

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

**Seventy-Eighth Session  
May 14, 2015**

The Committee on Taxation was called to order by Chairman Derek Armstrong at 1:39 p.m. on Thursday, May 14, 2015, in Room 4100 of the Legislative Building, 401 South Carson Street, Carson City, Nevada. Copies of the minutes, including the Agenda ([Exhibit A](#)), the Attendance Roster ([Exhibit B](#)), and other substantive exhibits, are available and on file in the Research Library of the Legislative Counsel Bureau and on the Nevada Legislature's website at [www.leg.state.nv.us/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:**

Assemblyman Jim Wheeler, Assembly District No. 39



**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:**

Ron Knecht, State Controller, Office of the State Controller  
Geoffrey Lawrence, Assistant State Controller, Office of the  
State Controller  
Gary Schmidt, Private Citizen, Reno, Nevada  
Sharron Angle, Private Citizen, Reno, Nevada  
Victor Joecks, Executive Vice President, Nevada Policy Research Institute  
Durward James Hindle III, Private Citizen, Virginia City, Nevada  
Jeanne Herman, Private Citizen, Sparks, Nevada  
Ronald P. Dreher, Government Affairs Director, Peace Officers Research  
Association of Nevada; and representing Washoe County Public  
Attorneys' Association; and Washoe School Principals' Association  
Bryan Wachter, Senior Vice President, Retail Association of Nevada  
Rusty McAllister, Private Citizen, Las Vegas, Nevada  
Joy Trushenski, Private Citizen, Carson City, Nevada  
Vicky Maltman, Private Citizen, Sun Valley, Nevada  
Carole Fineberg, Private Citizen, Reno, Nevada  
Lindsay Anderson, Director, Government Affairs, Washoe County  
School District

**Chairman Armstrong:**

[Roll was called and housekeeping items discussed.] Today we are going to hear a presentation and also have a work session. We will begin with the work session.

We have six bills on the agenda for the work session. We are also going to work session Senate Bill 334 (1st Reprint). We will begin with S.B. 334 (R1).

**Senate Bill 334 (1st Reprint):** Proposes to exempt sales of certain durable medical equipment, mobility-enhancing equipment, hearing aids, hearing aid accessories, and ophthalmic or ocular devices or appliances from sales and use taxes and analogous taxes. (BDR 32.262)

**Michael Nakamoto, Deputy Fiscal Analyst:**

The first bill on today's work session is Senate Bill 334 (1st Reprint), which there is no work session document for. I will walk the Committee through that bill.

Senate Bill 334 (1st Reprint) was heard in this Committee on May 7, and was sponsored by Senator Roberson. This bill requires the submission of three separate ballot questions to the voters at the 2016 General Election, to determine whether the Sales and Use Tax Act of 1955 should be amended to provide for several exemptions.

The first ballot question would be an exemption for durable medical equipment and mobility-enhancing equipment prescribed by a licensed provider of health care acting within his or her scope of practice—including canes, crutches, manual or motorized wheelchairs, or scooters—that enhance the ability of a person to move, and other mobility enhancing equipment if prescribed by a licensed provider of health care acting within his or her scope of practice.

The second ballot question would be an exemption for hearing aids and hearing aid accessories.

The third ballot question would be an exemption for ophthalmic or ocular devices or appliances prescribed by a physician or optometrist.

The only note I have in respect to this bill is that it was declared eligible for exemption on April 2, 2015, by the Fiscal Analysis Division, Legislative Counsel Bureau.

**Chairman Armstrong:**

At this point, there have been some concerns raised about this bill; however, there are some legitimate benefits of this bill as well. At this point, because of the second house committee passage deadline and the bill being eligible for exemption, it would be my intention to allow this bill to be moved without recommendation and rereferred to the Assembly Committee on Ways and Means for further consideration. Are there any comments from the Committee?

**Assemblyman Nelson:**

As I have mentioned to you, I will be happy to vote for this bill to get it out of Committee. I have some concerns about the fiscal note, but I assume they will take that up in the Assembly Committee on Ways and Means.

**Chairman Armstrong:**

Are there any other comments? Seeing none, at this point I would entertain a motion to rerefer without recommendation to the Assembly Committee on Ways and Means.

ASSEMBLYMAN KIRNER MADE A MOTION TO REREFER  
SENATE BILL 334 (1ST REPRINT) TO THE ASSEMBLY COMMITTEE  
ON WAYS AND MEANS WITHOUT RECOMMENDATION.

ASSEMBLYMAN HICKEY SECONDED THE MOTION

THE MOTION PASSED UNANIMOUSLY.

I will close the hearing on S.B. 334 (R1) 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)**

**Michael Nakamoto, Deputy Fiscal Analyst:**

The next bill is Senate Bill 74 (1st Reprint). The members of the Committee have the work session document ([Exhibit C](#)) in their binders. It is also located on the Nevada Electronic Legislative Information System (NELIS).

Senate Bill 74 (1st Reprint) was heard in this Committee on May 5 and was sponsored by the Senate Committee on Revenue and Economic Development on behalf of the Office of Economic Development, Office of the Governor (GOED). This bill makes various changes to the eligibility requirements and the administration of the economic development abatements administered by GOED. You can see there are numerous changes listed in the work session document ([Exhibit C](#)). I will not go through all of them. If there are any questions I would be happy to answer them.

Testimony on the bill was given by Mr. Steve Hill, Executive Director of GOED. There was testimony neutral to the bill by Mr. Ray Bacon, on behalf of the Nevada Manufacturers Association. There was no testimony in opposition and there were no amendments proposed to the bill.

**Chairman Armstrong:**

Are there any questions from the Committee? Seeing none, I will entertain a motion to do pass.

ASSEMBLYMAN TROWBRIDGE MADE A MOTION TO DO PASS  
SENATE BILL 74 (1ST REPRINT).

ASSEMBLYWOMAN DIAZ SECONDED THE MOTION.

THE MOTION PASSED UNANIMOUSLY.

The floor statement will be assigned to Assemblyman Trowbridge.

I will close the hearing on S.B. 74 (R1) and open the hearing on Senate Bill 78.

**Senate Bill 78: Makes various changes to provisions relating to taxation.  
(BDR 32-303)**

**Michael Nakamoto, Deputy Fiscal Analyst:**

Senate Bill 78 is the next bill on the work session today ([Exhibit D](#)). Senate Bill 78 was sponsored by the Senate Committee on Revenue and Economic Development, on behalf of the Department of Taxation. This particular bill authorizes any person, firm, company, association, or corporation claiming overvaluation or excessive valuation of its property that is appraised and assessed by the Department of Taxation—what is commonly referred to as centrally assessed property—to be able to appeal the resulting assessment directly to the State Board of Equalization without first being required to appeal the assessment to the county board of equalization.

Such an appeal directly to the State Board of Equalization must be filed no later than January 15, which corresponds to the date by which an appeal must be submitted to the county board of equalization under current law. If January 15 falls on a Saturday, Sunday, or legal holiday the appeal may be filed on the next business day. There were no amendments proposed to the bill.

**Chairman Armstrong:**

Are there any questions from the Committee? Seeing none, at this time I will entertain a motion to do pass.

ASSEMBLYWOMAN DICKMAN MADE A MOTION TO DO PASS  
SENATE BILL 78.

ASSEMBLYWOMAN BUSTAMANTE ADAMS SECONDED THE  
MOTION.

THE MOTION PASSED UNANIMOUSLY.

The floor statement will be assigned to Assemblywoman Dickman.

I will close the hearing on Senate Bill 78 and open the hearing on  
Senate Bill 94 (1st Reprint).

**Senate Bill 94 (1st Reprint): Makes various changes relating to transferable tax  
credits for film and other productions. (BDR 32-58)**

**Michael Nakamoto, Deputy Fiscal Analyst:**

The next bill on the work session is Senate Bill 94 (1st Reprint). It was heard in this Committee on April 30 and was sponsored by Senator Ford. The bill makes various changes to the transferable tax credit program for eligible film and other productions approved by the Legislature pursuant to Senate Bill No. 165 of the 77th Session. The bill removes the prospective expiration date of the program of June 30, 2023, that was originally enacted in 2013, and allows the Office of Economic Development, Office of the Governor (GOED), to approve applications for tax credits each year to the extent that the money for such purpose is approved by the Legislature. If GOED does not approve the full amount of credits authorized by the Legislature in any given fiscal year, the remaining amount may be carried forward and made available for approval during the immediately following two fiscal years.

There are also various changes to the program with respect to changes in definitions, as well as for the calculation of the credits that are listed on the work session document (Exhibit E). There were no amendments proposed for the bill. On page 2 of the work session document you can see the list of individuals who testified in support, as well as those who were in opposition.

**Chairman Armstrong:**

Are there any questions from the Committee? Seeing none, I would entertain a motion to do pass S.B. 94 (R1).

ASSEMBLYMAN HICKEY MADE A MOTION TO DO PASS  
SENATE BILL 94 (1ST REPRINT).

ASSEMBLYMAN KIRNER SECONDED THE MOTION.

THE MOTION PASSED UNANIMOUSLY.

The floor statement will be assigned to Assemblywoman Neal.

I will close the hearing on S.B. 94 (R1) and open the hearing on Senate Bill 95.

**Senate Bill 95: Revises provisions governing the publication of property tax rolls. (BDR 32-630)**

**Michael Nakamoto, Deputy Fiscal Analyst:**

Senate Bill 95 is the next bill on today's work session ([Exhibit F](#)). This bill was heard on April 23 and was sponsored by Senator Parks.

Senate Bill 95 expands the methods by which the county assessor may publish the annual list of taxpayers and assessed valuation on the secured property roll to include publication on an Internet website maintained by a county assessor or, if the county assessor does not maintain an Internet website, on an Internet website maintained by the county.

The bill specifies that if the list is published on an Internet website, the county assessor must provide notice in a newspaper of general circulation in the county on or before January 1 of each year, indicating that the list has been made available and providing the website address where the list may be accessed.

Additionally, in a county whose population is less than 100,000, not fewer than 10 copies of the list must be made available free of charge during normal business hours at the main administrative office of the county for at least 60 days after the list is made public.

There was an amendment submitted by the Nevada Press Association, that is attached to the work session packet, beginning on page 3 ([Exhibit F](#)). The amendment proposes to amend section 1, subsection 3, paragraph (d) of the bill, to require that the notice provided by the county assessor relating to the publication of the list on the Internet be published in the newspaper of general circulation four times each year, rather than once. There is also a list of additional requirements for the notice that must be included in that

publication listed on page 2 of the work session document ([Exhibit F](#)). The amendment additionally would change the effective date of the bill from July 1, 2015, to January 1, 2016.

If there are any questions about the bill or the proposed amendment I would be happy to answer them.

**Chairman Armstrong:**

Are there any questions from the Committee?

**Assemblyman Hickey:**

I would like to speak to the amendment, having myself a little bit of history with newspapers and at the same time acknowledging that transitioning out of newspapers and into the digital world is an inevitability that I think everyone accepts.

I would like to propose the amendment be included, because I think it helps with the transition for many of the readers in our rural areas, and some elderly constituents who still rely on seeing the tax rolls published in their newspaper. I would like to recommend do pass with the amendment, if it is the pleasure of the Chairman and the Committee.

**Assemblywoman Kirkpatrick:**

I, too, support the amendment. After the ten years I have been in this building, I will be thankful if this issue is resolved.

**Chairman Armstrong:**

Is there any other discussion?

**Assemblyman Nelson:**

With all due respect to my colleagues who have spoken in favor of the amendment, I would oppose the amendment. The bill, as drafted, provides for one notification in the newspaper, and I think that is sufficient.

**Assemblyman Kirner:**

I am like Assemblywoman Kirkpatrick in the sense that I would like to see this one finally make it through; however, I also support Assemblyman Nelson's discussion on whether or not we need the amendment. I am not in favor of the amendment.

**Assemblywoman Dickman:**

I would agree with Assemblyman Nelson and Assemblyman Kirner. I am not in favor of the amendment either.



**Assemblyman Trowbridge:**

The only way I could accept the amendment would be if it included, as a last minute amendment, to assure that it does, in fact, reduce the cost by at least 80 percent over what is currently paid to publish the entire rolls annually—like in the sales package that was given to us. If we could get that amendment in there, to lock it into law, I could support it, otherwise I cannot.

**Chairman Armstrong:**

Is there any other discussion?

**Assemblywoman Kirkpatrick:**

I think that by having the amendment and posting it four times a year we have a transition from what we know today. It is an increase to the governments. That does not stop you from coming back next session and taking it down to one time if it does not work. There is always that opportunity. We have always had this in place, to where we got the real paper in front of our houses, and this is a change from what we have been doing for 50 years. For myself, I feel like it is a transition. I understand where everyone else is coming from on posting it one time, but I do think there are some folks that will have to get used to that fact.

**Assemblywoman Dickman:**

I would suggest if we do approve it with the amendment, maybe we could put a time limit on it, just to get people used to it.

**Chairman Armstrong:**

The option would be to accept the amendment that sunsets after one biennium. At this point, that seems to be a middle ground, and I would be willing to entertain a motion to amend and do pass with the proposed amendment that would sunset after one biennium.

**Assemblyman Kirner:**

Assemblyman Hickey had a motion. It was never seconded. Would Assemblyman Hickey be willing to amend his motion?

**Assemblyman Hickey:**

I would like to include in my motion Assemblywoman Dickman's recommendation that it exist for one biennium and that we amend it with that stipulation.

ASSEMBLYMAN HICKEY MADE A MOTION TO AMEND AND DO  
PASS SENATE BILL 95.

ASSEMBLYMAN KIRNER SECONDED THE MOTION.

THE MOTION PASSED UNANIMOUSLY.

The floor statement will be assigned to Assemblyman Hickey.

I will close the hearing on Senate Bill 95 and open the hearing on Senate Bill 155 (1st Reprint).

**Senate Bill 155 (1st Reprint): Revises provisions relating to farm vehicles and implements of husbandry. (BDR 32-707)**

**Michael Nakamoto, Deputy Fiscal Analyst:**

Senate Bill 155 (1st Reprint) is the next bill on the work session today ([Exhibit G](#)). Senate Bill 155 (R1) was heard in this Committee on May 7 and was sponsored by Senator Goicoechea.

Senate Bill 155 (R1) authorizes a farmer or rancher to claim a refund of 80 percent of the taxes paid by the farmer or rancher on bulk purchases of special fuel, which is consistent with provisions of current law that provide for a similar refund on bulk purchases of motor vehicle fuel. The bill defines bulk purchases as purchases of more than 50 gallons of special fuel, which are not placed directly into the tanks of motor vehicles.

The bill consolidates into the term, "implement of husbandry," the vehicles and agricultural equipment that are described in various provisions of existing law as "farm equipment," "farm tractors," and "implements of husbandry."

