

Minutes of the Meeting of the
Legislative Committee to Study the

Distribution among Local Governments of Revenue

from State and Local Taxes, NRS 218.5388 to 218.53886, inclusive

(S.B. 253)

Wilbur May Museum, Double Diamond Room

1502 Washington Street, Reno, Nevada

January 27, 1998

The third meeting of the S.B. 253 Committee was called to order by Assemblywoman Joan A. Lambert, Vice Chairman, on Tuesday, January 27, 1998, at 10:15 a.m., in the Double Diamond Room of the Wilbur May Museum, 1502 Washington Street, Reno, Nevada.

COMMITTEE MEMBERS PRESENT:

Assemblywoman
Joan A.
Lambert, Vice
Chairman
Senator John B.
(Jack) Regan

Assemblyman Bob Price

Assemblywoman Vivian L. Freeman

Assemblyman P. M. Roy Neighbors

COMMITTEE MEMBERS EXCUSED:

Senator Ann O'Connell

Senator Jon C. Porter

Senator Ernest E. Adler

ADVISORY COMMITTEE MEMBERS PRESENT

Mr. Michael Pitlock, Department of Taxation

Mr. Gary Cordes, City of Fallon

Ms. Mary Henderson, Washoe County

Mr. Guy Hobbs, Hobbs, Ong & Associates

Mr. Rick Kester, Douglas County School District

Mr. Marvin Leavitt, City of Las Vegas

Ms. Linda Ritter, City of Elko

Ms. Terri Thomas, City of Sparks

Ms. Mary Walker, Carson City

Ms. Janet Murphy, (Designee) Tahoe-Douglas District

ADVISORY COMMITTEE MEMBER ABSENT:

Mr. Michael Alastuey, Clark County

LCB STAFF PRESENT:

Kevin Welsh, Deputy Fiscal Analyst, Fiscal Analysis Division

Ted Zuend, Deputy Fiscal Analyst, Fiscal Analysis Division

Kim Guinasso, Principal Deputy Legislative Counsel, Legal Division

Eileen O'Grady, Principal Deputy Legislative Counsel, Legal Division

Terry Cabauatan, Secretary, Fiscal Analysis Division

OTHERS PRESENT:

Glenna Adams, Nevada Bell

David Aiazzi, Reno City Council

Connie Anderson, TMRPA

Bernie Anderson, Assemblyman

Al Bellister, NSEA

Dana Bennett, HHC

Jim Bentley, Indian Hills GID

Keith Bradford, Clark County School District

Tyrone Brooks, Washoe County

Richard Mudgett, Private Citizen

Connie Butts, Sun Valley GID

Barbara Bring on, Douglas County

Sharon Bram, Newmont Gold

Mark Calhoun, City of Henderson

Tim Callierati, Incline Village GID

Daryl Capurro, NOTA

Anne Collins, Department of Taxation

Barbara Cornutt, White Pine County

Bill Deist, City of Carlin

Doug Dickens, City of Las Vegas

Les Dunn, Lyon County Road

Jeanine D’Errico, Clark County

Henry Etchemendy, NASB

Pat Finnagen, Incline Village GID

Shirley Gieck, Sun Valley

Theresa Glazner, Department of Taxation

Dick Goecke, City of Las Vegas

Michelle Gordon, RTC

Tom Grady, NV League of Cities

Robert Hadfield, NACO

Kerry Hankins, Humboldt County

Mary Hansen, Sun Valley CAB

Martin Hefner, NV Taxpayers Association

Brent Hutchins, City of Ely

Alan Kalt, Churchill County

Rosalina Kantor, Southwest Gas

Jean Kneese, City of Ely

Janelle Kraft, City of Las Vegas

Peter Krueger, NV Petro Marketers Assn

Ron Kruse, Indian Hills GID

Neena Laxalt, Rose/Glen

Barbara Leonard, City of Ely

Joe Marson, Incline Village GID

Vicki Mayes City of Boulder City

Margaret McMillan, Sprint

Terri Miller, Incline Village GID

Brad Miller, Private Citizen

Cash Minor, Elko County

Jim Nakada, Incline Village GID

Geneva Neuhauser, Nye County

Cheryl Noriega, White Pine County

Melissa Reid, TMSG

Jim Reinhardt, East Fork Fire District

Ron Reynolds, Nevada Bell

Shashi Sathisan, UNLV TRC

Bill Seidler, Private Citizen

Bjorn Selinder, Churchill County

Tim Smith, Tahoe-Douglas Fire District

Jack Smith, City of Ely

Claudette Springmeyer, Douglas County

Willis Swan, City of Fallon

Sam Wadman, Incline Village GID

Steve West, City of Winnemucca

Robert Wickenden, Nye County

EXHIBITS:

Exhibit A - Meeting Notice and Agenda

Exhibit B - Attendance Record

Exhibit C - Informational Meeting Packet

Exhibit D - Table 1 - Summary of Pavement Management Systems used by Municipalities in Nevada

Table 2 - Summary of "County Certification of Public Road Mileage" reports by Municipal Agencies for 1994, 1995, and 1996

Exhibit E - Comparison of Property Tax Rates for Operations, Selected Entities and Years

Exhibit F - Determination of Enterprise Districts pursuant to Senate Bill 254

Exhibit G - Testimony of Richard L. Mudgett, citizen of Incline Village, Nevada

Exhibit H - Testimony of Brad S. Miller, Incline Village, Nevada

Exhibit I - Presentation regarding additional vehicle privilege tax option in Washoe County

A. Call to order.

Assemblywoman Lambert called the meeting to order. She noted that Chairman O'Connell will not be in attendance today. She

also informed the members of the public wishing to testify to sign the attendance record.

B. Approval of the Minutes from the November 24, 1997, meeting.

SENATOR REGAN MOVED FOR APPROVAL OF THE COMMITTEE'S NOVEMBER 24, 1997, MEETING HELD IN RENO. ASSEMBLYMAN NEIGHBORS SECONDED THE MOTION, WHICH CARRIED UNANIMOUSLY.

C. Road Maintenance Subcommittee

Dr. Sathisan

I'd like to bring your attention to Tab C of Exhibit C (also, see Exhibit D) of your meeting packet which includes our progress report. Let me touch upon some of the highlights of our activities. First of all, we are still trying to get our contracting agreement with UNR fully executed. We hope that will be resolved within the next week or so. Contract is with the Transit Contract Office of the University of Nevada, Reno. A lot of our work over the last month and a half has focused on trying to identify what other existing laws and statutes in our neighboring states of Arizona, California and Utah that bears to the road maintenance costs, revenues and allocations. Dr. Neumann, my colleague, is the one who has been working on that most closely, but he could not be here because of other conflict with classes that we teach.

Let me try to summarize what we found from the three states. Arizona has a mechanism where they lump together revenues that are collected from various sources into a fund called highway user revenue fund and twelve different items on page 2 of our report. These range from your gasoline tax which is the focus of our study here. But besides gasoline taxes, all three states (California, Arizona, Utah) also lump a diesel fuel taxes, taxes on gasohol or alternate fuels, vehicle license tax, motor carrier fees, operator license fees, inspection fees, etc. If I understand our study is primarily looking at the distribution of taxes from the sale of gasoline in Nevada. I just wanted to illustrate the difference. There are several different mechanisms used in all three states. The most common factors they use are - looking at the extent of roadways in each municipality, be it the county or incorporated city, how many center lines of roadway. The other factor is the number of licensed vehicles and exempt vehicles within each jurisdiction. Some of them use population. In Nevada, the present formula also has weight that is given to the area within each jurisdiction. That used to be the case in Utah, but was thrown out in the most recent legislative session in Utah in 1997. In California, they also use population, number of registered vehicles and center line miles of roadway. Then they throw in a whole number of other factors, some of which seems to be on ad hoc basis to address very specific needs. For example, snow removal is addressed very differently. In California, they also address bicycle lanes and transit facilities exclusively in their overall funding mechanism. This we did not find in Arizona or Utah.

The other difference we found was all these states appropriate funds out of this big pool of money for other purposes. An example is the highway patrol, to cover their costs of patrolling highways in the states. Many of them also send funds to the local jurisdictions and the state general fund. What is not clear from the information we have been able to gather from these three states is - what portion of the funds that are sent to the general fund of the local municipalities in turn make their way back to road maintenance activities, that was not clear. However, all of them very clearly state that certain portions of the funding that is sent to the local municipalities shall and must be used for highway or roadway-related activities and may not be used for any other purposes. California has a sub-clause that states if there are no unmatched transit needs, monies appropriated for transit could then be turned over to highway maintenance activities.

Mr. Neighbors:

It would help in the future, if you would send the members of the committee a copy of the report.

Dr. Sathisan:

Okay. We'll try to get it to LCB one week or ten days before the meeting. I'm not sure of the process.

Mr. Price:

Have you heard anything yet on a national movement that perhaps some federal legislation that any state that has not reduced their DUI limit to .08 percent the federal highway funds would be reduced by some factor.

Dr. Sathisan:

No, I don't know anything definite about that. I have heard similar things, but there are other laws in existence which would allow the federal government to withhold federal highway funds for a variety of projects, not just transportation, but public works projects too. For example, in air quality standards that are set by the EPA, I'm not familiar with the DUI limits.

Mrs. Lambert:

Have you looked at the laws in any other states or is that beyond your contract, like Idaho or Oregon?

Dr. Sathisan:

No, we have only looked at these three as was identified in the contract. Nevada is obviously the other one. We've identified appropriate Chapters 353 and 375 of the revised statutes. In working with the Department of Taxation and Department of Transportation, trying to get a better understanding of how things work in Nevada. We have a meeting tentatively scheduled for next week to sit down with them and try to understand how things work in Nevada.

The second part, is just to update you on what else we have been doing. We're trying to compile information with the help of technical and oversight committee and the League of Cities. We have been able to finalize the list of contacts that each of the local municipalities and these are identified in Table 1, page 14 of the report. We appreciate the support provided to us by the League of Cities' staff, Tom Grady in particular. Basically, it [the table] has the name of the jurisdiction, what kind of payment management system do they have, if they have any. What type of computer do they have, if they have any, or what type of a computer, if they have a computerized version. The first and last name of the contact person and telephone number for the contact person for each of the cities and counties in Nevada.

Mr. Neighbors:

What kind of response are you getting from the counties on this, are they . . . ?

Dr. Sathisan:

So far, we have not contacted any of the counties directly, we work with the League of Cities or the advisory council that has three members from NACO and three members from the League of Cities. They have been our primary points of contact until now to gather information on who the Key contact people are. Then, from the Department of Transportation, we also got copies of "county certification of public road mileage." That is required under state statutes, every year they have to certify how many miles of roadways are there within their jurisdictions and what's the area of the jurisdiction.

Mr. Neighbors:

In each county, how they define a road?

Dr. Sathisan:

We haven't gotten to that yet. That's one of the key pieces of information and working with the state DOT's we get a copy of this certifications from each of the counties and cities. We have tabulated that information; there seems to be several discrepancies or inconsistencies in what we see we get from one data source such as the Department of Transportation or what we get from the county certification of reports. We are trying to put these together and to see how best to make them gel and mesh. In the spring, starting in March or so, we will have field visits to each of these counties or cities to sit down with representatives to work with them to identify what their systems are, what their definitions are, what their understanding of the whole process is and what their allocation of cost for road maintenance is.

Mr. Leavitt:

Madame Chairman, we had one subcommittee meeting at the airport, where several legislators attended and we intend to have at least one a month as we go through this process. As they make progress on the study, we will in combination of that, will try to work out the details of how the legislation will work if we go through it. Most of you remember, at the end of the last interim study, we came up with many ideas of how to develop a formula

Hopefully, at the same time, we will be ready to make recommendations to the full committee. Hopefully, we can have

these subcommittee meetings on a monthly basis.

Senator Regan:

I think these activities ought to be complementary and tied to the work being done by Mr. Neighbors' committee to avoid all duplication of efforts.

Mr. Neighbors:

Yes, in fact we have one agenda item here that our committee's also looking at coming up shortly. We're going to have our next committee meeting in Pahrump and I've asked Kevin [Welsh] to go down there and talk about maybe how to dovetail the thinking of Senator Regan's subcommittee. So, we're not duplicating our efforts there. But, going back to the gravel roads and how they rate those, are how much compaction, are they just grading it or just compacting it. There are a lot of issues that we certainly have to look into.

Mr. Pitlock:

In reference to making sure that the committee is aware of all the things going on relative to fuel taxes, there is another study that is going on as part of AB 204. AB 204 was the bill that directed the Department of Taxation and several other agencies to study the possible consolidation of the administration of taxes at either the Department of Taxation or the Department of Motor Vehicles. Fuel tax is one of the center points of that study because currently, the Department of Taxation administers the gas tax and the DMV administers the special fuels tax and the IFTA and IRP programs. There is a subcommittee that has been formed. Russ Law from the Department of Transportation, is chairing that subcommittee that is looking at studying the impact of having consolidated administration of the motor fuel tax programs. I would be happy to keep this committee informed of the progress of that committee. It's very likely that the administration of the collection of those taxes that are in two different agencies right now will be combined at some point in the future. As all of you are aware, that was the subject of several pieces of legislation during the last session and will continue, I imagine in the upcoming session.

Mrs. Lambert:

Thank you, we would appreciate the update.

Mrs. Freeman:

Mr. Neighbors brought up an issue that apparently each county determines the definition of what a road is and there are different weights given to the Department of Taxation and is based on these weights. Isn't there a state standard or national standard that we can rely on.

Dr. Sathisan:

No, there are so many different interpretations of what is a street, what is a road, what is a highway. One of our tasks in the project is to come up with a system of uniform definitions that would be used by all entities within the state. Are we talking about center line miles, are we talking about lane miles, paved roads, what kind of pavement surface . . . asphalt concrete, cement concrete? On paved roads, . . . It gets to be somewhat complicated. Utah's example is the most clear one where they have come up with the definition of what would be considered unpaved road, they shall be hands illustrated – illustrated in the direction perpendicular to travel, so it was the shortest. Make sure that there is no structural damage to the pavement, so that is considered a gravel road.

Mrs. Freeman:

I had no idea . . . There was something in the paper recently here where the developers want to change . . . I think the county commission . . . have they reached that yet?

