one of the reasons we have proposed this legislation, so that we can narrow the abatements for lower-paying jobs and incentivize higher-paying jobs.

**Assemblywoman Benitez-Thompson:**

So where do we end up after we put this bill in place? Tell me the practical changes and implications it has. Are we making better deals? Is this from lessons learned the hard way about things we ought to have in statute because we get the runaround from folks? Is it making sure our language is matching our intent? Is it that people were not getting an application in because they found problems with the statute? When this is all said and done, tell me how our dealings with businesses with the abatements are going to be better. Tell me how Nevada ends up better.

**Steve Hill:**

The end result of this is that the number of deals we make, the number of jobs we incentivize, will probably be reduced somewhat. We have provided incentives and abatements for some pretty low-paying jobs over the past few years. In an environment where we have 10 to 12 percent unemployment, which is really high, we are getting people off the unemployment rolls at a \$10 to \$12 per hour job—it is a job. We continue to welcome those as a state, but to provide incentives we think we should be incentivizing the improvement of average wages for employees in the state. The end result of this bill, from the standpoint of narrowing the abatement, is that we will do probably fewer deals, we will probably incentivize fewer jobs, and they will be at a higher average wage.

The rest of the policy-based or language-based adjustments we think close some potential loopholes, some of which we have encountered through the process over the past three years.

**Assemblywoman Benitez-Thompson:**

Thank you, because I wanted to make sure what we are getting at. The focus is on higher-paying jobs. The focus is on closing some loopholes so that when we give abatements to companies our generosity is not overextended, as generous as you can call us in Nevada.

**Steve Hill:**

Yes. That is a good summary.

**Chairman Armstrong:**

Are there any other questions from the Committee? Seeing none, would anyone like to speak in support of S.B. 74 (R1)? Seeing no one, we will move to those in opposition to S.B. 74 (R1). Would anyone like to speak in opposition? Seeing no one, would anyone like to speak as neutral on S.B. 74 (R1)?

**Ray Bacon, representing Nevada Manufacturers Association:**

We are neutral on this bill. The incentive programs have always been a challenge. We were there when they were started and we have made them confusing. I think what Mr. Hill is trying to do is lessen the confusion we have had over the years. We gave away some pretty good abatements to people during the middle of the recession when the unemployment rate was looking at 13 percent. It was one of those things where finding any job in some sectors, especially in the manufacturing sector, was a pretty good deal.

To put things in perspective, I think there are a couple of numbers that this Committee needs to have for background information. The percentage of jobs lost in the recession in the construction sector was about 70 to 71 percent. In the manufacturing sector we lost about 24.5 percent of the jobs. The construction sector was so much greater than ours, and they were larger in the number of total jobs, so they get a lot more attention, but the 24.5 percent was a huge number. The entertainment sector was in the neighborhood of 10 to 11 percent, so that kind of puts it in perspective.

A lot of the jobs lost in the recession were people in this state who made building materials. If the construction sector was not making housing and was not making commercial construction, then all of a sudden we did not need roof tiles, we did not need window companies, we did not need all kinds of people who made the building materials that went into those products. Consequently, that is where the recession hit us the hardest. Those jobs in most cases are gone, and they are not coming back until the housing market comes back, and even then they will probably never be at the level we had before. Hopefully that puts things into a little bit better perspective as far as what we are trying to do on this issue.

One of the things that is important for everyone to understand is that the state's view of the relationship is that they are looking for jobs, and they are looking for high-paying, high-benefits jobs. The company's perspective is totally different. They are looking at where can they locate so they can satisfy their customers and wind up with a viable, competitive operation. We end up with a situation where we are apples and oranges between the companies and the state in some cases. As long as we understand that relationship, it works very well, but we also have to remember to take a look at it from a company perspective. That was part of the challenge we wound up with for the Tesla operation. I think if it had not been for the fact that we were the closest operation to their plant, but not in California, they could have easily gone someplace else.

The lithium location was probably a minor issue. They made it very clear that it was a minor issue. It was a situation where they have a time-to-market issue that is part of being a viable, competitive company. The General Motors, Fords, Hondas, Toyotas, and Mercedes are not going to willingly give up half a million vehicles per year worth of market share.

What Tesla has at this stage of the game is that they believe they have a competitive product. Will they have a competitive product in three years or five years? Probably. Will they have a competitive product in 10 years or 12 years? Probably not.

If you think about it, how many of you drive a 20-year-old vehicle? A 20-year-old vehicle is pretty obsolete by today's standards, and that is the way the auto industry has been throughout its entire evolution. Any vehicle that is more than about 10 years old is marginal on being functional.

Think about it from this standpoint. At this stage of the game, our auto industry is roughly 115 years old. There is no one in this room who believes in another 115 years it is going to look anything like it does today.

