

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

**Seventy-Eighth Session
March 17, 2015**

The Senate Committee on Revenue and Economic Development was called to order by Chair Michael Roberson at 3:54 p.m. on Tuesday, March 17, 2015, in Room 1214 of the Legislative Building, Carson City, Nevada. The meeting was videoconferenced to Room 4412E of the Grant Sawyer State Office Building, 555 East Washington Avenue, Las Vegas, Nevada. [Exhibit A](#) is the Agenda. [Exhibit B](#) is the Attendance Roster. All exhibits are available and on file in the Research Library of the Legislative Counsel Bureau.

COMMITTEE MEMBERS PRESENT:

Senator Michael Roberson, Chair
Senator Greg Brower, Vice Chair
Senator Joe P. Hardy
Senator Ben Kieckhefer
Senator Ruben J. Kihuen
Senator Aaron D. Ford
Senator Pat Spearman

GUEST LEGISLATORS PRESENT:

Senator Don Gustavson, Senatorial District No. 14
Senator David R. Parks, Senatorial District No. 7
Senator James A. Settelmeyer, Senatorial District No. 17

STAFF MEMBERS PRESENT:

Russell Guindon, Principal Deputy Fiscal Analyst
Joe Reel, Deputy Fiscal Analyst
Tony Rivano, Committee Secretary

OTHERS PRESENT:

Steve Hill, Executive Director, Office of Economic Development, Office of the Governor
Sharron Angle
Michael Clark, Assessor, Washoe County

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Josh Wilson, Chief Deputy Assistant, Assessor's Office, Washoe County
Dave Dawley, Nevada Assessors Association
Tammi Davis, Treasurer, Washoe County
Justin Harrison, Las Vegas Metro Chamber of Commerce
Tray Abney, The Chamber

Chair Roberson:

We will start with the work session on Senate Bill (S.B.) 170.

SENATE BILL 170: Provides for a partial abatement of certain taxes for new or expanding data centers and related businesses in this State.
(BDR 32-1765)

Joe Reel (Deputy Fiscal Analyst):

Senate Bill 170, sponsored by Senator Roberson, was heard in this Committee on February 17. The bill directs the Governor's Office of Economic Development (GOED) to grant a partial abatement of personal property taxes or sales and use taxes for up to 20 years for qualified new or expanding data centers and any colocated businesses within a qualified data center. To qualify for the abatement, the data center and or colocated business must meet certain requirements set forth in the bill.

The amount of property tax abatement will be limited to 75 percent of the personal property tax imposed on properties located at the data center. The amount of sales and use tax abatement will be equal to all sales and use taxes imposed except for the State 2 percent rate.

The eligibility for a 10-year abatement requires a business to invest at least \$100 million in assets within 5 years of the abatement effectivity, have 100 full-time employees within 5 years of the abatement effectivity and continue to employ those 100 employees for an additional 5 years. Businesses will be required to pay employees at a rate equivalent to 100 percent of the statewide average wage and provide health insurance plans within 1 year of the abatement effectivity.

To be eligible for a 20-year abatement, a business would be required to invest \$250 million in capital assets within 5 years of the abatement effectivity, have 200 full-time employees within 5 years of the abatement effectivity and continue to employ those 200 employees for an additional 5 years. Businesses

will be required to pay employees at a rate equivalent to 100 percent of the statewide average wage and provide health insurance plans within 1 year of the abatement effectivity.

The above provisions are subject to Proposed Amendment 9667 as discussed in the work session document ([Exhibit C](#)). Testimony was presented at the February 17 bill hearing by Senator Roberson, Steve Hill of GOED and Jeremy Aguero of Applied Analysis. Additional testimony in support of the bill was provided by eBay, Las Vegas Global Economic Alliance, Unique Infrastructure Group, LLC and Vietnam Veterans of America. Subsequent to the February 17 hearing, Mr. Hill came forward with Proposed Amendment 9667, [Exhibit C](#).

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

The content of Proposed Amendment 9667 in [Exhibit C](#) is divided into three areas. One area is an effort to provide consistency throughout the abatement statutes as this language applies to data centers and other bills. I will walk you through those statutes and point out where the changes were made to provide consistency. Second, as pointed out by Mr. Reel, GOED recommends changing the thresholds requirement for companies to meet in order to participate in the abatement program. Third, GOED recommends repealing the language contained in *Nevada Revised Statutes* (NRS) 274. The new language that applies to data center abatements is similar to the language in Proposed Amendment 9667; thus, we do not feel it necessary to have both provisions if the amendment is adopted.