Dr. Sathisan:

In a sense yes. But, on the other hand, looking at the maintenance costs of the road, the pavement thickness does affect how often you need to maintain it. But the design of the pavement thickness is . . . driven by the loading on the pavement. The actual load on the pavement and the number of axles that go over and just as a fine illustration of heavy trucks, an

18-wheeler has an axle of about 18,000 pounds; and the passenger car on the . . . 1,800 pounds, so that's a factor of 10. But, reports that I've heard, John Whittaker from NDOT, mentioned at the last technical meeting that it would require 29,000 to 30,000 passenger cars to go over the pavement surface to cause the same damage as one big truck. So then the design of the pavement will be defined by what will be the design life of the pavement - are you looking at five years, ten years or twenty years. And over the period of time, what would be the traffic volume would you expect and what would be the actual lowest in particular . . . I think that is beyond the scope of our study in coming up with the definitions of the thicknesses of the pavement. But, it would relate to maintenance practices . . . that is, how often do you need to resurface, how often do you need to re . . .

Mr. Price:

Along that same line of the wear of the heavy 18-wheelers, a few years ago, when we were looking at roads, there was a very interesting study that was done. The maintenance on automobiles who drove on the right hand side of the road, they had actually studied down to a point where your car wears out faster if you drive on the right hand side of the road where the trucks go all of time, because of the damage that they do, compared to if you're on the inside lanes. It was just a side deal of another study that we had on roads.

D. Property Tax Work Group

Mr. Zuend:

At the last meeting, I had presented a table of some historical . . . about property tax rates and there were some suggestions made at that meeting to enhance that table to cover a little bit more information. So I've redone the table [enclosed as Exhibit E]. One of the things Mr. Leavitt asked for includes the cap rates, which is the rates under the formula since the tax shift. Of course, that has been limited by formula in statute for the past 16-17 years. What's happened to those rates, of course this table will show that for example, Carson City, in FY 1981-1982, right after the tax shift, the rate was .35 cents and the rate has more than doubled. You can see a similar pattern for Churchill County. Clark [County] on the other hand, has only been a small increase in the capped rate, in Douglas you will see a doubling and as you go through you'll see various patterns. In Elko, the capped rate has more than tripled, Esmeralda, I wouldn't even attempt to explain what happened to their tax rate, Eureka's is seven times over and so on and so forth. You'll see, everyone has experienced a major increase in their capped rates. Also, the Legislature has provided for various overrides. The original statutes provided that the voters can override and provide additional taxes when needed. For example, for indigent health care, the Legislature has provided for additional rates in addition to the capped rates. So you can see, for example, in Carson City, there were none in existence in 1981-82 and since then, Carson City has been allowing combined overrides of 22.13 cents; Churchill, 35.45 cents; Clark 18.42 cents and so forth. If you go down to the schools, you'll notice school rates have been stable because they've always been set by statutes. The one exception was FY 1980-81, because there was some flexibility in those rates. Immediately following the legislation that passed in 1979, that was essentially a major property tax cut, opposed with, eliminated \$1 of school taxes at 25 cent state rate, 11 cent indigent care rate in counties had been authorized. And that is the result why you now have a \$3.64 cap instead of a \$5 cap rate -- it went down by \$1.36 per \$100 [assessed valuation] -- and the cap \$3.64 has been in place since then.

But, in 1980-81, there was some flexibility in how the rate was set. If you were at that cap, there was also some of the school district's work part of the negotiation to buy down the rate, that was necessary in certain times. If you'll notice as you go to the last date, the average school rate was just roughly 50 cents 50.62 cents, plus or minus 5 or 10 cents . . . school districts in that one year. Otherwise, the rates have always been basically fixed. Before the original tax cut deal in 1979, every county was \$1.50. There was a 50 cent, I believe a mandatory rate, a \$1 optional rate, which every school district obviously had adopted by that point in time.

After the tax shift legislation in 1981, the Legislature fixed the rate at 50 cents. This essentially took the school districts out of negotiations over capped tax rates even though it wasn't necessary back then, because the rates everywhere were considerably below the \$3.64 cap, coming out of the tax shift. But, they fixed the school rate at 50 cent later, two years later when the state was running into financial problems, the school rate was raised to 75 cents, that shows up in the 1990-1991 data; and of course it has remained at 75 cents to date.

I've also added an information item, which is the county assessed valuation, because clearly local governments not only receive additional revenue from changes or increases in the tax rate, but also increases in assessed valuation. And of course, theoretically, this should be a brought out to br . . . plus inflation, which inflates property values, if there was any. You will note why disparities among the counties statewide when that rate rose, ranging from 1984 percent increase in

Eureka County presumably due to mostly net proceeds and also the development at the mines. There was also award increase in Storey County, 1622 percent increase and then of course, we get down to Clark, just a total number of growth down there has led to an 858 percent increase in assessed valuation over the 19-year period. Some other counties, of course had much smaller, like Lincoln [County], which has hardly grown at all, some experienced a 218.3 percent increase in assessed valuation.

Senator Regan:

Ted, looking at the assessed value increases, is that an error or why did Humboldt County's assessed valuation go down in the past . . . years. I can see something's happening in Battle Mountain and . . . right now.

Mr. Zuend:

This is what was reported in the Red Book, so I assume it's because of net proceeds. One where estimates provided the net proceeds for this year compared to seven years ago. I'll go back and check that as well in case it is an error.

Senator Regan:

Both layoffs have been just recent in combining with the depressed price of gold, but you're looking at a trend here and I'm not sure that Humboldt County has dropped that badly. Thank you, Ted.

Mr. Pitlock:

I just wanted to make the point that whether or not you include net proceeds in assessed value has a big impact on how volatile that number is. And that's one of the reasons why in the formulas that we put together, we used assessed value without net proceeds in it. Because for the smaller rural counties that are very heavy into the mining industry, you'll see . . . fluctuations in assessed value from year to year.

Mr. Zuend:

My guess would be that assessed value in net proceeds has continued to increase since 1990. We could provide those. Clearly it doesn't affect counties much like Washoe or Carson City or Clark, but it is in some of the rural counties, basically.

Senator Regan:

Michael [Pitlock], you publish that in the Red Book, how do you break it out in the . . .

Mr. Pitlock:

In the department's annual report, we have the assessed value broken out by categories so that you can separate the net proceeds from the remainder of the assessed value.

Senator Regan:

When will the new book . . .

Mr. Pitlock:

The latest annual report from the Department of Taxation was mailed out two weeks ago.

Senator Regan:

Ted, if Michael has done it let's just use that. I just haven't gotten my copy yet.

Mr. Zuend:

Does that have enough history to satisfy . . .

Mr. Pitlock:

You'll have to get several years worth of report together.

Mr. Zuend:

And finally, I've also included cities, I have not again however, to keep the focus faced reform, so to speak, I've not given details for cities, I did not cover the overrides because most cities, the majority do not have a lot of the overrides. Some do, for example, you look at North Las Vegas, their imposed rate is 99 cents but their capped rate is only 20 cents and obviously the remainder is overrides. I believe, mostly, not all are voter approved overrides, that expansion of their tax rates . . . You can see a reverse effect in the case of Mesquite, which has only 11 cents tax rate imposed but is allowed \$1.46 tax rate, have not chosen to utilize apparently because they don't need it, for whatever reason. If you can, at your leisure, look at the numbers and point any further problems. I can certainly come up with something that exclude net proceeds in the picture.

Mr. Leavitt:

I think, Madame Chairman, these numbers give us a start for a lot of work that we will do. For instance, it is difficult to tell just by looking at these, we can probably guess that some of these . . . exist as a result of the depreciation tax, but how much of that influences the growth of the numbers? It is also clear, just by looking at them, that those places that have minimal growth are not too much gross in the value of existing property have had big jumps relatively speaking. And those in Clark County, where we've had so much growth, very small relationship in growth of rate. So, I just have an idea that by the time that we start to analyze these more fully, the work we've got to face regards to property tax, I think it starts to become obvious now. I think we've now got the opportunity to go forward and do something with that.

Mr. Hobbs:

Madame Chair, this may be jumping to the next item a bit, going with what Marvin is saying. At the last meeting and with today's presentation that Ted has provided, it is clear that we have cap issues that have come under discussion, capped by definition. The 6 percent allowed ad valorem has come under discussion. The depreciation exemptions among other things and then talking and thinking earlier, it seems that topics that we'll be discussing sort of gravitated into two areas. One that deals with property tax formula associated issues, things like cap and six percent allowed ad valorem . . . and those sorts of things overrides, debts, how those will work in the equation. And those that deal with assessment issues, depreciation and exemptions . . . separate . . . And one of the things that essentially . . . For example, the exemption doesn't specifically, solely relate to property tax. When we're talking about exemptions and theories underline what are sensible exemptions versus maybe some that wouldn't be viewed by some to be as sensible as some others. Probably migrates over into other areas that Taxation might still establish.

One of the things the technical committee discussed that we wanted to throw out for your consideration is that perhaps the property tax working group be considered for subdividing into two separate groups of concentration. One on property tax formula issues and perhaps the other on issues related to depreciation exemptions, centrally-assessed property, tax-based and so forth. And if the members of the technical committee would be so inclined to divide themselves between those, we could probably begin to gather some of that data. Perhaps at the meeting of each of these sub-sub working groups could, before the next meeting of the committee, to make some adjustments to you as to various concentration and focus of further analysis.

At the last meeting, we heard considerable amount of testimony and information about a lot of these areas and we know that there is a tremendous amount of work to do each one of those. Some of them are extraordinarily complex and perhaps would take an entire . . . on their own. So I think it's important to identify the . . . pieces, we can begin earnestly to evaluate analyzing the structure limits of the recommendations. So we would suggest that and even go further, maybe discuss which members of the technical committee should be working at each one of those sub-groups at the onset.

Mrs. Lambert:

At the conclusion of Mr. Zuend's presentation, the next agenda item is both objectives and future directions. I think we should have a discussion on that. Ted, do you have anything to add to your report?

Mr. Zuend:

No, I will go back and adjust that for the net proceeds, underline assessed valuation for the subcommittees.

Mr. Price:

Ted, going back now, 1979 was the major tax reduction we had in years. In your report, did you take note on who the Chairman of Taxation was? If you didn't, would you please add that.

Mrs Lambert:

First, has the property tax working group met between the last committee meeting and this one?

Mr. Hobbs:

To my knowledge, not as a formal group.

Mrs. Lambert:

First, from the subcommittee, what are your thoughts on the proposal of how do we logically move forward, does it make sense to divide the property tax working group into two areas? I know property tax is an issue that is huge. Is it possible to deal with all of the possible [property tax] issues in one interim? We are going to have to prioritize it at some point in time. Are there any thoughts from the committee or the advisory committee?

Senator Regan:

I think that this might be the appropriate time that we look over the years as we speak of this as to the exemptions situation. This might be the time to get it on the table. I'll make a motion on the suggestion that the subcommittee be subdivided further into the two groups. This is the committee that will make that decision, we've looked at it from the Taxation [both Assembly and Senate standing committees] and there have been some ludicrous examples and there have been big dollars across the board. Maybe we've always said, maybe they all should disappear. This might be the time to do it. I will make that motion that the subcommittee be divided.

Mrs. Lambert:

How would you propose to divide it, through formula and tax-based as Mr. Hobbs suggested?

Senator Regan:

Yes, as tax-based management as Mr. Hobbs suggested; let the subcommittee [technical advisory committee] work that out.

SENAOR REGAN MOVED TO SUBDIVIDE THE PROPERTY TAX WORKING GROUP INTO THE TWO GROUPS: THE FIRST TO CONCENTRATE ON PROPERTY TAX FORMULA ISSUES; AND THE SECOND TO CONCENTRATE ON ISSUES RELATED TO DEPRECIATION EXEMPTIONS. ASSEMBLYMAN PRICE SECONDED THE MOTION.

Mr. Leavitt:

I think the comments that Guy made are very appropriate. We really have two big areas we're dealing with. One is the proper determination of assessed value of property and then the second obviously is the rate you apply to that assessed valuation that determines the eventual property tax levy itself. I think those are really the two big areas and each one of them can be studied separately and then of course, in the end, we've got to come back together and see how those two mesh. I think that was a very appropriate suggestion.

Mrs. Lambert:

Do we have any volunteers from the technical committee to chair? We'll start with the formula or do you want to work that out when you meet?

Mr. Leavitt:

I'll be glad to do the rate and portion.

Mr. Pitlock:

Madame Chair, I'm already involved in some issues dealing with assessment procedures for centrally-assessed properties, so I'd be happy to volunteer to chair the assessed value or the tax-based portion of the working group.

Mr. Hobbs:

One of the things that perhaps instead of doing two. I think Mr. Pitlock's role really is probably going to be very heavily involved in both of those subcommittees, he and his staff. Running the risk of being unpopular with some of my colleagues on the technical committee, we try to look at a way of maybe allocating some of the technical committee between those two issues as well, and when it's appropriate, to make some suggestions and ensure that members of the technical committee have interest in both parts and as Marv said, really in dealing with both parts of the equation that determine revenue. And, I'm certain at this fight, what formal assignments that there may be to a sub-group that many of the members will probably try to certainly attend and stay abreast of both, anyway.

Mrs. Lambert:

I might add to the committee, would it be better rather than appointing chairman if this motion passes, to leave it to the technical committee to meet, work it out, divide who will be on which and bring back the proposals to the committee next time?

Mrs. Freeman:

Since I'm new to this committee, may I ask, is it your practice as far as the legislators are concerned, if none of us are appointed to the subcommittees that we just attend the ones we feel are interesting?

Mrs. Lambert:

We get notice of the meetings and if we have time, we can attend them all, but it's not part of the budget of the committee, you do that on your own time, I believe.

Mr. Welsh:

Senator O'Connell appointed the legislative members to each of the sub-groups and I'll forward that list to you.

MOTION PASSED UNANIMOUSLY.

Mary Henderson:

As a housekeeping matter, just a refresher for all of us. I think it will really be important that if the subcommittees are going to meet, that we're all notified, all technical committee members as well. I think even the informal meetings that we have been holding among ourselves perhaps need to be more formalized, because these matters are of great import to every local government in the state. I just wanted to ensure that we're all going to be communicating with one another and making sure everyone knows about the meeting so we can attend if possible.

Mrs. Lambert:

Hopefully, when these are scheduled, I would like you to do it through Kevin Welsh, he'll have a master calendar so they aren't meeting at the same time, until everyone is notified. These are very important, very technical issues and those of us on the committee, the more we can learn about it the better.