The bill requires a person who engages in the operation, towing, and transportation of implements of husbandry on the highways of this state, to apply for and obtain a farm license plate, which must be displayed on the implement of husbandry, and pay the Department of Motor Vehicles a one-time nonrefundable fee of \$100, in addition to the fee of 50 cents that is currently required pursuant to *Nevada Revised Statutes* (NRS) 482.268. Provisions that require the annual issuance of a decal upon renewal of the plate are removed in lieu of the one-time \$100 fee.

The bill additionally provides that instead of a farm license plate, a reflective placard for slow-moving vehicles approved by the United States Department of Transportation may be displayed on certain implements of husbandry that are operated or transported on the highways of this state.

There were no amendments to the bill. If there are any questions, I will be happy to answer them.

**Chairman Armstrong:**

Are there any comments or questions from the Committee?

**Assemblywoman Dickman:**

I like this bill except for the \$100 nonrefundable fee. I will vote to get this bill out of Committee but reserve my right to change my vote on the floor.

**Chairman Armstrong:**

I will entertain a motion to do pass S.B. 155 (R1).

ASSEMBLYMAN TROWBRIDGE MADE A MOTION TO DO PASS  
SENATE BILL 155 (1ST REPRINT).

ASSEMBLYWOMAN BUSTAMANTE ADAMS SECONDED THE  
MOTION.

THE MOTION PASSED UNANIMOUSLY.

I will do the floor statement for this bill.

I will close the hearing on S.B. 155 (R1) and open the hearing on Senate Bill 377.

**Senate Bill 377: Revises various provisions relating to the taxation of property.  
(BDR 32-542)**

**Michael Nakamoto, Deputy Fiscal Analyst:**

The last bill on the work session today is Senate Bill 377 ([Exhibit H](#)). It was heard in this Committee on April 30 and was sponsored by Senator Parks.

Senate Bill 377 specifies that, for the purposes of filing a property tax appeal to the county board of equalization, the appeal shall be deemed to be filed on the date of the postmark dated by the post office on the envelope in which

the appeal was mailed. If the postmarked date on the envelope is illegible or omitted, the appeal shall be deemed to be filed on the date that the appeal is received by the county board of equalization.

Senate Bill 377 additionally specifies that if a community association does not provide information necessary for the county assessor to identify each community unit in a common-interest community, the ad valorem taxes and special assessments upon real property must be assessed upon the common elements of the common-interest community, and the taxable value of the common elements is the sum of the taxable value of all of the common elements of the common-interest community. There were no amendments to the bill.

**Chairman Armstrong:**

Are there any comments or questions from the Committee? Seeing none, I will entertain a motion to do pass S.B. 377.

ASSEMBLYMAN HICKEY MADE A MOTION TO DO PASS  
SENATE BILL 377.

ASSEMBLYWOMAN KIRKPATRICK SECONDED THE MOTION.

THE MOTION PASSED UNANIMOUSLY.

The floor statement will be assigned to Assemblywoman Kirkpatrick.

I will close the hearing on S.B. 377. That concludes our work session for today. We have one more bill (Senate Bill 411) we have heard, that we could possibly work session. I received a proposed amendment to that bill just prior to this hearing, so in an effort to review the amendment prior to that work session, it will be distributed to the Committee. We are going to recess today, so if we choose to work session the bill, it will be at a later time, either today or tomorrow.

We are now going to move to the presentation portion of the agenda, but prior to that I want to explain to the audience what is going to occur. When I spoke to Mr. Knecht and Assemblyman Wheeler, we discussed how this would happen. We are going to give them 45 minutes to give their presentation. Afterwards, the Committee will ask questions. I fully intend on ending by 3:30 p.m. today. Because there is no bill associated with their presentation, there will be no testimony in support, opposition, or neutral. If you would like to make comments during public comment, for whatever time is left before 3:30 p.m., you are more than welcome to come up.

At this point, I will open the hearing for the overview and discussion of the alternate revenue proposal by Assemblyman Jim Wheeler and Ron Knecht, State Controller.

**Assemblyman Jim Wheeler, Assembly District No. 39:**

We want to thank you very much for allowing us to make this presentation today. This presentation is based on the Governor's statement during his State of the State Address that he would like to listen to any other plans that were out there. We took that to heart and put together a panel. I believe this panel started out with about 15 people, and ended up with about 30. It consisted of business leaders from the community, a few Assembly people, and Mr. Knecht—people very familiar with our budget.

The main thing about our working panel was it consisted of people who were actually going to be affected by how we put together our budget, and by what we pass out of here before we leave two weeks from now. These are people who are our own middle class, our own small business owners, who look at us and say, "You are in charge of our money, so what are you going to do now? We cannot keep going up."

We have seen a rise in government spending, not just in Nevada and at the federal level, but throughout the entire United States, year after year. Even though this budget actually does raise our threshold to \$6.9 billion from our current \$6.3 billion, it does it without new tax plans on our businesses or our average, everyday people.

Again, I thank you for letting us present this. As you know, I have two other committees I am supposed to be in, so I will turn this over to the very capable hands of our State Controller and Assistant State Controller, who will make the presentation.

**Ron Knecht, State Controller, Office of the State Controller:**

Before Assemblyman Wheeler leaves, I want to thank him for his leadership and effort on this. Here with me today is the Assistant State Controller, Geoffrey Lawrence. We are going to walk you through our slideshow, "The Balanced Plan for Growth: A Compromise Budget for Nevada." ([Exhibit I](#)). Assemblyman Wheeler explained the genesis of it. It was conceived as a compromise budget for Nevada. We have been working on it for a long time, with a number of good people. We present this for your consideration.

Let me list six motivating factors, goals, and approach that we were animated by in this (page 2, [Exhibit I](#)). The first thing is what you want to do with any budget. We want to secure the education, human services, and other state public services goals of Nevadans, the ones we all share and believe in. We want to do that well and effectively.

The second is we want to foster economic growth, but in order to do that we believe we should dispense with new or increased taxes, and let the sunset taxes sunset. We worked hard to do that.

The third is, above all, the balanced plan for growth (BPfG) is a vehicle for compromise, to allow budget completion without a special legislative session. We have less than three weeks to go now. On behalf of all of Carson City and the area, we love having you legislators around. We also know most of you have a life elsewhere, and we would like to liberate you to get back to your lives and businesses.

Fourth (page 3, [Exhibit I](#)), the BPfG works both the revenues and expenses side to close a \$1.15 billion gap between the revised revenue projection of the Economic Forum and the Governor's recommended budget. That is \$6.16 billion versus \$7.31 billion.

Fifth, the BPfG actually increases current total State General Fund spending, but at a rate lower than the growth of the Nevada economy. We believe that is what is needed on a long-term, sustained basis to promote economic growth and give our children and grandchildren the future that our parents' generation gave us, of opportunity and continued economic growth and well-being.

Last, this is, and has been, a work in progress from the start. What you are going to see today is what we call version 2.0. We think, as with most version 2.0 products, it is better than version 1.0. I will go through the differences when we get there.

Let me start with some key background facts and statistics (page 4, [Exhibit I](#)) from the comprehensive annual financial reports (CAFR) that my predecessors have presented to you:

1. State spending has grown 10 percent in real terms per person in the last 10 years. That is over and above state spending growth caused by inflation and population growth. Spending has actually grown 10 percent more. I think this is a very important fact.

2. Consistent with that, relative to Nevada's economy, state revenues have grown 9 percent in that same decade, on the same basis, and it has been faster in the last six years at 19 percent.
3. Our conclusion is that the state of Nevada has a spending problem, not a revenue problem. There is a revenue problem when the revenues do not keep up. There is a spending problem when both the spending and the revenues are growing faster than the economy, and that is where we are.

Some key background facts (page 5, [Exhibit I](#)) that should animate this discussion and motivate us are that economic growth is perhaps the single most important thing, and for growth, new and increased taxes should be avoided, as we will show you in the next two slides.

The first graph (page 6, [Exhibit I](#)) shows the fraction of the gross domestic product (GDP) for which all government spending accounts. It shows that the spending has grown from the mid-20 percent level to the high-30 percent level over the last 50 years. This is truly an unsustainable phenomenon. The green bar below the spending curve reflects what empirical studies indicate. The range of government spending versus the GDP that serves the public interest—that maximizes growth and thus maximizes aggregate human well-being—is 20 to 25 percent. We have not been in that range since President Eisenhower's administration. It is easy enough to say the folks in Washington are spending too much, but as the next graph shows (page 7, [Exhibit I](#)), when we break down the total between federal, state, and local, state and local have grown just as much—from 10 percent of the economy to 15 percent, versus about 18 percent to 25 to 26 percent for the federal—so state and local government has grown just as much in relative terms and, in fact, maybe a little bit more.

It would be easy enough to say Nevada is a low-tax state so it is not really our fault, we are not the problem. The problem is that Nevada's tax burden has grown among the states to where it is spot in the middle at twenty-fifth or twenty-sixth among the states, depending on whether you measure that relative to the economy or the per person bill per year. We are no longer a low-tax state.

Let me give you an overview of our budget in terms of key numbers (page 8, [Exhibit I](#)):

1. The expected revenues for the coming biennium, according to the latest Economic Forum projection, were lowered from \$6.33 billion to \$6.16 billion. That is the starting point.
2. General Fund spending in the current biennium is \$6.6 billion.
3. The *Executive Budget* spending for the coming biennium is \$7.31 billion.

Comparing the first item to the third, we are back to a \$1.15 billion gap that we have to close.

**Chairman Armstrong:**

I want to stop you to clarify the first point for the audience because we went from \$6.33 billion to \$6.16 billion because for the first time the Economic Forum was taking account of the tax credits.

**Ron Knecht:**

That is exactly right. The important point that you are making there is that it is a better and more realistic estimate of the challenge we face.

4. The BPfG, proposed General Fund spending for the coming biennium is \$6.92 billion. By the way, our revenues would be \$6.96 billion or \$6.97 billion.

Let me next review the basic spending issues we came up with (page 9, [Exhibit I](#)). The first is the K-12 categorical funding for things like class-size reduction, full-day kindergarten, and various programs. This is the second biggest element of our proposal. It is something Governor Sandoval holds very dear, and we certainly share his motivation. We think we have a more economical and effective way to get there.

The second thing I am going to review is the process we used to get to our other cuts—\$300 million to \$400 million total in smaller cuts.

The third thing is higher education—especially the University of Nevada, Las Vegas (UNLV) School of Medicine, and the community colleges.

Fourth, health and human services has grown very rapidly in terms of spending. The real problem begins two years from now when we face the erosion of federal dollars going forward at that time for the Affordable Care Act (ACA).



The fifth thing that is very important is the information technology problem that the state faces—deferred maintenance and deferred upgrades. We cannot provide good services. We cannot be effective for our communities and for the people of Nevada if we do not have the current technology.

Sixth, it is important to talk here about the effect of all of this on state employees, most especially so because version 2.0 has a different effect and different particulars for state employees. They are held harmless under version 2.0, and in fact their lot improves from now to the next biennium primarily because we are going to end the furloughs. We are not the only ones who want to do that.

Last, we have a summary table of cuts by budget area, by function, and by department.

The first table (page 10, [Exhibit I](#)) is "Historic Nevada Spending by Function," and we have put this here as a reference point, and we will come back to it as we go through the presentation. You have everything from elected officials, finance and administration, and all kinds of education, down to the totals for fiscal year (FY) 2012 to FY 2015.

Continuing on the same table, moving to the right (page 11, [Exhibit I](#)), shows you the Governor's *Executive Budget* totals in each of those areas for FY 2016 and FY 2017, then the BPfG recommendations in FY 2016 and FY 2017. We put this here so you would have a high-level overview table that would allow you to see the positive and negative changes. We do have some positive changes in our budget relative to both current spending and the Governor's recommendations. Mr. Lawrence will be happy to answer any questions on the details. He and I worked together at great length on the workbook that is behind this.

One of the two really big issues here today is the K-12 block grants to replace categorical grants. To put this in context, State General Fund spending and all state spending on K-12 schools has grown faster than everything but health and human services in the last decade (page 12, [Exhibit I](#)). We have seen a 23 percent increase in addition to the increased spending by the state to cover population growth and inflation.

Right now we have the State Distributive School Account (DSA), we have some other minor things, and then we have a bunch of categorical grants that cover these various programs. One of them would be class-size reduction, which we have been doing continuously for about 24 years now. Some others include full-day kindergarten for all prekindergarten, et cetera. Those categorical grants

today total \$549 million. Governor Sandoval is recommending adding new categorical grants and increasing the current ones, so the new total for the increase and the new grants would be \$424 million, for a \$974 million total in the *Executive Budget* for categorical grants of all kinds. The BPfG consolidates categorical grants into a single block grant of \$665 million, for a savings of \$309 million versus the Governor's \$974 million total; however, notice that the \$665 million block grant compares to the \$549 million of the categorical grants, so there is a \$116 million increase for the biennium there. I must confess we did not think of all these ideas ourselves; in fact, we got some of them, including this one, from previous proposals by the Governor.

The upside and importance of block granting is it gives flexibility to the county school districts. It allows each district to spend these monies as needed at each school. The needs of McQueen High School in Reno, a high school in Sparks or Elko, a grade school in Douglas County, and a grade school in Henderson are not the same. They have different conditions and different needs. We believe the local districts know best how to allocate these things, instead of having categorical grants that use the same template, the same distribution of dollars in relative terms to each of them. We think we can save money by not forcing people to spend money in areas they do not need to. We think we can be much more effective by allowing the local districts to tailor the spending to each school.

There is a downside to all of this. It already exists with the categorical grants. In my discussions with Mike Willden, Governor Sandoval's Chief of Staff, he talked about the problems and the frustrations that the administration feels with accountability and effectiveness problems with K-12 categorical grants. In short, the state gives the local districts money, tells them to spend it on this or that, and thereafter they may or may not ask for a waiver, and in many cases just do whatever they want.

There was a legislative audit last year that showed the state essentially has no power at the moment, or the means, to really know what the districts are doing with it. There is no accountability.

Our solution is the following. We thought about what Mr. Willden said and we decided that required compliance audits and required performance reporting for each district, on a sustained basis will help, first of all, on the compliance audits, and assure the districts are spending the money in one of the categories.

Secondly, since these categorical grants are supposed to achieve various things, we can draft performance measures that they must report on as to how they are doing from semester to semester and year to year. We can see whether any

of these are working, how well, where we should focus funds in the future, and where we should perhaps cut them. So that is the \$309 million of net savings from changing categorical grants into block grants.

I am going to tell you roughly how we did this (page 13, [Exhibit I](#)). We did not have the full resources, the bureaucracy, or that many months. We did the best job we could. We had a number of good professionals—Mr. Lawrence, some people from the Legislative Counsel Bureau (LCB), et cetera, and most importantly we did this line by line. This was not a hack job or lop off a limb here or there. This was done with care for every line in the budget.