While the language in the bill provides clarity, four areas necessitated Proposed Amendment 9667 to provide consistency.

- The effective date of the abatements language contained in other bills and statute provides that GOED work with companies to determine an effective date for the contract and abatements. That date cannot precede the date GOED received the abatement application.
- Participating companies are required to provide health insurance to employees within 2 years of the abatement effectivity. This provision is consistent with language contained in other bills. As discussed in the Committee hearing of February 20, GOED audits businesses after Years 2

and 5 and wants to line up job creation along with the health insurance plan provisions in the same 2- and 5-year audit cycle.

- New language gives the Board of Economic Development the authority to provide discretion when reviewing abatement applications using statute language.
- The revised definition of a full-time employee is included in the other abatement bills.

The GOED recommends reducing the criteria for participation in the abatement program from 100 employees and \$100 million, or 200 employees and \$250 million, to 25 employees and \$50 million, or 50 employees and \$100 million. Since Nevada does not have any data centers that fall between the \$50 million and \$250 million capital investment range, the proposal has no fiscal impact on the State. Nevada's data centers are either substantially larger than the \$250 million original limit or below the \$50 million threshold.

Remaining competitive with respect to other states is a major reason for the change request. Surrounding states, notably Arizona, have enacted legislation imposing no taxes on businesses below the \$50 million capital investment threshold. While Nevada will assess taxes on data centers participating in the abatement program, the proposed consistent thresholds will help attract businesses to the State. More important, Nevada's smaller data centers should have an opportunity to participate in the abatement program.

As noted in the February 17 hearing, data centers are subject to sales taxes because they refresh their equipment every 3 years. The sales tax component is a significant decision-making aspect of how and where data centers decide to conduct business. Creating a system where very large data centers have the ability to participate in the abatement program but smaller data centers do not risk creating a policy that may jeopardize the ability for the smaller data centers to remain in existence. Such a system would be poor policy; this is the primary reason to consider lowering the thresholds.

The employment thresholds primarily line up with the dollar investment amounts. A \$250 million data center will not have 200 employees, and a \$100 million data center will not have 100 employees. The employment levels

and investment thresholds are more in line with the figures contained in the amendment.

Senator Ford:

What will the fiscal impact be on our State and budget? How soon will the State feel the revenue impact from the abatement program? How soon will the State recover from providing the abatement?

Mr. Hill:

Testimonies from companies provided in the February 17 hearing argued that the abatement program would stimulate significant data center growth. The 2 percent sales tax captured in the General Fund will remain in place and continue to grow with the increase in new data centers. The Distributive School Account backed by the State will experience a reduction because of the additional abatement. Nevertheless, GOED feels that data center growth will make up the shortfall.

Chair Roberson:

I will entertain a motion to amend S.B. 170 with Proposed Amendment 9667.

SENATOR KIECKHEFER MOVED TO AMEND AND DO PASS AS AMENDED S.B. 170 WITH PROPOSED AMENDMENT 9667.

SENATOR KIHUEN SECONDED THE MOTION.

THE MOTION CARRIED UNANIMOUSLY.

* * * * *

Chair Roberson:

We will hear testimony from Senator James Settelmeyer on Senate Joint Resolution (S.J.R.) 13 and Senator Don Gustavson on S.J.R. 12.

SENATE JOINT RESOLUTION 13: Proposes to amend the Nevada Constitution to limit the total amount of property taxes that may be levied on real property. (BDR C-1004)

SENATE JOINT RESOLUTION 12: Proposes to amend the Nevada Constitution to limit the total amount of property taxes that may be levied on real property. (BDR C-1007)

Senator James A. Settelmeyer (Senatorial District No. 17):

Article 10, section 1 of the Nevada Constitution requires the Legislature to provide by law for a uniform and equal rate of assessment and taxation of property. It is my personal opinion that the Legislature has failed as a body in complying with Article 10 of the Nevada Constitution. Assembly Bill (A.B.) 489 of the 73rd Session adopted a property tax concept, allowing taxes to change by either 3 percent or 8 percent based on whether the home was occupied by the owner or someone else. This resulted in adjacent properties being taxed differently.