Mr. Welsh:

We've taped all of the past working groups' meetings. All of the sub-groups, the subcommittee on road maintenance and the two working groups are all under the open meeting law. We do have to post them for every single formal meeting that is announced. Tapes are made of all the meetings, shorthand minutes are taken, they are not transcribed because we don't have enough to do all that. The problem has been that we've been meeting every couple of weeks and sometimes we just don't have the turn around time. We will make the effort to get the information from the people in the subcommittees

and get to our printer, get the agendas printed up and try to get it to the members of the subcommittees; we try to get it a week in advance.

Mrs. Freeman:

Madame Chair, you're on the legislative commission, I was wondering about the budget, is there something in the budget to cover all the hearings and meetings?

Mrs. Lambert:

I'll have to ask, since this is not a committee of the legislative commission, this is a standing committee so the budget is not approved by the legislative commission as the other interim studies are. Maybe you could ask Kevin after the meeting and work with those technical issues. Does the property tax working group feel that you have enough direction from the committee?

Mr. Hobbs:

Madame Chair, just one additional question so we may get started as sub-groups of the property tax working group, would it be appropriate to suggest an initial membership of one of the subgroups so we can organize ourselves?

Mrs. Lambert:

Rather than meeting as a full group and working through everything?

Mr. Hobbs:

Either way, I suppose we can get through the tasking problems, but I'm not sure if any of the members of the technical committee have any thoughts on that, whether we prefer to discuss that now or get together as one big group and then try to divide it.

Mrs. Lambert:

Can you do this during the lunch break and then come back with a proposal? Excellent! Well, then you have enough direction that we just divided property tax in two. We can move on to the presentation on the change and the collection point for gas tax and any discussion on the possible postponement of action until the S.C.R. 53 Committee actions on the same subject are reviewed.

E. Presentation on Change in Collection Point for Gasoline Tax and Discussion on Possible Postponement of Action until S.C.R. 53 Committee Actions on Subject Are Reviewed

Mr. Krueger:

Madame Vice-Chair, there are members of the audience that can't hear, so I will speak up and they've asked to pass along if you all could speak up it would be beneficial to us in the back of the audience.

Item E on the agenda addresses whether a postponement might be considered by this committee, which is of course, is dealing with the whole idea of distribution among local governments of revenues and taxes. Of course, the gasoline tax is a major component of distribution to local governments, which is the charge of this committee. Whereas, the S.C.R. 53 Committee is looking at construction and maintenance of highways. I would like to suggest at this point, it would be a mistake to postpone action by either committee on this important issue. I think both committees ought to proceed ahead with the ultimate goal that we will end up with a draft of legislation, which will in fact move the collection point of gasoline to what is often described as the "terminal rack." That piece of legislation, for the most part, already exists in draft form from last session. Your Assembly Committee on Taxation had drafted A.B. 482 from last session, which really is the heart and soul of what is necessary to move the collection of gasoline tax from its current level to the "terminal rack." So, I would suggest that both committees, because highway and maintenance is looking at the highway fund as an vital part of doing maintenance and construction, that's where the money comes from and these are all important issues. So, my recommendation to this committee would be that both committees continue to proceed forward. Because of the county option tax, that this committee, I'm sure will deal with, there is a wide range currently from the current 4 cents to a 9-cent range. It has to be decided if that's going to continue to allow each county to decide their own or there's going to

be some attempt to make it a uniform rate. That's an important issue, which impacts the moving of the collection of gasoline taxes. That's because, and I'll quickly run through the logistics of gasoline taxes, if I could and refresh your memory on how that all works.

Currently, gasoline is imported, the majority of it from California, but also from Utah, a little bit from Arizona and a very little bit from Idaho. So, gasoline comes to the state of Nevada from several sources. It arrives here by pipeline, which is the largest supplier, both in Las Vegas is the Cal-B Pipeline. It arrives by truck and some by rail. You hear the word "terminal," these are the large, large facilities with above-ground storage. We have one in Sparks, there's one in Las Vegas by Nellis Air Force Base, those are the two large terminals, but there are also many smaller terminals operated by private business (Really, they're all privately owned and operated.) in rural Nevada, which take possession of fuel from in most cases Salt Lake terminal and hold the bulk storage of that fuel and then distribute it out to users within their particular geographical area. Distributors, of course, are the people who play the role of picking the fuel up in tank trucks and distributing it to any variety of class of customers. It could be to a retail gas station, it could be to commercial, it could be ranching farming interest, it could be the mining industry, almost anybody who has a need for gasoline would receive it from distributors. And finally, the people in the chain you and I are most familiar with, that's the retailer. That's where you and I purchase our gasoline for our motor vehicles. So that's kind of how the product runs within the state.

There is a real area of interest and concerns as we move forward to moving the point of collection of gasoline and I know quite honestly of no one who is going to oppose that move. So that, I don't think that's the contentious issue. I do think that several issues would have to be addressed. That's why I think that staying the interest and jurisdiction of the two committees is important because they do overlap when it comes to the whole idea of county option tax. Understand that gasoline as it moves into will take the Sparks terminal, it comes into the large above-ground tanks (it's held there). Distributors and others pick the fuel up. If in fact, Washoe County collects the tax and then the fuel is moved into another county with a different tax rate, adjustments have to be made. And it is, because now the taxes collected at the wholesale level, the gasoline tax So, it's pretty easy, I as a distributor (the people I represent), pick up the products from the Sparks terminal, "X" tax, without the state tax applied, and move it into possibly my storage, could be within Washoe County, hold it there for hours, days and then move into Storey County or move it down to Douglas County. And right now, I, as a distributor, am paying the Department of Taxation (on the 25th of the following month), the actual tax floor where that fuel ultimate consignee was. So, if it moves from Washoe, who's not getting the tax if I ultimately deliver that into Douglas County. This is an important issue with different tax rates and where that level of collection remains. So that Washoe County, for example, doesn't collect all the tax and then we have to work on rebates and the possibility of it not being properly reported where one county comes up short because that ultimate consignee was in a different county. That's an issue that I think is important and I think this committee needs to deal with.

There's also some questions about aviation fuel and jet fuel. As you are aware, there is a county option for those particular products, so that those things apply and maybe we don't as initially A.B. 284 was written, it exempted aviation fuel from this process and maybe that's a good thing. I haven't reached a conclusion of whether we want to deal and I think the less we can have exemptions, we can have exceptions to the rule, the better for the process. Because gasoline, like any other commodity, needs to be accounted for, its movement is crucial to the state receiving and the local jurisdictions receiving the correct amount of tax. That would be my reasoning for suggesting that the two taxes remain the same.

There is some question currently in a meeting that Mr. Pitlock mentioned in the A.B. 284 Committee on a difference of presentation by the Department of Motor Vehicles and Public Safety (DMV), saying the terms are different, but they really mean the same thing. DMV uses when we move the collection point to the rack, the term supplier, in the parlance of taxation that's a dealer. But, don't thinking please of a dealer as the last end of the chain. We think of fuel at the gas station dealer, we have to be careful and one of the aims of this will be to standardize these terms. So when we're talking about dealers, we're talking about one class of trade, we're talking about suppliers, that's an option, too. I wanted to mention that DMV has on file, licenses from 90 suppliers; Taxation has on file (this is for gasoline) some 200. We're in the process now of working with both agencies to flush out those (there's no question the 90 within DMV are within the same 200 in Taxation). Where those other 110 are is a question of whether we are looking at exporters in one list and not exporters in the other, but, there's no question that moving the collection of gasoline will reduce ultimately the number of people who have something to say about the ultimate tax distribution. Because obviously, evasion is a crucial issue and there's not a person in this room or in the petroleum business that I know that doesn't want to see that the highway fund be fully funded. Because we'd much rather see the highway fund fully funded than we would have to start turning around and looking at raising fuel taxes again. So let's get all the dollars we can, so my presentation and my suggestions to the committee, Madame Vice-Chair, is to continue on. I think that most of the legislation is there in AB 284, there's some fine

tuning, I think, that the industry will suggest and we will have a bill [draft] and one that should go forward. I think though that two items that are crucial and what will become public policy is what we do about county option for all three fuels, gasoline, aviation and jet fuel as far as, become standardized. Do we allow each county to decide their own? Once the policy is decided on, then we can move forward. That's my presentation.

Senator Regan:

I have a question for Mr. Pitlock. As I recall, the figures when we went to the rack, our tax increases jumped almost geometrically, did they not?

Mr. Pitlock:

I believe around \$10 or \$11 million. What was moved was the special fuels, which is a tax that is administered by the DMV. I'm familiar with the number and the concept, but not the details on how that increase was accomplished. There are people in the audience who might have more information on it.

Mrs. Freeman:

Peter, I don't remember why we increased the jet fuel . . .

Mr. Krueger:

Mrs. Freeman, I think it's a case on it's a sense of exempt, it's not really exempt in the sense of AB 284. That's probably a better question for the Department of Taxation and how it's administered. It's collected. It may be very similar to how we collect propane, if I might remind the committee. In the 1995 session, we moved again the special fuels, diesel, which also includes propane and other special fuels to the rack. It became very obvious from the administration of it, that most propane is sold for an off-road use, therefore, it's untaxed. Last session, you decided to move it back to the retail level. It's such a small number, but it's more efficient to administer it that way. With aviation fuel, how it's not a road tax, but yet it's a separate tax, and I think the answer is, that it really is not, shouldn't be exempt and I think it ought to be part of the whole process.

Mrs. Freeman:

I'll get to Mike [Pitlock] on that. But, if you are shipping fuel to all butane pumps, how does that come in, by truck or?

Mr. Krueger:

The majority of that comes in by pipeline. There is an 8-inch pipeline that starts in Richmond [California], and also in Martinez [California] comes over the hill, a branch goes over to Chico, California then over the hill. Remember we had the big leak a couple of years ago. Ultimately, the pipeline ends at Fallon NAS [Naval Air Station]. It was really built for the Department of Defense to get jet fuel to the airfield. Of course, gasoline, diesel, all those products come up.

Mr. Neighbors:

Peter, I certainly agree with you. There's a lot of difference between the special fuel tax as opposed to gasoline tax. I don't think we'd raise the kind of money that we've raised for the special fuel tax, but, our committee would look forward to working with either one of the two committees on this issue. That's a lot of money possibly escaping taxation out there.

Ms. Walker:

Peter, one concern I have, I don't how we would address it. The whole change in this terminal rack, the conflicts not only in the different tax rates, but it's also the distribution of the taxes. The majority of the local government fuel taxes are based on point of sale. For example, regional transportation taxes up to 9 cents, we have a 1-cent motor pool override in Carson City that most of the other entities have, I believe it's the point of sale. There's another 1.75 that's point of sale. So the majority of our fuel taxes are distributed based on point of sale, which is the gas station. If we go to terminal rack, you're going to have the taxes and you're not going to have record keeping on a point of sale basis and it could really cause a huge problem. Particularly for those voter-approved fuel taxes, in Carson City, they approved a one-cent increase for our road maintenance. If we now go to a terminal rack, that whole accounting of where that money was generated, gets lost. Is there some type of a system that can be put in place to assure that the taxes people voted on and

raised are going back to . . ?

Mr. Krueger:

In reality, I don't think there's really going to be much of a change as what Mr. Neighbors was referring to.

Mr. Neighbors:

Or it could be uniform.

Mr. Krueger:

Yes. Currently, because gasoline is collected at the wholesale level, as I indicated earlier, most all my members are also suppliers in the sense that they're importers of fuel. Now, while I don't represent the major oil companies, they're sure obviously a part of this. Currently, the list that reports on the 25th day of the following month to the Department of Taxation, is all the gallons that is distributed into Carson. And that's done which would be simply the all lead county and all the taxes that have to be applied at the state and local level. I don't see that really changing at all with this terminal rack system. Because it really is different than what we did with special fuels. Special fuels is at the retail level, it had been at the wholesale level and then a number of sessions ago, we moved it down to the retail level. Most of the what has to be, quite honestly called evasion, because we've made up some \$11 million, which is being left on the table came from people under reporting. Unfortunately, there is no way to trace that because the databases won't allow that. I think with gasoline, you're going to find that there will be no change whatsoever. I know that your businesses, your gas stations report not to the Department of Taxation, but I assume they report to you [Carson City]. Do they report to you?

Ms. Walker:

No, it is a statewide collection and it is a point of sale where the customer actually purchases the gas. We just have to make sure that through this that we still have that record keeping system, where it's going to reflect that gas is actually sold to the customer. It is retail. Our distribution system is based upon retail.

Mr. Krueger:

Well, my understanding is the 200 or so people, which don't include a lot of retailers, who are currently reporting those numbers. So the retailers, unless that individual is in fact called in their parlance a dealer. That's why I say, we've got to be real careful. The average gas station owner is not making a report to the Department of Taxation on a monthly basis. It's a level higher than that. It is what they call a dealer, but let's call it a supplier; it's really a wholesaler or above in the chain. So, I don't see any change.

Mrs. Lambert:

The complications you just brought up are what occurred to the Assembly Taxation Committee, which in turn decided to ask, as one of the tasks of this standing committee to look at. Because the diesel fuel is a statewide tax distributed to the state, there are no distribution problems. This committee is specifically to look at the distribution of taxes and this really does tails in quite well with the added information from we're getting from the consultants and the work that will be done on the formulas. It is not simple.

Ms. Walker:

It is not simple. We've had problems where there's been fiscal had erred in stating the distribution at the point of rack rather than at the retail and Carson, Douglas, Lyon, a lot of those communities lost money for 18 months because of that change in that reporting. Peter, that has to be in this committee, also, as we are discussing all of this. Because that means that's a real critical thing for local governments.

Mrs. Lambert:

During the session, we saw this committee has a technical committee which includes a lot of local governments and it just seemed like a real good fit to deal with those complexities.

Mr. Pitlock:

The reporting requirements because of distributing gas tax based on point of sale is something that would have to be worked out if we were to move the point of taxation from where currently it is. I think we have to keep in mind that when we're talking about moving the point of taxation and comparing what happened to special fuels to what happened with gasoline, we have to remember they were starting at different places. Gasoline is already taxed at the wholesale level. You have special fuels taxed at the retail level. So a lot of that evasion that we have supposedly captured was for a move that gasoline has already made, gasoline is already off the retail level, so you can't necessarily say: Well, if we do something similar to gasoline, we're going to have another \$11 million. We're not dealing with apples here; there are apples and oranges, because we're starting at different places.

