MINUTES OF THE
SENATE COMMITTEE ON REVENUE AND ECONOMIC DEVELOPMENT

Seventy-Eighth Session
February 5, 2015

The Senate Committee on Revenue and Economic Development was called to order by Chair Michael Roberson at 3:35 p.m. on Thursday, February 5, 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 David Parks, Senatorial District No. 7

STAFF MEMBERS PRESENT:

Russell Guindon, Principal Deputy Fiscal Analyst
Joe Reel, Deputy Fiscal Analyst
Bryan Fernley, Counsel
Mike Wiley, Committee Manager
Jennifer Pearce, Committee Secretary

OTHERS PRESENT:

Barbara Cegavske, Secretary of State
Wayne Thorley, Deputy for Operations, Office of the Secretary of State
Troy Dillard, Director, Department of Motor Vehicles
Deonne Contine, Executive Director, Department of Taxation

Blake Doerr, Chief Deputy Executive Director, Department of Taxation
Terry Rubald, Deputy Executive Director, Department of Taxation
A.G. Burnett, Chair, State Gaming Control Board

Chair Roberson:
Today, we are going to have an educational overview on the various State executive agencies that administer and collect our major revenue sources.

Barbara Cegavske (Secretary of State):
My testimony will primarily focus on the various fees and penalties collected by our Office as noted in my presentation, Revenue Collection Overview (Exhibit C). The Office of Secretary of State, as one of the original Constitutional Offices established in the Nevada Constitution, is responsible for maintaining the official records of the acts of the Legislature and the Executive Branch. Additional duties added over time range from Chief Officer of Elections to registration of businesses and entity filings to administration of the Uniform Securities Act. The Secretary of State serves on various boards and commissions including: State Board of Examiners, Board of State Prison Commissioners, Board of Economic Development, Executive Branch Audit Committee, Committee to Approve Schedules for the Retention and Disposition of Official State Records, of which I serve as chair, and Governing Board of the Tahoe Regional Planning Agency.

The Office of Secretary of State is organized into six main divisions: the Commercial Recordings Division, which files corporate formation documents and Uniform Commercial Code filings and issues State Business Licenses; the Business Portal Division, also known as Silver Flume, which is a one-stop shop for business-to-government filings and licensing transactions; the Elections Division, for which I serve as state chief election officer. In this role, I am responsible for the administration, interpretation and enforcement of the State's election laws, including campaign practices, campaign finance, initiative petitions, referenda and the federal Help America Vote Act; the Notary Division, which appoints notaries public, conducts notary training and enforces notary laws, and issues apostilles; the Operations Division, which manages the internal function of the Office, including accounting, budgeting, information technology and personnel management; and the Securities Division, which regulates investments and activity enforcements and the State's securities laws. The Division licenses investment advisors, broker dealers and athletic agents.

The Office of the Secretary of State administers various other programs, including the Confidential Address Program, which grants victims of domestic violence, sexual assault or stalking the use of a fictitious mailing address in order to reduce the risk of being tracked by public records when entering into business relationships with states and local agencies; the registration of domestic partnerships; document preparation services; and business registration compliance. The Living Will Lockbox is an online registry of advanced directives for health care.

Our main offices are in Carson City; however, we have offices in Las Vegas and Reno. In-person customer service, such as picking up forms or paying fees, is available in the Carson City and Las Vegas offices. The Office of Secretary of State has 132 full-time equivalent positions; the position breakdown by division is summarized in Slide C5 of Exhibit C. The Office serves as a collector for various fees, fines and penalties. These range from annual filing fees with the Commercial Recordings Division to broker-dealer license fees with the Securities Division, to filing fees with the Elections Division. In total, the Office collects, tracks and monitors revenue from over 40 different sources. The majority of the revenue collected by the Office of the Secretary of State goes to support the General Fund. For example, in Fiscal Year (FY) 2014, the Office collected revenue of $167.3 million; of that, $166.7 million, or 99.6 percent of that total revenue, went to the General Fund. This makes the Office of the Secretary of State one of the top General Fund revenue-generating agencies in the State.

Slide C7 lists some of the fees and penalties collected by the Office, the dollar amount or range of the fee and the statutory authority under which the Office collects the fee. The table does not include every fee or penalty collected. Revenue from the fees and penalties listed on the table makes up approximately 94 percent of the General Fund revenue we collected. The revenue from every fee and penalty on this table goes directly to support the General Fund.

Some of our largest revenue sources include the State Business License Fee, which was $71.8 million for FY 2014, with initial and annual list filings of $51.3 million and securities licensing of sales representatives $19 million. Absent any action by this Legislature, the State Business License Fee, which is currently $200, will revert to $100 on July 1. However, the Governor has proposed changing the State Business License Fee to a variable fee between $400 to $4 million based on business industry type and gross receipts.

Slide C8 of Exhibit C shows the total General Fund revenue collected by the Office of the Secretary of State over the last 7 fiscal years. The State Business License was transferred to the Office of the Secretary of State from the Department of Taxation pursuant to the provisions of A.B. No. 146 of the 75th Session. The transfer became effective October 1, 2009, and the first Business License Fee revenue was realized by the Office in FY 2010. Consequently, much of the revenue growth between 2009 and 2011 was because the State Business License Fee transferred to this Office. The total amount of General Fund revenue the Office collects each year is trending up, with our highest collection total in history occurring last fiscal year. Since the State Business License Fee has been added, the total General Fund collected by the Office has grown steadily at approximately 3 percent per fiscal year between FY 2011 and FY 2014.

Slide C9 shows the same graph as Slide C8 but with a breakdown by division within the Office of the Secretary of State. The blue area represents total General Fund revenue collected by the Commercial Recordings Division. The red area represents total General Fund revenue collected by the Securities Division. The three small colored areas at the top of each bar represent the General Fund revenue collected by the Uniform Commercial Code program, the Notary Division and the Elections Division. The majority of the General Fund revenue collected by the Office comes from the Commercial Recordings Division and the Securities Division.

Slide C10 shows a pie chart percentage breakdown by program of the General Fund revenue collected by the Office in FY 2014. The largest General Fund revenue generator by far is the Commercial Recordings Division at 83 percent at $138.4 million, and the Securities Division at 15.6 percent at $25.9 million. Together the Commercial Recordings Division and the Securities Division make up 98.6 percent of the total General Fund revenue collected in FY 2014. The remaining 1.4 percent comes from the UCC fees, $1.7 million; the Notary Division, $544,000; and the Elections Division, $92,200.

Slide C11 shows the total General Fund revenue collected by the Commercial Recordings Division over the last 7 fiscal years. There is a large year-over-year increase between FY 2009 and FY 2011, as the State Business License Fee is transferred from the Department of Taxation and a more modest revenue growth occurring between FY 2011 and FY 2014.

Slide C12 of Exhibit C shows the total General Fund revenue collected by the Securities Division over the last 7 fiscal years. The largest General Fund revenue generated in the Securities Division is a licensing of broker-dealers, which is $300; sales representatives, $125; investment advisors, $300; representatives of investment advisors, $110; and branch offices are $100. The registration of securities between $700 and $5,000 and registration exemptions of $300 or $500 are also significant General Fund revenue generators in the Securities Division. Since FY 2011, General Fund revenue growth in the Securities Division has been modest at 3 percent annually.

Slide C13 shows the changes in the Office of the Secretary of State minor General Fund revenue sources since FY 2008. Uniform Commercial Code revenue in blue has been up and down, while the Notary Division, in red, has been consistent at $600,000 per fiscal year. The amount of General Fund revenue brought in by the Elections Division, in green, is relatively small and driven in large part by candidate filing fees, fluctuating on election year status.

I will now focus on the State Business License, as I imagine discussion concerning the State Business Licenses will occupy much of the Committee's time this Session. The graph on Slide C14 shows total General Fund revenue for the Commercial Recordings Division since FY 2010, which was the first year State Business License revenue was collected by the Office of the Secretary of State. Each bar is divided into parts; the blue part represents Commercial Recordings excluding the State Business License, and the red part represents State Business License revenue. Commercial Recordings General Fund revenue, excluding the State Business License, has been relatively flat. All of the growth in General Fund revenue collected by the Commercial Recordings Division can be attributed to an increase in State Business License Fee revenue. If the State Business License is transferred from the Office of the Secretary of State, annual General Fund revenue collected by the Office would likely decrease by about $70 million.