Nevada is the only state with a bifurcated property tax evaluation system. The assessor must first consider the full market value of the land, followed by the improvement value based on the Marshall & Swift cost approach methodology to determine the cost of the home. As an example, if someone were to build a home for \$100,000, the assessed value of the home would be based on the Marshall & Swift methodology—not the \$100,000 investment by the property owner. This scenario is acceptable if the home was built on a vacant property; however, many property owners have purchased existing homes. In this scenario, a homeowner must work backwards to separate the land value from the structure's value. This methodology is difficult for many homeowners in Clark and Washoe Counties to implement.

The bifurcated system requires that the property owner consider the land value plus the value of the improvements, depreciated at 1.5 percent a year up to 50 years. Property tax value is determined by multiplying the depreciated value by the tax rate, then multiplying the result by the county's tax rate. The formula is a cumbersome process for homeowners to understand. Many homeowners cannot understand why property values declined while their property taxes did not.

The approach favored in S.J.R. 13 creates a market-based system, enabling taxpayers to decipher their taxes when they purchase a home. In addition to simplicity, improving property tax assessment is important because 39 percent of property taxes go to education.

Section 7 of S.J.R. 13 creates a market-based property tax system. Changing the property tax assessment must be accomplished through the Nevada Constitution. While it was constitutionally possible to exit the market-based property tax system in favor of the bifurcated tax system, it is not possible to go in reverse because doing so creates unequal values on homes since home values reset when they are sold.

Section 7, subsection 1, line 3 of S.J.R. 13 creates a market-based property tax at 1 percent of the sale price—base value of property. County assessors see 1 percent as reasonable. Section 7, subsection 2 of S.J.R. 13 establishes a base year value for real property. The home's assessed value will be the market rate for properties bought or sold; however, how are values assessed for homes not bought or sold? Both county assessors and I recommend using fiscal year (FY) 2018 as the base year rate for the property's taxable value. This represents a departure from S.J.R. 13, which advocates using FY 2014 as the base year.

Using FY 2108 as the base year is the most prudent strategy given that the bill must be passed by the Senate twice and passed by the people once. Having the base year as close to the election as possible is optimal. The base rate would be established the day the voters approve the measure.

Section 7, subsection 3 of S.J.R. 13 resets the home value to the market price at the time of sale.

Section 7, subsection 4 of S.J.R. 13 provides that improvements to real property reset the property's value. Subsection 4 should be amended such that the rate is unchanged if the improvement does not increase the home's square footage by more than 25 percent. This alleviates homeowners who add a modest extension to an existing structure to accommodate additional family members

Section 7, subsection 4, paragraph (b) covers rezoning. If the property is rezoned or a change in use occurs, the base value of the property resets.

Section 7, subsection 5 imposes a 3 percent cap on the value of real property. The cap applies whether the base value of the property increases or decreases from year to year. While counties are limited by the 3 percent cap, we have a responsibility to counties when real property values decline. The significant

difference between S.J.R. 13 and S.J.R. 12, is that the former applies a 3 percent cap, while the latter applies a 2 percent cap.

The other major change is covered in section 7, subsection 7, paragraph (a) to provide an exemption for someone aged 62 years or older to transfer the base value of his or her principal residence to a new residence. As individuals age, they prefer to downsize their homes. This provision permits the homeowner to downsize the home without penalty. Situations where a homeowner loses a property through no fault of his or her own, i.e., a property confiscated by a government force, should not trigger a property value reset.

Senator Kieckhefer:

This bill covers issues faced by many of our constituents. Have you had discussions with local governments in your jurisdiction as to how the bill will affect their revenue streams?

Senator Settlemeyer:

I have spoken with several of my county assessors in an effort to find the optimal tax rate. While some of the assessors would have preferred a 1.25 percent rate, having the 1 percent rate change take effect in the FY 2018 period essentially puts the tax collection on an equal footing with the current system. Going forward, individuals who choose to stay in their principal residences for a long period realize an economic benefit and the county realizes higher revenue as many others switch homes. Speculators are the primary group that would not benefit by this proposal due to the cap.

Applied Analysis submitted a report entitled *Ad Valorem Property Taxes in Nevada* ([Exhibit D](#) was Exhibit C in the meeting held on February 26, 2013, of the Assembly Committee on Taxation). The report will apprise members of this Committee on some of the intricacies regarding property taxes.

Senator Kieckhefer:

What we hear most on this issue is that property values do not reset upon resale, which is confining to local governments when compounded by the cap. The bill provides a middle-ground position.