The other thing that we always have to keep in mind is that the distribution of these taxes are done totally different. Special fuels is done completely based, theoretically on where the fuel is used, not on where it was purchased. Even to the point where there's agreement between the states. I learned a lot about this the other day, when we met with DMV and other folks from the industry. It doesn't matter if you buy your special fuel in California or Idaho or Utah, if you drive into Nevada, Nevada is going to get it's share of that tax revenue. It's totally driven the distribution by where the fuel is used. Totally different from what we do with gasoline. So, we've got some fundamental differences in the administration of those two taxes that have to be dealt with either by this committee in looking at the formulas for distributing the gas tax or the A.B. 284 Committee that looks at consolidating the administration of these two taxes. Or the other committees that are looking at how do we get more money into the highway fund. All of these committees are looking at similar issues that have the same impact.

Mrs. Lambert:

We're fortunate that we have an expert in the audience, I've heard him testify, Daryl Capurro.

Mr. Capurro:

I'm not an expert, although 29 years of doing this does give you some insight into some of the issues that you're talking about. I won't take a lot of your time. First of all, I would support what Mr. Krueger indicated to this committee that it needs to move forward. The only way that I would maybe diverge from his indication to you is that, I almost think that it should be one committee that decides which way they're going to go. This issue of moving to the terminal rack is really a distribution issue and not so much an issue of what your committee is relative to raising revenue for the highway fund. I don't want to see it lost in the shuffle between the two committees if that were to happen. Clearly, there is a difference between the collection and distribution of gasoline tax and diesel tax. However, because one is point of sale, that is gasoline and the other is point of use, whether it's used in the state of Nevada or elsewhere. But, one thing you need to know is that the federal study and the reason why we went to the terminal rack with respect to the collection of special fuel tax, was because of a federal study that was reported to an interim committee that met in 1994 and reported to the 1995 Session. That showed that there was nationally, about 33 to 35 percent evasion of the diesel fuel tax. That same study studied gasoline and indicated that the evasion rate for gasoline was much less. I think it was still in the neighborhood of 10 percent.

I would agree with you that the percentage, once we went to the terminal rack in the state of Nevada for special fuel, taking out refunds and taking out credits and taking natural growth and inflation, you still ended up with somewhere around \$11 million, which was roughly a 25 percent increase, explainable only by the term "evasion." You're not going to have that high a percentage in gasoline, but understand gasoline tanks produce about four times the revenue, too. So, even if you had ten percent, if you're talking about collecting \$120 million a year, you could be as high as \$10 or \$12 million in evasion, too; simply by the function of the larger collections of gasoline. I would agree that you're going only one step up the chain instead of the two that we went with diesel tax; I think that would account for the lesser percentage of less chance for evasion of the tax. But, I think economics tells you that the higher the point of collection of the tax, the less chance there is for any evasion or any spill off of the revenues or you reduce the number of people who report to the state or one of the agencies of the state, which improves the ability to audit and the like. Now, the issue of whether or not it should be collected by DMV or the Department of Taxation, I think is in the purview of the A.B. 204 Committee, that is their specific charge as to whether, not just that tax, but other taxes that are collected by the state should be re-distributed to agencies within the state.

Peter mentioned at one point, it was A.B. 482, or A.B. 284, I'm not sure which one it is. A.B. 482, I believe is the model that you may want to work with respect to moving to the terminal rack level. The question that came up with regard to distribution, we are told that (1) it is a problem because you have most of the counties, quite frankly, with the county

option or the RTC-option at 4 cents. I think you have, either five or six counties that have gone the full nine cents, I believe Humboldt County is seven cents. The fact of the matter is, I am told that Lockheed Martin, which actually has the VISTA program, which the DMV uses for the collection under International Registration Plan and the International Fuel Tax Agreement that there can be a program developed that whether or not it is all a level tax that it could be efficiently collected and distributed based upon the existing system that we have now, no matter who collects it. I don't particularly think, and I would agree with Mr. Krueger that I don't think that's going to be that big a problem. In fact, because you're lessening the number of people you're dealing with from the 200 that are now under the gas tax collection to 90 or less suppliers or terminal rack, what comes under the definition for terminal rack, I think you would have more efficiencies than you might have under the current system. But, I think those are all problems that can be worked out. Believe me, the issue of collection with diesel tax is very complicated, probably more complicated in the overall because of dealing with other states as well as the State of Nevada, that those issues can certainly be worked out. I'd be happy to answer more questions.

Mr. Pitlock:

Just to clarify the record on the amount of gasoline tax, I think Mr. Capurro was probably thinking of just the portion that goes into the highway fund. The total gasoline tax collected was about \$277 million for last fiscal year.

Mr. Capurro:

Well, even if it was only 5 percent, you're talking about \$12 million, that's a lot of money.

Mr. Neighbors:

Escaping taxation.

Mr. Capurro:

Exactly. And I would agree with Mr. Krueger. No one knows where that evasion situation existed with respect to fuel. There's talk about the report to the committee and you were part of it, too, Ted, that there was reference to Russian Mafia, other spill off areas, under reporting by carriers and the like. There is no way to really know, but what we do is this, that the higher in the chain that you can collect the tax, the less possibility for evasion that there is; and that's just simply economic sense.

Lambert:

Any questions? Thank you, Mr. Capurro.

Mr. Price:

I think we should keep this particular subject matter under this committee.

Mr. Neighbors:

Since it's not really on the agenda, I'd like to talk to my committee. One of the five missions of my committee is to look at the revenue and I have no problem, we don't want to duplicate the efforts here.

ASSEMBLYMAN PRICE MOVED THAT THE S.B. 253 COMMITTEE CONTINUE TO DISCUSS THE SUBJECT OF MOVING THE COLLECTION OF THE GASOLINE TAX POINT TO THE RACK. ASSEMBLYWOMAN FREEMAN SECONDED THE MOTION, WHICH PASSED UNANIMOUSLY.

Mrs. Lambert:

We will follow the letter of S.B. 253 and keep it in the purview of our committee.

F. Presentation on Potential Legal Limitations on Changing the Property Tax Formula

Kim Guinasso:

I apologize for the broad wording of this agenda item. It's rather misleading, makes it sound very grand. I should have put several "certain" in there; presentation on certain potential legal limitations on certain changes to the property tax formula. The issue that I'm going to address is very limited in its scope. Marvin [Leavitt] brought up the question at the last meeting, if it would be permissible to change the depreciation factor that is set forth in NRS 361.227, paragraph B, Subsection 1. It says that any person determining the taxable value of real property shall appraise [skip down] . . . any improvements made on the land by subtracting from the cost of replacement of the improvements all applicable depreciation and obsolescence. Depreciation of an improvement made on real property must be calculated at 1.5 percent of the cost of replacement. The question was could we change that from 1.5 percent to 1 percent, would that be permissible specifically with respect to Article 10, Section 1 of the state constitution to provide for a uniform and equal rate of assessment and taxation.'

I did discuss this issue with the Legislative Counsel, taking advantage of her vast knowledge on issues of taxation and we don't see a problem with doing that, provided that we do implement it prospectively, that we don't get into any kind of retrospective application or anything like that. But, there shouldn't be a problem with changing that if that is the pleasure of the committee as far as a bill draft request recommendation.

Mr. Leavitt:

Let me just make a couple of comments about why I asked the question initially to see what we might have available to us. I think the subject deals with the fact that we know that we've increasing rates and they were bumping against the \$3.64 particularly in some of the smaller counties. The basic idea is if somehow that would be possible to moderate the depreciation without doing damage to what's already been done over the past; in other words, not trying to redo what's already taken place, to look only to the future on redoing that. Not that there's anything holy about one rate or another but something or other, it looks like we've got to do somewhere to whether we don't keep running up against this rate. Because when we bump up against it, then we have this buy downs and all this disappearing local governments and it's a situation that we need to solve. So that's the question we need to solve and so that's the reason for the question, so we'll know how much legal latitude we've got when we, if we want to do something like that. That depreciation factor really turns out to be the culprit when we talk about this increasing rate.

Mrs. Lambert:

In 1993, didn't the Legislature lower from two percent to 1.5 percent or 2.5 to 1.5 [percent], there was an adjustment after the tax shift. So that would be the same thing.

Mr. Leavitt:

Except that was a little different.

The committee adjourned for lunch and reconvened.

Mrs. Lambert:

Mr. Hobbs, during the lunch break, was the Technical Committee able to divide the property tax working groups into the two groups?

Mr. Hobbs:

Madame Chair, we had an opportunity to talk mostly individually, but I believe we had an opportunity to touch bases with each member of the Technical Committee and we would suggest for your consideration on the property tax work group, that it be comprised of Mike Alastuey, Marvin Leavitt, Terri Thomas, Mary Walker, Janet Murphy and Michael Pitlock. We also suggest that Michael and the Department of Taxation be involved with the other committee as well. On the depreciation exemption centrally et al, Gary Cordes, Mary Henderson, Rick Kester, Linda Ritter, Guy Hobbs and Michael Pitlock.

Mrs. Lambert:

Thank you, both those committees are impressive.

Mr. Neighbors:

Will the committee also be looking at the 15 cent tax rate within the \$3.64; is that something you'd be also be spending a major part of time?

Mr. Hobbs:

I would imagine that's going to be one of the issues as it relates to talking about the overall combined caps and methods that might be used to deal with some of the constraints of those current combined caps - the \$3.64 cap are imposing in several counties. It would be our goal in both these working groups to bring back to the legislative committee some thoughts and suggestions as to the specific topics within these areas that we feel merit the deepest analysis and greatest considerations given the time that we have and the complexities associated with each one of them for your approval. And maybe de-emphasize and the reasons underlying that. So we have a better idea of exactly what work you're directing us from a technical perspective to pursue. Every member that we had a chance to talk to today expressed a tremendous amount of enthusiasm about getting started as soon as possible with the technical work so we can get into doing this analysis.

One of the things we talked about, as mentioned earlier, perhaps having the meetings of each of the sub-work groups on the same day, so members of one could attend the other and if we reconvene a full technical committee meeting at the conclusion of that, in recognition that if something is occurring on the assessment side, for example, it may have some direct impact on the formula side and that we needed to stay abreast of each other's progresses.

Mr. Neighbors:

I think that's good, because that 15 cent rate, there's no limit to how much the state can really get out of that \$3.64. Some of the rural areas where 5 cents don't generate much money, then the county is continually buying down. I know in Nye County, they had to buy down three different districts in school bond issues. The other issue is the business that nobody seems to know exactly where it comes from. You take a property, depreciate it, and you take 35 percent to get assessed value. You can talk to people in town meetings, all of a sudden you lose when you talk about assessed value. Is there any reason why maybe we couldn't eliminate the assessed value. In other words, take the property tax, line insurance. Is that something we could even look at? At the last meeting nobody could really determine where that 35 percent came from.

Mr. Zuend:

Marty Hefner, from the Nevada Taxpayers Association, did some research. I believe he went back to the Zubro Report and prior to about 1960, basically, assessment rate was set individually in each of the counties. And then the Legislature passed a bill that made the assessment rate on centrally-assessed properties 35 percent. I think the 35 percent was picked up simply because it was about the high side of the assessment rates that all the various county assessors were using. And then, about 1963, probably to comply with the actual constitutional provision, the Legislature passed that all property would be assessed at 35 percent, which was again at the high side of what counties were doing individually prior to that time and that's where its remained. I don't know that there's any magic about that number other than that was the reason it was done to essentially to get a uniform rate of assessment, which is what the constitution calls for, which was not being done prior to 1963. Marty's information I can certainly get to you and all members of the committee, I didn't want to preempt Carole [Vilardo] or anything from discussing it or handing it out. But, I certainly can share with the committee members.

Mr. Pitlock:

One other point to bring up relative to a change like doing away with the 35 percent is the number of statutory provisions and constitutional provisions that would affect. Such as the \$5 cap or the \$3.64 cap, takes on an entirely different meaning if you do away with the 35 percent of the assessment ratio. And there's also debt limit language in other things that are tied to assessed value that would be impacted if we have all of a sudden, assessed value basically, tripling over what it is now.

Mrs. Lambert:

Yes, we would all have a problem with our property tax bill.

Mr. Neighbors:

Just one more comment, on Humboldt County, they lost some \$100 million assessed value in net proceeds between 1994 and 1995 and over a three-year period.

Mrs. Lambert:

Thank you, if there are any other suggestions for the working group, the committee looks forward to your report at the next [full] meeting and then, I assume it will be time to set the priorities to direct the study, at that point.

G. Special Districts/GID Working Group Report

Mary Henderson:

I'll be brief. There's really not a lot new to report to you. Since our meeting in November, we did have a special meeting in December at the Gardnerville Ranchos. One of the things we reported to you back in November was that we would be working on scenarios and modeling to determine a couple of things, try to come up with some rational reasons for certain jurisdictions, to perhaps consolidate or merge, to make sure that the formula itself do exactly what it was this committee intended that it do during the last session. And really give the local governments some resource if they were considering some kind of consolidation or merger or elimination of the districts where they could run some numbers, and have some validity to those numbers before they made those critical policy decisions that they needed to make. At the December meeting, [the Department of] Taxation had run some scenarios on the Tahoe-Douglas GID and we decided we needed to do a little bit of additional work. Theresa [Glazner] did an outstanding job working with Janet Murphy to come up with those numbers, but in February, we're going to sit down and really roll up our sleeves and start working on the model that has already been done, expand that a bit, and also, start taking a very serious look at Gardnerville Ranchos. Some fire districts, including probably Mount Charleston and Truckee Meadows Fire Protection District here in Washoe County, to make sure what the formula does to them, the possible incorporation of the town of Fernley. And, it was also brought up that there's a possibility that we might look at Indian Hills depending on our time constraints.

In my mind, where I see us going is really spending the next three or four months, doing the numbers, doing the analysis, building the models then coming back sometime late June, early July with recommendations to this committee which would include any amendments we need to make or technical fixes that need to be made in the [AB] 254 legislation, come in with those recommendations, as well as give this committee a sense that what it intended to do, is happening out there. A report on some of the effects on, I'm sure, over the next two or three months of what the modeling in the scenarios are producing.

One of the reasons we backed off it was Taxation had a job to do in December. That was to review all the 150 local governments in the state to make a determination which of those local governments was an enterprise districts. As you will recall, in [AB 254] there have been specific criteria and language of the definition of what an enterprise district should be. We've done the survey, Theresa did the review in December, completed that by the end of December and has now sent out to the local governments in the state, a list of the 15 districts that Taxation has determined to be an enterprise district. And this is really critical for them, because it is how that base revenue calculation is made for them. So, these enterprise districts now have until April 1 of this year, to review this and go back to Taxation on an appeal basis if they dispute the fact that they have been categorized as an enterprise district. After that appeal, then they are set as an enterprise district unless somehow they merge or change what they do. So that's a real critical piece to those 15 enterprise districts, and that part is going to be ongoing. Theresa has been receiving numerous calls, primarily about the process of procedure and she has done an excellent job in really laying it out for the committee. So you've got a sense of what the appeal process will be, what those districts are, the type of districts they are. I think the feeling for what they're really facing in Taxation. She has not heard yet whether or not any of these enterprise districts will appeal or not. Right now, they are just gathering up information and using Taxation as a resource.