The graph on Slide C15 is the red portion of the graph on the previous slide separated out and blown up to show growth in the State Business License Fee revenue since FY 2010. State Business License Fee revenue has nearly doubled since the Secretary of State took over the program from the Department of Taxation in FY 2010. The Office had the State Business License program for a portion of FY 2010; therefore, the total for that year does not represent a full year of fee revenue.

Slide C16 of Exhibit C shows the most recent 14 quarters of State Business License Fee revenue from July 1, 2011, to December 31, 2014. There is a seasonal trend in the collection of State Business License Fees. The total amount collected in each quarter increases, with the last quarter of each fiscal year being the highest revenue-producing quarter. The first two quarters in FY 2015 were the highest first and second quarters the Office of the Secretary of State has recorded since the State Business License program was transferred to us in FY 2010. We anticipate a record year in 2015, once the amounts for the third and the fourth quarters are realized.

Slide C17 shows daily State Business License issuance and revenue for the month of January. In total, the Office issued 28,695 new or renewed State Business Licenses in January. Total General Fund revenue collected from the fees on these Business Licenses was $5.7 million. The number of State Business Licenses processed on any given day fluctuates. Weekends and holidays are generally lower largely because only online submittals are available on those days. The days toward the end of the month are generally higher. The daily average for January was 926 State Business Licenses issued at $200 each, which works out to an average daily revenue of $185,129. Including weekends and holidays, the average is 1,288 State Business Licenses issued per day with an average daily revenue of $257,540.

Slide C18 compares the General Fund revenue collected during the first 6 months in FY 2014 to the first 6 months in FY 2015. Four of the six programs are up year over year, with the only significant decrease occurring in the Elections Division due to not having an election or collecting candidate-filing fees. In total, General Fund revenues collected by the Office of the Secretary of the State are up 3.5 percent in FY 2015 compared to FY 2014. The General Fund revenue collected by the Office of the Secretary of State plays a crucial role in the State's total General Fund budget.

Senator Hardy:
You kept referring to the General Fund revenue. Where does the small remaining amount go?

Wayne Thorley (Deputy for Operations, Office of the Secretary of State):
We collect a small portion of fees that do not go to the General Fund. Those are primarily fees for notary training. When an individual applies for a notary license, we charge a $45 fee for notary training classes. We also collect miscellaneous

securities fines and penalties that do not go to the General Fund. These fines support our Securities Division operating budget. A very small amount of donations goes to the Living Will Lockbox. There are other small revenue sources for copies and things of that nature.

Chair Roberson:
Next up is Troy Dillard, Director of Department of Motor Vehicles.

Troy Dillard (Director, Department of Motor Vehicles):
This is our first opportunity in many years to present what the Department has collected before the Senate Committee on Revenue and Economic Development. We appreciate the ability to share this very important source for the State's revenue.

I have submitted a quick overview of the Department of Motor Vehicles (DMV) (Exhibit D). We have eight divisions within the Department. The Director's Office is responsible for the overall operation of the Department. The Administrative Services Division provides general support and services to the other divisions. The Central Services Division includes the individuals who process all mail or Internet transactions for the Department via the back office. Compliance Enforcement regulates the automobile industry. Motor Vehicle Information Technology is the backbone of the Department and everything runs on our IT System. Field Services Operations are our offices that serve members of the public on a daily basis. The Management Services and Programs Division functions as our research and development. Committee members will interact with people in our Program Management Office on pieces of legislation and fiscal notes during this Session. Our Motor Carrier Division deals with the international registration plan and fuel tax issues throughout the State.

Slide D4 depicts our FY 2014 revenue collected by the Department. We total $1.1 billion per year, and the breakdown of the graph gives the dollar figure and percentage of that collection going into the various revenue sources. The largest for FY 2014 is $517 million for counties and school districts that is collected through the basic Governmental Services Tax (GST), the special GST and Motor Fuel Taxes. The basic and special GSTs are primarily collected through vehicle registration and allocated to the counties. Highway Fund revenue collected was 38.06 percent, or $433 million. The remainder includes DMV fees, of which a small portion of Governmental Services Tax is also collected through registration. Sales tax comes from vehicles purchased out of state with sales taxes paid in Nevada.

Slide D5 of Exhibit D is the breakdown of the monies represented in the previous slide, which are going to the counties and the schools for FY 2014, and the graph depicts the primary sources of revenue being generated. Motor fuel equals 44.55 percent and basic GST is 45.72 percent.

The Slide D6 pie chart represents the breakdown by county close to the percentage of population, since the bulk of that revenue comes from fuel sales and vehicle registrations in each county.

Slide D7 depicts Highway Fund revenue and its forecast, commonly known to the Legislative Counsel Bureau (LCB) and our staff as the Blue Book. The Department is restricted on what the budget can contain because we can expend no more than 22 percent of what we collect for the Highway Fund, excluding fuel tax revenues. A large chunk is not counted toward that because it is the maximum allowed by statute to be budgeted. From FY 2013 to FY 2014, the Highway Fund saw an increase of 2.85 percent in actuals. Each revenue stream in the FY 2016 and FY 2017 Blue Book was reviewed for historical trends and anticipated changes. Each was independently evaluated to come up with the best estimate for revenues going into this biennium. As a result, we have a 1.24 percent growth factor for FY 2016, moving the Highway Fund revenue allocation to $446 million, and in FY 2017, an additional 1.26 percent, taking it to $452 million.

Chair Roberson:
From FY 2013 to FY 2014, there was almost a 3 percent increase? To be exact, 2.85 percent?

Mr. Dillard:
That is correct.

Chair Roberson:
The growth is projected to be significantly lower in FY 2016 and FY 2017. Any reason why that is?

Mr. Dillard:
Each of these categories has different reasons for the projected growth. Some of them are significantly higher, some lower. There are six or seven pages of different revenue sources. We can certainly highlight the largest of those impacts in a report for the Committee.

When the projections were made with relation to fuel tax, fuel was significantly more expensive than it is today. There certainly is a historical trend in fuel consumption based upon the price of fuel. Repeatedly, when the price of fuel hit $4 a gallon, the number of gallons consumed within the State declined significantly. Since it takes 60 days for those reports to come in for fuel consumption, we anticipate an uptick in consumption based upon the per gallon charge that exists today at almost half of what it was just a few months earlier. As those numbers come in, we will continue to adjust the Blue Book. We work with LCB for the final projections that the Committee will use to set the numbers for the close of this Legislative Session.

Slide D8 of Exhibit D is a breakdown of the Highway Fund revenue sources. Motor carrier fuel consumes 43.31 percent of that Fund, with registration making up another 23.78 percent. Motor carrier special fuel, which includes diesel, is the next largest source.

Slide D9 of Exhibit D covers the basic Governmental Services Tax. It is a bit of history how basic GST has been handled and how it has impacted revenue streams for the State over the last few Legislative Sessions. In 2009, S.B. No. 429 of the 75th Session was passed. This measure changed the depreciation schedule for motor vehicles upon which registration factors are based. This resulted in an increase of basic GST for certain vehicles, specifically older vehicles, which wound up with more of an impact than newer vehicles as a result of the change. That increase was directed to the General Fund for FY 2010 through FY 2013. In the 2013 Legislative Session, A.B. No. 491 of the 77th Session was passed, which simply extended the 2009 provision for the last biennium. It was not a sunset provision. It was a transfer provision that would have ceased revenue to the General Fund for the Highway Fund. Assembly Bill No. 491 of the 77th Session just continued basic GST into the Highway Fund. The Governor's recommended budget for this biennium proposes to continue directing basic GST into the General Fund to deal with shortfalls in General Fund revenue.

Slide D10 gives an idea of the amount of money referred to with the basic GST collection. The percentage change is a year-to-year percentage change, not a percentage change based upon S.B. No. 429 of the 75th Session as enacted. It shows the historical trend. There is a large jump in FY 2011 because the impact in FY 2010 did not begin until September, so that partial year collection represented the 19.88 percent jump. After that, it is within 2 percent per year.

