

**MINUTES OF THE MEETING OF THE  
LEGISLATIVE COMMITTEE FOR  
LOCAL GOVERNMENT TAXES AND FINANCE  
May 17, 2002**

The meeting of the Legislative Committee for Local Government Taxes and Finance, (NRS 218.5388 to NRS 218.53886 inclusive), was called to order by Assemblyman David Parks, Chairman, at 9:45 a.m. on May 17, 2002, at the Grant Sawyer Office Building, 555 East Washington Avenue, Room 4401, Las Vegas, Nevada, and via simultaneous video conference to the Legislative Building, 401 South Carson Street, Room 2135, Carson City, Nevada. Exhibit A is the Meeting Notice and Agenda; Exhibit B contains the Attendance Record.

**COMMITTEE MEMBERS PRESENT IN LAS VEGAS:**

Assemblyman David Parks, Chairman  
Assemblyman Roy Neighbors  
Senator Ann O'Connell  
Senator Terry Care  
Senator Joseph M. Neal, Jr.

**COMMITTEE MEMBERS PRESENT IN CARSON CITY:**

Senator Mike McGinness  
Assemblywoman Vivian Freeman

**COMMITTEE MEMBERS ABSENT:**

Assemblywoman Sandra Tiffany

**ADVISORY COMMITTEE MEMBERS PRESENT IN LAS VEGAS:**

Mike Alastuey  
Bob Anderson  
Guy Hobbs  
Marvin Leavitt  
Linda Ritter  
Philip Stoeckinger

**ADVISORY COMMITTEE MEMBERS PRESENT IN CARSON CITY:**

Janet Murphy  
John Sherman  
Claudette Springmeyer

**ADVISORY COMMITTEE MEMBERS ABSENT:**

Dave Pursell  
Terri Thomas

**LEGISLATIVE COUNSEL BUREAU STAFF PRESENT:**

Kevin Welsh, Deputy Fiscal Analyst, Fiscal Analysis Division  
Rick Combs, Deputy Fiscal Analyst, Fiscal Analysis Division

Ted Zuend, Deputy Fiscal Analyst, Fiscal Analysis Division  
Kim M. Guinasso, Principal Deputy Legislative Counsel, Legal Division  
William L. Keane, Deputy Legislative Counsel, Legal Division  
Carol Thomsen, Interim Secretary, Fiscal Analysis Division

**EXHIBITS:**

**Exhibit A:** Meeting Notice and Agenda Packet.

**Exhibit B:** Attendance Roster.

**Exhibit C:** Memorandum dated May 15, 2002, presented by Rick Combs.

**Exhibit D:** Memorandum of May 16, 2002, and attachments, presented by Advisory Committee Member Janet Murphy.

***Call to Order/Opening Remarks***

Chairman Parks called the meeting to order and welcomed new Advisory Committee members Bob Anderson and Claudette Springmeyer. He indicated that several agenda items represented a continuation of the work of the Road Subcommittee and Advisory Committee.

***Approval of March 21, 2002, Meeting Minutes***

Chairman Parks called for approval of the minutes of the previous meeting.

SENATOR CARE MOVED TO APPROVE THE MINUTES OF THE MARCH 21, 2002, MEETING OF THE LEGISLATIVE COMMITTEE FOR LOCAL GOVERNMENT TAXES AND FINANCE.

SENATOR O'CONNELL SECONDED THE MOTION.

THE MOTION CARRIED UNANIMOUSLY.

Chairman Parks opened discussion on Agenda Item III, and invited a representative from the Nevada Department of Transportation (NDOT) to address the committee.

***Discussion and Possible Action Regarding Proposal to Clarify the Definition of Road Mileage and Street Mileage for the Purposes of Determining the Distribution of Revenues from Certain Taxes on Motor Vehicle Fuel***

Russ Law, P.E., Operations Analysis Engineer, NDOT, stated the Roadway Systems Division, which administered the road inventory, requested clarification of the language in the Nevada Revised Statutes (NRS) that defined total road miles as "total centerline miles." Mr. Law explained that the division worked with counties to inventory roads, and information had been received by NDOT that contained measurements other than centerline miles. Essentially, a centerline mile was defined as the length of a highway without regard to the number of lanes.

Advisory Committee member Marvin Leavitt explained that the Bill Draft Request (BDR) would simply clarify the statute and continue use of the current method of determining road miles; it would also concur with the work completed by past committees. The clarification would eliminate any doubt regarding the mileage determination, and Mr. Leavitt explained that past Advisory and Legislative Committees had agreed that the appropriate method to determine mileage was centerline miles. The formula distributed two-thirds by population, which recognized that via population statistics, more multi-lane highways were located in the urban counties. Mr. Leavitt indicated that the Advisory Committee unanimously approved recommendation of the requested BDR to the Legislative Committee at its meeting on May 16, 2002.