That's really it in a nutshell. We will have a meeting sometime in February, I imagine again in northern Nevada. We've had the last two in Minden, Gardnerville, we may have the next one in Reno or Sparks so the people in Sun Valley and all of them don't have to drive the 50 miles. We're trying to rotate back and forth between the two to give everybody a chance. We've had excellent participation out of the special districts for all these meetings.

Mrs. Freeman:

Regarding the Verdi TV District, the primary source of revenue is general sales tax. Does that mean everybody in the county pays a general sales tax and people in Verdi do not pay a user fee?

Mary Henderson:

I don't know that they do not pay a user fee, I know that they are subsidized out of the SCCRT and that all the folks in Washoe County pay into that. There is no user fee.

Mrs. Freeman:

So there is no user fee?

Mary Walker:

There is no user fee in the TV district in Verdi.

Mary Henderson:

There used to be a property tax and that went away.

Mrs. Freeman:

Is that something that is determined at the state level?

Mary Henderson:

Actually, it was determined during the 1980-81 tax shift when they shifted from property tax over to SCCRT. That's one of the issues we're facing with the enterprise districts right now, should they be receiving those sales tax dollars.

Mrs. Lambert:

When do we have to have bill drafts in [to the Legal Division] before next session, is there a deadline set yet? Since the session is shorter, is there a deadline? I see in the audience we have a Washoe County Commissioner, Jim Galloway, welcome. We have a time certain for 2 p.m. set to consider the additional motor vehicle privilege tax so if I might move the presentation from the Incline Village GID forward to this point.

Richard L. Mudgett:

P.O. Box 6213, Incline Village, NV 89450. Madame Chairman, members, I want to first and accordance to NRS 241 take note, just before the break, there were four or five elected trustees from Incline Village General Improvement District (IVGID) present in the room and I checked with IVGID and there was no official announcement of a meeting.

My testimony today, is that IVGID should not be getting rebated sales tax, it probably sounds funny to the senators, but, it's hypocritical. I would like to present a two-page, three minute presentation. There are enclosures with it to substantiate my points.

Mr. Mudgett read the rest from his written testimony (see Exhibit G)

I think that S.B. 253 should be passed and should be considered. I think that money would much better be spent on potholes and our schools than spent to attract more tourists to Incline Village.

Senator Regan:

In looking at the Incline Village GID financial statement, they've got cash and temporary investments in Exhibit G, go down to Interest and investments, was \$7,039. It seems strange there's \$1.4 million sitting in cash? Why is that not returned somewhere and invest either in government bonds or something. Why is the improvement district sitting with a \$1 million plus in cash and not getting invested? Do you have any idea?

Mr. Mudgett:

Senator Regan, believe it or not, we've asked that and many questions of the Incline Village GID about the general ledger and public records, we've even gone to the small claims court to see if the judge could somehow have them open their

books. He said it had to go to a higher court. We've had much problems over the past year in seeing the records. There's a group of us homeowners that vehemently object to this commercial operation they're running up there. If they're running a commercial operation, they should be charging sales tax and not be in competition with the local small business people. I can't answer that, but maybe the general manager and two trustees and counsel are here in the room, maybe they can answer that for you Senator Regan.

Senator Regan:

Golf fees itself are service. We do not have a service tax within the state of Nevada. Our sales tax in the clubhouse and buy clubs, balls, shirts, pants. You're asking us to put a tax on their golf green fees or on food and merchandise sold.

Mr. Mudgett:

That's correct, golf equipment, merchandise, clothes sold, yes, sir. Our pro shop is open 365 days a year with three feet of snow up there and they're competing with local small business people. They should be charging that other 7 ½ percent tax like the small business people who have to pay rent and property taxes. I don't think we rate it, I think it's hypocritical that we get rebated.

Senator Regan:

What we've done with certain Indian tribes have been the state of sovereign nations. Where they do merchandise, primarily cigarettes, they charge a tax, hypothetically, which is really a fee back into the tribe. So there is a competitiveness between the cigarettes so non-tribal and also tribal.

Mr. Mudgett:

We're aware of that, sir.

Mary Henderson:

Mr. Mudgett, good to see you again, we visited during session. Perhaps you know and maybe it's better directed at the LCB staff, that Assemblyman Ernaut had a bill that dealt with this very issue. Of local governments who are in an enterprise-ties environment, for instance, Washoe Golf Course at the county were operating the pro shop versus having the contract with the pro. Should the county not be charging the sales tax to be competitive with other local businesses? I believe that bill did pass and it does require a vote and is it not on the ballot this fall?

Mary Walker:

Our [Carson City] pro shop has actually been owned by the pro, not the city. I believe it is going to the voters in November.

Mr. Zuend:

There is a ballot question that would essentially make taxable, all sales by governmental entity of the same items that you could buy in the market. For example, all the things in this gift shop [May Museum] would now be taxable as well, because they are the same type of things that you can buy at a commercial business. And if the voters have to approve it because of some amendment to the sales and use tax act. It will be on the November ballot.

Mary Henderson:

I recall the testimony, including my own, that local governments that did appear on that [issue] were very supportive, and are very sensitive to the private sector in that competition issue. While it does impact, and that was one good point, Ted, even our gift shop here at the May Museum is affected by that, because that is owned and operated by the [Washoe] County.

Mr. Neighbors:

I think the gift shop at the Legislature was as well.

Mrs. Lambert:

There are a number of people signed up from Incline Village. If I could, if there are two sides to the issue. Usually, we have these things identified in a legislative session, if the spokesman for the other side could come forward.

Joe Marson:

Chairman of the Board of Incline Village GID. We represent the majority of the people of the district, therefore we felt we had to come here, for we had no previous information on the subject you have before you. We had no idea what the context of it was or anything else. As representatives of those taxpayers in that community, we felt we had to be here. We are discussing several different things here are irrelevant to what may be even this committee is. We advertise to bring people into our community. Those people shop within our community, I'm a businessman, been there for 21 years. We pay sales tax to all our businesses, we pay sales taxes to all our sheet, multi-million dollar homes, which revenue comes from Washoe County because the majority of the supplies come from Washoe. So, in essence, we pay our sales tax. The legislative body takes the sales tax, puts into a kitty, then you have a way of deriving through a formula how that is brought back to the people. We feel the tax shift come back to the people who derive it. That's why we do advertise. We have concerns about having an item on the agenda where it says Incline Village GID for several people to speak on and make it sound like they're representing the whole community. They do not represent the community, I think the elected officials do, like you for your constituents and represent them. I just wanted to clarify a few things as chairman of the board. You, the legislative body created [NRS] 318, you, the legislative body voted on how a general improvement district was to run, you, the legislative body said that we could do recreation within the general improvement district. We do not have any control over that aspect. We fall into 318 or other NRS statutes that govern GIDs and we stay within the body of the law; and in doing that, we are in no way violating the law. We have created an atmosphere that our budget is larger than 80 percent of the counties in the state of Nevada. We've derived a way to have our local residents be able to use facilities at a low rate by having tourists foot the biggest part of the bill. I think that's how this state derives through gambling and a lot of other things as we are entitled to of this kind. So, I believe that as far as sales tax, we derive sales tax and I think we're entitled to get it back. That is my belief representing the community. I would like our general manager, though, make a few statements concerning some of the technical aspects that have been brought here. We had no information ahead of time, on why we, the general improvement district was on this agenda.

Mrs. Freeman:

My question does not have to do with issue point of taxation. Are the board members elected?

Mr. Marson:

The board members are elected by the local voting in the general improvement district, Incline Village. We are elected officials. This is Pat Finnagen.

Pat Finnagen:

I'm general manager of IVGID. Maybe I can just address Senator Regan's question about our cash reserve. I don't have the information presented to you by Mr. Mudgett, so I can't specifically respond, I'll respond in general. IVGID has about \$18 million in cash investments. All of which is invested either through investment buyers and government securities or into the local government investment pool in the state of Nevada. So, it is all invested at all time. We operate a ski resort, two golf courses, a parks and recreation department and a water and sewer utility operation, all of which require cash to operate.

I don't want to rebut or get into an argument about points of fact. I do have a few points of fact I'd like to share with you. One is to reiterate with Joe that IVGID is a local government chartered under 318, just like every other general improvement district and we perform certain recreation and utility functions, which are prescribed (1) by law in statute 318 and (2) by the founding ordinance of IVGID and that ordinance was an ordinance adopted by Washoe County at the formation of IVGID and has been modified from time to time by Washoe County. Most recently, when we merged with the Crystal Bay GID. So we are a creature of statute just like any other local governments. IVGID provides sewer, water and trash utility purposes for the community of Incline Village; all of that is user fee supported. Not a dime of tax revenue goes to support any of that. From the recreation side, IVGID performs traditional parks and recreation function, the same as Washoe County, the same as the city of Reno, Las Vegas, Clark County, etc. Which includes such things as city parks, local parks, in our case, a couple of beaches, tennis courts and tennis complex, a community recreation center and the

infamous 300 recreation programs that Mr. Mudgett mentioned. In the latter case, which recreation programs are a common part of any city government, they are essentially the things that we provide for our people so they have things to do. Whether they be youth services, services for our seniors, whatever; sports programs, recreation programs, crafts programs, it's everything the Reno parks and recreation department provides and everything that the Washoe County park and recreation department provides. Washoe County does not provide any of that to the Incline Village community, so we provide it ourselves. I did mention we also operate two public golf courses, just as the City of Reno, just as Washoe County and just as many other municipalities do. We also do something very different than probably anybody, perhaps except the City of Reno in the state of Nevada. We operate a ski resort. As you probably know, the City of Reno does have a ski resort, up on Mount Rose also.

It is our feeling and I think our financial performance proves it, that these services are provided in the most efficient and cost effective manner possible. And the proof of that is the fact that our residents are subjected to a very low tax burden for any of these purposes. Most of our revenues are derived and I would say 80 percent of our \$20 million of revenues are user fees. People pay to use our facilities. And the point of contention in the community now, which Mr. Mudgett mentioned, is whether the visitors pay it or whether the residents pay it. In fact, we benefit from a very high proportion of visitors paying most of those user fees that allow us to keep our residents' user fees low and our taxes low. For example, a round of golf at our championship golf course sells for \$115 a round. Our residents pay \$20 to \$30 a round including a golf cart. I should mention both our golf courses and our ski resort are operated for profit. We attempt to make as much in the way of operating profit to keep our user fees low and to keep our taxes low and to offset any costs of infrastructure replacement. So profits are necessary in order to keep those things low. However, on the parks and recreation side, and it is a very typical parks and recreation department, we don't charge residents to enter our beaches. We do charge for certain things and services at our recreation centers and we do charge for recreation programs, people do pay to take a karate class or whatever else we might offer.

But I did want to emphasize the district's total share of tax derived revenues, what I call governmental revenues, it's about \$1.4 million. Our operating budget is about \$19. That \$1.4 million goes to support our general fund, which does provide governmental functions and a portion of our recreation fund which is our parks and recreation department, which is all governmental. That is a subsidized operation, it consumes virtually all of our governmental revenues, which again amount to about \$1.3, \$1.4 million. We do carry on enterprise functions about it, we've never argued that we don't. We admitted to this committee, we admitted to the committee that studied this in the Legislature last time. Yes, we perform some enterprise function, just like most governments do, the question is, how much of each and how do you support each? And we subscribed to the philosophy espoused by your Chairman, who is not present today, that governments should to the extent possible, and particularly when they provide services that are very personal in nature, should derive revenue from user fees. And we think we do that better than most governments. As I said, our utility department receives no subsidies from taxes, most of our recreation operation, which involves our golf courses and ski resort receive no subsidy from governmental taxes. Only our parks and recreation function, and only our general fund receive any sort of tax-derived revenue. The residents of our community also pay one other fee which is called recreation fee, is roughly \$275 per year, amounts to about \$2 million, and that fee is what we call and what is described as an availability of user fees. In other words, it is their contribution only to the infrastructure, a recreation infrastructure on an annual basis. What it guarantees is that we continue to maintain that infrastructure. Those fees were not necessarily passed along to the residents with user fees. I should mention too, that in regard to our fees that are charged to our visitor, those fees are always set to the market, to the extent we can collect what the market will bear. In terms of our golf courses, we collect \$115 per round, in terms of our ski resort, we collect \$38 a day per lift ticket.

As Mr. Mudgett mentioned, we do not collect sales tax revenue on the one thing that we could, which would be the sale of merchandise that are in the pro shop at golf course. That's the only thing that if we could collect sales tax, we would; everything else we do is not taxable. That's the case with, I would say, with most governments and most functions. Most of what governments do is not a taxable sale. You don't tax government and then collect taxes that way from government. The sales tax is taxed on the consumer. As to Mr. Mudgett's statement that it doesn't collect sales taxes, that's true, no governments do. Neither does the fire district, they don't sell anything per say. Neither does any other GID that performs water and sewer function, neither does any general purpose government that performs public services or welfare services, etc. As I understand it, the concept of the sales tax distribution is to return to the community portions or share of the sales tax collected in the state, that in essence represents that community's share of all those sales taxes that have been paid by visitors, by residents, by whomever pays within the state. We don't control the derivation of that formula, we don't control the administration of it, we simply are the recipients of it based, again, I assume on the premise that those revenues are created in some way by visitation or expenditures of residents in our community, and they're merely our share of what's been spent and taxed in our community.

Mrs. Freeman:

What kind of public services which are provided by the county do you access and how much do you access? For instance, do you use the county D.A. for your legal services?

Mr. Finnagen:

Department of Motor Vehicles and Public Safety.

Mrs. Freeman:

I understand all that. What I wanted to know is what percentage of the county services, you, as a special district, use.

Mr. Finnagen:

We don't get any privileges from the county.

Mary Henderson:

Referring to Mr. Mudgett's testimony, it might be good to clarify on the record, I know the concerns of the citizens up there, of course there are services provided. You really touched on it just momentarily that IVGID does not provide road service up there, that's Washoe County. I know one of the issues is that the money from IVGID should be used for potholes or schools. Of course, the school funding mechanism is entirely separate from what IVGID's very special function is up there. So, it's good that we've get that clarified on the record that regardless of what happens between IVGID and its citizens up there that these are really county functions, if there are potholes that need to be filled, it's our job to take care of that.