In addition to that revenue source, the Department receives commissions from monies collected on behalf of counties and other entities. A 6 percent commission factor is typically maintained by the Department to cover expenses for the collection and distribution of those funds. In 2011, S.B. No. 503 of the 76th Session changed that commission and penalty revenue and directed it to the General Fund. This resulted in the Department backfill from those revenues with Highway Fund revenue. The 22 percent cap was adjusted by the biennium to 33 percent to allow for the Highway Fund to backfill Department expenses while that revenue was directed to the General Fund. In 2013, this revenue source was diverted for FY 2015. For FY 2014, it was returned to the Department where those funds were used. In FY 2015, they are once again diverted to the General Fund, and the Department is being backfilled by Highway Fund revenue with a 32 percent cap. For this coming biennium, FY 2016 and FY 2017, the Governor's recommended budget continues the diversion of those commissions and penalties into the General Fund to deal with funding shortfalls.

Slide D12 of Exhibit D depicts the source of GST commissions and penalties from those coming through the Motor Carrier Division and those coming through Field Services Operations.

In addition, we have added Nevada Liability Insurance Validation Electronically (LIVE) revenues. Nevada LIVE is our insurance verification program. A couple of sessions back, we made some significant changes to the uninsured motorists provision in which it was required to maintain insurance. In the past, each motorist who failed to maintain insurance paid a $250 assessment at the end of the year, which was far less than maintaining the insurance throughout the year. The Legislature passed a bill that increased the penalty if you failed to maintain insurance and tied it to how many times that occurred and for what length of time. As a result, we would anticipate driving up insured motorists' rates and driving down this revenue source. In fact, we have seen insurance rates increase or the uninsured rate decrease, and we have seen this revenue source falling slowly. We would like to see 100 percent insurance coverage and not have this revenue source, but this revenue source generates funds which revert to the Highway Fund at the end of each fiscal year.

Senator Ford:
How has the diversion of GST funds affected your operations, if at all?

Mr. Dillard:
From the DMV's perspective, we have not seen any impact. It simply changes the revenue source. Revenue still comes into the DMV; it just comes from the Highway Fund rather than from the commissioned piece itself.

Senator Kihuen:
As you recall, last Session we passed S.B. No. 303 of the 77th Session on the Driver Authorization Cards (DAC). What kind of revenue have we seen and how many people have actually applied?

Mr. Dillard:
We are shy of 26,000 individuals who either hold active DACs or instruction permits. We have had significantly more people than that take the written test and a little more than that take the drive test. With regard to the revenue question, we generated $1.4 million for FY 2014 directly from the Driver Authorization Card program.

Senator Kihuen:
Have we granted these Driver Authorization Cards since the law became enacted? What percentage of people taking the test pass it?

Mr. Dillard:
I do not have specific numbers for you today. I can tell you that when the program first started, the failure rates for the Driver Authorization Card applicants were significantly high. In that process, we discovered the need to educate those applicants better than what we had been doing. A lot of applicants came in not expecting to take a written test and were not prepared. They had not studied the manual and were simply failing at a high rate. The applicants still fail at a high rate, but not as significant as when the program first began. Overall, the failure rate is about 10 percent higher for a DAC applicant than for a standard driver's license applicant.

Senator Kihuen:
Obviously, the more people who pass the test and get their Driver Authorization Cards, drive legally and also bring more money into our State.

Mr. Dillard:
That is correct.

Chair Roberson:
We will now hear from the Department of Taxation.

Deonne Contine (Executive Director, Department of Taxation):
I am referring to the submitted presentation (Exhibit E). The Department of Taxation administers the collection and distribution of nearly $5 billion annually. We collect money that we distribute to the State General Fund and local governments. One of the Department of Taxation's goals is the fair, efficient and effective administration of the tax programs in Nevada. The Nevada Tax Commission is by statute the head of the Department of Taxation and is an eight-member board appointed by the Governor. The members come from different areas of business: mining, agriculture or general business utilities. There are some requirements to be on the Tax Commission, and the Governor is an ex-officio member. The Commission adjudicates contested cases. When the Department of Taxation has a dispute with a taxpayer regarding an audit, collection action, some other action or decision by the Department of Taxation, the Tax Commission hears those cases. The Department of Taxation engages in workshops and the Tax Commission adopts the regulations. The Commission, a policy body, also reviews whatever the Department of Taxation does of its own accord.

The Department of Taxation has 336 full-time equivalent employees in four offices: Reno, Carson City, Henderson and Las Vegas. We are organized into five divisions. The Executive Division is comprised of the people here with me and those in my office. We have a section that monitors the progression of cases that go to the Tax Commission and follows an audit once billed all the way through the process, whether it gets paid, petitioned or disputed. We have an internal auditor who audits our processes. Auditors monitor the confidential process and ensure that we are protecting and using data received from other agencies properly.

The Compliance Division is comprised of auditing and revenue. Tax examiners assist taxpayers with their accounts, but this Division is largely made up of the audit staff and the revenue staff. We audit taxpayers throughout the State. We have eight out-of-state auditors located throughout the United States.

The Administrative and Fiscal Services Division handles how the money comes in and goes out—anything that has to do with a return, how to process it and how the monies are distributed to various entities. This Division monitors our internal budget and oversees our agency administration, working with the State demographer, who provides the population estimates that distributions are based on for local jurisdictions.

The Local Government Services Division centrally assesses property that crosses county lines, such as utilities and larger entities not limited to one county that would normally be assessed by the county assessor. Local Government Services assesses and audits mines. It establishes guidelines and provides support and training for county assessors, recorders and treasurers, and assists and reviews local government budgets.

The Information Technology Division oversees the tax system and handles issues regarding programming changes as it relates to continued processing of tax revenue.

In addition to these divisions, the Department of Taxation serves as staff to several boards: State Board of Equalization, which hears the county board of equalization appeals and property tax disputes; Committee on Local Government Finance; Mining Oversight and Accountability Commission; Appraiser Certification Board; and Nevada Tax Commission.

Slide E5 of Exhibit E refers to the various taxes collected and administered by the Department of Taxation. These specific taxes will be discussed later.

Slide E6 is a chart depicting the revenues and distributions. Of the $5 billion that we collect and distribute, 74 percent is from sales and use taxes. The next highest tax includes the Modified Business Tax and the Insurance Premium Tax. We collect Cigarette Tax and other tobacco products taxes, Net Proceeds of Minerals Tax, Real Property Transfer Tax and a variety of other small taxes. Of the money collected, 56 percent is distributed to local governments. We distribute 38 percent to the State General Fund and 2 percent to the State Distributive School Account.

Slide E7 of Exhibit E refers to the components of sales and use taxes. Chapter 372 of *Nevada Revised Statutes* (NRS) is the Sales and Use Tax Act. That chapter was voted on by the people and cannot be changed without a vote of the people. It sets a State rate of 2 percent, which goes to the General Fund. In FY 2014, the State 2 percent generated approximately $900 million in sales and use tax that went to the General Fund.

Chapter 374 of NRS enacts the Local School Support Tax (LSST). This rate is at 2.6 percent and the revenue is distributed to local school districts in a couple of different ways. For in-state business returns, where businesses have a physical presence in Nevada, that money is distributed directly to the school districts. In FY 2014, we distributed $1.1 billion. For out-of-state business returns, where there is no physical location within the State, the money is distributed into the Distributive School Account in the county where the sale was made. The General Fund gets a commission on some of the local taxes that the Tax Department collects and distributes. For the LSST, the General Fund commission is 0.75 percent, which is approximately $9 million in FY 2014.

Chapter 377 of NRS enacts the Basic City-County Relief Tax (BCCRT) and the Supplemental City-County Relief Tax (SCCRT), which are distributed similarly to the Local School Support Tax for in- and out-of-state, business returns except that the in-state return is distributed to the county in which the sale is made and the out-of-state return is distributed through the Consolidated Tax Distribution. The General Fund gets a commission of the BCCRT and the SCCRT, a total of $18 million in FY 2014.

A host of optional taxes not listed on these slides can be found in the Department of Taxation's *Annual Report Fiscal 2013-2014*. The optional taxes are allowed by statute for local governments to add to the sales tax for open space, maintenance, infrastructure and different decisions that the local entities make. We collect approximately $500 million on that for distribution to the local governments.

Senator Hardy:
When you say distributed, do you mean per year or per biennium?

Ms. Contine:
Fiscal Year 2014 is represented in the slide presentation, Exhibit E. The *Annual Report* depicts the last 5 years.

Slide E8 refers to the Modified Business Tax, which is the tax on payroll of certain businesses in Nevada. The Modified Business Tax is in two NRS chapters: NRS 363A, which has to do with financial institutions, and NRS 363B, which is general business. Omitted from this presentation is the deduction from both the general business and financial institutions provisions for the cost of health insurance or health costs that an employer pays for employees. Those amounts are not subject to the Modified Business Tax.