We started with the spending. Actually it was the Governor's recommendation in 2011 to 2013, and then we applied three screens to those. The first thing we did was start with the FY 2012 and FY 2013 amounts and we increased each amount by 10 percent, to account for population growth and inflation to the current biennium. We then compared those amounts to the actual amounts funded in FY 2014 and FY 2015, and in many cases we recognized there was a good reason the FY 2014 and FY 2015 current spending was higher than what our algorithm yielded, so we adjusted upward to the FY 2014 and FY 2015 levels. The third step was we screened the resulting amounts versus the *Executive Budget* for each line for FY 2016 and FY 2017, to determine whether the Governor had recognized an increase that we should also recognize. We adjusted some of them up to the Governor's recommended levels when we investigated the details behind each item. Finally, we added back specific enhancements we thought were too important to defer, most importantly the information technology (IT) maintenance and upgrades.

We have brought you a work in progress. There is nothing carved in stone. It is a starting point and a template to use, even with budgets that have already been closed.

Next is the higher education spending (page 14, [Exhibit I](#)) for the Nevada System of Higher Education (NSHE), where I had the privilege of spending the last eight years as a member of the Board of Regents. Our proposed NSHE budget for the coming biennium, \$992 million in State General Funds, is higher than what the system requested, and is an increase also versus the current biennium's \$971 million. What it does not include is the full incentive amounts Governor Sandoval recommended adding to the NSHE request. It does include the Governor's recommended level of funding for the proposed UNLV School of Medicine, and we went to great lengths to make sure it is fair to the community colleges. It continues the full bridge funding that they need in order to survive. The community colleges are essential to Nevada's economic development efforts. They are going to

provide the manpower, the technical training, et cetera, and we believe without full bridge funding, they will not make it. There are some minor cuts, but that is the big picture on higher education.

Turning to health and human services (page 15, [Exhibit I](#)). Here is the background and the key fact—health and human services spending in Nevada, according to the CAFR, has grown faster than anything else. There has been a 37 percent increase in the last decade in addition to increases for inflation and population growth. So, over and above the money that was spent to cover increases in population growth and inflation, there is a three-eighths real increase per person. The increases in entitlement programs have been driven a great deal by federal mandates, and in fairness, I will point out there is also significant federal funding to cover some of those mandates.

Medicaid has grown to be the second largest item in the Nevada budget. Enrollments in Medicaid have doubled in the last two years, from 300,000 to 600,000 today. The problem is the storm next time. In the 2017-2019 biennium, federal support for the ACA-driven Medicaid expansion will begin to decline. It will decline continuously, and it will create a huge liability for the state of Nevada. We do not have a solution to that just yet, but we will try within two years to come up with something there.

The balanced plan for growth does have a solution in that we have restrained the spending right now on health and human services. The major thing that we would do is cover all Medicaid beneficiaries, but we hold provider reimbursement to current rates, which will save \$60 million.

Turning to the IT maintenance and deferred upgrades problem (page 16, [Exhibit I](#)), since the great recession—and you can trace this back through previous spending and budgets, and the resulting spending constraints—state agencies have been operating with legacy IT systems and related systems. We know this firsthand in the Controller's Office. Many are now obsolete, requiring high staff levels and high costs, while delivering poor service. There is nobody at fault here. We had a terrible recession, the second biggest in well over 100 years by a good margin.

We have had a very slow recovery and as we have waited for the recovery, we have continually deferred this spending and these costs. The problem is that some systems are now approaching, or are already at, the end of vendor support. There are serious risks of system and service breakdowns and high additional costs if we do not replace or upgrade these systems very soon. This is essentially akin to the deferred maintenance problems in highway transportation and other infrastructure. State spending has been deferred longer

than reasonable, for good reason, but is no longer sustainable. So the BPfG includes all of the more than \$20 million of these enhancements recommended by Governor Sandoval.

Finally, we turn to the effect of all of this on state employees (page 17, [Exhibit I](#)). The BPfG would end all state employee furloughs, which are currently six days per year, for a 2.3 percent pay cut for employees. We truly respect the job most state employees do. We understand the problems they have faced. We want to get them back to normalcy. Previous state compensation cuts have roughly mirrored misfortunes of taxpayers as a group, but the poor economic recovery has now at long last brought taxpayers back to prerecession income levels. We believe it is reasonable to also restore state employees to the same status that the economic world has restored taxpayers to, by ending the furloughs and fully restoring merit pay for all classified employees.

Version 2.0 of the BPfG also does not include changes to the Public Employees' Retirement System of Nevada (PERS) and Public Employees' Benefits Program (PEBP) contributions that were included in version 1.0, which would have burdened state employees, but instead it holds them harmless, relative to the *Executive Budget*, and gives them a net increase in compensation from where they are today.

The next three pages (18 through 20, [Exhibit I](#)) give you the detail by department for the actual FY 2014 spending and the work plan that everybody is living under right now for FY 2015. In red, you have the *Executive Budget* for FY 2016 and FY 2017, and in green, you have the BPfG for FY 2016 and FY 2017. This table is perhaps your best guide to understanding what we are proposing in detail on the spending side, department by department.

Remember this is just our proposal on the spending side. I know this is the Assembly Committee on Taxation, and we are going to turn to revenues next, but again this is not carved in stone. It is a starting point. It shows you we can get there. We can get to a spending side of the budget that lies on very reasonable terms within our available resources.

Let us turn to those resources available on page 21 ([Exhibit I](#)), where we go over the basic revenue issues. They are actually much more simple and many fewer. The BPfG version 2.0 revenue measures do not include the local government property tax diversions nor the state employees' PERS and PEBP changes that were included in version 1.0. We heard a lot from the local governments about the property tax diversion. This was something that was tried by the Governor in 2011. We said we could fix the legal disability by

extending it to all 17 counties and all local governments, and maybe that will fix the legal disability, but it sure did not fix the problem for the local governments. We listened, we responded, and we took that out. Second, the BPfG version 2.0 revenues include only two minor new sources; \$39 million of sweeps from excess fund balances and closed program fund balances, plus \$31 million of mining tax deduction limits and prepayments. That is \$70 million in FY 2016.

At a certain level, we would like to have dispensed with the mining tax issues here. The problem we have is the same one the *Executive Budget* had—its imbalance over the two-year period. It comes up a little bit short as we have crafted it so far. As a work in progress, it comes up a little short in FY 2016, and has a little bit of excess in 2017. We needed the revenues in 2016.

The major point and the biggest thing on the table here today is bringing local government employees halfway to parity with state employees in employee PERS contributions. This is major new revenue. Almost three-quarters of a billion dollars, \$744 million, can be gained very fairly and very reasonably.

Today, the PERS contributions, which are very high in Nevada at 28 percent, for state employees are split 14 percent by the state and 14 percent by the employee if they are not public safety employees. For public safety employees—police, fire, and some others—the total figure is 40.5, and that is split 20.25 employee and 20.25 employer.

With some exceptions, the 28 percent and 40.5 percent at the local government level is paid entirely by the local government unit, with the employees paying nothing. We think this is an inequity, is inefficient, is unnecessary, and is something we should address.

On page 22 ([Exhibit I](#)) are the Economic Forum projections, the fund sweeps, the mining deductions and prepay issues—all of that is in FY 2016—and then the PERS savings. As I said earlier, I think it is about \$2 million higher when we make that 10.25 percent instead of 10 percent.

With full respect to the many good people who work for our local governments, and full appreciation, let us talk about local government employees retirement contributions to PERS (page 23, [Exhibit I](#)). As shown in the following graphs, and in other studies and data, on average, Nevada local government employees' wage and salary compensation is roughly 8 to 11 percent above comparable state employee compensation. We are not looking at the aggregate, just for the total complement of employees. We are trying to do this to the extent possible on a comparable basis, considering the occupation, the position, the requirements, et cetera. That is where we came up with data—from

the Las Vegas Metro Chamber of Commerce, the U.S. Department of Labor, and many others—that shows the 8 to 11 percent differential in favor of local government employees in terms of wage and salary compensation.

Local government employees' compensation is also much above private sector compensation in Nevada, while state employee compensation is much closer to those market levels, again on a comparable basis. With 28 percent total retirement contributions for nonpublic employees, employer plus employee, and 40.5 for public safety employees, Nevada public sector benefits greatly exceed private sector and national levels. The employment security and conditions values for local government employees are also quite attractive, and local government employees margins are much greater than those of state employees. Those are some strong, fairly definitive statements.

We will turn to the graphs and show you the backup data. The backup data in these graphs are from the Bureau of Labor Statistics (BLS), U.S. Department of Labor. The first graph (page 24, [Exhibit I](#)) shows state-by-state annual wages, not including benefits, of local government employees for the most recent year available, 2013. Nevada is ninth. We are not in the mainstream. We are not too far out, but we are high. We are much higher than places like Kansas, Idaho—our neighbor, et cetera.

When we turn to state government wages by state (page 25, [Exhibit I](#)), the same graph covering state workers versus local government workers shows we are twenty-ninth. We are very much in the mainstream. There is not a whole lot to say there. You almost might say, relative to other states, we are average.

When you compare the local government wages as a percentage of state wages (page 26, [Exhibit I](#)), keep in mind that local government employees have a different mix of people than state governments. That is why we make this comparison state by state, looking at local versus state. In local to state, Nevada is third. It is not quite in the Washington, D.C., and Hawaii level, but it is one of only five states where local employees make more than state employees. The average is more like 80 percent, which reflects the distribution of occupations and professions at each level. Nevada is very, very high in terms of local government employee compensation for salaries and wages to state employee salaries and wages.

Next we look at the state-by-state annual wages, excluding benefits, of private sector employees (page 27, [Exhibit I](#)). Here Nevada is thirtieth. We are ninth for local government employees, twenty-ninth for state employees, and thirtieth for private sector; twenty-ninth and thirtieth is very much in the mainstream and they are very close together.



So once again, compare local government employees to private sector employees in our state (page 28, [Exhibit I](#)), and state by state, we are once again third, which is very, very high, this time in the company of Hawaii, Rhode Island, Washington, D.C., Oregon, and a number of other states that you generally do not want to be in the company of, because of the problems they have from these types of issues. We are an outlier for sure.

Mr. Lawrence will walk you through the final chart.

**Geoffrey Lawrence, Assistant State Controller, Office of the State Controller:**

This final graph is a little bit complicated because it is showing many different things at once. The point we are trying to make here is that we are comparing wages, which is current compensation, between these three sectors of state, local, and private workers, what is the value of benefits, and how does that compare.

There is a big difference when you look at state and local government workers because, for the most part, local government workers are not contributing out of their own paychecks but the employer is contributing 28 percent of pay if they are nonpublic safety, whereas for the state employees, they are contributing 14 percent out of their pay, so even if they look like they are close to parity, in fact, the local government employees are much better compensated than state workers.

We also wanted to look at how Nevada's retirement benefits compare to other states around the country (page 29, [Exhibit I](#)), and it turns out that is a pretty tough thing to do because all the plans are different. People come up with different metrics for doing it, but there are some subjective decisions involved as to how you do that, so we wanted to come up with the most objective measure out there which is to look at the actuarially required contributions on an annual basis, and that gives you some indication of how generous the pension benefits are in each state. You will see some states that are indicated in orange here. They have an artificially inflated actuarially required contributions (ARC) because they have not fully funded the ARC in previous years. The blue states are states where the actuarially required contribution has been funded, at least over the last decade. Nevada is highlighted here in red just so it stands out, but it is one of those blue states. Our *Nevada Constitution* requires we fund the ARC here. The best comparison is not Nevada to Illinois, California, or some of the other states here, but to the other blue states. You can see that Nevada is the second blue state.



Another issue going on here is that some states also participate in social security on behalf of their employees and some do not. Those are demarcated at the bottom with the asterisks next to the states. You see that states that do not participate in social security by and large are going to be the ones with higher contribution rates because they are funding the entire retirement on behalf of their employees. There are some states, however, down toward the end—Texas, Florida, et cetera—that have large swaths of their employees, mostly teachers, that do not participate in social security and still have a pretty low ARC. If you take all these things into consideration, I think it is fair to say that Nevada's retirement benefits are at least on a higher end among the states, but especially so for local government employees who do not contribute out of their paychecks.

**Ron Knecht:**

To review quickly, the three takeaway points that we summarized on page 23 ([Exhibit I](#)), the local government employee wage and salary compensation is significantly higher—by roughly 8 to 11 percent—than comparable state employee compensation. Second, local government employees' compensation is much above comparable private sector compensation in our state, while state employee compensation is closer to those market levels. Third, with 28 percent retirement contributions total, and 40.5 percent for public safety employees, Nevada public sector benefits exceed private sector benefits greatly, and they exceed other national levels. Employment security conditions and values are also attractive, so local government employees' margins, as shown by all of this data, are much greater than those of state employees and private sector employees.

Coming back to page 30 ([Exhibit I](#)), this is what motivates our proposal, which is fairly simple in concept. There are some technical details we can go into that we have vetted with LCB general counsel, and we have been advised by them on this, but essentially the proposal is, we think this Legislature, the Governor, the state of Nevada, the people of Nevada should move local government employees' PERS contributions to parity with state employees contributions over the period of a few years.

Again, we recognize the value they provide. We appreciate the service they provide, but we cannot continue to basically let them get the benefit of generous benefits without participating in them. We would specifically move halfway to parity now, a 7 percent contribution for nonpublic safety employees and a 10.25 percent contribution for public safety employees.

That is one-fourth in each case of the 28 percent and 40.5 percent total PERS contributions, and it is half of what state employees do. This would generate \$744 million in net state revenues by essentially having the local government remit their savings to the state of Nevada.

We have checked with LCB general counsel and if the details are implemented correctly, the BPfG revenue proposal, this session, is the only one that will pass with a simple majority vote in each house. The extension of the sunset taxes, the modified business tax (MBT), and the business license fee all require two-thirds. This one can get done with 50 percent plus one in each house. That is part of the motivation here, to provide a vehicle that can actually get passed in time for the session to end.

Let me close, Mr. Chairman and Committee members, by pointing you to the graph at the end (page 31, [Exhibit I](#)). I hope this graph is not too complex. The red lines to the left show the historic State General Fund levels actually logged over the last four fiscal years. You will notice that consistent with the slow recovery, we have had a slow recovery in state spending. With the two lines to the right, the blue line is the balanced plan for growth (BPfG) and the green line is the *Executive Budget*. The BPfG continues the trend of slow improvement consistent with the economy that we have experienced. As you all know, this was the sixth year in a row we heard early on in the year about green shoots and the real recovery is finally here, and this was the fifth year in a row that I said, as an economist who deals with this stuff, "it ain't so," and it turns out, I wish I were wrong but "it ain't so."