Mrs. Lambert:

Is there anyone who wanted to speak on Mr. Mudgett's side of the issue?

Brad S. Miller:

A resident of Incline Village since 1981. You have a formal document presented to you (see Exhibit H). In response to Mrs. Freeman's comment about 318, is part of this bound document. What it has in it is a lot of revisions that have been suggested in conversation with Senator O'Connell, a lot of the problems we have at Incline is with the interpretation of NRS 318, about who's right and who's wrong. In other words, when the law says must, shall, or will there are others that we have arguments with that think that when we get around to it might be just as well. We even have a legal argument as to which part of the three terms applies and does it apply the way we think it applies as opposed to the way IVGID believes it applies. What we've done is we've taken the step at providing those of you who are interested in taking this to the purview of another committee or subcommittee in the revision of 318, and perhaps clarifying and strengthening what 318, what the intent of the Legislature was originally. I may make a couple of brief observations, first of all, IVGID is not a city, it was formed by property owners in Incline Village. It is not a municipal government, you might call it as a quasi-government as the law does, but you also look at it as perhaps, taking a liberal view of it as a glorified homeowners association. So we have an argument going on in town as who owns the place. IVGID very often thinks because it signs for deeds and so forth, that it owns it, and I don't know who "it" is; so we're having these kinds of political arguments. One of our problems is to determine who really does own the property. In so far as the state is concerned with relying on tourist revenue and so forth, I am close to my other pals that work out upon this project, we have no problem. We want to help out the tourist industry, we want lots of revenue, we want lots of business. The fact of the matter is, if this is being generated from our private property, we think that is not right. That's one of the things why we're bringing up the sales tax issue is because we think that is not the correct function for an improvement district to receive that kind of distribution. So, without spending any more time before you, I think we've provided written documentation and hopefully you will have a chance to look at the revisions of 318, see what you think and call us back and maybe we can get into it in another committee.

Senator Regan:

Just a quick question. There was an article last month in the southern Nevada newspapers as to Incline Village. My understanding is that the billionaires are buying all the millionaires up.

Mr. Miller:

Yes, you could say that. That is true. Our property taxes have taken a really nice jump and we don't blame that very much on the county at all. However, it is causing an impact in Incline and we're terribly concerned about it. Everybody's worst nightmare is coming to bear on us because it's always argued, "we have the golf courses, it increases your property value." Isn't that wonderful, I don't intend to sell. The ski area is wonderful, it increases your property value, but I don't intend to sell. It's great when you foot property and makes lots of commissions for Realtors, etc., but for people living there full-time. . . They're having a terrible time watching their taxes going up when they tend to stay there, work there and retire. That, I think is a problem throughout the state. Thank you.

Mrs. Lambert:

I was hoping to hear from the county commissioner representing Incline Village on exactly the issue of the huge increases in property tax assessments. If I understood your request to this committee is that someone look at changes in Chapter 318, to clarify issues.

Mr. Miller:

Let me respond to that. That question very specifically was, when I had a conversation with Senator O'Connell about the NRS and for example, there's not much civil or criminal penalty for not following the law, it's very difficult to deal with the way 318 is currently constructed. We used the terms "government is out of control," we talk about this all the time. Part of our attempt in dealing with 318 in changing some of the language in clarifying it is to bring it under more concise language, so we don't get into "He said - She said" and the lawyers arguing with each other. And again, in talking with Senator O'Connell, we hit the words "must, shall, will" doesn't mean "maybe, might, when we get around to it." That's part of our attempt in assisting with this draft because she asked 'How do you propose any specific legislation?' At that time I said No but we're working on it. So you have the proposal before you that may be passed on to another committee or another function within the legislature, but we think it's a good start.

Mrs. Lambert:

We will have to check, I'm not sure it's in the purview of this committee, but we will check and talk to Senator O'Connell.

Mary Henderson:

Just a question of clarification. Is the issue statutory language or is the issue the interpretation of statutory language on several folks' part?

Mr. Miller:

It is both. Just like lawyers love to argue over words, we may never solve it, but maybe we can get closer to clarifying some of the issues in 318. Particularly since we've been working with the law for a while, in seeing what works and what doesn't work. Maybe IVGID is an aberration because it is so big. It really is a large enterprise, there's no doubt about it. And Mr. Finnagen's comment about that is right on the money. Maybe some of the other small districts and some of the smaller ones don't really apply to this, but we're really concerned about this private property versus public use of private property and how the statutes are interpreted. Particularly when we can't get access to the public records that we need, when we need them in the form that the law prescribes, in our opinion. So these are some of the issues that maybe the revision of 318 might help for further discussion about it.

Mary Henderson:

Does the 318 districts fall under the same open meeting and public record laws that all the rest of us do? They do? So your concern also is that if Washoe County is not providing its citizens with those records, then there's no real teeth.

Mr. Miller:

That's part of it because the recourse always is go to court and spend a lot of money, which we've been pretty much told that in several instances where we've challenged certain provisions in 318. We've been told if you don't like it, take us to court, sue us, let the courts tell us we're doing wrong. I find that rather arrogant, that kind of command from an elected

official talking to constituents. Our position is to attempt to save ourselves some money and it's taken totally the wrong way. Quite frankly, we're just going to have to do it with the revision of 318 and some other avenues that we're seeking.

Mr. Marson:

Chairman of the Board, General Improvement District, Incline Village. Some accusations that have been made about us being improper under the law of 318. We have never been reprimanded by the Attorney General or any legal entity within this state. The only thing our board has ever told them is "take it to the proper authorities, take it to the Attorney General" let them give us a ruling and then we'll go from there. You have two individuals here speaking on a matter that doesn't seem to bother the majority of the people in Incline Village. They like 318 the way it is, they like where they live, they like the way their community's being operated. I think there's been some misstatements here that are very strong to this board that I think are improper.

Mrs. Lambert:

Again, this is not an action item. I'm not sure it's in the purview of the committee, so we can't do anything right now. I had hoped to have Mr. Galloway make his presentation before the 2:00 p.m. schedule for Washoe County.

I'd like to take this opportunity to welcome two legislators who are present. Bernie Anderson, Chairman of [Assembly] Judiciary and Don Gustafson, and Washoe County Commissioner.

H. Additional Vehicle Privilege Tax Option in Washoe County

Mrs. Lambert:

For the information of the audience, [Assemblyman] David Humke, last session put a bill in to basically, repeal the special privilege tax which is make-up revenues for "fair share revenues" losses in 1991. It was a difficult issue, it had a large impact and the budgets of the entities that received the money and the Legislature decided to mandate this committee 'to study whether removing the authority of the board of county commissioners of Washoe County to impose a certain additional vehicle privilege tax, a prudent act, which is in the best interest of the state.' That's our mandate. There are additional copies of the informational report for the audience. (Exhibit I)

Mary Henderson:

Mary Henderson, Public Affairs Director with Washoe County. It might be good to clarify for the record, since we may end up with the majority of our board here as well, that as the IVGID board is here, that our board is not here to take any action today. They are here to listen and I think that's a big distinction in terms of whether they are in violation of the open meeting law. I want to make it clear that we may have three or four board members here at some point, but they are here to listen, not take action as a formal board.

The report I handed out (Exhibit I) is basically, and this is a very difficult and lengthy subject to distill down to about three pages of text, is more informational, it is really not a position of the county at this point. But it is informational to you to hopefully to get some background, back on the record about an event that occurred in 1991 and 1993 and what the Nevada Legislature called "Fair Share." I'd like to walk you through the document because I think it gives a fair representation of what actually occurred, what the provisions of the law were back in 1991 when "Fair Share" went into effect. When we made the changes in the 1993 legislative session to help Churchill County and do some technical fixes there, and it brings you up today with this issue.

During the 1991 Legislative Session, A.B. 104 was passed, commonly known as the "Fair Share Bill." Basically, the major components of A.B. 104, which went into effect during the 1991-1992 fiscal year are outlined for you in bullet points.

- *a new distribution formula - for the distribution of first-tier sales tax within the state*

At that time, we had a forty plus (40+) step formula that was put into place during the tax shift of 1981 and over a ten-year period, Washoe County was actually importing more money than it was generating. I don't want to revisit all the political and sensitive issues that surrounded fair share, but the change was made after many months in the legislative process. The result was a new formula for the distribution of SCCRT throughout the state at the first tier. What came of that were a couple of real key points to this discussion. There was a permanent reduction to local governments in

northern Nevada [at the time, there were 12, Horizon Hills GID is no longer a GID], those \$17 million are a permanent loss to the local governments in northern Nevada that were importing those dollars in there, now being exported back out. That is a permanent loss, because of the formula change. At the time, the decision was made that Taxation would not keep the old formula because of the difficulty in doing that, but as I recall, the testimony we were estimating at this point, perhaps the loss to local governments in the north of the monies they had been receiving over that 10-year period upwards of \$20 million) Again, that is not a number you can be firm about, simply because we haven't kept that dual set of records. But we knew at the time, that the annual loss was \$17+ million and because of the formula changes, that would grow over time.

Within the fair share legislation was what was called the "Clark County Payback Provision." And at the time of fair share the Clark County government came forward and stated that over a ten-year period, approximately \$100 million had been exported to Washoe County. The \$6.7 million that we ended up in the Clark County Payback was a piece of the \$100 million that over the ten-year period of time had been exported to Washoe County - that went for three years. The local governments in the north made annual payments to Clark County of \$2.2 million. So you have two components now, the change in the distribution formula and the Clark County payback. The Washoe County Commission was given the authority, on behalf of themselves and the other affected governments, to levy or impose five permanent make-up revenues. I think that is a real key issue for this committee to consider because it was truly a permanent make-up revenue that was put in place to allow the local governments in the north to make a decision. Did they want to significantly reduce their services or did they wish to impose these make-up taxes for the \$17 million loss plus the three-year phase-in of the Clark County Payback. Down in the chart are the five revenues themselves. The sales tax, motor vehicle privilege tax, the real property transfer tax, the gaming tax and the property tax at that time, which was set at .08. There was no limitation on the property tax, the make-up revenues had to match the annual loss. There were caps, however, placed on sales tax, motor vehicle privilege tax and the real property transfer tax and you can see the basis of the levy and what the original rate was. There was another requirement that on or before June 30, 1994, the Board of County Commissioners was to reduce the rate of one or more of taxes imposed are levied, when the payback to Clark County ended. This gets very confusing for people because a lot of folks thought that once that payback ended, that it was over with. They sort of forgot the larger piece of the pie, which was at manual \$17+ million that we were now exporting.

On page 2, a mechanism was put in place which allowed the exporting rural counties (Churchill, Elko, Humboldt, Lander and Carson City) who really had no desire to be punitive to Washoe County to phase in the full benefits of A.B. 104 over a five-year period. In other words, they didn't take the full amount of what we would be exporting for five years. They did request, however, that they be allowed to impose by local option, the same make-up revenues that Washoe County imposed, so that if they got into budget shortfalls or because they were not benefitting 100 percent from the full benefits of "fair share" that they could supplement their budget. Very few of them took the opportunity to do that, I know Churchill [County] and a couple of others did. There was a sunset provision put into the law, however, because after the five-year period, everyone knew that they would be benefitting 100 percent from "fair share." So those make-up revenues were sunset. I think this is real critical to the discussion because that happened in June, 1996 and it is clearly in statute. A lot of folks also confused the sunset provision and felt that should have happened with Washoe County as well. Again, because we had phased out the payback to Clark, we were still exporting these permanent dollars away, so there was no sunset provision that was put in place for Washoe County.

I think part of some of the controversy that sort of bubbled up around this is that during that time period, the Department of Motor Vehicles and Public Safety was telling citizens of Washoe County that somehow the Board of County Commissioners of Washoe County was imposing a tax that they had no statutory authority to impose. They confuse the sunset provision for the rural counties with the provision with Washoe County that this was indeed a permanent make-up revenue. And it did create considerable concern on the part of our constituents. We can talk about that a bit more as we get into the discussion. There was also a provision in the bill that the Board of County Commissioners, could not after June 30, 1996, decrease any of the make-up revenues without the consent of all the local governments. In other words, our board could not make a political decision without the other local governments that were affected by this agreeing to it, because it affects their revenue stream as well. And that we could not increase the rate of any tax increase imposed. That's where we were back in 1991. No member of the Washoe County delegation voted in support in any of these measures, did not vote in support of A.B. 104 and I think that's real clear and everyone understands the record on that.

Following the session, we moved into the implementation piece of this. The Board of County Commissioners, with the support of cities of Reno and Sparks, because we were the largest local governments that were really affected by this, made the policy decision to go ahead and impose all the make-up revenues of A.B. 104. That included the motor vehicle privilege tax, sales tax, real personal property tax, gaming fees and all those five make-up revenues. We were going into a recession, we had a really tough time, we knew in order not to do that, we would have significantly have to reduce

services to this community. The board at that time felt that was what we needed to do to keep the local governments here healthy. Most of us went in to either layoffs or freezes as a result of the recession during this. They also were very concerned at that time that we were rapidly approaching the \$3.64 cap and made the decision on how to spread those make-up revenues. Rather than put it all on property tax, they made the decision to really spread it among the five. The board was aware at that time that when the payback to Clark County went away in 1994, that they would have to reduce those annual make-up revenues by \$2.2 million. The entities that were affected at the time were: Washoe County, cities of Reno and Sparks, Carson-Truckee Water Conservancy District, Horizon Hills GID (is no longer), Incline Village GID, North Lake Tahoe Fire District, Palomino Valley GID, Sierra Forest Fire District, Sun Valley Water & Sanitation GID, Truckee Meadows Fire District (which is Washoe County's fire district), and the Verdi TV District.