Senator Ford:

Will the property value reset on resale?

Senator Settelmeyer:

Yes, the reset on sale is the issue. The change must be made through the Nevada Constitution because the change affects unequal tax rates. Assembly Bill No. 489 of the 73rd Session changed property tax assessment from a market-based approach to the bifurcated property tax evaluation currently in place. Changing the method by which property taxes are assessed from a market-based approach to a bifurcated approach did not require a constitutional amendment; however, this is not true when the proposed change applies to unequal tax rates.

Senator Ford:

How did you arrive at the 1 percent tax rate? You previously mentioned that county assessors suggested a 1.25 percent rate.

Senator Settelmeyer:

A \$300,000 home in today's real estate market would have an assessed value of \$105,000. This figure is based on multiplying the \$300,000 home value by the 35 percent tax rate. The assessed value is then multiplied by the county tax rate, which produces the property tax amount. The county tax rate varies by county. Under the bifurcated system, county assessors determine the value of the property separately from the value of the improvement. Continuing with the above example, dividing the 3.64 percent county tax rate by \$300,000 yields the 1.2 percent figure the county assessors suggested using as the tax rate. Having irregular county tax rates creates disparities, but the assessors believe using FY 2018 as the base year—new sales at market value—would put counties in a better position vis-à-vis tax revenue going forward.

Senator Ford:

Were the 1 percent and 1.25 percent tax rates cited arrived at using a specific formula?

Senator Settelmeyer:

That is correct. The 1 percent rate is the most appropriate rate and simplest to calculate. The rate was also based on the rate used in a neighboring state.

Senator Ford:

What will critics contend is the downside to this bill?

Senator Settelmeyer:

The most likely criticism will be that the bill creates uneven and unequal taxation. You could have two adjacent homes with different tax rates depending on when the homes sold. This is the reason why an amendment to the Nevada Constitution is necessary. The Legislature has the authority to amend the Nevada Constitution given current assessment methodology, including caps of a 3 percent maximum yearly increase for primary residences and an 8 percent maximum for second homes and commercial properties. Disagreements also exist over how certain county assessors evaluate property, which led to disagreements between county assessors located at Lake Tahoe.

Senator Don Gustavson (Senatorial District No. 14):

Since S.J.R. 13 and S.J.R. 12 are similar bills, we can eliminate the necessity for another hearing. The only significant difference between S.J.R. 13 and S.J.R. 12 is that the former limits the increase or decrease in the base value by 3 percent compared to a 2 percent in the latter. Senator Settelmeyer provided a thorough assessment of the bill and I have nothing further to add. The bill benefits counties since home turnover averages 5 to 7 years. The home values reset at the time the property turns over.

Given their similarities, it would be prudent for this Committee to circumvent the hearing on S.J.R. 12. I am also a sponsor of S.J.R. 13; thus I am only concerned with providing tax relief to my constituents.

Chair Roberson:

Would anyone like to testify in support of S.J.R. 13?

Sharron Angle:

This legislation is long overdue. As you know, Senator Gustavson and I have worked on this type of legislation for almost 15 years. This legislation is a win-win situation for everyone; it is stable and predictable, which is what Nevada taxpayers have sought for a long time. This legislation is a winner for local governments because of its predictability and stability. Having a simple tax plan helps individuals, counties and local governments plan budgets.

The bill will not change a taxpayer's rate based on the economy. The 1 percent rate will provide a cushion to gyrating market values. In the past, taxpayers were vulnerable to market gyrations given the bifurcated system. Under the proposed bill, a homeowner would be subject to the 1 percent tax rate on the

home's value—this will not change until the home is sold. Thus, regardless of market conditions, a homeowner may predict that his or her property tax will not fluctuate by more than 3 percent a year.

The bill benefits senior citizens who are primarily on fixed incomes. My husband and I own our home outright; the only payments we have are property taxes and insurance. Under the present system, it may be possible for someone living on a fixed income to be taxed out of his or her home. This scenario played out for some Incline Village residents since their taxable rates increased based on the property value increases for comparable Incline Village properties. This fear is shared by many seniors based on statute.

Another provision of this bill benefits homeowners who have attained the age of 62, since they may transfer the base value of principal residences to new residences of comparable value. In addition to its stability, tax revenues will increase due to the flat 1 percent rate on the sale value. With home ownership turnover between 5 years to 7 years, applying the 1 percent increases tax revenue for local governments, the 3 percent cap notwithstanding.