Rick Combs, Deputy Fiscal Analyst, Fiscal Analysis Division, Legislative Counsel Bureau (LCB), pointed out that during the Road Subcommittee meeting of May 16, 2002, concern was voiced regarding other tax statutes in which the

term “road” or “street” mileage occurred, and whether changing the terminology in NRS 365.550, and not addressing the terminology in the others might become problematic. The Road Subcommittee voted to approve the requested BDR, and allow the Legal Division of the LCB to address the issue regarding whether interpretation problems would occur in the future if other instances where the terminology was used were not included when the BDR was drafted. Mr. Combs stated if it was determined that the change to other statutes would simply be a matter of clarification, those references would also be addressed in the BDR. Mr. Combs referenced Exhibit A, page 41, and pointed out that the terminology appeared in subsections 1 and 3 of NRS 365.550. The changes would be made within that section in order to maintain consistency, and the Legal Division would determine whether the term “centerline” should be defined in the NRS. Mr. Combs advised that he would work with the Legal Division to devise a proper definition of that terminology, if deemed necessary. Should the committee proceed with the requested BDR, Mr. Combs stated he would keep members apprised regarding the definition development.

Chairman Parks called for a motion from the committee.

SENATOR O’CONNELL MOVED THAT THE LEGISLATIVE COMMITTEE FOR LOCAL GOVERNMENT TAXES AND FINANCE REQUEST A BDR WHICH WOULD AMEND LANGUAGE IN THE APPROPRIATE NRS TO CLARIFY THAT CENTERLINE MILEAGE WOULD BE USED IN THE FORMULA COMPUTATION OF THE DISTRIBUTION OF VEHICLE FUEL TAX.

SENATOR MC GINNESS SECONDED THE MOTION.

THE MOTION CARRIED UNANIMOUSLY.

Chairman Parks opened discussion on Agenda Item IV:

***Discussion and Possible Action Regarding Modifications to the Intercounty (First Tier) Distribution of Revenues from Certain Taxes on Motor Vehicle Fuel – Marvin Leavitt***

Mr. Leavitt indicated that when the original work had been conducted regarding the first tier fuel tax distribution formula, it was determined that a “hold harmless” guarantee would be included, with the remaining revenue distributed to those counties outside the “hold harmless” category, based upon the two-thirds population, one-third road miles formula. The statute that implemented the distribution formula essentially allocated the guaranteed or “hold harmless” amount to every county, and after allocation of that guaranteed amount, the remaining revenue was distributed according to the two-thirds, one-third formula. Mr. Leavitt explained that in practice, the effect of the statute was that since the majority of the revenue was distributed based on the “hold harmless” stipulation, including the counties that did not fall into that category, the point would never be reached where the new formula became effective, and was applicable to all counties; he noted it was basically a mathematical problem.

According to Mr. Leavitt, discussion was ongoing regarding a possible change to that formula, wherein a determination would be made regarding counties that would receive less revenue under the new formula than under the existing formula for the base year, i.e., the year prior to the implementation of the formula. Those counties would be “held harmless” and guaranteed at least the same amount as had been received under the old formula, and the difference would be computed for allocation to the remaining counties. Eventually, stated Mr. Leavitt, the entire allocation would be based on the new formula for allocation to such counties, less the amount allocated to counties under the “hold harmless” guarantee. Mr. Leavitt explained the change in the formula would allocate revenue more accurately to those counties that experienced growth, either in population or road miles, and eventually the point would be reached where all revenues were distributed based on the two-thirds, one-third formula. The exact timeframe to reach that point was unknown, and it was also unknown whether all counties would reach that point. Mr. Leavitt indicated the timeframe would depend on how fast the revenue from tax grew, along with the population and road mileage growth experienced by one county in relation to other counties. Should the tax revenues grow appreciably, it was hoped that all counties could eventually break out of the “hold harmless” provision.

Mr. Leavitt commented that the change would not affect the basics of the formula, but would change one mathematical calculation regarding how the formula was implemented. He felt the change was logical and would move toward implementation of the actual two-thirds, one-third formula. Mr. Leavitt stated that the Advisory Committee had unanimously endorsed the formula contained on page 50 of Exhibit A, the distribution scenario two-thirds by population, one-third by road miles, without iterations.

Chairman Parks referenced the formulas contained in Exhibit A, which depicted the advantages and disadvantages of the three scenarios. Under disadvantages for the formula endorsed by the Advisory Committee, it stated, "Method is difficult to articulate." Chairman Parks thanked Mr. Leavitt for his interpretation and presentation to the Legislative Committee, and called for comments from the committee.