Senator Kieckhefer:
Have you calculated the value of the health care deduction?

Ms. Contine:
We do not have the number with us but can get it to the Committee.

The financial institution rate is 2 percent of all wages except the deduction of health care. Subsection 1, paragraphs (a) through (s) of NRS 363A.050 define the criteria to determine whether the taxpayer qualifies as a financial institution. The general business rate is 1.17 percent of all wages that exceed $85,000 per calendar quarter. That determination is in NRS 363B.

Senator Hardy:
Do nonprofit credit unions qualify as financial institutions?

Ms. Contine:
In NRS 363A, credit unions are excluded from financial institutions.

Senator Hardy:
That is my understanding as well. Thank you.

Ms. Contine:
In Slide E9, the Bank Excise Tax established in NRS 363A is imposed on each bank at the rate of $1,750 for each branch office maintained by the bank in this State in excess of one branch office. Banks with only one office in this State are exempt from this tax. In FY 2014, the Bank Excise Tax generated

$2.8 million in revenue for the General Fund. The chart on Slide E9 of Exhibit E refers to the last 6 fiscal years.

Slide E10 refers to the Insurance Premium Tax, which is 3.5 percent of the premiums that are written for insurance policies in Nevada. Certain insurers are entitled to several credits toward Insurance Premium Tax liability. The industrial insurance companies pay a workers' compensation fee that essentially funds the Division of Industrial Relations (DIR), and they get a credit toward their Insurance Premium Tax liability equal to the amount paid to DIR.

The home office tax credit reduced in the 2013 Session will be effective in 2016. Insurers are entitled to 50 percent credits on their Insurance Premium Tax if they own or operate home offices in Nevada. They also receive credits toward their Insurance Premium Tax liability for the amount paid in property taxes.

A recently enacted credit is the Nevada new markets tax credit for investment in Community Development Block Grants. The way it works is that the insurance company purchases a credit from a development company that uses the money to invest in Community Development Block Grant programs. The insurer receives the credit toward its tax liability.

Nevada Insurance Guaranty Association credits are for the associations set up to protect policyholders if an insurance company becomes financially insolvent. There are two guarantee associations: property casualty and life and health. Over 5 years, the associations get 20 percent credits toward their liability for amounts that they are required to pay in other chapters to the guaranty associations. Even with all those credits, the Insurance Premium Tax generated $250 million in General Fund revenue in the last fiscal year.

Slide E11 represents three additional taxes or fees that the Tax Department collects and distributes: the transient lodging tax, tire fee and short-term lessor fee. The transient lodging tax, which is 2 percent of the gross receipts in counties with a population in excess of 700,000 and 1 percent in all others applies to motels and hotels where people have short-term stays. The revenue is distributed in a couple of different ways. In FY 2014, the Tax Department distributed $20 million to the Department of Tourism and Cultural Affairs and $141 million to the Distributive School Account. The tire fee is $1 per tire. The fee helps defer the cost of recycling and waste management. The retailer keeps 5 percent for collecting the fee. Where most taxes are collected from the consumer, as in sales and use taxes, there is a collection allowance. For example, the sales and use tax commission is 0.25 percent for collecting the taxes and sending them to the State. Most taxes with a collection fee have a commission to defray some of the cost of collecting the tax for the taxpayer.

The tire fee collections for FY 2014 were $1,768,460. The tire fee tax is distributed to the Solid Waste Management Account in the General Fund for distribution to the Tax Department collection fee of 0.5 percent; the State Department of Conservation and Natural Resources, 44.5 percent; Southern Nevada District Board of Health, 30 percent; and Washoe County District Board of Health, 25 percent.

The short-term lessor fee is for short-term leases, rental cars and other vehicles. It is a 10 percent statewide fee with an additional 2 percent in Washoe and Clark Counties. Approximately $46 million was distributed to the General Fund in FY 2014. Of that total, $9 million was distributed to Clark and Washoe Counties.

Blake Doerr (Chief Deputy Executive Director, Department of Taxation):
I will be discussing two taxes. The first is the intoxicating liquor tax, which is in addition to sales and use tax, charged to consumers who purchase the beverages at retail liquor stores and grocery stores. This tax is due from the wholesaler, except in those few circumstances of liquor manufactured in the State. The product is taxed on the volume of liquor that enters the stream of commerce for ultimate consumption in Nevada. If it enters the State and then ultimately leaves, that tax does not apply. This tax is calculated based on the concentration amount of liquor in an alcoholic beverage. Referring to Slide E12 of Exhibit E, the tax varies from $3.60 per gallon for liquor over 22 percent alcohol content; $1.30 per gallon for 14 percent to 22 percent content by volume; $.75 per gallon for liquor 0.5 percent to 14 percent content by volume; and beer, which is $.16 per gallon. License fees and fines are associated with the tax, which make up 1 percent of the total amount collected. There is detailed information available on the Department of Taxation's Website specifically relating to the history of many legislative changes since 1935.

Senator Hardy:
If I were going to have an offense, or a second or third offense, is that enough of a fine to prevent me from committing multiple offenses—and is anything collected from that?

Mr. Doerr:
We certainly collect fines. We gather a larger portion from licensing fees and not as much from fines. Two investigators are in charge of investigating all of this material. They are not generating a lot of fines.

Senator Hardy:
Are we making a lot of findings and not getting a lot of fines or are we just not getting a lot of fines because there are not a lot of problems?

Mr. Doerr:
We are neither finding a lot of problems nor a lot of fines. Many of the wholesalers are sophisticated taxpayers; therefore, they want to pay the correct amount of tax, so we do not see a large problem at that level. This is not a tax at the retail level, where a much larger number of people are involved. The tax is at the intermediate step of the transaction at the wholesale level.

Slide E13 of Exhibit E refers to the intoxicating liquor tax collection. In FY 2014, we collected just over $46 million. The slide indicates that the collections have gone up fractionally year over year, about 5 percent.

Slide E14 shows how the Intoxicating Liquor Tax is distributed. This reflects the counties getting a proportionate amount of the tax. The General Fund ends up with $42 million of the tax, or 90 percent of the tax collected. The Liquor Program Account is the money that funds two small pieces of the Department of Health and Human Services, with $5,000 going to Aid for Victims of Domestic Violence and community juvenile justice programs. The *Annual Report* details the legislation that called for those transfers.

The second tax includes the Cigarette Tax and other tobacco products (OTP) tax. These are taxed a little differently. Cigarette Taxes are the stamps sold and affixed to each packet. The OTP includes every other tobacco product, excluding cigarettes and e-cigarettes.

Senator Ford:
Do the vapor cigarettes have nicotine?

Mr. Doerr:
This tax was legislated to capture cigarettes that have tobacco.

Senator Ford:
The OTP portion?

Mr. Doerr:
The OTP is also tobacco but not cigarettes. The concern is not the nicotine but the tobacco. E-cigarettes are not tobacco products. They could be derivatives of the nicotine ingredient from the tobacco leaves, but they are not tobacco.

Senator Ford:
We could change OTP to ONP, other nicotine products, in order to tax the e-cigarettes under that provision.

Mr. Doerr:
That would be something for you to do.

Chair Roberson:
We will hear legislation in this Committee this Session regarding the e-cigs.

Ms. Contine:
The Tax Department has Senate Bill 79 to create some parity this Session.

SENATE BILL 79: Provides for the regulation and taxation of liquid nicotine. (BDR 32-307)

Mr. Doerr:
The Cigarette Tax is about the stamps that go on the pack; OTP is taxed in a way reminiscent of what I discussed with the intoxicating liquor tax. It is a tax at the wholesale level where there are intermediate transfers from manufacturers. There are various processes. The business models have been truncated where the manufacturer owns the whole process, which cuts some of the intermediate transfers and therefore cuts the tax that would have been associated with those.

Slide E16 of Exhibit E refers to the tobacco taxes revenues. This chart indicates that the trend is going down. I do not know whether we have done any polling regarding the result and whether it is a matter of fewer people smoking. It may be people converting to e-cigarettes. The tax is not being captured on cigarettes. The intermediate step is also not being taxed, because the nicotine product is not being taxed as tobacco. The bottom of the slide breaks down what is being collected. The stamp revenue went from $110 million to $90 million and OTP increased from $9 million to $11 million over the past 6 fiscal years. The licensing fees are included in the third column. The fourth column shows total collections, which began at $120 million and have gone down to $102 million.