We have word of green shoots and then we get a 0.2 percent growth rate for the quarter, et cetera. We are on a long-term, slow-growth trajectory, precisely because of what I pointed out in the graphs at the beginning. The growth and the burden of government over many decades has essentially slowed our economy down, probably permanently, until we rein in excess spending, excess taxes, and excess regulation.

The *Executive Budget* is ambitious. I share the Governor's desires and his goals for public service, but it is not realistic given the revenues we have if we are trying to avoid busting the budget. Taxes have gone up relative to the economy, as a fraction of people's lives. Our proposal will get there without a tax increase; the Governor's would probably require a tax increase, or maybe two of them.

Finally, Mr. Chairman, I have listened to important things you have said, and one of them was in order for us to get there, in your proposal, is that the MBT is scalable. It can match the revenues we decide on the spending side that we need. That is also true of the BPfG. This is by nature scalable. Thank you and we are available for any questions you may have. We greatly appreciate the opportunity to present this to you today.

**Chairman Armstrong:**

Thank you for the presentation. I will ask the first question. My first concern has to do with the \$700-plus million from the PERS contributions for local government employees. In the opening statements, you were not trying to affect everyday people, and with that sweep, I have a concern of either one of two things: we are going to ask local government employees take a pay cut of either 7 percent or 10 percent in order to enact this, or I see this as a tax on local governments by the state. I want to get your response to that.

**Ron Knecht:**

We are talking about everyday people in the context of taxpayers. Certainly local government employees qualify as everyday people, and are people we appreciate. I want to be real candid here and I am not going to duck the question. Are they effectively taking 7 and 10 percent pay cuts by this? Yes. Is it justified? Is it reasonable? Yes it is, for precisely the reasons we went through, the 8 to 11 percent higher compensation than state employees similarly situated and private sector employees similarly situated. This is something that has been brewing for a long time in Nevada, for many political reasons. It is certainly not the fault of local government employees, and we are not blaming them, but I will be real candid. Is this effectively a 7 to 10 percent pay cut for them? Yes. It brings them back close to parity—not quite to parity—with state employees and with private employees.

**Chairman Armstrong:**

Do you know how many local government employees that would affect?

**Ron Knecht:**

We have some figures.

**Chairman Armstrong:**

The number I have is about 97,000. I do not know if that is correct.

**Ron Knecht:**

Mr. Lawrence is indicating that. Let me add one thing based on that question. The problem in Nevada is not that we have too many state and local employees because we do not. We are low in terms of head count. There is a reason we

are low in head count. For six decades now, we continuously have been by far the fastest growing state and it takes time for the government compliment to catch up with that in terms of head count. So our problem is not that we have too many employees, local or state, it is that the local government employees have a substantially higher compensation level than everybody else.

**Chairman Armstrong:**

For myself, I wanted to make sure I was understanding correctly that we are going to ask about 100,000 employees to take a 7 to 10 percent pay cut.

**Assemblywoman Kirkpatrick:**

I feel like you are in the wrong job. You should have run for county commissioner or something where you could have those real discussions.

On the state portion of this, I am concerned with some of the cuts you made. As a state's person, who is supposed to represent the whole state. I find it interesting that you cut in archives; you cut in juvenile corrections by half. I do not understand what we are supposed to do with these kids. You cut rural welfare. You cut vocational rehabilitation. You cut dignitary protection. You cut state parks and that is something everybody enjoys. You cut the conservation camps. You eliminated wildlife education pieces. You eliminated all portions of tourism, and let the free market do it. Museums were cut. I am trying to understand because these are things that we heard about from folks in 2009, and they actually liked them and they wanted to keep them because they were a part of our state. They were things they could do with their families. I am concerned that some of the cuts you made are going to be pretty harmful to the rural areas, and we are trying to bring those folks up so they can survive.

I find it interesting that NSHE, the one budget we all struggle with, you made the least amount of cuts to. You know they came before us with a \$290 million request this session, but yet you did not cut a lot. You cut small programs, you cut humanities, and you cut the University of Nevada, School of Medicine piece, right? Those were all things that you cut.

I am trying to understand, because as being a state's person and needing to determine how we make the whole state do well, some of the tourism stuff you cut is specific for the 15 counties in our state that do not have the same type of tourism. We are trying to help bring the Elko Convention Authority up, and I think there was a bill for \$5 million to try and help with air service to get more people there.

The one that is the most frustrating to me is the state employees. I am telling you that every single state employee in this state has been taking it on the chin for a little over 11 years. People in the audience can agree to disagree with me. That is your prerogative. Our average state employee makes \$38,000, and they may make \$39,000 by the time you give the furloughs back. We are struggling to recruit people. Every single day we talk about that. I do not understand what you mean by holding them harmless by just making the furloughs end.

I want to know what our responsibility is on the state level when you cut juvenile corrections by half. So that means that based on that assumption, we would probably have to go up to Elko, close down that facility, and lay off a few employees. What was the thought process? I would have started at NSHE first, and then worked my way through some of the other stuff. Dignitary protection, what does that mean? Ironically, the Tahoe region got an increase, when everybody else is getting a decrease. If you could just explain some of the reasons why you picked certain things over others. I have been in this cutting mode myself before, since 2009, and we have had to make some pretty hard cuts, but the things that stuck out to me were things like conservation camps. What do we do with those folks if they do not have a place to go? That is a big rural thing. Are we going to close the state parks a little more often? I would just hope that you could give us, and you agreed to give us, some of the detail on why you picked certain things based on your budget.

**Ron Knecht:**

You have laid out a lot there.

**Assemblywoman Kirkpatrick:**

I know. I want to make sure you can answer most of it.

**Ron Knecht:**

I will try to respond to the big picture questions that you have asked, and Mr. Lawrence has some of the details. We are happy to go over the particular details on the line items with you offline, anytime, anywhere.

Let me start with a couple things. First of all, the 2013 average annual wage data for the state of Nevada, according to BLS, is not \$38,000, it is \$47,789. That is twenty-ninth among states for state employees. Second, I understand your question about higher education and, no, I was not being a home court referee on my previous position.

Let me put that in a bigger context. When you talk about what they ask for and what we gave, there is a longer history there. The actual spending since the 2009 Session on higher education went down. This is not budget numbers, the phony baloney numbers. This is the real, actual General Fund spending that went down by about 24 percent—by about \$168 million to \$180 million a year. I believe it was from FY 2009 to FY 2010, or somewhere in that time frame, and it has never really recovered.

What essentially happened is the state told higher education to go out and raise tuition and fees. This was over my vociferous objections as a regent on a continuing basis, and Regent Stevens and I got within one vote the last time we did this, before I left the Board and became Controller, and we almost stopped that last one. Higher education continuously raised tuition and fees to the point where today taxpayer support is one to one, where it used to be two to one versus student and family support for undergraduate instruction. We have shifted the burden immensely. So when we put a few dollars in for the UNLV School of Medicine, and to save those community colleges that are so vital, I make no apology whatsoever. I think it is about time we did something to save them.

As for the others, if we had the money, I would love to be able to secure all of those individual items. The problem is short-term thinking. We always think that this is important and that is important. You get a lot of people sitting here right before you, where we are today, telling you how much they value this and that. The long-term effect, the cumulative effect, is seen on the graph on page 6 ([Exhibit I](#)), the continued growth of government in real terms, not just in nominal dollars, not just in real dollars, but as a fraction of our economy and people's lives.

This is the biggest problem we face in government. For 300 years, we have had the economic institutions, policies, and practices that have meant the following: Every generation—every 28 years—the income and the human well-being levels have doubled because of the economic growth. Each generation is twice as well off in practical terms as its parents' generation. That has slowed because of this problem over the last 50 to 60 years. It has slowed continuously, and now on a sustained basis, we are down to just over 1 percent. One percent versus 2.4 percent means this—the historic rate, and that is the problem that all of this spending contributes to. One percent means that if a family has an income today of \$60,000, their children's expected income goes up to \$80,000. That does not sound too bad until you consider what happened historically and what would have happened if we had restrained government and allowed the historic growth to continue—it would have gone up to \$120,000.

The problem is we have to stop responding to each interest group that is before you stating an interest, stating a demand, a request, making a good case, and we have to rein in spending by slowing the growth of government to less than the growth of the economy, not more.

Mr. Lawrence can add some details to a few of the specifics you asked about.

**Assemblywoman Kirkpatrick:**

I would like the details on how taking local governments' PERS dollars does not require a two-thirds vote? We can agree to disagree all day, but I want to have a real discussion. You put a lot of work into this and it merits some real discussion. I hope that it is a fair and balanced discussion.

We have a responsibility, and I struggle looking at you cutting juvenile corrections by half. How does that work? When I look at you cutting tourism in 15 counties, that bothers me. I want to know how the two-thirds works, and where it does not take a two-thirds vote to actually pass this piece.

I understand the whole NSHE part, and the goal was to give a little bit of autonomy to be more like other states that allow colleges as a whole to run on their own so they can drive the curriculum. The one thing about the University of Nevada School of Medicine, and coming from the south I cannot believe I am fighting for the Medical School, but it serves a population of folks and if you cut that piece, all you are doing is shifting those folks. That is why, this session, we need to ensure that the School of Medicine does well without the southern Nevada kids. We also need to have that balance in southern Nevada. That is why I bring that up. Because if you do the medical school [in southern Nevada] the Board has to give the existing School of Medicine the ability to subsidize until they can build their own workforce group.

I am more curious about the two-thirds piece, and I am curious about the juvenile correction center, and operating on a fair basis—the medical school is super important to the south, but not at the expense of the north.

**Ron Knecht:**

You mentioned state employees earlier and I forgot to point out we not only rescind the furloughs, we hold state employees harmless in our budget to the exact level the Governor does. That actually represents an increase in pay over the coming biennium versus today.

Second, we have talked about the local government employees and we have made our case. It is not something we are happy about, having to do what the Chairman said, bringing them into the fold for parity.

Third, we did not say that each of these cuts is absolutely inviolable, and we do not want you to think that. This is a vehicle for negotiation. Each of these things has to be negotiated on the spending side, for all those different items you mentioned. We just give you a vehicle here, with a revenue proposal that will get you to the finish once those tough decisions are made. We do not purport to have the expertise, the detail, and the perfect answer on each one of those. That is the thinking we have had.

**Geoffrey Lawrence:**

I wanted to add one point. While we are seeking to bring local government employees halfway to parity with state employees, bringing them more into line on the wage side of things, for those who are in the nonpublic safety category that are in the 28 percent contribution, that is a 7 and 21 split. A 21 percent employee contribution to a retirement fund is unheard of for most people in the world. Even the most generous corporate plans in the world probably participate in social security, which is a 6.2 percent employer contribution, plus maybe a 4 to 6 percent match into a 401(k) account. It is still a generous employer contribution into that pension fund.

With some of the programs that Assemblywoman Kirkpatrick questioned, Controller Knecht outlined earlier the methodology we went through to come up with these recommendations. They are based on the Governor's recommendations from FY 2013, and we just adjusted them upward. We were working off the assumption that the Governor had a plan and knew what he was doing for how to operate these programs at those levels. The reason that we chose the programs we did was primarily because we wanted to grow state spending only to a certain extent that we think is reasonable, up to about \$6.9 billion. In order to do that, we had to make some tough decisions. There are some priorities we did not want to sacrifice, like the quality of education. We wanted to continue to fund Medicaid, but in order to do that we had to make the same tough choices that everyone here makes, and sometimes that means tourism dollars and other programs like that. That is kind of the thought process that we went through.



**Chairman Armstrong:**

We have a lot of other questions and I have been asked to go a little bit longer. This is not a bill so we do not need a quorum, so we are going to go as long as we need to answer the questions on this. If Committee members have to go present bills, or go to other committees for work sessions, I understand. We do not need a quorum for this.

**Assemblyman Kirner:**

What your approach does is rely significantly on PERS. Is that right?

**Ron Knecht:**

Yes.

**Assemblyman Kirner:**

I think everyone kind of knows I am one of the guys that understands the system and I get my fair share of critique; however, if I understood you correctly, your proposal is that it would be 7 percent by regular employees and 10.125 by police and fire employees. That amount would be taken out of their paycheck by the regular local government and a check written to the state, and there would be no change in the 28 percent and the 40.5 percent. Am I reading that correctly?

**Ron Knecht:**

You are reading that exactly right. If I may, I forgot to answer the question Assemblywoman Kirkpatrick asked on the mechanics of this. Originally we proposed very simply that the state would tell each local government unit to charge the 7 and 10.125 PERS contribution rates to their employees and remit that money directly. We ran that by Brenda Erdoes, LCB Legislative Counsel, and she said we were close but we needed to put one more wrinkle in it, to make sure it is not of the character that requires a two-thirds vote.

What we would have to do is require each local government unit to make the calculation, how much it would save if it used the 7 percent and 10.125 percent changes instead of what they are currently using, then remit that amount of money to the state from the local government. At the same time, the legislation would give the local governments permission to charge the employees at the 7 and 10.125 percent levels. The intent here is to bring the local government employees halfway to parity.

The mechanism would allow, for example, if the City of Reno had \$10 million or \$11 million that was burning a hole in its pocket, and they did not know what to do with it, they could use it for that purpose this time.

**Assemblyman Kirner:**

Let me finish my thought then. In effect you are saying we should tax our local government employees, because you are saying to them we have to reduce their pay by 7 percent or 10 percent, because they are not contributing to PERS. You are not changing the PERS contribution, you are just saying in order to fund the state budget, we need to tax all local government employees to the tune of 7 or 10 percent, depending on where they are. That seems to me to be a specialized tax on one group of employees to fund the state. I understand if we want to change some of the mechanics of contributing to PERS, but the way you have laid it out feels like a tax on a specialized group.

I am not trying to argue parity or not parity. I understand that conversation. Our state employees are leaving us and going to those places, so I understand that. The way you have it outlined just seems like it is a tax.

**Ron Knecht:**

I will disagree with you on one aspect of this in that it is not a tax. A tax is a levy that a person or a business pays, that does not get specific service products or goods in return for them. Is it true they will be worse off after this contribution purchase part of their retirement is imposed? Yes they will be, but it is not a tax. It is basically saying, for many years now you have had a great deal and we just cannot afford to continue that great deal. You have great retirement benefits. You have good compensation, very good compensation, and good conditions, but we have to step back and, unfortunately, say we have reached the point where we can no longer afford that total package. We are going to have to require you to participate in your own retirement savings, and that is what this does.

I understand it feels the same to any local government employee dealing with it. I will not argue that, but it truly is not a tax.

**Chairman Armstrong:**

I want to make sure this is even possible at this point, because local governments are probably closing their fiscal year 2016 budgets at the same time we are. Do you know when they close their budgets and if this is even possible for local governments to consider?