Finally, this bill is a win for the Legislature with a constitutional amendment to align the Nevada Constitution with constitutional law for property taxes. An additional positive aspect of this action will require the voters, whom Legislators represent, to decide this issue.

Senator Ford:

Given past discussions regarding this matter, I still have questions as to how the rate and cap figures were determined. I recall these figures are arbitrary; if the 3.64 percent is an arbitrary figure, then the 1.2 percent cap is arbitrary. I understand the concerns for senior citizens and I want to find a solution. Nonetheless, I remain concerned with the appropriateness of the 1 percent figure as well as the cap. Could we assist seniors or those who are impoverished through rebates? Could you speak to me about these concerns?

Ms. Angle:

This has been a major contention of mine—our system is arbitrary. We need predictability and stability. It is easy for any citizen to calculate a home's value based on a flat 1 percent rate. The 1 percent is not arbitrary; it is easily determined by the homeowner, real estate agent or assessor. The cap figure is also easy to work with and understand compared to the 3 percent to 8 percent

caps along with applying and qualifying for rebates. What this bill presents is easily calculated and not arbitrary.

Michael Clark (Assessor, Washoe County):

I agree with the previous testifier. Nevada's property tax situation confuses most residents. My decision to run for county assessor was predicated on this matter, as I was dissatisfied with the system. I was also able to maintain former Assessor Josh Wilson as my chief assessor. Taxpayers and property owners should have the ultimate decision in this matter.

With respect to the issues Senator Ford raised concerning the arbitrariness of the rate and cap figures: Most property assessors cannot agree on the figures or the tax rates. The value on sales is simple to understand by just applying the tax rate to the sales price, while appraisals vary from appraiser to appraiser. This issue confuses taxpayers who need stability and to understand their tax bills. Someone purchasing a property must be concerned with future taxes and whether he or she may afford it. This is similar to someone in a gaming establishment who discovers the rules after placing a bet.

Josh Wilson (Chief Deputy Assistant, Assessor's Office, Washoe County):

This is the first piece of legislation I have seen that simplifies the methodology involved in property assessment. With respect to Senator Ford's questions concerning the methodology behind the rates and caps, I understand the State was at its constitutional limit of \$5 for each \$100 assessed. This corresponded to when the State had a large portion of the rate. During the tax shift, the State obtained a large portion of the sales tax to replace the shortfall in property tax. Reducing the \$5 constitutional cap by the rate amount the State previously received is the rationale behind the \$3.64 per \$100 tax assessment. As Assessor Clark indicated, this methodology is difficult to understand.

The 1 percent figure was primarily selected for simplicity. To put this into perspective, when Washoe County reaches its maximum 3.66 rate, multiplying the taxable value by 35 percent to attain the assessed value, then applying 3.66 percent to this value yields a tax bill. The tax bill divided by the initial taxable value equals 1.28 percent—the basis for the 1 percent effective tax rate.

I appreciate the conceptual amendment to change the base year because, assuming the legislation passes this Legislature and subsequent Legislatures, the

measure will appear on the November 2018 ballot. A base year too far removed from that vote only increases the fiscal impact to the local governments relying on those revenues for essential services.

I would like to point out the assumptions used in an analysis I prepared for S.J.R. 13. The change in the base year rendered my analysis irrelevant because it is not possible to determine the fiscal impact of a future value in a year not yet assessed or taxed. We can look to FY 2014 for some ideas of what might happen. Another major assumption I made was to ignore all provisions of A.B. No. 489 of the 73rd Session. Maintaining tax caps from prior legislation is senseless in connection with proposed methodology because all homeowners eventually pay 3 percent or 8 percent greater than their current tax bill if the real estate market continues to improve at its projected rate.

The changes cited in section 7, subsection 8, paragraph (a) allow the Legislature to adjust the valuation of real property. In terms of practical implementation, it is important to note that a sale after the vote of the people constitutes a rebasing of the property value that should trigger a reassessment for the upcoming year. This issue may need further clarification through the legislative process. I am not sure whether a homeowner will receive a new tax bill upon the sale of a property or if this will serve as the basis for the property value when the county treasurer sends out the tax bill in the subsequent July.