Slide E17 of Exhibit E shows the Cigarette and OTP Tax distribution depicted by county. One small piece goes to administrative fees. Those possibly pay for enforcements from the Attorney General's Office to ensure the prohibitive sale of tobacco to minors. We will double-check to verify administrative fees and send the information over to the Committee.

Terry Rubald (Deputy Executive Director, Department of Taxation):
I am here to speak about the Net Proceeds of Minerals Tax. Slide F1 in my presentation (Exhibit F) depicts the dominance of gold as the preeminent mineral mined in Nevada. It has been the predominant mineral since 1980. Slide F2 shows the formula for the gross yield. It is most often reported in terms of the number of units produced times the unit price. The current price of gold is about $1,260 per ounce. If a mine produced 100 ounces, the gross yield would be $126,000. Certain allowable deductions are subtracted to obtain the net. The net is multiplied by a tax rate that does not exceed 5 percent. That limit comes from Article 10, section 5 of the Nevada Constitution. The actual tax varies depending on the number of criteria. Slide F3 shows a sliding scale that runs from 2 percent—$2—down to 5 percent—$5 per $100 of valuation. The rate of tax depends upon the net-to-gross ratio.

For example, a mine produced $1 million worth of gross yield and the allowable deductions were $950,000, leaving a net of about $50,000. Compare the $50,000 to the $1 million and find that it is 5 percent. Using this scale, it is less than 10 percent, so the rate of tax selected would be $2 per $100. Multiplying $50,000 of net by 2 percent would be $1,000 in tax. Conversely, if there was a net-to-gross ratio, the same $1 million in gross with $400,000 worth of deductions leaves a net of $600,000 for the net-to-gross ratio of 60 percent. Therefore, the rate of tax would be $5 per $100; multiplying the $600,000 by 5 percent results in a $30,000 tax.

Slide F4 depicts Net Proceeds Tax rate exceptions. There are certain exceptions to the sliding scale. The first exception is that if net proceeds exceed $4 million, it is an automatic 5 percent rate of tax. All royalties are 5 percent no matter what. With regard to the rate of tax on geothermals, the maximum that can be applied is the combined, overlapping property tax rate where the geothermal property is located. For instance, many of the geothermal properties are located in Churchill County, so the combined overlapping property tax rate there is $2.80. That is the rate that would be applied to geothermals. If the combined property tax rate of the local jurisdiction is greater than 2 percent, the minimum tax is applied. It cannot be lower than the combined overlapping rate. In Eureka County, where the total tax rate is $1.78 for the combined overlapping tax rate, the rate is less than 2 percent; therefore, it would be the minimum 2 percent on the sliding scale. The net-to-gross ratio is an important factor in determining the rate of tax.

Slide F5 of Exhibit F depicts the Net Proceeds 20-year history of net-to-gross ratio. In 2011 and 2012, the red bar is the gross and the purple bar is the net. Comparing those two in 2011 and 2012, the average net-to-gross ratio is about 45 percent. In 2013, the gross in that year was $8.8 billion and the net was $3.2 billion; therefore, it was a 36 percent net-to-gross ratio. Last year, it dropped because the price of gold, which is the driver for net proceeds, dropped to $1,140 an ounce on average. The net-to-gross ratio dropped to 25 percent. The net-to-gross ratio also varies by mine and by type of industry.

Slide F6 is an example. There is a gross yield of $1 million and net proceeds of $400,000; the net-to-gross ratio is 40 percent. In this particular example, the maximum overlapping tax rate is $3.66. The 4 percent rate against the $400,000 worth of net proceeds would generate a tax revenue of $16,000 in general minerals; 88 percent of that goes to the county, because $3.66 divided by 4 is about 88 percent. Some money goes to the State debt fund and the balance goes to the General Fund in this example. If the mine happened to be geothermal, the maximum rate of tax would be $3.66 with 95 percent of that going to the county and nothing to the General Fund. The royalties tax rate is at 5 percent; 70 percent of that amount goes to the county, some to the State debt and the balance to the General Fund.

On Slide F7, we have an example of the minimum rate. It is the same gross yield, net proceeds and net-to-gross ratio. The taxpayer still pays $16,000, but the distribution is different because we are subtracting $1.77 from 4 percent. The county gets $1.77, the State gets $.17—$.02 for the conservation fund and capital projects fund and $.15 for the State debt fund—and the General

Fund gets the balance. The interplay between the net-to-gross ratio and the county combined overlapping tax rate affects the amount of taxes.

Slide F8 of Exhibit F shows the industry ranking of the net-to-gross ratio. Oil is the No. 1 industry for having a great net-to-gross ratio. Oil is a very profitable industry. Gold comes in fourth at 38.52 percent.

Slide F9 shows that oil accounts for 0.51 percent of the total net proceeds. A good net-to-gross ratio is nice, but it does not produce enough to surpass gold. Gold is 95 percent of the total net proceeds, and from the previous slide, the gold net-to-gross ratio is just over 38 percent.

To review, F9 data is from the *2013-2014 Net Proceeds of Minerals Bulletin:* the gross of $9 billion; net of $3.4 billion, which produced a tax of $88.6 million to the counties; $5.8 million to the State debt; $76 million to the State General Fund; and a total tax of $170 million. Lander, Humboldt and Eureka Counties produce the largest Net Proceeds as shown on Slide F10. The rest of the counties contribute smaller amounts.

Slide F11 depicts the relative distribution of Net Proceeds Tax between the State General Fund, the State debt fund and the counties. The purple is what is distributed to the counties, the red is the State debt and the yellow is the State General Fund. In 2013, the counties received 53 percent and the State received 48 percent in the distribution of Net Proceeds. In 2014, it is estimated that there will be an even 50-50 split.

Slide F12 shows the data that supports the graph in Slide F11. In 2014, we estimated that the Net Proceeds of Minerals taxes totaled about $78.8 million, which will be split evenly between the counties and the State.

Slide F13 shows the 2014 repayment and payment timeline. The months in purple are the 2014 production year. The ones in blue are the 2015 calendar year. Everything above the line in the boxes is related to the basic reporting and payment function of the Net Proceeds Tax. In 2008, the Legislature passed a prepayment program, which is everything below the line. In a couple of weeks, taxpayers will report their total production along with their deductions, their net. We will take February and April to complete our desk reviews in the Tax Department, then we will issue a certified Net Proceeds report on April 20. Then between April 20 and May 10, if there are any corrections to the billing, the taxpayer has to send in payments. With the prepayment system on March 1 of last year, the taxpayers estimated their liabilities for the year and prepaid on those estimates. They had the opportunity at each deadline, as shown in all of the tan boxes, to update the estimates. Penalties are assessed if taxpayers do not pay at least 90 percent by the time payments are due this May. February 28 is the deadline to record any updates. A quarterly report is not required but allowable to avoid any penalties. On March 1, the schedule starts over again with the projected production for 2015 along with the prepayment due. Last year saw a precipitous drop in the price of gold. The gold companies did not expect a drop when they reported back here in March. As a result, several companies overpaid, creating a credit system. These other boxes demonstrate overpayment credit that we will have to apply as payments come in.

Next, I will discuss property tax (Exhibit G) Slide G1 shows the basic property tax formula. The calculation of the property taxes depends on variables. To begin, we determine the taxable value, which consists of the full cash value of land and the replacement cost new less depreciation of improvements. In this example, we have $50,000 for land and $250,000 for the house with a total taxable value of $300,000. Next, we take that amount and multiply it by the level of assessment, which is 35 percent. That generates an assessed value of $105,000. Assessed value is less than taxable value. We multiply that by the actual tax rate. In this example, the tax rate of Boulder City is used at $2.5755 per $100 of assessed value, which generates a tax of $2,704.

Senator Ford:
Can you tell me how we arrived at 35 percent in determining the assessed value of the home?

Ms. Rubald:
That is by statute. The level of assessment is a decision made in each state. Different states have different levels. Nevada's is one-third of the taxable value.

Senator Ford:
Do you know the rationale for the 35 percent?

Ms. Rubald:
I do not know why 35 percent was selected. I know it has been that rate for a long time. It may not have been anything but that rate. The rate was probably established in the late 1800s.