Senator McGinness requested clarification regarding the guaranteed or "hold harmless" allocation, and asked how that determination would be made. Mr. Leavitt explained that under either formula, each county would always receive the guaranteed, or base amount, which would be at least the same as the amount received under the old formula. Mr. Leavitt noted that the question as to the guaranteed amount was not one of the matters under consideration. The question under consideration was how to mathematically distribute the remaining revenue after the "hold harmless" allocations were made.

Under the existing formula, explained Mr. Leavitt, all counties received an allocation under the "hold harmless" provision, even though technically there were a number of counties that would not fall within provision, and would receive more revenue under the new formula than under the old formula. Mr. Leavitt emphasized that no county would suffer a reduction in revenue as a result of the change. Senator McGinness asked whether the amount in question was the remaining revenue after the "hold harmless" allocations had been made; Mr. Leavitt concurred.

Senator Neal asked how the guaranteed amount was calculated. Mr. Leavitt stated that the guarantee was the amount of money actually received by a county in the year prior to the implementation of the new formula. Senator Neal asked whether allocations for year 2002 would be based on the amounts received for year 2001. Mr. Leavitt explained that after the total amount of available revenue for 2002 had been determined, the allocation for each county would be computed via the new, or two-thirds, one-third, formula. The amount a county would receive under the new formula would then be compared to the amount actually received in the base year. If the county would receive less revenue under the new formula, the allocation would revert to the amount received in the base year, which would be the guaranteed or "hold harmless" allocation. Mr. Leavitt reiterated that counties would never receive less revenue than the amount received in the base year, and that same computation would be done every year.

Chairman Parks commented that it would remain so until such time as it was amended or changed in some other manner, and called for a motion.

SENATOR O'CONNELL MOVED TO REQUEST A BDR TO ADOPT THE TWO-THIRDS BY POPULATION, ONE-THIRD BY ROAD MILES, WITHOUT ITERATIONS, FORMULA FOR THE FIRST TIER DISTRIBUTION OF REVENUE FROM CERTAIN TAXES ON MOTOR VEHICLE FUEL.

ASSEMBLYWOMAN FREEMAN SECONDED THE MOTION.

THE MOTION CARRIED UNANIMOUSLY.

Mr. Leavitt asked for the Legislative Committee's indulgence, and explained that at the Advisory Committee meeting of May 16, 2002, action had been taken to clarify the determination of acceptable road mile calculations for the second tier distribution formula. According to Mr. Leavitt, the current formula included road miles that were maintained by the state, and for which a city or county had no responsibility. Advisory Committee members had agreed that was a deficiency in the formula, because the formula was based upon need, and miles computed into a formula for one entity that were maintained by the state, obviously created an unfair situation. Mr. Leavitt testified that the Advisory Committee had unanimously approved a recommendation to the Legislative Committee to change that computation to

include only those road miles actually maintained by each entity. The formula would essentially utilize the same road miles that were used for the first tier distribution formula. Mr. Leavitt stated he brought the issue before the Legislative Committee on an informational basis, and he felt that perhaps it should be placed on the agenda for the next meeting. The remaining portion of the second tier formula, relative to the determination of further changes was still under review, and no recommendations would be forthcoming at the present time.

Chairman Parks noted that when items were considered for the Legislative Committee's meeting agenda, only those items where progress was likely to have been made were included; however, it was recognized that much effort had been put forth in discussion of the second tier formula during the Road Subcommittee and Advisory Committee meetings of May 16, 2002. Chairman Parks indicated that, apparently, the point had not yet been reached where a BDR could be requested, and further adjustments would be required.

Mr. Combs clarified that it appeared the Advisory Committee was looking at the issue from the standpoint of utilizing only locally-maintained highway miles in any scenarios prepared for future deliberation regarding the second tier distribution formula. According to Mr. Combs, that was somewhat different than asking the Legislative Committee to actually change the formula to exclude the use of state-maintained roads in the computation contained in statute. Mr. Combs felt the action of the Road Subcommittee targeted future requests for information, and would eliminate the need for two sets of information for requested scenarios.

Mr. Leavitt stated there did not appear to be a significant difference in the application, and when the deadline for final recommendations to the upcoming Legislature was imminent, it would be determined whether or not recommendations could actually be made regarding the second tier distribution formula. The status of the Road Subcommittee's progress would determine whether it would be appropriate to recommend the change in road mile computations before making other changes.

Mr. Combs indicated that after consultation with legislative counsel, the committee could reopen Agenda Item III, if Mr. Leavitt felt direction was desirable from the Legislative Committee regarding the elimination of state-maintained road miles from the computation for the second tier distribution formula. Mr. Combs asked for clarification regarding whether a BDR would be requested to change the computation in statute, or whether it was simply a recommendation to utilize that factor in the future studies. Mr. Leavitt advised that the Road Subcommittee sought approval of the idea that all future scenarios would use only the road miles maintained by an individual entity as the base for computation. No further action was necessary at the present time, and Mr. Leavitt pointed out that eventually, one BDR would be requested regarding possible change to the second tier formula, and it would serve no purpose to take any other action at the present time. Mr. Leavitt stated if it was possible to approach that issue under Agenda Item III, it would be recommended that the Legislative Committee approve the idea that in future scenarios relative to the second tier distribution formula, the base for computation of road miles would include only those miles actually maintained by an individual local governmental entity, and would not include state-maintained miles.