**Ron Knecht:**

We checked with Ms. Erdoes and I believe the answer was, if this proposal is passed within the time limits of the session, it can be done. I believe your legal counsel to the Committee has been briefed on this today and can answer the legal details better than I can.

**Chairman Armstrong:**

The diversion of the money from the locals to the state, the PERS, is that going to the DSA or to the General Fund?

**Ron Knecht:**

The monies that would be reported and paid by the local governments would be paid directly into the DSA, for payment to the DSA per-pupil annual guarantee to the 17 county school districts, and thereby assures that K-12 education in our state is funded adequately by the state, both at the DSA level and the categorical or block grant level, as well as the other minor categories. It would go right into the DSA. It would benefit students and teachers in our district schools.

**Chairman Armstrong:**

So this revenue is not going to the categorical spending then?

**Ron Knecht:**

The categorical spending is entirely separate from the DSA and would come out of the General Fund.

**Chairman Armstrong:**

Because there are sunsets in both the General Fund and the DSA, how are you coming up with the shortfall that the sunsets in the General Fund are going to have? You are growing your budgets. You are going from current spending of \$6.6 to \$6.9 billion, so the sunsets in the DSA are over \$600 million. There is going to be a gap somewhere, unless I am misunderstanding something.

**Ron Knecht:**

The gap that we are trying to close is \$1.15 million....

**Chairman Armstrong:**

Just in your proposal, I see a gap in funding.

**Ron Knecht:**

We have \$742 million from the PERS local government piece. We have another \$70 million from the two other minor sources of revenue, so we have \$812 million in new revenues. We have \$309 million in the block grants versus categorical savings, which gets us up to \$1.121 billion, I think. That is close to closing the gap.

The many small items that I mentioned, between \$300 and \$400 million in total, that Assemblywoman Kirkpatrick was asking about, are then added to that, and, at the same time, the current local school support tax (LSST) increment of \$390 million, something like that, is deducted, because right now that is a non-General Fund source that goes into the DSA.

**Chairman Armstrong:**

I am still not following your numbers. You added up \$1.1 billion, and that is above the \$6.15 billion of the Economic Forum, so we had \$7.2 billion?

**Ron Knecht:**

With \$1.121 billion on top of \$6.16 billion we are at \$7.28 billion, so we are getting close to \$7.3 billion right there. Then we have the difference between the LSST piece and the other....

**Chairman Armstrong:**

On page 30 ([Exhibit I](#)), you are saying that this generates \$744 million, and that is state revenues. How are we going from \$6.16 billion to \$7.3 billion when we are only generating \$744 million in state revenues? The numbers are just not adding up for me.

**Ron Knecht:**

Let me try again. The way we get there is \$744 million plus \$70 million in new revenues gets you to \$814 million. That is the new revenue side. The cuts in spending, \$309 million for the block grants versus the categorical grants brings the total down toward \$7 billion. We have talked \$6.9 billion but it is basically \$6.96 billion, or something like that. We are trying to get to \$7 billion. So we have \$309 million in cost savings, bringing us down to just about \$7 billion. We have \$814 million in new revenues, bringing us up from \$6.16 billion to \$6.9 billion, and then we have the small difference between the LSST outflow and the other almost \$400 million of savings in the other things Assemblywoman Kirkpatrick asked about.

**Chairman Armstrong:**

I just wanted to make sure that the numbers are adding up correctly. I think I understand. I will ask my staff if they understood.

**Russell Guindon, Principal Deputy Fiscal Analyst:**

If I am following Chairman Armstrong's line of questioning here, looking at the table on page 11 ([Exhibit I](#)), which I believe comes up to about \$6.917 billion, as I understand it is their proposed General Fund budget. That would be what

we call General Fund appropriations. Thus, you would need unrestricted General Fund revenue of at least that amount to be able to cut the checks to cover those General Fund appropriations.

Then looking at the table on page 22 ([Exhibit I](#)), they have \$6.966 billion, which would obviously be enough to cover the \$6.917 billion, but if you put the PERS diversion into the DSA, it is no longer unrestricted General Fund revenue that is available to write General Fund appropriation checks against. That is just the way it is. Once you put it in the DSA, it is not unrestricted General Fund revenue, it is DSA revenue, and thus it becomes part of the Nevada Plan K-12 funding program. I cannot tell you with certainty whether this works or not, but I can tell you if you put the money in the DSA, it is not available to write General Fund appropriation checks against.

**Chairman Armstrong:**

So there is some confusion that we need to talk about offline.

**Assemblywoman Benitez-Thompson:**

I appreciate you talking about how state spending has grown 10 percent on page 4 ([Exhibit I](#)). I feel, though, if we are going to have an honest and complete dialogue about what is happening in state government, we have to talk about all of our responsibility within state government. Your Controller's Office submitted a budget with a 42.6 increase over the biennium, which is \$13.1 million. Of that, you had more than \$300,000 in salary requests in each year of the biennium. In another budget item, you request a spending increase of, and I think this was the biggest one that we got from all state governments, a whopping 550 percent. I feel like if we are going to talk the talk we have to walk the walk, and welcome to state government, Mr. Lawrence and Mr. Knecht, because now you are part of the problem.

**Ron Knecht:**

With all due respect, let me state what our exact figures are and, no, we do not have \$300,000 in additional salaries in each year. I know one pundit recently wrote that we requested staffing increases. We did not. My predecessor requested an increase in head count from 43 to 44, but before I was even in office, the Governor had taken that out and we were back at 43, and that is where we remain.

I am not sure what the 550 percent was, because I have not seen any....

**Assemblywoman Benitez-Thompson:**

I can clarify. I am just looking at the budget request and these are from the Assembly Committee on Ways and Means hearings of course, what Legislature appropriated. We appropriated a much lower level. Once again, I feel like if we are going to have the conversation, let us talk about how each piece of state government is responsible. I feel like it would ring more true if we had a request that came in from the Controller's Office saying we are going to keep in line with our own principles; here is where we are going to make cuts, and here is where we are going to be austere.

**Ron Knecht:**

On page 18 ([Exhibit I](#)), "Spending by Department (1 of 3)," our proposal for the second year is \$4,667,787 versus \$4,369,629 in the current year. Over a two-year period, we are growing slower under our proposal than the Nevada economy, and that was the standard I set out. I agree with you, if you are going to talk the talk you need to walk the walk. I was very clear all the way along in our first budget request, and in this. We would actually be taking cuts of \$300,000 in the first year and \$100,000 in the second year versus the *Executive Budget* and what has already been passed through the money committees. We would be taking cuts, and we are willing to do exactly what you say. I agree with you, we should.

The other thing you are seeing there is in FY 2016, again \$6 million-plus for the Controller's Office versus \$6.4 million for the Governor's recommendations, and there is the \$300,000 cut we would take. Secondly, and most importantly, the difference between that and the 2014 and 2015 figures is what we talked about, the information technology portion. None of that goes into higher salaries, increased head count, et cetera. It all goes into the business intelligence, the Advantage system which is 16 years old and obsolete, and is no longer vendor supported. It is a one-time thing. As I pointed out, this has all been deferred for over six to eight years now due to the economic hard times. We have gotten to the point where we can no longer defer it. It is a one-time appropriation that we need to make in order to keep functioning and providing the service the public and the state agencies need. It is not a failure to cut our own budget.

**Assemblywoman Neal:**

Is it \$812 million or \$814 million in new revenue? Where does that come from?

**Ron Knecht:**

The requirement that we take local government employees halfway to parity with the state employees is where \$744 million of that comes from. The other two pieces, totaling \$70 million, are on page 22 ([Exhibit I](#)). It would be \$39 million for the fund sweeps and \$31 million for the mining tax issues. Together they total \$70 million, and the vast bulk of that is in FY 2016.

**Assemblywoman Neal:**

When you refer to mining taxes, what are we talking about? There is the prepayment money with net proceeds, which basically needs to be repaid but is being delayed. It does not mean that it does not need to go back to where it came from. What are we talking about there?

**Geoffrey Lawrence:**

This would be extending both portions, changing the mining tax deductions so that the health industrial insurance premiums are no longer deductible, and extending the prepayment requirement. That would not really impact FY 2017 because we would be getting that revenue anyway, it is just accelerated by a year. Admittedly, this is not an optimal solution, but as I said, we are trying to get to a spending and revenue level that we think represents a reasonable rate of growth for the state.

**Assemblywoman Neal:**

My second question is coming from your budget. This is kind of a follow up to Chairman Armstrong's question, in terms of the DSA.

So in the DSA, in your BPfG, you eliminate 2 percent salary increases, maintain special education funding levels, move class-size reduction to student achievement block grants, and then you replaced 0.35 of the LSST with General Fund revenue.

What is baffling me is you want to take out the LSST revenue and you want to replace it with the General Fund revenue. Where is the General Fund revenue coming from that is replacing that?

**Ron Knecht:**

Right now, as you point out, \$390 million, more or less, goes from the LSST into the DSA. That offsets the need to put money into the DSA from the General Fund. Because we would be letting the sunset taxes expire, that LSST contribution would also expire. That is the downside there.

This is flexible and it can be done so that it works. I understand Mr. Guindon's and your concern about whether it goes into the DSA or the General Fund, but our initial understanding was that if it goes into the DSA, the \$744 million would reduce the state's required contribution to the DSA by a dollar for dollar amount, so the same \$744 million would be liberated for other uses in the General Fund. If there is a technical problem there, then we would be entirely good with having the money go into the General Fund and not into the DSA, with the understanding the General Fund money would be appropriated to the DSA.

**Chairman Armstrong:**

I think that Assemblywoman Neal has the same concern I do, that there is more than just the LSST and the DSA sunset. There is also the governmental services tax (GST) portion as well.

So if that \$744 million goes to the DSA to make up for that shortfall, how do you go from \$6.16 billion to \$6.9 billion? How do you make up that \$800 million in revenue for the General Fund?

**Geoffrey Lawrence:**

I know what you are talking about—the additional DSA funds, outside of the General Fund. That includes not just the GST, which is our motor vehicle registration, but also the Initiative Petition No. 1 of the 75th Session room tax. Those would not change; in fact, those do not require a two-thirds vote because they are simply diversions of existing revenue sources that are going to exist regardless of what is done by this body. We would continue those and those revenues would be available.

**Chairman Armstrong:**

Staff, I am confused. I did not think that was the case.

**Russell Guindon:**

I guess I would seek clarification because, as I read the document, when somebody says they are not going to extend any of the sunsets, the room tax is one of the revenue sources that actually has the sunset on it, along with the 0.35 percent increase in the LSST. Both of those, under the *Executive Budget*, are recommended to be used as a funding source for the FY 2016 and FY 2017 budget. Those two revenue sources together are approximately \$690 million. So in some sense, putting the \$746 million in there tries to offset that. I am like you in seeing a clarification needed as to what is actually meant when they say they are not going to extend any of the sunsets, as to whether the room tax was going to be left in the DSA or be allowed to go to the State Supplemental School Support Fund.



**Chairman Armstrong:**

Just so I am on the same page as you, if they sunset, they go away? They are not diverted for other uses?

**Russell Guindon:**

For the sunset on the LSST, yes, then the additional money from the rate increase in LSST would go away. With regard to the sunset on the room tax, the room tax can continue to be collected, as I understand in their proposal. They would propose not to require the money go to the DSA. Thus, under current law, it would stay in the State Supplemental School Support Fund and be used as required under the statutory provisions in the State Supplemental School Support Fund.

**Chairman Armstrong:**

That clarifies it for me. Thank you.

**Assemblywoman Neal:**

I see a lot of sweeps. There is a lot of, "I am going to sweep that money and take it somewhere else." What I am trying to wrap my mind around, and this is more of a broad question rather than me getting into your document, is you talk about the \$309 million in cost savings that comes from cutting an already cut budget.

When I first came into this position four years ago, I thought, there has to be waste. Somebody has to be spending money somewhere that is not appropriate. Then I found out that the tax structure in and of itself is flawed, and that there were depreciations and there were things that people do not necessarily pay, and that the structure itself is not producing what we needed in order to cover the cost and the growth of the state. Keep in mind that I came in during the recession, where everything was down and we were cutting to try to take care of safety, health, life, et cetera.

Then here you come again and you want to cut to gain revenue. You want to take the sunsets away, as if somehow the taxes that are sustaining the entire state are flawed or not necessary for the public service and needs of the state. You do not want to talk about whether or not the property tax allocation or rate is appropriate. You do not want to talk about whether or not the property tax rate offers depreciation to large industries that it should not. You do not want to talk about increasing. You do not want to talk about changing it. It is interesting to me because we cannot keep robbing Peter to pay Paul. We cannot keep cutting the budget. We do not want to give money to the development authorities anymore in your economic development budget.

You want GOED to limit its scope to just removing the barriers to entry into the marketplace, as if the economic development piece is not an integral part to offset what is going on in our state.

I find it super interesting because I do not know how you get to a stable place until you have a real conversation about the flaw. The flaw is not in the spending. The flaw is in the structure itself that nobody wants to talk about, and because it was politically not a good thing to say, you do not want to talk about how jacked up the system was. You want to keep away from that because you needed a vote. We need to be honest about what the structure of the tax system in this state is and then work from there. That is my interpretation of everything that is going on.

**Ron Knecht:**

You err when you say I do not want to talk about anything. I am happy to talk about every bit of it. I have been doing this for a long time and I believe while we probably disagree on some of the particulars, I believe as much as you say you do that the system is out of whack and we need to address that. I do not know if in this forum we can address all of the particulars of that, but I would be happy to talk about that.

Second, let me point you to page 12 ([Exhibit I](#)), where we talk about the block grants replacing the categorical grants. It makes a very important point that I hinted at earlier on when I talked about higher education. I said higher education's spending was cut a few years ago by \$168 or \$170 million. It was actual spending cuts year over year, and I said not budget baloney. So much of what people talk about is so-called budget cuts that are not real.

I will give you an example on page 12 ([Exhibit I](#)). We point out that the current categorical total spending is \$549 million for the biennium. That is the second point. The third point says our proposed block grant spending to replace that would be \$665 million, and at the time I went through that, I emphasized there is no cut here whatsoever, not in any terms of a real year-over-year spending cut. There is a substantial increase, something in excess of 20 percent, in the actual spending. The cut is versus the *Executive Budget* moving from \$549 million to \$974 million. That is the problem. That is what is unreasonable. That is what is the ghost cut; it is when somebody puts out a new number. If he had put out \$1.1 billion, our alleged cut would be even larger, but we are not cutting any actual spending. We are cutting someone's proposed spending, and we are actually increasing the real spending in real out-of-pocket dollars by 20 percent.