Slide G2 of Exhibit G is derived from page H26 in the bound handout *Nevada Property Tax: Elements and Application* (Exhibit H) entitled 2014-2015 Property Tax Rates by County and City. In this example, all of the taxing entities in Clark County are listed. Each one has its own rate. The State of Nevada takes $.17 as I said earlier, which includes $.15 for the State debt fund and $.02 for the conservation fund and capital projects fund. The school district tax rate of $1.30 is comprised of $.75 for the operating fund and the rest to service debt. In order to get the combined overlapping tax rate that totals $2.57 for Boulder City, we add up the State rate, the Clark County School tax rate, Boulder City's rate, Clark County's rate, and the Boulder City Library operating and debt rates. That is the formula to figure out the tax rate in any given jurisdiction.

Slide G3 notes that the *Property Tax Rates for Nevada Local Governments*, or the "Redbook," can be found on the Department of Taxation's Website. Also you can see this on pages H22 to H29 of Exhibit H that list all the tax rates, as well as the voter overrides in the various counties and when they expire. The property tax rates by county and city are on page H26, a miniversion of the Redbook. The maximum property tax rate that can be levied is $3.66 per $100. Of approximately 266 entities in the State, 15 of those are at the maximum, including Mineral and White Pine Counties, as shown on Slide G4.

Slide G5 refers to pages H15 to H16 and depicts the property tax timeline. In any given calendar year, tax officials are working on three different fiscal years. Discovery, listing and valuation functions are performed by county assessors for the secured rolls, and then a few months later, assessors do it again for the unsecured rolls. At the same time county treasurers are finishing up collecting taxes from the prior year, the Tax Department is collecting information and producing publications to be used by county assessors for the next year. At any given year, we are working on different aspects of the property tax. I have included this example because it is a complex timeline.

Senator Ford:
Does secured roll and unsecured roll mean homes encumbered by a mortgage versus homes not encumbered by a mortgage? What are we talking about?

Ms. Rubald:
It is a reference to whether the property can be secured with a tax lien. Most often, all real property, land and improvements go on the secured roll, whereas personal property goes on the unsecured roll. There are exceptions to both of those, but in general, the secured roll is secured by a tax lien so if there was a failure to pay, we could go to court and retrieve the money. On the unsecured roll, the assessor or treasurer can demand payment within 30 days. Since personal property is mobile, the unsecured roll was designed to collect the tax as soon as possible or before it is moved out of state.

Senator Ford:
Are you referring to mobile homes and things of that sort?

Ms. Rubald:
Right, except for mobile homes when owners turn in their titles, and those homes become real property and are listed on the secured roll. An example of personal property is mining or manufacturing equipment.

Slide G6 of Exhibit G shows statewide total assessed value by property type. The purple represents the land and improvements. The red is net proceeds. The yellow is local personal property. Our largest year in terms of assessed value was FY 2009. It tracks the recession in the ensuing years. We hit bottom in FY 2013 in terms of assessed value and have had a slight uptake since then. This next year will be even better.

Slide G7 refers to the data supporting the graph on the previous slide. In FY 2005, assessed value of all of these types of property was at $71.7 billion. In FY 2009, the assessed value was up to $152.5 billion. In FY 2014, it is $86.6 billion. The annual growth rate chart shows that all property types over the 10-year period grew at a little over 2 percent; 2 years ago, it was a little over 1 percent. It does not apply to every type of property. Net proceeds over that 10-year period grew 15 percent, but between FY 2013 and FY 2014, it dropped like a rock at 35 percent.

Slides G8 and G9 discuss property relief and exemptions. Slide G8 shows a list of the different kinds of property tax relief in Nevada. All property is taxable, but a number of property tax relief programs are designed to help alleviate property tax burdens or encourage publicly desired objectives. In general, there are two types of relief programs: the property tax limitations and then the property tax credits and exemptions. Slide G9 of Exhibit G refers to Exhibit H for further explanation of property tax exemptions and abatements along with the new report produced by the Tax Department, the *2013-2014 Tax Expenditure Report*, which lists all taxes, not just property taxes.

Slide G10 depicts property tax distribution for FY 2015. This sheet comes from the Redbook. Last June, we estimated the total assessed value in the State at $91 billion, producing a tax of $2.8 billion for distribution as follows: 39 percent goes to the schools; 28 percent to the counties; 15 percent to cities and towns; 13 percent to the special combined districts; and 5 percent to the State.

Slide G11 of Exhibit G shows statewide property tax abatement, the residential abatement and the general abatement. In FY 2007, 25 percent of the total taxes were abated. In each following year and during the recession, the abatement was at low tide, 4 percent and 5 percent of abatement. Last year, the amount of abatement was 6 percent. In FY 2015, abatement is 13 percent of the total taxes. As our economy improves and the valuation of property starts to rise, there will be an additional increase in the amount of taxes abated.

Slide I1 refers to the Real Property Transfer Tax (Exhibit I), which is a special tax placed upon the transfer of any real property within the State. The county recorders' offices are the main agencies for the administration of the tax. In this tax, the grantee and the grantor are jointly and separately liable for the tax payment. When all the taxes and recording fees are paid, then a deed is finally recorded. The Real Property Transfer Tax (RPTT) was originally instituted in 1968, but it was not until 2003 when the Legislature imposed a State rate of $1.30 that the Department of Taxation became involved. The Tax Department was granted oversight of the RPTT in 2003.

Slide I2 refers to Real Property Transfer Tax rates. The rates vary in each county, ranging from $1.95 to $2.55 per $500 of value or a fraction thereof. The basic rate is 65 cents; 55 cents goes to the county and 10 cents goes to low-income housing for counties with populations less than 700,000. Clark County has population over 700,000, and in addition to the 55-cent base rate, Clark also has a 60-cent rate that goes to the School District. There is also the ability for those counties to impose a 10-cent levy according to the Local Government Tax Act of 1991; only Churchill and Washoe Counties do that. In 2003 when the change occurred regarding the Real Property Transfer Tax, the Legislature provided a levy for the Plant Industry Program, where counties could impose another 5 cents. To date, no county has actually levied that tax. Finally, there is the $1.30 for the State General Fund. In Churchill and Washoe Counties, the total rate is $2.05. Clark County is $2.55, and the total rate in all other counties is $1.95.

Slide I3 depicts the Real Property Transfer Tax collections. Clark County generates about 80 percent, Washoe County 13 percent and all other counties the remaining 7 percent. The total tax is $113.25 million. Although the transactions in Clark and Washoe Counties account for 93 percent of the tax, they only represent 88 percent of the total number of transfers. The value of the transfer in Clark and Washoe Counties is a little higher than that of the value in the other counties.

Slide I4 of Exhibit I shows historical trends of the Real Property Transfer Tax. It had a strong showing in FY 2006 but started to go down during the recession, hitting bottom in FY 2012. The tax has had a modest increase over the last couple of years.

Slide I5 shows the distribution of Real Property Transfer Tax for FY 2014, in which $60 million went to the General Fund. The counties are allowed to charge a 1 percent collection allowance based on the $1.30 that they collect for the State. Then, $25.7 million goes back to the counties. The counties send it to the State, and we turn around and send it back to the counties through the Consolidated Tax (CTX) Distribution. The Clark County School District gets to keep the revenue as soon as it is collected. Low-income housing is $4.6 million and the Local Government Tax Act is $739,000. The distribution to the various counties is listed.

Slide I6 is a pie chart graph of the Real Property Transfer Tax distribution. The State General Fund receives 53 percent. Through the CTX, 23 percent is distributed back to the counties. Clark County School District receives 19 percent. Four percent goes to low-income housing and 1 percent goes to Churchill and Washoe Counties.

Senator Ford:
Are the percentages on the Real Property Transfer Tax distribution statutorily set?

Ms. Rubald:
Yes, those rates are set by statute.

Senator Ford:
What about the distribution amounts?

Ms. Rubald:
Distribution is based on that total tax rate applied against the value of the transaction. It represents a certain percentage of the total tax collected.

On Slide I7 of Exhibit I, we show 13 types of exemptions, such as transfers between related parties. Exemption 7 represents 33 percent of the total transactions. That particular exemption is transfers of title to or from a trust without consideration of a certificate of trust presented at the time of transfer. Exemption 5 is 32 percent of the total number of exemptions, which represents transactions between related parties. The next largest exemption is Exemption 3 at 14 percent. That occurs when a transfer of title recognizes the true status of ownership. An example is when there is a land installment contract. That tax was already paid when it first went into contract. When the deed is actually transferred, the parties do not want to pay the tax again.