In Washoe County, I looked at roughly 60,000 nonexempt property parcels in an effort to analyze sales and their effect on tax revenues during the period July 1, 2013, to June 30, 2014. Under the time frame, 9,500 sales with good verification codes served as rebases for the property values. Due to time constraints, I did not analyze any multiparcel transactions for allocation purposes, nor did I analyze the effects for new construction or transferring the senior citizen portion of S.J.R. 13. Considering the rate outside of the 1 percent limit provided in the bill for state and county indebtedness, the overall revenue for calendar year 2013 declined by slightly over 8 percent. This is significant since it equals almost \$33 million in revenue. Moving the base year forward will lessen the revenue impact, assuming the current cap legislation does not change much. Taxpayers will not be paying the 1.28 percent tax rate because some of the tax rate will be in the form of abatements. As this bill moves forward, the net tax bill—after abatements—needs tracking to determine the impact on the effective tax rate. The bill will not have a profound impact moving forward because as abatements grow, effective tax rates decline.

Mr. Clark:

I performed a quick analysis on Mr. Wilson's figures which were based on calendar year 2013. Applying these figures to the 160,000 nonexempt parcels in Washoe County and the \$33 million tax revenue shortfall averages out to \$205 a parcel or about 56 cents a day. The money would remain in the County and, because it would be used by County residents for purchases, be made up by sales tax. Consequently, revenue shortfall will not be as severe as \$33 million.

Dave Dawley (Nevada Assessors Association):

The Nevada Assessors Association (NAA) has a neutral stance on the bill. The devil is in the details. On the surface, 1 percent of the sales price is an easy calculation; but in conversations with California assessors, I learned that this is a difficult process. The NAA looks forward to working with S.J.R. 13 sponsors; however, when the NAA attempted to calculate the fiscal impact the tax would have on the counties, we learned that school districts would realize a loss. If the bill goes forward, we need to work on proposed details.

Tammi Davis (Treasurer, Washoe County):

I am testifying on my own behalf because the Association of County Treasurers of Nevada has not formed a collective opinion on the bill. I recognize the need to review Nevada's property tax system and I have spoken with several Legislators concerning the issue. I understand there is no perfect model and simplicity and transparency are important. Nevada does not have a tax system that taxpayers can easily understand.

I have been accused of performing voodoo magic to arrive at tax figures because there is no simple way to explain tax methodology. The Committee has seen the presentation on property taxes. I recently attended an Assembly meeting regarding property taxes, which took an hour and left many members questioning the system. As Mr. Dawley opined, more information could go into the details that would help make property tax assessment simpler for our constituents. I would offer my services as a resource, with the understanding that when A.B. 489 of the 73rd Session passed, county treasurers were not involved in formulating the bill. County treasurers have a great deal of information that would make it simpler for taxpayers to understand.

I am neutral on the bill, but I do recognize that the system warrants change.

Justin Harrison (Las Vegas Metro Chamber of Commerce):

The Las Vegas Metro Chamber of Commerce is neutral on the resolution, but we support reforming the State's property tax structure and concepts of the resolution. The Chamber looks forward to continue working with the bill sponsors after we complete our analysis.

Tray Abney (The Chamber):

The Chamber of Reno, Sparks and Northern Nevada has a neutral opinion of the bill and agrees with the bill's points to remove depreciation at point of sale, move to a market-based system and fix the issue where a property value drops 20 percent—but subsequently appreciates by 3 percent. It will take a long time for local governments to catch up once this happens. I have never been convinced that the current system is constitutional, but if we can find a way to address these issues, I would support the bill.

Senator Settelmeyer:

The bill will be subject to voter approval and does not change many of the aspects within the purview of the Legislature. Many questions the assessors raised are issues that must be decided by this body. It would be wise to set forth the rule and decide to adopt a trigger regarding what will occur if the voters approve the bill. For FY 2014, 39 percent of tax collections were directed to school districts, 28 percent to counties and the remaining share to various entities. The State's legislatively imposed tax rate is \$3.64 per \$100 of assessed value. The \$3.66 includes the additional \$0.02 outside of the cap as shown on page 6 of [Exhibit D](#). The property tax rate for \$100 of assessed value is \$2.8969 as indicated on pages 13 through 15 of [Exhibit D](#). The property tax rate is comprised of various overlapping tax rates, such as the 17-cent State of Nevada tax, 5-cent Clark County capital tax, 1.92-cent Clark County family court tax and 1.29-cent Clark County debt tax described on page 36 of [Exhibit D](#). Additional property tax components include school districts, cities, special purpose and higher education. Regardless of the bill's outcome, fund distributions will not change. In the next Session, the Legislature will decide how to allocate property tax funds. Changing property tax assessment from a bifurcated to a market-based system requires amending the Nevada Constitution by voter approval and permitting the Legislature to deal with issues as they arise.