**Geoffrey Lawrence:**

I think you will find no argument here that the deductions and various other giveaways in the tax system we would probably find problematic as well, but there is a political reality that we are trying to address here, and that is trying to offer a compromise vehicle to close the budget before the session is out. We think it is going to be very difficult to get to 28 votes for a meatier tax package, so we are trying to offer a different way of getting there that only requires a simple majority. I am aware, to be perfectly blunt, the leadership has some priorities that they would like to get passed in this session, and there has been at least conjecture or rumors that the minority party would ask them to mitigate or kill some of those priorities in exchange for tax votes. Like leadership, we share those priorities, and want to ensure that they have a method to get their priority bills and also fund a reasonable budget that meets the goals of most Nevadans.

That was the motivation behind this. I am sure you can appreciate the political dynamic and reality that we all face here.

**Assemblyman Nelson:**

You mentioned that you were going to phase out the PERS contributions over time. Is that because there are existing collective bargaining agreements that need to expire first or is it part of the plan? I have heard some people say that you have been told, or you think you could, end collective bargaining agreements by statute. I find that kind of hard to believe. Could you please address that?

**Ron Knecht:**

We are not asking to move local government employees to full payment of the 28 and 40.5 percent. We are suggesting, that as a long-run goal, the state should say we are going to move you to parity with the state employees to pay half of that, at 14 and 20.25 percent. That would be a goal, and it would be an expression of intent if we can do it later on. All we are asking at this point is to move to 7 and 10.125 percent, so that is one-fourth of the way, or half the way to parity.

Your question about union contracts was much on our minds too. We discussed it with Legislative Counsel, Brenda Erdoes. I do not know all the particulars of the union contracts, and each district has a number of them. Her advice was that if this is done timely then their annual renegotiation, evergreen provisions, et cetera could make the 7 and 10.125 percent effective beginning with this next fiscal year, and it would not run afoul of the legal constraints on reopening or setting aside union contracts. We are not trying to

reach that far, to set aside union contracts. We are trying to do this in a very practical way, using the technical means at our disposal. I believe it is roughly akin to what Governor Walker did in Wisconsin, if that helps you.

**Assemblyman Nelson:**

That answered my question. I will follow up with Ms. Erdoes to make sure I understand it.

**Assemblyman Hickey:**

I want to ask you very specifically about your assumption that you would save \$309 million by going to block grants instead of some of the categorical spending. We know that there has been a problem in public education with not being able to track very well the monies that have been spent. In fact, Governor Sandoval, in his last three budgets, has attempted to deal with that by categorical spending, and many of the reform elements, which I know you support, are for that purpose alone so that they do not end up in the big pot. Since collective bargaining has been brought up, answer for me how by just putting it in the districts and allowing them to decide, that is not going to be part of the collective bargaining process, and therefore not accomplish what we want to do, which is to have money follow students and programs that we designate—things that we can track. I would like to know specifically how you are going to save that \$309 million by simply changing that?

**Ron Knecht:**

I will bring you back to page 12 ([Exhibit I](#)) once again. Look at points 2 and 3. We are saving \$309 million not relative to present spending of \$549 million. We are saving it relative to proposed spending of \$974 million. We would spend \$665 million, under our proposal, which is \$116 million, or more than 20 percent higher than what we spent this biennium on the same set of stuff, including the new categorical grants that Governor Sandoval is talking about.

I do understand the accountability question, and that is where we get down to points 4 and 5. The fourth point gives the district the flexibility. You wonder, quite reasonably, if they have the flexibility and they are no longer constrained by the amounts in the categorical grants, how are we to assure that the money follows the student and is effectively spent on the things that we are talking about among those categorical grants instead of going into the collective bargaining pot. That is the big problem. That is one I talked to Mr. Willden about. The way we would do that is under the fifth point: accountability and effectiveness. We would require compliance audits so that each district would report how much it spent to the state. It would annually report, through an audit, how much it spent on each of those categorical items so you could see where it went. Does that tell you it went exactly in the proportion that we used

to use for the categorical grants? No, it will not and, in fact, we do not think that it should. We think they should have the flexibility to tailor that spending to the various parts of the categorical grants that apply to their individual schools. What it will do, most importantly, is it will take on that big issue that you just named. Instead of going to the various categories, instead of going to those purposes, it goes into another area district deputy superintendent, or whatever, and really does not end up in any category, and then we would have the performance measures on top of that.

I do not purport that this is a perfect system. I do purport that it is a valuable step forward with compliance audits and performance measures in a block grant context.

**Assemblyman Hickey:**

You understand, of course, that there are performance measures that are contained within the way we are attempting to do things through these categorical grants. You have already acknowledged you have copied a lot from the Governor, and I just want to make it clear that this body and his particular categorical spending has those same elements within it that you are referring to.

Since you are basically saying, to answer my question about the \$309 million, you are not agreeing to spend the same amount in categorical spending. We have 20 days left and some of us are on the Assembly Committees on Education and Ways and Means. Are you prepared to tell this body at this point in the session what of those \$300 million in new plans should not be spent, whether it be expansion of charter schools, choice for education, things that people on your side of the aisle and mine are in agreement with the Governor on, because that is essentially what, in fact, you are proposing?

**Ron Knecht:**

Whether you are talking about the existing categorical grants or some of the new ones, not all of them apply in equal measure to every district and to every school. Part of the deal here and part of the savings is to take those that do not apply to a particular district or school, and not require them to be spent that way, or otherwise to be diverted into the collective bargaining agreement. Part of it comes there, in the flexibility at the local level. I cannot tell you personally what decision each district will make, but I think we should give them the opportunity to decide that based on their local needs at each school.

The other part of it is can we come up with essentially a shadow categorical grant amount for the existing ones and for the new ones? I suppose we could. We will certainly look at that. I will say this, one of the things besides the PowerPoint presentation that I asked be distributed to you all was

the "Controller's Monthly Report #4: K-12 Education in Nevada: Facts, Data and Strategies for Improvement" ([Exhibit J](#)). Without addressing it on a category by category basis, we do address our frank skepticism of some of the categorical grants and, in particular, class-size reduction, which was the subject of the legislative audit last year. First, it is not even happening; and second, the empirical literature suggests that it does not work, and that we need not to be focusing on expensive gimmicks or administrative bloat, but focusing on great teaching because that is what produces great learning.

Our proposal is, instead of ever increasing head counts and low and modest pay, we need to focus in the K-12 system on market rates for really good and great teachers. We need to attract, pay, and retain them because the empirical literature also says that in K-12, really good and great teachers can teach effectively to a great extent, regardless of class size. Class size is this false thing that we are chasing. That is just an example. Obviously, as I said, I do not have a shadow categorical grant allocation for you at this point, but we can look at that.

**Assemblywoman Bustamante Adams:**

At the beginning you talked about business leaders you brought together to talk about your proposal, and that those people would be familiar with the tax structure. Could you expand on who those individuals were? I am particularly interested in who the southern Nevada representatives would have been.

**Ron Knecht:**

It was Assemblyman Wheeler who talked about that, and he may have kept a list of people. I can tell you that people like Mr. Hindle from Storey County, who is an accountant, was one person. I believe various people came from southern Nevada, and some of that actually happened before I got involved. I will talk to Assemblyman Wheeler and see if we can get you some names of the business people.

When I said in my newspaper column that we had put this together, I characterized it more in terms of professionals. Business people are professionals, and I had in mind people like Mr. Lawrence and Mr. Hindle. We got LCB staff help, et cetera. Frankly, I do not know that there were any big business people per se in there. A few of them were small business people.

**Assemblywoman Bustamante Adams:**

I know the assumption is that you believe we have a spending problem, but I agree with my colleague that I think it is the fundamental structure of our taxes that needs to be fixed, and I know that requires a longer term solution.

Did you ever entertain the idea of making sure the revenue that was collected was proportional to the counties where it was being collected? If we are in different counties, the larger counties are supporting the smaller ones, and that has always been an issue for me personally because we subsidize a lot. If we are talking about living within our means, then those counties that are not growing are not bringing in the revenue. You put in \$5 and you are getting back \$10; I put in \$20 and I am only getting back \$2. Did you ever look at that situation as a way to solve some of the issues? Because obviously Clark County is where the population is growing, but we get the least amount of money per pupil. Did that ever come into your equation for a long-term solution?

**Ron Knecht:**

These are questions I have dealt with as a Regent over the last eight years, and as a person very interested and involved in state budget issues. Let me try to give you just a summary of what I have learned from doing that, and why it is practically impossible.

The problem is that 72 to 73 percent of the economy and the population of Nevada is in Clark County. Another 20-plus percent is in Washoe County. That basically leaves something less than 8 percent everywhere else. There is a problem of attribution. It is difficult, I think practically impossible, to find out exactly what each county contributes to the total. We do not keep some of the records for various revenue sources on a county-by-county basis. That is partly what makes it impossible.

The second problem is, in my old Regent district, Esmeralda County, with 788 people, those people may well be getting subsidized by the rest of us, but when you compare that to the more than 2 million population of Clark County, you could subsidize them to a very large per capita amount and it would make no real dent in what Clark County is doing. Again, you come back to what I said about 92 percent of the economy and the population is in the two biggest counties.

I will agree, without having the precise data in front of us, that there are some subsidies that are flowing from the two big counties to some of the small counties. There is not so much of a subsidy that flows to Douglas County, Carson City, Lyon County, and probably Churchill, Elko, and Storey Counties, but then there is the question if mining is paying something for operations in Battle Mountain, Elko, or in that area, does that all get attributed to that county, or because it is a state revenue source does it get spread around?

The problem is we do not know—we cannot really know—even though at a gut level we believe there is some subsidy from the two big counties to some of the rural counties. Is that unfair? I submit that every one of us regularly travels through those small counties, so they provide some service to us, and you have to factor that in.

Maybe I will add to my forthcoming future monthly Controller's report, if I can get some useful data, an attempt to address that because I agree with you that it is an interesting question. There is a question of fairness that you have to answer, but I am not just sure, frankly, that we can actually answer that.

What I do know is this: in the north-south battle, in the urban-rural battles that have gone on, there have been times when it was almost like the grievance side felt more that they wanted to punish the other side than anything else. As an example, if you take \$2 million out of the budget for Great Basin College, that makes a huge difference to them when their budget is on the order of \$11 or \$12 million. That is huge to them. When you put that \$2 million into UNLV, with its General Fund appropriation on the order of \$140 million, it does not make much difference. That is the kind of thing that the Nevada System of Higher Education has been doing with its flawed allocation scheme.

Yes, I have been engaged on that issue. Yes, I share your concerns. No, I do not have definitive answers I can give you, but I will try to work on it further.

**Geoffrey Lawrence:**

As a point of clarification, since you mentioned per-pupil funding, our plan mainly looks at funding the DSA. Once money goes into the DSA it is distributed according to a formula, and that formula is actually being changed in a way that I think actually does send a greater proportion to the at-risk schools in Clark County and Washoe County as well. I do not know if that answers your question, but we do not propose to modify the existing formula or propose changes to that formula in any way at all.

**Ron Knecht:**

Just one final addition in regard to the state contribution to K-12 education that Mr. Lawrence was just talking about. It is certainly true that with only 788 people in Esmeralda County, you have very high spending per student, and that does not make any difference in the scheme of things statewide.

What you also have is great substantial economies of scale when you are operating a district with hundreds of thousands of students versus a couple of hundred. The actual cost of delivering those services is inherently higher



down there, but there is nothing unfair in terms of the education that kids get in paying something higher because of the high cost, the no-scale economies, or the dis-economies of small scale at Esmeralda.

**Assemblywoman Kirkpatrick:**

I thought about what you told me on the average wage labor statistics for the state. That includes management I am assuming? Management is about 2 percent of our total state employees.

**Ron Knecht:**

I believe it does. I have to go back and look at the BLS definition, but my guess is it does, and it includes that for all states. It includes it for private, it includes it for local government, and it includes it for state government.

**Assemblywoman Kirkpatrick:**

I just wanted to make that clear, because management does skew it some of the time when you start adding it and you get an average that way. My figure is based on the amount made by the frontline folks because they are the ones, even in your office, that do a lot of the customer service and the leg work.

**Ron Knecht:**

State and local government has lower compensation at the management level overall relative to the frontline level than does the private sector. I will agree with you that our people on the frontline do a good job and I personally wish that I could pay them all more.

**Assemblywoman Kirkpatrick:**

You and me both.

I want to make sure that, at least from my perspective, I look at some of your backup information. I hear you talk about it costs more, which we know, to help our nine or ten guaranteed counties, because at no fault of their own, there is no economy, but they still have to educate their children. I do not know that it makes sense to put a child on a bus for two or three hours to ensure that they get that education. I do not disagree that it costs more but, ironically, some of the programs that you cut are the ones where we are trying to get more people to come in order to generate their economy. Even when you talk about cutting the economic development pieces, we have spent a lot of time trying to ensure that our most rural counties get those dollars.

At some point, what you cannot do, and I would be curious to hear from you Mr. Lawrence, because we all say we would like to get rid of abatements, exemptions, and all of that, but then we are not even at the table in the game

when people are looking to move. I think all states have some type of abatement program, and I think this Legislature has done a very good job of reining them in and making them more on performance.

I assume there had to be some thought put into it on our most rural counties. How did you take into consideration how we would get them off of that subsidy and change that? That is what I do at the state level, which is look at ways to make it better so that we do not have to subsidize them. When everyone does better at the bottom, the whole state does better.

**Ron Knecht:**

You may be surprised to find out that you and I are in substantial agreement on some things. One is that term "subsidize" in this context. It is true. Mr. Lawrence will give you a more specific answer to this question, but just in terms of the big picture, the state of Michigan and others have gone into a lot of this economic development stuff, offering benefits, abatements, and so forth—subsidies in a certain sense—to attract business, movies, et cetera, and it has not really worked very well, any more than it has worked to subsidize new sports stadiums and other entertainment venues, et cetera. I am very skeptical of all such proposals.

**Geoffrey Lawrence:**

There are multiple things going on here. There are multiple things the state has done to try to spur economic development, especially in rural counties. One is programmatic spending through tourism promotion programs and such as things as you brought up. Also there are tax abatements of various kinds, property taxes, sales taxes, modified business taxes; however, to the extent that those are local, they do not actually impact General Fund spending, or at least our proposal. Because these are not revenues coming into the General Fund it is not something that we are talking about modifying with our plan.

The third component is financial incentives or giveaways to certain selected industries or firms in order to sway them into investing in an area where hiring "x" amount of people or whatever, such as we use through the Catalyst Fund.

Mr. Knecht and I are both economists. I think we both agree that the way to promote economic development over a broad base of industries is to have low and uniform tax rates, and not have specific carve-outs for people who happen to be well connected.

That is the reason we have chosen to eliminate funding for the financial giveaways or incentives through the Catalyst Fund. We propose to jettison all together. We do not think that is the best approach for economic development. We are essentially taxing the large group of businesses in order to benefit specific ones.