Slide I8 shows the Real Property Transfer Tax, exempt and nonexempt transfers, which compares the total number of taxable transactions to the total number of exempt transactions. In FY 2014, there were 73,000 exempt transfers out of a total of 214,000, showing that 35 percent of the transfers were exempt. The prior year was 38 percent; in FY 2005, it was 33 percent, so it remains pretty consistent.

Slide I9 is our Website. There is more information on our Website and in the Department of Taxation's *Annual Report Fiscal 2013-2014* (Exhibit J).

Ms. Contine:
I have the answer to Senator Kieckhefer's question about the value of the health care deductions. For FY 2014, there are $40 billion in gross wages and $3.2 billion in health care deductions.

Senator Kieckhefer:
That was $3.2 billion in health care deductions?

Ms. Contine:
Yes, that is off $40 billion in gross wages. You need to apply the rate to the remainder.

A.G. Burnett (Chair, State Gaming Control Board):
I am going to give the Committee an agency overview in a presentation (Exhibit K) regarding our revenue and taxation structure.

Slide K2 of Exhibit K presents the overall structure of the gaming regulatory system in Nevada. It is a two-tiered structure, bifurcated where you have the investigative agency, of which I am the head. The State Gaming Control Board is comprised of 400 people. We have six divisions located throughout the State. We concentrate on day-to-day gaming regulatory work, 24 hours a day, 7 days a week, with people all over the State in various casinos conducting and monitoring activities, ensuring no criminal activities occur.

The other arm of the gaming regulation is the Nevada Gaming Commission, the final authority on gaming licensing and disciplinary matters. The Commission crafts the policy for the regulators—the Board—to implement. The Gaming Commission is comprised of five part-time individuals. Chair Tony Alamo, a doctor in Henderson, has one employee. The Gaming Control Board concentrates on licensing and disciplinary matters. The Board crafts regulations. The Gaming Policy Committee is overseen by the Governor, as seen on Slide K3, who can enact and implement this body whenever he or she chooses. I believe the last time was in 2012, when Governor Brian Sandoval enacted the Policy Committee to study Internet gaming.

Slide K4 offers our mission statement. Senator Mark Lipparelli had a hand in drafting this. It gives an idea of our overall mandate. Slide K5 shows a breakdown of the Gaming Control Board's employees throughout the State. The six divisions are in Carson City, Elko, Las Vegas, Laughlin and Reno. The first division is the Administration Division, which takes care of our human resources. The responsibilities are listed on Slide K6. The next division is the Audit Division, which audits Group 1 licensees, large licensees. These licensees bring in more than $6.2 million in gross gaming revenue every year. The 91-employee Audit Division is comprised of accountants and CPAs.

Slide K7 refers to the Enforcement Division, which is our law enforcement branch. The agents are peace officers who conduct arrests and carry firearms.

The agents conduct criminal and regulation investigations. The Investigations Division sends agents to research an applicant's hometown, previous residences, prior schools and businesses. They also investigate businesses involved in the Nevada gaming industry. The agents prepare a report for the Gaming Control Board.

Slide K8 of Exhibit K outlines the Tax and License Division. This Division collects and deposits all gaming taxes, fees, penalties, interest and fines. Employees perform compliance reviews and audits of Group 2 licensees, the licensees which bring in less than $6.2 million per year in gross gaming revenue. The Division produces the monthly press release for gaming win and the annual *Nevada Gaming Abstract.*

The Technology Division, Slide K9, reviews and makes recommendations for approvals on pieces of technology received from independent test labs. Employees perform random inspections of gaming devices and associated equipment in the field and do further technological work, including monitoring technology trends and providing guidance to both the Board and the Commission. They provide forensic technological support to the divisions, internally or externally, in conjunction with our Enforcement Division.

Slide K10 shows our funding by source. We are dual-funded, partially by General Fund and by billable hours. When our investigative agents from the Investigative Division and our agents from the Technology Division work on an applicant's submission or licensing request, we bill the applicant at an hourly rate. The breakdown is listed there.

Slide K11 refers to revenues collected in FY 2014. Clark County comprises nearly 90 percent of the revenues that we collect, the remainder come from all other counties.

In Clark County, The Strip comprises the majority percentage. Slide K12 refers to collections by category FY 2014. Nearly 75 percent of our collections are based on percentage fees, gross gaming revenue, 6.75 percent for the most part. Live Entertainment comes in at 15.3 percent, with annual and quarterly fees and taxes after that.

Slide K13 shows gaming collections FY 2005 to FY 2014. The blue line, total tax and fee collections, is a blended rate of annual percentage fees mixed in with Live Entertainment Tax and annual slot tax. We do rely on annual percentage fees. However, the Live Entertainment Tax continues to grow. Las Vegas has shifted toward entertainment in other forms.

Slide K14 of Exhibit K is a brief description of each type of revenues collected. The bulk of revenue comes from percentage fees, which is an incremental rate based on a nonrestricted licensee's monthly taxable gaming revenue. For the first $50,000 of taxable revenue, the tax rate is 3.5 percent. For the next $84,000, the rate is 4.5 percent. Anything after $134,000, the rate is 6.75 percent. The bulk of the licensees in Las Vegas are taxed at 6.75 percent.

Slide K15 explains the Live Entertainment Tax. Fiscal year 2013 and FY 2014 collections are growing. The tax rate is 10 percent on all amounts paid for food, beverage, merchandise and admission charges in casino venues that have seating of less than 7,500 seats. Nonrestricted licensees who have live entertainment in an area beyond that 7,500 seating capacity are subject to a 5 percent tax on admission sales only. The 10 percent Live Entertainment Tax also gets applied to smaller restricted licensees; pursuant to the statutory definition, those venues have to have a seating capacity of over 200 people and an admission charge.

Slide K16 reflects some of the quarterly and annual advanced fees. A quarterly nonrestricted slot fee is based on $20 per machine that each nonrestricted licensee operates. The quarterly restricted slot fee is based on the number of slot machines at a restricted location that is charged quarterly at $81 per slot machine if there are one to five machines. There is a quarterly payment of $141 per slot machine in excess of 5 machines up to the maximum 15 slot machines.

Slide K17 refers to quarterly nonrestricted game fees and advance license fees. The quarterly nonrestricted game fee includes Baccarat, roulette and others that are deemed "games" under our statutes. That payment is based on a number of operating games that a nonrestricted licensee has each quarter. Once a licensee has a gaming license after the first full month of operations, an advance license fee equal to three times the amount of percentage fees is owed for that month. The collection amounts are listed for FY 2013 and FY 2014.

Slide K18 refers to the manufacturer and distributor license fees. For a nonrestricted licensee who manufactures or distributes gaming devices, an annual fee of $1,000 for manufacturers is assessed and a $500 fee is assessed for distributors. For slot route operator license holders who have the right to operate slots at more than three locations in the State, there is an annual fee of $500.

Slide K19 of Exhibit K refers to annual slot tax, which is an annual tax of $250 per slot machine. This is paid by all licensees. The first $5 million of that gets distributed to the Capital Construction Fund for Higher Education. Twenty percent goes to the Special Capital Construction Fund for Higher Education. Whatever is left goes to the State Distributive School Account.

Slide K20 depicts annual games fees. Payment is based on the number of games a nonrestricted licensee is operating. Those collections get earmarked and split equally between the 17 Nevada counties.

Slide K21 shows information on expired slot vouchers. When a voucher goes unredeemed after a certain period of time, it escheats back to the State. Figures for FY 2013 and FY 2014 are listed.

Slide K22 refers to interactive gaming licensure. For an interactive gaming license, the initial fee is $500,000 for 2 years. After that, the annual fee is $250,000. For manufacturers of interactive gaming systems, the initial fee is $125,000 for a 1-year license. After that, the annual renewal is $25,000.

Slide K23 refers to interactive gaming service provider licenses. The annual fee for these licenses is $1,000.

Slides K24 and K25 show self-explanatory 1991 versus 2014 gaming industry changes. The Committee is familiar with this breakdown of changes over the past three decades.

Chairman Roberson:
We will now hear from Russell Guindon.