Now we move into the 1993 Session. We knew there were some problems in Churchill County as a result of a reporting error that was made, where the proceeds from the Sax Department Store ended up in Churchill County's sales tax. And once they backed that out, Churchill County realized they had made some decisions on how the tax would be implemented - whether they would be an importing or exporting county based on what the numbers said. When you pulled out Sax of Fallon, it created a situation where Churchill had to reconsider. We spent considerable time working with the Churchill County representatives and with others to try to come up with technical fixes that needed to be made with A.B. 104, as well as fix the problem for Churchill County. Our board at that time had to make a decision as to whether or not and what make-up revenue they were going to reduce. It's important that this committee be aware it's not just Washoe County that imposes the motor vehicle privilege tax, it is also Churchill County. This is part of helping them make up for some of the problems that occurred. So, you're not only dealing with Washoe County, you're dealing with Churchill County as well. Churchill County said it was about \$300,000 of revenues that is imposed right now. During this time, the Board of County Commissioners made a decision, primarily based on the \$3.64 cap and how close we were getting. Because it really matched the dollar figure we were talking about on the payback fees, we would go ahead and reduce property tax rather than eliminate any of the other permanent make-up revenues. This is another piece where folks get confused. The board in Sections 38.2 & 3 within S.B. 506, reduce the ad valorem by 1.5 cents, they reduce the ad valorem by 4 cents for a combination of 5.5 cents down from the 8.22 cents. It froze our board's ability [before, we had until 1996] to increase the A.B. 104 taxes by changing that date from June 30, 1996 to June 30, 1994. So the board had no flexibility to go back on the property tax, it's capped at the two-cent rate. It maintained the requirements that all affected local governments must concur with the decrease in the make-up revenues. It caused the Washoe County Board of Commissioners to lower the A.B. 104 property tax rate from .0822 to .0272 and again put cap in place on that. I think something that's important for the record, all members of the Washoe delegation, it was voted on unanimously in both houses and every member was voting, [I checked the voting record with the LCB Research Division]. So this actually went through our legislative delegation as well as something that the Board of County Commissioners put forward.

That brings us to A.B. 340, which appeared this [past] legislative session. This was introduced by all the members of our [Washoe] Assembly delegation in northern Nevada. We can talk about why that occurred in just a minute. I'd like to draw your attention to some attachments, one that shows A.B. 104 revenues, the first sheet is actual from FY 1996-97, which shows how those are broken out, how they're distributed on a percentage basis and what is realized from each of the five make-up revenues. On the next page, this year's projection, on the motor vehicle piece alone is \$5 million plus that goes to eleven local governments. Washoe County is the largest recipient of those dollars - \$3.4 million, the cities of Reno and Sparks the second largest, all the local governments mentioned earlier are sharing in these revenues. Our commissioners imposed the tax for all the local governments; they receive all the phone calls and letters. There are five permanent taxes that have been put in place, but the only one that actually shows up on a receipt is the special privilege tax and it can be substantial to people if the vehicle cost \$20,000 or more. So, every year when you register your car, that one tax of the five jumps out at you. When you ask the person across the counter from you, what is this tax? Frankly, our public relations on this issue is only as good as DMV's customer relations and the answer that they give. It has been problematic from the beginning. I have stood in line myself, and remember the first year that they imposed the tax. I was in line and watching them handout a Washoe County news release talking about the tax where they removed the Washoe County heading off [the news release] and just left the public information officer's name and phone number on it. So, when you go to the grocery store and buy goods that 1/4 cent that was added for sales tax doesn't jump out at you and for years Washoe County was higher on sales tax than any of its surrounding neighbors, especially Carson City, until this year. That one tax has always been there and has been a thorn in the side of the county. It is certainly a revenue source that we all have become very depending upon and we get the calls just as you do. Since we got DMV straightened out, a year ago in August, in terms of what they were telling them about the board illegally imposing this tax, that the calls really have diminished. It is certainly an issue for the taxpayers of this community. And, it's one that they see every year when they do their vehicle registration and it just jumps out at them and it's been very problematic and is very difficult to explain. The county has been very much aware of this tax and the impact that it has had on its constituents and the complaints that

have been generated. And, is certainly extremely sympathetic to legislators who had to deal with the same constituents, especially when they get frustrated with the answers they received from the county.

We want to work with you towards some solutions, but I do think it is very important that you hear from those other local governments if they are present today to get their perspective on it. Again, they all supported us in opposing it, but the tag goes on the Washoe County Board of Commissioners in terms of the political baggage that comes with this tax. The board has not really taken a formal position. The issue has been presented to them in caucus and workshop. We did not have the full board present, but there are some serious concerns on the part of our commissioners as well, about how to deal with this tax. During the 1997 Session, members of the Washoe County delegation introduced A.B. 340. Our concern was that we would not have the opportunity to make the case that the board did exactly what it was authorized to do by statute and it [the board] has not been illegally imposing this tax. It is very important to us to include this dialog and to get everybody grounded in the history of how we got here.

Mrs. Freeman

Do you have a copy of A.B. 340? I'm not on the transportation committee, but we do hear about the dissatisfaction of the general public with the DMV and the length of time that people wait in line. Has this issue been brought to the attention of any of Washoe County's delegation or the DMV?

Mary Henderson

Regarding A.B. 340; yes, I do have a copy. Yes, I have contacted, on an individual basis, [Washoe County delegation] and have talked to many of our delegation on this issue over the years and tried to explain that one of the causes of the public unrest is the way that DMV explains the tax. I have also dealt with their public information staff and the management at DMV. We did manage over a three or four month period once we figured out where the problem was coming from, in June of 1996. I even made a call to DMV and was told that Washoe County was charging this tax. I said I was the public affairs director with the county and I worked on the legislation that created this. She said I was absolutely wrong and she had a memo from Washoe County. I think when you have someone standing at the counter and have to get people moved through quickly, to try to explain the history of "fair share" and why the tax is in place, it is easier to say that Washoe County Board of Commissioners did this, so go talk to them.

Assemblyman Anderson

Mr. Anderson, Assembly District 31. It is always a pleasure to see my colleagues. Ms. Henderson clearly represented the majority of the issue relative to the "fair share" and problems that the Legislature faces in trying to resolve it. The Washoe County delegation felt strongly about the concept of how the repayment would take place. The motor vehicle privilege tax, in particular, I think has been one that has caused a great deal of concern. We offered the county commission a couple of options, including: (1) to go to the voters and ask for a vote as to how to solve this, rather than to go directly to implement these other kinds of opportunities. The motor vehicle tax being one of the choices; and (2) once the repayment to Clark County was taken care of that part of this tax would be discontinued. In particular, the motor vehicle privilege tax which we all felt was wrong. Finally, we maintain [the Washoe County delegation] recognizing the importance of A.B. 340. Our concern was that Washoe County has made itself greater than whole cause this has proved to be a greater generator than the dollar lost from the old formula. I haven't had a change to review the new figures again, but that was true after the repayment back to Clark County. A.B. 340 might be coming back, but if this committee could help committee to alleviate part of Washoe County's problem in terms of changing back the motor vehicle privilege tax.

Mrs. Freeman

On the transportation committee, did the issue every come up that DMV was providing this memo to the public?

Mr. Anderson

I think Ms. Henderson was very kind to the DMV. When I went to the DMV in my district they had a newspaper article with our pictures taped to the memo and home our phone numbers were added in pen. Whether we should reprimand DMV for poor public relations has been discussed at times and we have talked to them many times about trying to improve their image.

Russ Law

Russ Law, Nevada's Department of Transportation. Regarding the issue of the motor vehicle privilege tax, I just got my notice that I needed to pay those taxes and in that notice they have done Mary Henderson's job of explaining to the public what the three taxes that they charge are for. Of the three, two are incorrect. They say that the supplemental motor vehicle privilege tax that is charged in some counties is for road construction. It is for road construction in Clark County, but not in the other counties that use it for "fair share" makeup revenue. Also, the DMV claims the registration fee is for its administrative costs and the state constitution says that it is for constructing highways, although the cost of administration could be included in that.

Senator Reagan

The time to address this issue is the next time DMV is before either the Senate Finance or Assembly Ways and Means Committees.

Mary Henderson

One point I should have brought forward is that the special privilege tax is not the only motor vehicle privilege tax on the registration. I think people sometimes bring the two together as well. It is only one-fifth of that amount that goes towards "fair share."

Mary Walker

Russ Law told me several months ago that DMV charges local government 6 percent to collect the motor vehicle privilege tax versus the one-half of 1 percent that the Department of Taxation charges. One of the things that was discussed was moving the collection of DMV over to the Department of Taxation.

Terri Thomas

On behalf of the City of Sparks, which is one of the local governments that is covered by this permanent makeup revenue. I'd like to compliment Mary [Henderson] on this complicated issue. I know that it clarified a lot of the things that have been misrepresented in the past. It's unfortunate that a segregation has to be made in any event. I think that its probably passe at this point. This is not a segregated tax. I think at the time this tax made a great deal of sense to spread the burden around and not select property taxes alone or something of that nature. I'd like to remind everyone that it is not just in Washoe County, and that Churchill County also has this issue. In Sparks, approximately \$400,000 is represented by this revenue. The model that used to be in place prior to A.B. 104, I refuse to call it "fair share." I think its very difficult to make judgments on whether or not these makeup taxes have, in fact, been as effective as the old SCCRT and sales tax distribution formula might have been. I would like to, on behalf of the city, indicate that we have come to depend on what we feel after all is a permanent makeup revenue for a permanent revenue loss.

Mr. Zuend

Madame Chair, just indirectly related to this issue, I spoke briefly with Mr. Pitlock about how all the makeup revenues are to be handled after the implementation of S.B. 254. S.B. 254, effectively does away with the SCCRT distribution and these revenues are contingent upon that distribution. Theresa [Glazner], do you have an answer, possibly, how that will work?

Theresa Glazner

Theresa Glazner, Department of Taxation. Because it was not addressed in S.B. 254 (see Exhibit F), we will continue to run the SCCRT formula to do the distribution under that statute.

Mr. Zuend

Madame Chair, that brings up a separate issue because this work done to freeze what is effectively the SCCRT distribution. That freeze will not apply to the revenues from the makeup revenues. So, Sun Valley Water, for example, would continue to have their revenues grow as the law now stands from that portion of the makeup revenues which seem like an issue this committee should discuss.

Mary Henderson

The question in my mind is that are we talking about first tier distribution or second tier with SCCRT.

Mr. Zuend

Second tier.

Mary Henderson

We're talking first tier, with the A.B. 104.

Ms. Glazner

The makeup revenue are completely separate. We keep track of the A.B. 104 money and do that distribution completely separate from the regular SCCRT distribution that we do now.

Mr. Zuend

This is a relatively minor matter in terms of revenue, but the Sun Valley Water presumably on average, the A.B. 104 revenues will continue to grow at somewhere between 5 and 10 percent per year. At the same time what are now the pooled revenues are frozen, so they do not benefit. So, there is going to be an inconsistency in the treatment starting this next fiscal year, unless the Legislature decides to address it. That why it should be put on the table for further discussion.

Mrs. Lambert

Any further testimony?

Shirley J. Gieck

I reside in Sun Valley. Since we have a lot of the legislators here, maybe this is not what I'm supposed to be asking. I would like to ask why our commissioners did not let the people vote for this. It seems like in Nevada, the people don't get to vote on issues. You legislators decide our lives. I came from California and have been here ten years now. Our ballot, when we get to vote, we vote on lots of issues, but not in the State of Nevada. I'm upset because our commissioners did not let us vote on this issue and upset at you people here and the rest of your colleagues. Why in this day and age are the people in the State of Nevada not allowed to vote on issues.

Mr. Price

There is a real philosophical argument on both sides of the issues. Our elected representatives being the county commissioners or legislators, et cetera. Do you elect us to go and listen to all sides of the issues as we have been trying to do here today, and as you have done by being here, but there are so few citizens that have the time or the opportunity to go to all of the hearings to hear both sides. The question is: Do you elect an official to listen to the issues and so forth? Some people think that if you sent everything to a vote of the people that the elected official is doing that because they're afraid to vote on it the tough issues. It's a philosophical question that has gone on for years. When you think about the lawmakers that are sent back to Washington [D.C.] that have to sit and listen to the issues, where it would be very hard to go back there to voice our opinion as you are doing. Its a legitimate question, that has gone on for years and years.

Ms. Gieck

That is why I stood up here today. I think Nevada needs to do some changing and I can understand the United States, but if I have something to say I will call my representative back there and most people will write or call. Here, I stood to say this today — I really think in the State of Nevada, the people need to vote on more issues. Thank you.

Senator Regan

Why did you leave the State of California to come to Nevada?

Ms. Gieck

Because I retired here. I worked 33 years teaching high school in the San Francisco bay area. I had family that lived here [Nevada]. I became paranoid of the earthquakes there, so I thought I would retire in the State of Nevada. I'm not just here complaining, because people that know me, know that I work very hard in the community to try to help better things.

Mary E. Hansen

I reside in Sun Valley and I am really torn on a couple of things because I am a trustee on the Sun Valley GID. Of cause I don't want to lose any funding. When we refer to the motor vehicle registration and the "fair share," as long as we are going to be stuck with this forever, why don't we say it's no longer "fair share," but just say it's another county tax. We're no longer paying back to Las Vegas, isn't that correct? What it's doing is giving us the money that we have lost through the tax change to go to Las Vegas. Maybe people would accept this a little better if you stated that it is a county tax.

Connie Lea Butts

I am not a resident of Sun Valley Water, but I am the accountant there. My statements are mostly for clarification, so that I can take these back to the general manager. Firstly, I wasn't really aware of what was happening today. When you talk about the motor vehicle tax, that would be the only component that you are thinking of dropping at this point from the "fair share."

Mary Henderson

That is really not our decision. That is a decision that this legislative body will make and that is the issue being discussed.

Ms. Butts

For the record and on behalf of general manager of Sun Valley Water — this was not part of previous discussion and no action has been taken, therefore, it wouldn't be appropriate to freeze us as an enterprise agency to doing anything with that formula at this point in time until this has been thoroughly discussed.

Mrs. Lambert

Just for clarification, this committee would take no action. The most we could do is recommend to the next Legislature that they consider the issues.

Mary Henderson

Assemblyman Anderson brought up an excellent point in terms of what it is the local governments in the north are currently generating in makeup revenues and if you will refer to the handout (Exhibit I), that is pretty clearly laid out. 1996-1997 [Fiscal Year] — it was \$17.9 million and for Fiscal Year 1997-1998 it is \$18.9. If you will recall the testimony back in 1991, we knew it was \$17+ million. In the 1993 Session, we had a very thorough review of whether or not Washoe County was actually benefitting in excess from the "fair share" makeup revenues. As I recall that was a very difficult determination to make, but I think most of us felt that the county was not benefitting in excess of what it was we are currently exporting. I think you hear the confusion, everyone thinks with the payback ending with Clark County, that was the end of it. That goes on forever. We are well over \$17 million. No one can tell you exactly what that number is, but again we were estimating it up in the neighborhood of \$20+ million at this stage five or six years out.

Mrs. Freeman

If I heard you correctly, you said that Washoe County is now exporting.

Mary Henderson

We do every year. When the distribution formula changed, we now export excess . . . Payback was done three years ago and that was a three year payback. There were two components, the formula change plus the \$2.2 million in payback.