Secondly, we propose to reduce from the Governor's recommendations the programmatic spending to promote local tourism, or things like that. The tax abatements and exemptions component is not something that we addressed directly.

**Assemblywoman Kirkpatrick:**

I want to have an amenable debate with you because I want to understand where we are coming from. I think, on the one hand, I could say the same. If I were not a state's person I would say that is like taxing Clark County to pay for Humboldt, Elko, and all those other folks. You could have that discussion all day long, back and forth. I beg to differ with you that even though some of those abatements are out there, and maybe they only go to the locals, there is always a piece of the pie that the state has to give up. We do have to take that into consideration. If we give up these taxes then, for example, for property tax, 17 cents of that goes to the state, and it goes to different things; 2.6 percent goes to LSST, which is our DSA, to focus on that; for sales tax, 2 percent of it goes to the state. We could have this conversation all day long until states across the country give up that stuff. I think a lot of times we are on the same page on this discussion. I worked very hard on this, at least in my legislative career. If we have to be in the game, then we are going to make it as tight as possible, and you have to perform, or we are asking for our money back.

But until all the states around us change, that is like if you, Mr. Knecht, as Controller, are doing something one way and 40 other states are doing it differently, you are going to conform to what everybody else is doing at some point so that you can have those conversations.

It is easy to say let us get rid of all of them. I would like to have the lower tax thing, and I have always said that, but at some point you have to pay for those services that come with it.

In Clark County, when I was a kid, the population was 120,000. It is now two million. Part of me would love to go back to the days when I could drive down Tonopah Highway to get across town and it was all dirt.

We have to either grow as a state or we will become like our own counties where we are spending extra just to get them services. I just want to point out that it is easy to say some of those things, but at some point we have to expand our industries because what was popular in 1970 is not popular in 2015.

**Ron Knecht:**

My mother used to ask me if all the other kids jumped off the cliff would I do the same, and the answer is no, I would not. Just because California, New York, or Rhode Island make various mistakes, I do not want to make those mistakes. I do not want to hobble Nevada by copying those mistakes.

I mentioned that Michigan and others are retreating from this trend of the last few years of trying to give away everything to attract people. Going back to what Mr. Lawrence said, he and I agree as economists and policy analysts that a reasonable regulatory regime, reasonable state spending, low and uniform taxes beats trying to entice each one of them with a special deal. I believe that is the trend being moved toward by many states, and that is the one where we ought to follow the trend. That is a good trend.

**Geoffrey Lawrence:**

If I could just add to that a clarifying point. We do not propose to change any existing abatements or exemptions. All we are proposing to do is eliminate spending out of the General Fund for things like the Catalyst Fund, which is a direct giveaway. While your point resonates with me, and I see both sides, we are not actually tackling that here.

**Chairman Armstrong:**

I also think the Governor is addressing just Catalyst funds as well. I think it has been reduced from \$10 million to \$2.5 million, and we are heading in the same direction.

Are there are any other questions from Committee members? [There were none.] Thank you for this presentation, Controller Knecht. This was a great debate. I am glad we had it.

As I said previously, this was not a bill hearing, so we are not going to hear testimony in support, opposition, or neutral; however, I do know this is a very passionate subject for everyone who was willing to hang around for three hours in the audience, and I want to give them an opportunity for public comment. Due to some of the other Committee deadlines, I am not sure how long we can go. If you want to make comments, I would ask that you make them short.

At this point I will close the hearing for the presentation and will open it up for public comment.

[[Exhibit K](#) was presented but not discussed, and is included as an exhibit for the meeting.]

**Gary Schmidt, Private Citizen, Reno, Nevada:**

I want to thank you for your attention and allowing our State Controller to address you on this matter.

I moved to Nevada in 1972 because Governor Ronald Reagan advised me to. He addressed the California state legislature and said if we do not straighten out this state in regard to overregulation and overtaxation, people are going to start moving with their feet. I took him up on that and I moved to Nevada in 1972.

Let me say, as a way of background, I am a practicing economist. I have a degree in economics from San Jose State University. I have met with Controller Knecht in his office every Monday, with a group of people, since the session started. I am one of the business persons he talked about. When I moved to Nevada, I employed about 32 people. I currently have something around \$1 million worth of property in the state of Nevada, and now employ zero people.

About three years ago, I sold a piece of property I had owned for about 20 years and had \$4 million to invest. I put about \$200,000 in Nevada and put the substantial share of it back into California, where I moved from in 1972. I bought a section of land in Texas that I am developing agriculturally, and I bought property in Alabama. California, Texas, and Alabama are all more tax friendly than Nevada.

In conclusion, let me just say that we talk about unsustainability. You have unsustainability in the growth of government in the United States and in every state individually, with some exceptions. Certainly it is unsustainable in Nevada. I choose to invest my money in Texas, Alabama, and California rather than back in Nevada. I choose to live in Nevada, at least for now. It depends on what happens in the next few years.

They say that if something cannot continue, it will not. What is going on in overtaxation and regulation and the squeezing of businesses in Nevada will not continue. The question is, do you want to make the tough decisions now or do you want to wait until the whole system implodes and collapses on its own, and

there will be no funds for public sector retirement programs and great reductions in services and public sector employment, because it will come apart if you continue to kick the can down the road. Make the tough decisions now.

**Sharron Angle, Private Citizen, Reno, Nevada:**

I am a former assemblywoman and I am here representing myself but also a group of legislators that fought to preserve the *Nevada Constitution* in 2003. Edmund Burke said "Those who don't know history are destined to repeat it."

This year, 2015, has a déjà vu of 2003 for me, and for a few other legislators who also served during that historical session. Although there may be similarities, you have an opportunity for better outcomes.

The similarities are: Republican Governor Kenny Guinn and Senate Majority Leader Bill Raggio proposed the largest tax increase in the history of the state of Nevada. This year, again, Republican Governor Brian Sandoval and Senate Majority Leader Michael Roberson have proposed the largest tax increase in the history of the state.

Unlike 2003, when the public was not engaged in the process until well into the first special session, the public voted in 2014, by more than 70 percent, to reject that big tax increase. You have been elected to represent the people of Nevada and now you have an opportunity to affirm their vote by also rejecting a tax increase.

The second similarity, the Governor and Senate Majority Leader pressured the Assembly to vote for the tax using education as a driving force, and refusing to pass Assembly bills, holding good legislation hostage for that tax increase. Today the Governor and the Senate Majority Leader are holding some of your bills, using political coercion to force the vote for a tax increase. Unlike 2003, with education protesters picketing, lobbyists swarming, and only 15 of 42 assemblymen willing to hold the line against tax increases, without any power to stop the Senate bills from passing, you can stop the tax increase with public approval. In fact, it is a political advantage to vote with the people and defeat the tax increase.

The third similarity, 15 legislators could not pass an alternative budget plan.

**Chairman Armstrong:**

How many points do you have?

**Sharron Angle:**

I am just concluding. They could only stop a tax increase in 2003. You have enough votes to pass an alternative plan that does not raise taxes, and fix many of the systemic spending problems that have caused increased taxpayer burden over the past six decades. Another tax increase only kicks the can down the road for another legislative session. The 2003 Session had consequences because of the high level of press coverage generated by two special sessions and the lawsuit that went all the way to the U.S. Supreme Court. The voting public was engaged and informed.

I would urge you to take some wisdom from the past experience and to vote no on any tax increases. You have a problem-solving experience right here and an alternative budget plan right here. You have an opportunity to benefit from this experience, the experience of those past legislators, and follow their wise leadership. You can become a hero by providing a solution.

**Victor Joecks, Executive Vice President, Nevada Policy Research Institute:**

As you might guess, we do support this budget, although we would be happy to discuss further spending reductions and, in fact, we have posted about \$600 million more in further reductions. We would also like to thank the Committee for its time and for its engaging questions. I think it was a great conversation, and I appreciate the consideration to an alternative.

**Durward James Hindle, III, Private Citizen, Virginia City, Nevada:**

I am from Virginia City in Storey County. First of all, I would like to thank Controller Knecht for giving me more expertise than maybe I have. My background is in business management and finance, but not really accounting. I guess I do like to dive into the numbers.

I am speaking for myself, not Storey County. I am a small business owner and operator, and Storey County is definitely benefiting from economic development, as we all know from recent announcements and expansion of businesses at the Tahoe-Reno Industrial Center. We also know, with my experience in business in the metals mining, as well as my consulting business in medical devices, those businesses look at the long-term costs of operation and predictability of those costs when they look to invest money.

I am a planning commissioner for Storey County but, again, speaking for myself, there are a number of businesses looking to relocate but are tentative until they know what happens with the budget. They are concerned about the rapid increase and the large increase, so they are looking for some predictability and signs of normalcy of what they will predict in the future, as we had done before when we were looking at relocating plants or coming in.

I know we are in competition with a lot of states, but I also look at the graphs Controller Knecht presented. Look at the differences of Nevada to our surrounding competitors. Economically, I really do not look at California as a competitor when you think of their overall cost of activity. Look at Arizona. Look at Idaho. Look at Utah. They are all under us in a cost to operate when you look at the overall operating costs to invest, and I think we have to take that into consideration.

It was a privilege to serve as a consultant to this budget, and to have input to it. I look at it as a very realistic alternative that helps development in the state, not just from a business perspective. I do not want to sound like I am just the cold-hearted profit monger, but the development of business and the incoming business, definitely in Storey County, is going to bring up the quality of life for all our residents.

**Jeanne Herman, Private Citizen, Sparks, Nevada:**

I am speaking for myself today. You are very fortunate because I am a woman of few words. You have two opportunities so far, and this one here is very constitutionally sound. That is what I look for in bills. I know you have tough decisions to make but that is what I wanted to tell you.

**Ronald P. Dreher, Government Affairs Director, Peace Officers Research Association of Nevada; and representing Washoe County Public Attorneys' Association; and Washoe School Principals' Association:**

We have a pretty good public coalition of public employees that over the years have gone through the economic downturn, like everybody has. I appreciate Controller Knecht. I knew him when he was an assemblyman, and I understand what he put on the record. I appreciate his presentation, but we have also had presentations in this building for the past several weeks about our PERS system and how useful it is, and it is Best in Class, Best Pension Hygiene, and more and more and more; but most importantly, the issues that were presented today I think illustrated once again that the budget is trying to be balanced on the backs of the public employees. Controller Knecht stated this is not a tax increase to take a 7 to 10 percent pay cut but I believe it is; I believe most employees in this state believe it is. I heard the questions from Assemblywoman Neal and others in this Committee that touted the fact that the public employees have given.

I collectively bargain, I have been in the City of Reno and around the state for 31 years, and I can tell you during the last several years, the associations I bargain for took concessions—major concessions. I heard public employees and local government should have had a pay cut to reduce them to where state employees are. It should be the other way around. State employees should be



raised up to where we are, to the rest of the employees, because that is business, and that is the cost of doing business. Assemblywoman Kirkpatrick stated earlier there is a cost of infrastructure, cost of doing business, cost of building those roads, cost of public safety, and the like. It does not go away. We all pay.

I also own my own business since I retired as a homicide detective from the Reno Police Department. I have no problem paying that little bit that the Governor's asking for in order to help this economy get through, and support education and everything else. But I also understand this; in this body the Governor has had economic development. We have given tax breaks to Cabela's, the Sales Tax Anticipated Revenue (STAR) bonds, Tesla, and others with the intent of bringing in business, and that is a good thing. Nobody is complaining about that. I do not hear that. We do not hear that in this forum. We hear "let us let the public employees pay again," and every time I have been in this building for the last 19 years or so, it is always, let us take it out on the public employees. Well, the public employees in the state of Nevada have given. They have given furloughs, they have taken pay cuts, but by the same token, so has the local government sector. We have done the same thing. We are taxpayers here. We are the middle class here. I think that seems to be overlooked, at least by certain bodies, but we do support reasonable tax increases. We support the fact that we are paying the taxes. We support that we are the middle class.

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

I appreciate the opportunity to testify so late in the afternoon. I want to first say, out of full disclosure, my wife is a high school math teacher, so I cannot imagine she is going to be very happy with this particular plan. I do want to point out that when we look at tax increases, and we have supported a bill that does that (Assembly Bill 464), it is important to us because it does not take revenue from one particular industry. The industry, in this case, happens to be public employees, and I think that is problematic in terms of how you fund a state budget. We do have some serious questions about how that money is then allocated to the state—whether it goes to the DSA, the General Fund—and then any kind of consequence that will have on local government financing. We have some concerns.

**Rusty McAllister, Private Citizen, Las Vegas, Nevada:**

I am a public citizen and a public employee. A thought that popped into my mind as I was sitting here listening to the discussion was retirement exodus. I think you will see a tremendous number of public employees in the local urban sector leave the job. I have nearly 32 years in the system, and there is no reason for me to stay if I am going to take a 10 percent pay cut.

From that standpoint, you will have a large number of public employees leave the system if you were to all of a sudden impose a 10 percent pay cut on them. There is no reason for them to stay, which hurts experience.

The second question that popped into mind is, if you are depending on 10.25 percent for public safety and 7 percent for public employees if they are not public safety, and if you were to decrease the number of employees at the higher end of the pay scale, does that 10 percent number now change? You are getting 10 percent of lower salaries from people who are lower in the pay scale. Would that 10 percent number change?

How would you track those numbers? You have fluctuations in local government employment and the number of state employees. Therefore, if you have a decrease in the number of local government employees, is there enough revenue coming in now to pay what you are asking them to pay for on behalf of state employees?

Lastly, just as food for thought, in a recent decision from the Illinois Supreme Court, justices noted in their decision that "The United States Supreme Court has made clear that the United States Constitution 'bar[s] Government from forcing some people alone to bear a public burdens which, in all fairness and justice, should be borne by the public as a whole'" [In re Pension Reform Litigation, 2015 IL 118585(2015)].

**Joy Trushenski, Private Citizen, Carson City, Nevada:**

I support the BPfG. Nevadans cannot endure more tax increases. Our property taxes, utilities, sales taxes, federal income taxes, food prices, and gas prices have all gone up. The economy in Nevada is not that good. The "Knecht/Wheeler/Lawrence" Balanced Plan for Growth is the only plan that would not raise taxes on the majority of people. I believe local government employees should pay the same percentage in parity as state employees and private sector employees. It is only fair.

**Vicky Maltman, Private Citizen, Sun Valley, Nevada:**

I am an unpaid lobbyist for veterans' issues, but I am here after listening to some of these things of my own accord. I am a retired police officer, so yes, I was a public service person. I worked for two cities, two prison cities, and the federal government in between. I started in 1974 at \$3.60 per hour. I worked by myself, midnight to 8 a.m., in an 80 percent Hispanic town next to a prison in California. I was one of the first fully sworn females. My retirement from my public service—and I felt it was a public service, not a union service—is less than \$10,000 per year.