Chair Roberson:

The hearing on S.J.R. 13 is closed. We will hear an update from Senator Kieckhefer regarding the budget process.

Senator Kieckhefer:

Given the intimate relationship between the Senate Committee on Finance and the Senate Committee on Revenue and Economic Development, I will provide an informal report on Finance Committee progress. As this Committee is on the precipice of hearing Governor Brian Sandoval's revenue proposals to fund his budget, the timing of this report is fitting.

By March 20, the Finance Committee would have heard 439 of the total 442 budget accounts included in the Governor's recommended budget. Those accounts were heard in subcommittee, full committee or referred to staff for closing because of no significant issues.

Compared to previous years, the Governor's budget and the outstanding work performed by the Governor's staff have assisted the Finance Committee in its task. The Finance Committee is on schedule to start closing budgets a week ahead of the scheduled date for this on the Session's 120-day calendar.

If the sunsets expire, the Economic Forum projects total General Fund revenues of \$6.33 billion for the upcoming biennium. Statute requires the Forum use statute for projections. Allowing all sunsets to expire results in base expenditures used to calculate the next biennium's budget at \$6.96 billion. Base expenditures versus available revenues yields a General Fund shortfall of approximately \$628 million.

The shortfall is primarily driven by the Local School Support Tax rate—which is not a General Fund revenue, but has a General Fund offset—and the Initiative Petition 1 room tax transfer revenue. This means we will not need to move money from the General Fund to the Distributive School Account to fund kindergarten through Grade 12 (K-12).

Extending the sunsets generates \$544 million in General Fund revenues for the upcoming biennium but also results in an additional \$697 million impact. The two results require complimentary consideration. The additional anticipated revenue of \$544 million results in \$6.875 billion in available General Fund

revenue under statute plus the sunsets. Anticipated General Fund expenditures in the Base Budget are \$6.26 billion.

To maintain the status quo, the Legislature needs to add in the maintenance units of the Governor's budget, which account for \$435 million over the next biennium. A caseload of \$325 million drives the maintenance units, with inflation, fringe benefit adjustments and other similar adjustments. Without any enhancements, the General Fund requires approximately \$6.7 billion, which is just under that collected by the statutory tax structure plus the extension of the sunsets. It is important to note that this provides essentially no margin for error. Should the Legislature decide to make any enhancements to the Governor's budget or to the existing budget, it would require additional revenues. The Governor's revenue proposes enhancements, including more than \$30 million for workforce and economic development, more than \$65 million for human services, \$23 million for higher education and more than \$400 million for K-12 education, which would be used for Zoom Schools, K-12 expansion, Victory Schools, Charter Harbor Master and other similar programs.

I want to make this Committee aware that the Finance Committee is ready to process a budget at this point and to remain in communication as we walk toward balancing both sides of the ledger.

Senator Ford:

The State is in a deficit position. Do you have any indications as to the Economic Forum's feedback for the first Friday in May?

Senator Kieckhefer:

The 6-month tracking numbers for this fiscal year show 0.3 percent growth above the December 2014 forecast. Given the Economic Forum's conservatism, I anticipate that revenue forecasts will remain at the December levels. The Forum's budgeting record of accomplishment has been solid, and I do not anticipate the Forum will add additional revenues to the forecast.

Senator Hardy:

If we renew the sunsets and continue with the current budget, will the revenue shortfall be \$238 million?

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Senator Kieckhefer:

The Governor's budget includes Economic Forum revenues of \$6.3 billion, \$544 million in sunset revenues and enhancement revenue of an additional \$569 million.

Chair Roberson:

Our meeting is adjourned at 4:56 p.m.

RESPECTFULLY SUBMITTED:

Tony Rivano,
Committee Secretary

APPROVED BY:

Senator Michael Roberson, Chair

DATE: _____

EXHIBIT SUMMARY				
Bill	Exhibit		Witness or Agency	Description
	A	1		Agenda
	B	3		Attendance Roster
S.B. 170	C	26	Joe Reel	Work Session Document
S.J.R. 13	D	53	Applied Analysis	Ad Valorem Property Taxes in Nevada—A Review and Analysis of Structure and Issues