Russell Guindon (Principal Deputy Fiscal Analyst):
The General Fund revenue information in Table 1 (Exhibit L) sets the stage after the presentations tonight with regard to the Governor's recommendations in the areas presented. On this table, Columns C and D refer to the Economic Forum forecasts from the revenue sources displayed. The Economic Forum is the body

that approves the economic forecast under statute. For any sunset provisions scheduled to occur effective July 1, the Forum has to produce the forecast based on those sunsets actually occurring in FY 2016 and FY 2017. The Governor is required to use the forecast shown, as approved on December 3, 2014, to build the Executive Budget. Columns E and F in Exhibit L list the Governor's recommended amounts for those revenue sources.

It will be easier if we look at it on a biennium stance instead of a fiscal year breakdown. In Column G, the Economic Forum biennium forecast is reached by adding up the amounts for the FY 2015 and FY 2016 forecast. In Column H, the Governor's recommended amounts are displayed from the Executive Budget sent to the Legislature that the Committee will deal with this Session. Column I is the biennium difference between the Governor's recommended amount and the amount by the forecast Economic Forum. Line 2 in Column G is the Economic Forum forecast of $6.3 billion. The Governor's recommended amount is $7.4 billion for the FY 2015 and FY 2017 biennium. There will be hearings on each of these as we go forward in Session.

The Governor has a recommendation for the items shaded in yellow related to a sunset provision from the 2013 Session regarding the FY 2015 and FY 2017 biennium. Line 5 refers to the Net Proceeds of Minerals and the recommendation by the Governor to extend the sunset for 1 year. Under the statute, you end up with no money in FY 2016 in Column C and the $31 million in Column D. Under the Governor's recommendation, you end up putting the money in FY 2016, but now the hole is in FY 2017. I cover this because an estimate for the current calendar year creates some of the issues that we attempt to forecast. The mines overestimate creates the credits that Teri Rubald referred to in her presentation.

There was a double whammy in FY 2014 and in FY 2015 with regard to the Net Proceeds. The intent is that the tax should get back to being based on the preceding calendar year. This recommendation extends it so that the Net Proceeds will be based on an estimate of 1 year, then we will return to being based on the preceding calendar year—and stay there permanently. Not only does State government, with regard to the State debt rate and the State General Fund, have a stake in the Net Proceeds of Minerals, but the school districts and local governments do as well. This recommendation would get back to the preceding calendar year schedule, giving stability to the revenue source.

The Modified Business Tax (MBT) on nonfinancial institutions, line 9 of Exhibit L, is the Governor's recommendation to extend the tax structure in place for this biennium for the next biennium, which is the $85,000 exemption and you pay a 1.17 percent on the quarterly taxable wages over 1.17 percent.

The yellow section, line 11, shows the sunset on the Business License Fee, but line 11 and the orange-shaded line 12 are combined in the Governor's recommendation for his Business License proposal that involves both the sunset and a new plan. Lines 5 through 12 are the boxed out areas in a table created last Session regarding the sunsets that had to do with the amount of tax paid or a tax rate versus those that had nothing to do with the amount of tax paid by a taxpayer. It is about where the money is required to be deposited. I point that out, because given that Mr. Dillard discussed the Governmental Services Tax and commissions and penalties on the Governmental Services Tax, lines 15 and 16 do not involve any change in the amount paid by taxpayers. It is where the money must be deposited. Under the Governor's recommendation, the money stays in the General Fund for the next biennium versus going either directly or indirectly to the Highway Fund.

The other three items in the top right orange box are the Governor's recommendations: Line 7 is the recommendation to change how slot route operators are taxed with regard to revenue from restricted slot machines.

Line 8 takes the mining out of the MBT nonfinancial category. Mines would pay the State 2 percent as the financial institutions are required to do under law. Finally, line 10 is the recommendation to increase the Cigarette Tax.

Senator Ford:
Am I understanding correctly on the mining tax that in the second part of the biennium, the sunset will no longer exist or that we will be back on schedule?

Mr. Guindon:
With regard to the Net Proceeds, in the bottom box of Exhibit L, if the sunset occurs under law, mines would be required to begin paying on the actual preceding calendar year. But they have already done a tax estimate, the estimated calendar year 2015 Net Proceeds, that they remit in FY 2015. That forecast is on the sheets for FY 2015. With the sunset actually occurring when you come to FY 2016, and are to look back and tax on the actual preceding calendar year, that is calendar year 2015; we have already taxed it on an

estimated basis and it cannot be taxed again. The forecast under statute has the sunset for FY 2016 at zero, because you are transitioning from the estimate for the current calendar year and a true up against that to paying based on the actual preceding calendar year. That puts no money in FY 2016 but picks up revenue again in FY 2017. The Governor's recommendation is to extend this sunset 1 year only, not 2 years. Thus you get money in FY 2016, no money in FY 2017 and get money beginning in FY 2018 and forward. The mining industry waits for the 12-month calendar year to end, then pays a tax on actual activity versus an estimate then true up against it.

Senator Ford:
Looking at line 5 again for FY 2017, $31 million is coming in, as opposed to FY 2016 on Exhibit L. I thought you just said that we would get the money with a 1-year extension. Are we skipping a year?

Mr. Guindon:
Yes. Columns C and D are the Economic Forum's forecast, which is required under law, with the sunset occurring. Therefore, you are not getting money in FY 2016, but you get money in FY 2017. Columns E and F are the Governor's recommendation to extend the sunset 1 year. The hole then slides forward a year.

Senator Ford:
In addition, does the Governor anticipate another $8.2 billion at that point?

Mr. Guindon:
Yes. The numbers in the brackets coincide with the notes on page L2 of Exhibit L. When the tax is paid on what it is based on, there are deductions toward industrial insurance, medical costs, health premiums. Under law, the industry does not get those deductions in the current biennium. Under the sunset provisions, the industry does get those deductions back. In addition to the estimated prepayment mechanism, the Governor also recommends that the industry not get those deductions permanently. Thus the tax base goes up a little bit, because the forecast from the Forum uses a smaller base with the industry getting deductions. Getting deductions means you subtract more from the gross and get a smaller net number. The principal reason why the provision would pick up $8 million is it is the combination of changing the payment and not receiving those deductions. We took that into account when we did the forecast under the Governor's recommendation.

Senator Ford:
The Governor looks to not afford the deductions permanently?

Mr. Guindon:
Yes. That is how the Fiscal Division staff understands the recommendation.

Line 2 of the bottom table in Exhibit L involves the 75-cent school rate. The same mechanism applies there as well. The hole is in a different place; it is in FY 2017. Under statute, the school district recognizes the Net Proceeds in arrears. As for the Local School Support Tax, the recommendation is to extend the 0.35 percent. The Fiscal Division staff understands that the Governor's recommendation will be permanent.

Finally, the Governor recommends that the money received from the State 3 percent room tax as paid by Clark and Washoe Counties stay in the Distributive School Account versus the State Supplemental School Support Fund. It is our understanding that this recommendation is permanent.

In line 2, Column I with the Governor's recommendations regarding sunsets and the new revenue recommendations, the budget is forecast to be about $1.1 billion more for the biennium compared to the Economic Forum forecast with the sunsets actually occurring. The Distributive School Account will be $700 million with the sunsets, or approximately $1.8 billion in total for the biennium from the recommendations of the Governor's Executive Budget compared to the Economic Forum forecast. This sets the stage as we go forward in this Committee.

Chair Roberson:
The meeting is adjourned at 6:24 p.m.

RESPECTFULLY SUBMITTED:

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Jennifer Pearce,
Committee Secretary

APPROVED BY:

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Senator Michael Roberson, Chair

DATE:____________________________________

EXHIBIT SUMMARY				
Bill	**Exhibit**		**Witness or Agency**	**Description**
	A	1		Agenda
	B	3		Attendance Roster
	C	19	Secretary of State's Office	Revenue Collection Overview
	D	15	Department of Motor Vehicles	Revenue Overview
	E	18	Department of Taxation	Presentation to Senate Revenue Committee
	F	14	Department of Taxation	Net Proceeds of Minerals Tax
	G	11	Department of Taxation	Property Tax
	H	84	Department of Taxation	Nevada Property Tax: Elements and Application
	I	9	Department of Taxation	Real Property Transfer Tax
	J	86	Department of Taxation	Annual Report Fiscal 2013-2014
	K	26	State Gaming Control Board	Agency and Revenue Overview
	L	2	Russell Guindon	General Fund Revenue Table