I live on what I earn. I do not ask the state or the federal government for anything. If I need to go to the doctor, I pay to go to the doctor. I do not take welfare. I do not take food stamps, or anything else as a handout. I am sorry but I do not appreciate people who have unions and people bargaining and lobbying for them to make \$100,000 per year, to do a job that I did for far less, and put myself in jeopardy. I do not appreciate that they make more than people who work their butt off for the state, that do not get the same kind of things.

You want to talk about having one group of people pay for everybody else? I am paying for people I do not want to have to pay for, because of the problems we have allowed them to encounter.

**Carole Fineberg, Private Citizen, Reno, Nevada:**

I was not going to say anything but I feel compelled to remind everybody that a short six months ago we had an election, and in that election we voted overwhelmingly—not just Republicans, not just Democrats, and not just independents—everybody voted, almost 80 percent, to defeat Question 3, which was the margins tax. We do not want any more taxes. We cannot afford any more taxes. We have the highest gas prices in the country. Several of our other taxes are highest in the country. We are tired of it.

As for public employees, they have the privilege of serving the public, job security, a job guarantee, benefits, and pensions that people in the private sector do not have. That should be taken into consideration when considering all of this.

**Chairman Armstrong:**

With that we are going to close public comment. We are going into recess because we have another bill or two to work before the deadline. We are in recess until the call of the Chair [at 4:51 p.m.].

[Meeting was reconvened at 11:36 a.m. on May 15, 2015.]

We have one bill to work session today. You have the work session document that was handed out to you ([Exhibit L](#)), along with an amendment I proposed ([Exhibit M](#)). I will open the hearing on Senate Bill 411 (1st Reprint).

**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)**

**Michael Nakamoto, Deputy Fiscal Analyst:**

The work session document ([Exhibit L](#)) that all the Committee members have in front of them is for Senate Bill 411 (1st Reprint), which was heard in this Committee on May 5, and was sponsored by Senator Smith.

Senate Bill 411 (R1) authorizes the board of trustees of a school district to establish by resolution a Public Schools Overcrowding and Repair Needs Committee to recommend the imposition of one or more statutory taxes for consideration by the voters at the 2016 General Election to fund the capital projects of the school district. The bill further requires that if such a committee is established and submits its recommendations to the board of county commissioners by April 2, 2016, the board of county commissioners is required to submit a question to the voters at the November 8, 2016, General Election asking whether any of the statutory tax or taxes recommended by the committee should be imposed in the county. If a majority of the voters approve the question, the board of county commissioners is required to adopt an ordinance imposing the approved statutory tax or taxes, and the proceeds resulting from the imposition of such a tax or taxes must be deposited in the fund for capital projects of the school district.

The provisions of this bill authorizing the board of trustees of a school district to establish such a committee expire by limitation on April 2, 2016.

As the Chairman noted, with respect to the work session document itself, there are two amendments attached. The first amendment (pages 4 and 5, [Exhibit L](#)) was submitted at the hearing by the Nevada State Education Association. This amendment would specify that the taxes that may be imposed by the county are limited only to those taxes where statutory authority exists for their imposition specifically for school capital construction.

The members will find the second amendment [Proposed Amendment 7353] attached to the work session document beginning on page 6 ([Exhibit L](#)). This amendment was submitted by Senator Smith, based on some concerns raised during the hearing, specifically by Ms. Carole Vilardo of the Nevada Taxpayers Association and Mr. Joshua Hicks, representing the Southern Nevada Home Builders Association. The amendment makes the following changes to the bill:

- The recommendations of the committee must specify the proposed rate or rates for each of the recommended taxes and may specify the period during which the taxes will be imposed.
- The question submitted to county voters must also specify the proposed rate or rates for each of the taxes and the period during which each of the taxes will be imposed.
- If one of the recommended taxes is the property tax, the question must state that the rate imposed is not subject to the partial abatements provided pursuant to *Nevada Revised Statutes* (NRS) 361.4722, NRS 361.4723, and NRS 361.4724. These abatements, for the Committee, are the abatements that limit certain residential properties to 3 percent and other properties to 8 percent, that were originally approved by the Legislature in 2005.
- The amendment also specifies that if the property tax is imposed, it is also not included within the maximum rate of \$3.64 per \$100 of assessed value, that is provided under current law in NRS 361.453.
- The amendment also specifically names the taxes that may be imposed, and these are the room tax, governmental services tax, real property transfer tax, sales and use tax, and property tax.
- The proceeds from any of the taxes may be pledged to the payment of principal and interest on bonds or other obligations issued for certain purposes authorized in statute.

The other amendment is on a single sheet of paper ([Exhibit M](#)) that has been distributed to the members of the Committee. It is not part of the work session document. It is a proposed amendment being submitted by Chairman Armstrong. The intent of this particular amendment is to limit the applicability of the bill only to those school districts for which a room tax or real property transfer tax, or both, are currently not being imposed for the benefit of a school district. Under the language here, this would specifically exclude Clark County from being able to create a committee for the purpose that is outlined in the bill.

**Assemblyman Trowbridge:**

This amendment ([Exhibit M](#)) specifically excludes Clark County from these provisions. Are there any other counties that would be excluded?

**Chairman Armstrong:**

Currently, with my proposed amendment, the only county that would be excluded is Clark County.

**Assemblywoman Neal:**

Just for clarification, the Public Schools Overcrowding and Repair Needs Committee, where is it housed?

**Michael Nakamoto:**

The proposed committee would be formed by the school district itself, so it would be a function of the school district, albeit Washoe County or any other county which has the authorization and, again, if Chairman Armstrong's amendment is adopted, it would be any county except Clark County.

**Assemblywoman Neal:**

Does Washoe County already have a bond oversight committee or a capital improvements committee?

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

Yes, they do.

**Assemblywoman Neal:**

So who would have oversight over this committee? What is the tier? What is the hierarchy? What do they fall under?

**Lindsay Anderson:**

My understanding is this committee would be formed and their only responsibility would be to determine whether or not a ballot question would go to the voters in the November 2016 General Election to raise funds for capital construction in the Washoe County School District. They would have no other authority. Once that was over, they would be disbanded.

**Assemblywoman Neal:**

Why could the capital improvement committee not do that same duty?

**Lindsay Anderson:**

Essentially the membership is different. The membership for this committee has different members than the oversight committee for school facilities. It is a broader, business-based membership that would be able to determine the ballot question, as opposed to the oversight panel for school facilities that is

made up of elected officials from local governments, and specifically people who are knowledgeable about construction. This committee has a little bit of a different focus.

**Assemblyman Hickey:**

Just briefly, for a little background for some of the new members of the Committee, this was a very big issue and continues to be, especially for Washoe County. Last session, through a lot of twists and turns, we ended up sending a bill back to the county commissioners that was not successful. The Governor and many people agreed that the traditional form of taking school financing, bonds, et cetera, back to the voters is the best and the more traditional manner. That is what this bill does, and I would urge my colleagues here to support that, regardless of how we feel about the tax itself. I think it does essentially what the school district has every right to ask for, and that is the ability to take it to the voters. It provides the elements of preparation for that process, and I think that is something they are going to need in order to make a successful case to the voters. I urge this Committee's support, with the amendments, and I would be happy to recommend a motion with the amendments.

**Chairman Armstrong:**

I am not quite ready for a motion yet. There is some more discussion.

**Assemblyman Nelson:**

I understand what Mr. Nakamoto said about your amendment having the effect of carving out Clark County, and in reading Chapter 375 of NRS I have not found where it says it only applies to Clark County. Does Chapter 375 of NRS only apply to Clark County?

**Michael Nakamoto:**

Chapter 375 of NRS is the general provision related to the real property transfer tax, which is a statewide tax. There is, in current law, and I would have to get you the specific citation, authority for an additional rate for the real property transfer tax to be imposed in Clark County for the benefit of the Clark County School District's capital construction fund. Under current law, because that particular rate is already being imposed for the school district's capital construction fund, that is the trigger to exclude Clark County on Chairman Armstrong's particular amendment.

**Assemblyman Nelson:**

Just for the record, I guess we cannot just come out and say "other than Clark County," right?

**Chairman Armstrong:**

Correct. And to add some intent behind this, Clark County has two other taxes that do apply for the benefit of the school district that other counties do not have. In addition, they also did the bond rollover that impacted Clark County in a bigger way than it did the rest of the counties.

**Assemblyman Nelson:**

That is fine. I just want to make sure for the record that this is kind of a roundabout way of saying Clark County.

**Assemblywoman Kirkpatrick:**

I wanted to bring a little bit of history to this. Back in, I want to say, the early 2000s, there was a bill that came through that allowed Clark County to use some of the room tax dollars to go to the additional capital piece. Politics got in the middle of it, sides got heated, and it ended up they could not agree on anything. What happened was that, fortunately for Clark County, they got the room tax approved back then, but at the same time, we could never go back to get folks to make every school district across the state have that same kind of flexibility. Every session we have tried different ways to get back to that. It is about parity. This will allow every other school district across the state to have the same thing Clark County has, and that is only if they can agree to a ballot initiative and everything else. Clark County has it a little easier, because it just became automatic. I, for one, support this for the rest of the state. It does bring the community in. There are business partners. They have tried it every single session, and I think this will ensure they will have a fighting chance.

**Chairman Armstrong:**

Just to put it on the record, for Assemblyman Nelson, it is NRS 375.020, the imposition of the tax rate in a county whose population is 700,000 or more is \$1.25, then further in NRS 375.070, in a county of above 700,000 is the additional 60 cents.

**Assemblyman Trowbridge:**

This is a fairly complicated issue that I understand can benefit Washoe County, but there are other matters that cause me concern. I will not block getting this out of Committee, but I do reserve the right to vote no on the floor.

**Chairman Armstrong:**

Thank you for that.



**Assemblywoman Neal:**

I do not know if I am throwing a bunch of dirt on this, but since it does not apply to Clark County, and it only applies to Washoe County, and then the property tax piece....

**Chairman Armstrong:**

It applies to 16 of the 17 counties.

**Assemblywoman Neal:**

It applies to 16 of the 17 counties?

**Chairman Armstrong:**

Yes.

**Assemblywoman Neal:**

So, because it is the majority of the counties, there is not a uniform issue, of property tax...? They have property tax in here. They allow it to go above. It is written in the bill. I do not know if I am seeing it right.

**Chairman Armstrong:**

Could we have our Committee Counsel clarify that portion of it.

**Bryan Fernley, Committee Counsel:**

The bill would authorize an additional property tax rate if the ballot question was approved in those counties. That does not raise the constitutional issue of uniform and equal because that is about valuing property, not necessarily having different rates in different counties.

**Chairman Armstrong:**

Is there any other discussion?

**Assemblywoman Dickman:**

So there is no problem constitutionally with taking property taxes outside of the cap?

**Bryan Fernley:**

No, there is not. The cap that is referenced in the bill is a statutory cap. The constitutional cap is 5 cents. The statutory cap is \$3.64. This would allow going outside the statutory cap.

**Assemblywoman Benitez-Thompson:**

I know there has been lots of conversation and lots of work by different parties on this. I have had very hearty and lively conversations with many of the members who comprise the committee Washoe County has brought forth. They are folks who are known to be sticklers about the use of public dollars. I see Ms. Anderson pointing to Mr. Abney from the Chamber of Commerce of Reno, Sparks, and Northern Nevada. One of my conversations with him is that I know this is a heavy lift, because you have some folks who are traditionally very cautious about the use of public dollars and traditionally very cautious about lending support to tax policies unless they believe they are very much needed and those dollars are going to be used wisely.

Some of my comfort comes from the composition of the advisory committee, because I think they are going to have a lot of hard conversations about whether or not a ballot question is going to come forth.

I do not take for granted at all that this is a rubber stamp in Committee. I think it is the exact opposite. I think there is going to be a lot of good and interesting dialogue.

**Chairman Armstrong:**

Thank you very much for that. Some of the concerns are along that same line. I think this is an extremely heavy lift, especially after this session.

At this point, Assemblyman Hickey, would you like to make a motion?

**Assemblyman Hickey:**

Thank you, Chairman Armstrong. I make the motion to amend and do pass, with all of the amendments, including yours and the other two.

**Michael Nakamoto:**

The Nevada State Education Association's amendment is actually subsumed into Senator Smith's amendment, so I believe the motion would be to accept Senator Smith's Proposed Amendment 7353 with the Chairman's further amendment to the bill that is outlined on the single sheet ([Exhibit M](#)).

**Chairman Armstrong:**

Is that your motion Assemblyman Hickey?

**Assemblyman Hickey:**

Yes, as Mr. Nakamoto stated.

ASSEMBLYMAN HICKEY MADE A MOTION TO AMEND AND  
DO PASS SENATE BILL 411 (1ST REPRINT).

ASSEMBLYWOMAN KIRKPATRICK SECONDED THE MOTION.

**Chairman Armstrong:**

Is there any discussion on the motion?

**Assemblywoman Dickman:**

I still have some concerns about this bill. Part of it are things that are in the bill, and part of it is that we just did the bond rollover, so people's property taxes are going to be extended for quite some time. I will vote to get this out of Committee but I have a little ways to go yet.

**Assemblywoman Neal:**

I am reserving my right to change my vote on the floor.

THE MOTION PASSED UNANIMOUSLY.

The floor statement will be assigned to Assemblyman Hickey. We are adjourned [at 11:57 a.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 14, 2015

**Time of Meeting:** 1:39 p.m.

<b>Bill</b>	<b>Exhibit</b>	<b>Witness / Agency</b>	<b>Description</b>
	A		Agenda
	B		Attendance Roster
S.B. 74 (R1)	C	Michael Nakamoto, Fiscal Analysis Division	Work Session Document
S.B. 78	D	Michael Nakamoto, Fiscal Analysis Division	Work Session Document
S.B. 94 (R1)	E	Michael Nakamoto, Fiscal Analysis Division	Work Session Document
S.B. 95	F	Michael Nakamoto, Fiscal Analysis Division	Work Session Document
S.B. 155 (R1)	G	Michael Nakamoto, Fiscal Analysis Division	Work Session Document
S.B. 377	H	Michael Nakamoto, Fiscal Analysis Division	Work Session Document
	I	Ron Knecht, State Controller, Office of the State Controller	PowerPoint Presentation
	J	Ron Knecht, State Controller, Office of the State Controller	Controller's Monthly Report #4
	K	Ron Knecht, State Controller, Office of the State Controller	Student Achievement Block Grant Chart
S.B. 411 (R1)	L	Michael Nakamoto, Fiscal Analysis Division	Work Session Document
S.B. 411 (R1)	M	Assemblyman Armstrong	Proposed Amendment