Marvin Leavitt

When you think about, when the original Act was enacted in 1981, the level of property tax, how much it went down, and every county was dependent on how much sales tax you received. The decision then to distribute sales tax based on a property tax basis. Relatively speaking, property tax was more valuable than sales tax. If at that time there had been the same method as we use now for distribution, the property tax in Washoe County would have gone down less than it did. The property tax rate would have been higher over all these years. When you think about it if the formula had been always been in existence, rather than these makeup revenues the property tax itself would be higher here. Essentially, what we are really doing is we are now taking the sales tax based on what is collected with a slight adjustment because of the rurals. The offset is really an offset to that property tax benefit. I suppose the vehicle privilege tax and property tax are directly related.

Jim Galloway, Washoe County Commissioner, District I

Thank you Assemblywoman Lambert. I did not expect to have this opportunity today. I do have the information with me (see Exhibit C, Tab D). This was a feasibility study that I distributed to you and I hoped to come up with an executive summary of it within the next day or so. If you have questions that you direct at me either now or after the meeting, I will try and include them in an addendum. You might get two pages from me later to cover questions.

Let me start out by saying that, yes, there was some very dramatic increases in property tax. It was not due to rate increases, but due to sudden bumps in the assessed valuation that showed up in one part of my district, but it is not the only place that it has shown up and I suspected as much. I originally talked with you legislators about it and the county commissioners and what I distributed to you (Exhibit C) was something that I did based on staff input and does not represent the views of the county commission. It is an idea I would like to put into the harbor and I hope other ideas will come forth to deal with the problems of people whose incomes at the time are not necessarily increasing. People who are not selling their property, as Mr. Miller pointed out, and who get real abrupt increases in their property, either because they are in a "hot spot" as a result of assessment practices, or the way property happens to be dealt with in the interim between the times that a property is really individually looked at in detail. What prompted this is that dissatisfaction over these hikes. When you get a big increase, voters and taxpayers begin questioning everything about their taxes. They start questioning whether they should be in the same county or school district. A lot of these things will come down to the Legislature and manifest themselves in other ways than just as taxpayers.

I have always had a certain sympathy for this phenomena. Having been in California at the time of Proposition 13, I noted that it dealt with two aspects. It dealt with the overall rate and it dealt with how much could someone living in their house experience every year in the way of an increase. In Nevada, it appears that we have dealt with half of that. We've got the rate down, but we don't have anything to deal with the possibility of being in a "hot spot," or having someone rezone your area as industrial/commercial. Something like this doesn't affect the way you live, but would suddenly affect your property value. The California solution was a bit extreme. We didn't do quite the same thing in Nevada. We don't have to do the same thing to address the other half of the problem either.

The first thing that was asked at the last meeting that the committee had was: Where are these increases falling. In that memo to you (Exhibit C) there is a Table 1 that outline years 1993 to 1997, showing various areas in the county where taxes has gone up high levels (over 15 to 30 percent). These areas of high impact, cause I'm not sure that they are actually "hot spots" in real estate, have sometimes been in Reno or Sparks. Then it was thought if we put some kind of limit on this, and if we did, a one year limit on how much one's property tax bill could go up. This was to deal with a couple of concerns and there may be other ways to address this. It's really complicated if you start splitting the tax rolls. It's really complicated if you interfere with the way property is assessed. I was looking for some suggestion that would not require changing the way the property was assessed. Simply dealing with the bill itself, after you have the assessment adjustment. The sample proposal analyzed in Exhibit C, Tab D, was to say: Let's pick a percentage and in any year for any reason, if the assessment goes up, more than that percentage, the tax bill would be limited as if it had only gone up a specified percentage. That percentage could be 10 or 15 percent, whatever is affordable. The rest of it would be added on in following years. This typically occurs for a lot of people on a five-year reappraisal cycle because that is when they get the big shift. The analysis I did, actually didn't assume a five-year reappraisal. I should apologize to somebody I spoke to earlier about that. The analysis I did said anytime it's over the specified percentage we would take the balance and spread it to the next year, and if it was over 10 percent the next year we would go to the next year. Then there was a catch all formula that guaranteed that no matter what happened within three years, the bill would have caught up to the property value. The reason I did this analysis, is to see what this would cost, because if you start moderating these increases it will cost local governments revenue. The bottom line is that by doing that based on historical data for the last five years in Washoe County only, shows that the cost, based on 15/10/10 percent, three-year formula, would be \$3.2 million. I put that in the context of the overall spending and found out that it would be equivalent to five cents per \$100

valuation in the county. That could be looked at as a kind of premium that would be paid by taxpayers as an insurance that they would not experience these drastic increases in one year. If you wanted to make up the revenue some other way, how much revenue would you have to make up. If it were done without makeup revenue, I'm sure you would have a bunch of overjoyed taxpayers, but you would have a lot of distressed local governments. I simply said, there is a cost to this. Whether you plan for it or not, other taxes will probably get raised to make up this money. So, why not control it, why not look at the cost, and then the legislature has the option, if you wish, to specify where these makeup revenues might come from. Another possible candidate is to take a partial spread over the ad valorem base and RTPT. I'm not saying this is the only way to do it. This is very moderate compared to what Proposition 13 did. I had a gentleman back here, Mr. Seidler, who said, "look, I just want to limit every year to 6 percent." I just urge you that this is a problem and you entertain the various ways that you might deal with it, and if there is a more practical idea than my sample, fine. But, for the first time, I think, at least you got some real . . . on one county; a sample proposal and the cost of that sample proposal.

Bill Seidler

I am a resident of Incline Village. I am a veteran, a citizen, a voter, and a taxpayer. The Legislature in its infinite wisdom saw that they should cap the revenues at 6 percent per year. It doesn't have to reach that, but it's capped for the counties at 6 percent per year. However, as our commissioner said there are areas that this does not apply to. Commissioner Galloway thought that you get hit big every five years when they look at the property in detail. This is not so in Incline Village. For Senator Regan — I am not a billionaire. I don't even know if I'm a millionaire yet. However, my time is running out. I'm known by some of the people in the state and I will tell you this — the state employees are to be commended and so are the counties — they are very cooperative. What I ask you to do is cap at 6 percent or some reasonable number the individual taxpayers increase. The other thing I ask you to consider is, in the allocation of taxes, make a provision for another county. I know this is harassing — we haven't had a new county in the State of Nevada since 1918. Even the U.S. Constitution allows for new states — Nevada does not allow for new counties. Assemblyman Roy Neighbors said he was going to introduce a bill. He's not my assemblyman, but last year he was thinking of introducing a bill to allow for a new county. I ask you to consider allowing some allocation, even if it's not stated specifically, to allow the formation of a new county with distribution of various taxes. Thank you.

Mr. Neighbors

Number One, you have had a new county since 1918. The bill draft that I had in is, how you create a new county. Currently, there are laws on how to a city, town, and special district. As you are aware one of the things that hurt the county before, was one tax in particular that was divided up 17 ways. A whole bunch of issues are involved. All my bill does is say how to create a new county.

Mr. Seidler

But, since this committee is thinking about allocation of taxes, they should allow some, even if it's not a specific amount, saying that taxes could be shared 18, 19, or 20 ways, and some formula not to hurt the smaller counties. This I ask you to consider.

Carole Vilardo, Nevada Taxpayers Association

Just a couple of comments on the Motor Vehicle Privilege Tax. I did not see the notice and what it said, but the 1 percent supplemental makeup was allowed to Washoe and Churchill Counties. One percent is allowed to all counties, in addition to that, if it is voter approved at this point in time. Clark is the only other county that has by voter approval accepted that for road construction. Additionally, there was the comment made about 6 percent collection by DMV and the state, and the ½ percent from the Department of Taxation. The one thing the committee should be aware of is in those counties where there is no DMV office, I assume some arrangement would have to be made in those counties where there is no Department of Taxation office, that 6 percent goes to the assessors office of the county because they collect the tax. Everybody here needs to be made aware of that.

The GID issue was opened up with the agenda item of Incline Village. From my prospective, I am very happy it was opened up. I have generic issues that don't involve that issue or that district, that I would like to get to the subcommittee again. This time for consideration. I think everybody knows why the GIDs were created. Incline Village is one of the oldest GIDs. It was created, there was no population center. There was a service that had to be provided and the people were willing to be taxed for the service. With any GID that is true. GID's are a creature of the county, but kind of take on a life of their own. Thirty and 40 years down the road have fulfilled their function. At that point, I think we need a 20 year

provision. I again ask this to be on a workshop document — 20 year provision whereby GID's are reauthorized. If it is a function that cannot go away and is still needed, and cannot be taken over by the county, those residents can approve it. Part of the problem is, particularly in the northern part of the state, is that the property tax rates that have been given to the GIDs, in fact, are impacting county governments, cities, and school districts in some instances, from going with ballot questions because if you approved a GID with a 25 cent rate and you approve it at a new ballot question (we've had ballot questions saying - you get 5 cents, you get 10 cents) and if you're already sitting at 360 and you have a school bond issue with 12 cents and you have a GID and you need the issue, you will have to buy down the GID.

I think there are a number of issues raised this morning relative to property taxes that require that we look at a reauthorization of GIDs. One point, which is a matter of policy, and I don't think you would expect less from us as the Taxpayer Association. With specific reference to testimony from Incline Village — Incline Village spoke to the golf courses and the ski area. I have a problem with government that does private sector functions. I understand the golf courses, but there is another issue that needs to be looked at. I would love to know the assessed value of those properties and what got taken off the tax roles. For all of these areas that are looking at shrinking or assessed values, that may not be growing the way another area is when they have growth. That is property that is not producing a value. There is a need for the GID. I don't mean to say that we should not have it, or the enterprise districts, as they are being formed. I think there are some other conditions that have to be imposed, more than what was looked at to this point. I realize that Janet [Murphy] is here representing the GIDs. I want to take something that Marvin [Leavitt] said at the fuel tax committee — he said "if we are going to achieve equity and fairness in some of these things, we have to look at the issues and those parts that are the right things, before we look at the dollars." If all of us look at what is good with dollars, as soon as we see we might lose something, even though we know its the right thing to do, we don't want it done because we have a vested interest to protect the dollars. I would ask the committee to really look at how the operation of government should be, and what is the right and fair thing to do; then take a look at the dollars. Then we can accommodate whatever we might need to do to help that particular governmental entity get through the changes that are made. Thank you very much.

Guy Hobbs

The work groups on property tax and depreciation exemptions and so forth — the thought was that we would be bringing back topics to the legislative subcommittee for your confirmation that those are the priorities that we should be looking at. At the same time, some consideration should be given to the working groups developing some of the objectives and parameters, much the same as is done with S.C.R. 40, so we understand the boundaries of your thinking as far as the rules surrounding the things we may be looking at and what your objectives may be for the outcome.

Mrs. Lambert

Looking at S.B. 253 and it hard to see where we have the authority to actually start looking at government structure. It talks a lot about the revenues and taxes.

Joe Marson

A resident of Incline Village. There's been a lot of talk about the GID. What really amazes me is that now everybody wants to jump on the taxes and after 20 years take the money that we built and in our community, the property that we bought with our dollars. Whose going to pay our people, this taxation group. I have some concerns about all the talk that has gone on. You want to talk about the ad valorem tax, you have 2.3 percent of the population and 13 percent of the total ad valorem tax to Washoe County. You want to talk about a school district that has three of the oldest school; one is fairly new, but two of the other ones are the oldest district schools. We pay \$1.6 million in tax and debt service tax to Washoe County School District. They all want to jump on the band wagon after everything else is all done. We've built a strong financial community and we just feel that we are entitled to certain taxes and will fight for them.

Mr. Price

One of the things in the Legislature that we get exposed to is a broad learning experience from all sides. There are many states such as Colorado, that all of their statutes, not just taxes, but every law that is passed has a "sunset," which means its good for 10 or 20 years, or whatever the case may be. What that does is forces the folks like us, whether it be a GID officer or a legislator to come back and look at the issue at some time to make sure it is still working effectively. It's a concept that I have always thought was very credible. Occasionally, we will pass laws and taxes, but in some areas it is much more prevalent in everything that they do.

Joe Marson

When Washoe County formed this GID, they didn't want anything to do with recreation or anything else. You can't come back after 20 years and say "things are looking good, we'll take you back." Where could you possibly look at a situation like this and say I already signed for the counties to take back this GID because they have gotten to far out of hand.

Mr. Price

I'm not sure that you would, but it's not unreasonable to review the things that have been done in the past.

Mrs. Lambert

Just to clarify the record so you don't feel picked on. The Nevada Taxpayers Association suggests sunsets for practically everything. That is a policy. In fact, this committee is a standing committee of the Legislature, newly formed, and it has a sunset, where many of the other standing committee do not.

Pat Finnagen

I am a taxpayer in Incline Village and the State of Nevada. She doesn't represent me. The people in Incline Village formed the GID 37 years ago to perform for themselves, the services they weren't getting from the county. Anytime the county wants to come forward with an offer to purchase the assets and perform the services, we'd let them, but we have never heard that. They can't perform the services in our community that they do down here today.

Janet Murphy

There is a provision in NRS 318 as far as it allows the people that live within the community. If they choose to go ahead and do away with the GID, they do have the power.

Theresa Rothen Miller, Associate General Counsel, IVGID

I specifically want to touch on a comment made by Brad Miller and Dick Mudgett to which Mary Henderson responded. This was not placed on the agenda by the Incline Village General Improvement Board of Trustees. It was listed by the public entity that is meeting. Of our trustees, there were four of the five present for the reason that we had no idea what was going to be here. We were fortunately alerted to the fact. We were not given any copies of what was being distributed. For that reason we notified our trustees, said everyone who wanted to attend, could. We cautioned them, not to have more than two trustees to a car. Do not go to lunch with more than two trustees. They have maintained that. Just for the fact that a quorum was present, does not mean that public deliberation or public business took place.

Bob Price

For those folks who have known me for a long time, they know that I promote the open meeting law. For some reason, the potential of the complaints that I hadn't run across before — I have already ordered a bill draft request for the next legislative session that would address the type of situation that was here today. In other words, if a body had to come in to testify or listen to another body, I asked our attorney's to take a look at it and see if they could come up with something.

There being no further business, Vice Chairman Lambert adjourned the meeting at 4:15 p.m.

Respectfully submitted,

Terry Cabauatan, Secretary

and

Jeanne Peyton, Secretary

Approved:

Senator Ann O’Connell, Chairwoman

Date Approved: _____