Some operations where we are doing a manufacturing operation evolve relatively slowly, and some of them evolve incredibly rapidly. When we do the incentive operations, one of the things we do not do a great job of is measuring what are the life expectancies of these products and these companies that are coming in.

Let me talk about another company that is at the Tahoe Reno Industrial Center. PPG Pittsburgh Paints makes paint. They also make glass, but in this plant they make paint. Paint has changed, but paint is still paint. Yes, the ingredients

change a little bit and the mixing process changes a little bit, but they make house paint. House paint really has not changed a lot in 50 years. It is a relatively stable industry, whereas the auto industry and the electronics industry are dramatically different.

I think what this bill does for Mr. Hill is it gives him some ability to take a look at what the companies are dealing with from a marketplace standpoint, how competitive they need to be, and then gauge our incentives to something that does a reasonable job of matching that. He has never really had that ability before.

The next point I want to touch on is, is two years the right number? If you wanted to make a change to this bill, I would propose you say two years, or one year after certificate of occupancy (COO) is issued. Certificate of occupancy is the first time they can occupy the building and start doing something, so from that day they effectively start their operation.

If somebody is moving into a leased facility they may be able to get functional relatively quickly. We have had companies that were actually moved in and were functional inside a couple of months, but the big operations like Tesla are not going to get that building done in a year. It is going to be a long time before they get that operation done.

There is a way to modify that, to put some parameters around it, that gives him what he needs to work with, and simultaneously gives you a basis for consistency in the way we do things and the way we measure things.

I have a few negative comments to make. At this stage of the game there is one area where we do not do a great job. It is the area we talk a lot about, but we do not do a great job on the incentive side for small business. From a state standpoint we have made our process complex enough that the overhead structure means it does not make sense for us to try to do incentives for a company that is only going to bring 10 or 15 people here. Some of those people have never drawn an incentive. One of them is right here in Carson City and has grown up to be a large company. They are at 400 employees now, but 26 years ago when I first met the owners, it was the owners and four employees. They have done pretty well. They have changed the entire aircraft industry, and the way aircraft are made. That is a pretty big deal, but they have never taken advantage of the incentives because it has been incremental growth starting from a relatively slow basis. That is an area that at some point we need to figure out how we can do better, and I do not have any solutions on that whatsoever.

**Assemblywoman Benitez-Thompson:**

I just wanted to circle back to the COO comment, because that triggered something in my mind. I believe those of us up north realize that in abatement issues and negotiated deals, we have businesses that are open and running without a COO due to tax collection issues, but we know they are doing business and collecting money. We always learn the hard way. We make these deals and then we learn the hard way about what works and what does not work. I just wanted to make that comment on the record.

**Ray Bacon:**

In theory nobody should be operating without getting a COO, and I believe that in most cases, if they are, it is a very limited operation for a limited period of time before they get that COO. Part of that is a function of how well the county functions or the local government functions.

**Assemblywoman Benitez-Thompson:**

It is exactly reflective of that.

**Chairman Armstrong:**

We will move on, in the interest of time.

**Ray Bacon:**

The other comment I will make is part of the reason we have a complexity in our tax structure, and a national Tax Foundation study pointed this out. Nevada is one of the few states that charges sales tax on production equipment. Most states have completely exempted production equipment, or that equipment that is used to turn out goods, and that is part of what has added complexity to our process. The way our sales tax is structured that would be a nightmare to change. You would have to go back to the voters and explain that, and I am not sure we could do that easily. That is part of the reason we have the complexity that we have.

**Chairman Armstrong:**

Would anyone else like to speak as neutral on S.B. 74 (R1)? Seeing no one, do you have any final comments, Mr. Hill?

**Steve Hill:**

No.

**Chairman Armstrong:**

We will close the hearing on S.B. 74 (R1) and open it up for public comment. Would anyone like to speak for public comment? Seeing no one, we will close public comment. We are adjourned [at 3:45 p.m.].

RESPECTFULLY SUBMITTED:

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Gina Hall  
Committee Secretary

APPROVED BY:

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Assemblyman Derek Armstrong, Chairman

DATE: \_\_\_\_\_

**EXHIBITS**

**Committee Name:** Assembly Committee on Taxation

**Date:** May 5, 2015

**Time of Meeting:** 1:47 p.m.

<b>Bill</b>	<b>Exhibit</b>	<b>Witness / Agency</b>	<b>Description</b>
	A		Agenda
	B		Attendance Roster
S.B. 411 (R1)	C	Ruben Murillo, Jr., Nevada State Education Association	Proposed Amendment
S.B. 411 (R1)	D	Victoria Carreón, Guinn Center for Policy Priorities	Testimony
S.B. 74 (R1)	E	Steve Hill, Office of Economic Development, Office of the Governor	PowerPoint Presentation