Chairman Parks stated that any action entertained by the committee regarding the second tier distribution formula would required that Agenda Item III be reopened for consideration, in order to provide the requested direction.

SENATOR O'CONNELL MOVED TO REOPEN AGENDA ITEM III, IN ORDER TO FACILITATE DISCUSSION REGARDING THE SECOND TIER DISTRIBUTION FORMULA FOR CERTAIN TAXES ON MOTOR VEHICLE FUEL.

ASSEMBLYWOMAN FREEMAN SECONDED THE MOTION.

Chairman Parks inquired whether there were further comments from the committee.

Senator Neal pointed out that during the recent tour of rural counties, a commissioner from Mineral County had raised the question about road miles, and how that computation would affect Mineral County. Mr. Combs recalled that part of the discussion surrounded the issue of the constant, ongoing discussion between the counties and NDOT regarding the assignment of responsibility for certain roads. Mineral County felt the state should shoulder greater responsibility for certain roads, while the county would assume additional responsibility for unpaved or gravel roads. According to Mr. Combs, that appeared to be the opinion in more than one rural county during the tour. The elimination of state-

maintained road miles from the second tier distribution formula would not eliminate the ongoing discussions between NDOT and the counties about the classification of roadways as either state- or locally-maintained. Mr. Combs indicated it would be a matter of agreement regarding responsibility for roadways, and it would be impossible to control the number of miles in either category at any given time.

Senator Neal stated his concern was whether the situation would be compounded by the request to eliminate the state-maintained miles from the formula. Mr. Leavitt explained that Mineral County contained no “cities,” as Hawthorne was not an incorporated city, and the item currently under consideration would have no impact on that county, because the county would not allocate under the second tier distribution formula. The road miles computation for the second tier formula applied only to counties that included “cities,” as it addressed the distribution between the counties and the cities.

THE MOTION CARRIED UNANIMOUSLY.

Chairman Parks declared Agenda Item III reopened:

***Discussion and Possible Action Regarding Proposal to Clarify the Definition of Road Mileage and Street Mileage for the Purposes of Determining the Distribution of Revenues from Certain Taxes on Motor Vehicle Fuel***

Senator O’Connell asked for clarification regarding the request for direction, and whether that was to be in the form of a BDR. Mr. Leavitt emphasized that the Road Subcommittee and the Advisory Committee would eventually recommend one BDR, which would address all changes for the second tier distribution formula, however, those committees were not ready at the present time to make that recommendation in total. The request was for concurrence or approval that one of the factors built into future considerations or scenarios would be that computation of road miles would include only those miles maintained by individual local governmental entities, and would eliminate state-maintained road miles from the computation.

SENATOR O’CONNELL MOVED TO AMEND HER ORIGINAL MOTION UNDER AGENDA ITEM III TO INCLUDE LEGISLATIVE COMMITTEE APPROVAL FOR ELIMINATION OF THE COMPUTATION BASED ON STATE-MAINTAINED ROAD MILES IN FUTURE SCENARIOS OR DECISIONS REGARDING THE SECOND TIER DISTRIBUTION FORMULA, AND INCLUDE ONLY THOSE MILES MAINTAINED BY INDIVIDUAL LOCAL GOVERNMENTAL ENTITIES.

Chairman Parks informed the committee that the motion would be an amendment to Senator O’Connell’s previous motion regarding Agenda Item III, and would provide further clarification to the Road Subcommittee and Advisory Committee in consideration of possible changes to the second tier distribution formula.

SENATOR MC GINNESS SECONDED THE MOTION.  
THE MOTION CARRIED UNANIMOUSLY.

Chairman Parks opened discussion on Agenda Item V:

***Discussion and Possible Action Regarding the Repeal of the Statutory Language Promulgated by AB 501 (2001 Session) – Linda Ritter***

Ms. Ritter explained that the item had been before the Legislative Committee at its March 2002 meeting, and at that time, LCB staff had been asked to provide the legislative history on the bill. In short, A.B. 501 added the capital project rate, known as the “pay-as-you-go” tax, into the distribution formula of the basic governmental services tax, which allowed the “pay-as-you-go” tax rate to be used in the monthly distribution of the governmental services tax in Elko County. Ms. Ritter stated that action added the “pay-as-you-go” tax of 75-cents to the school district’s debt rate, which resulted in a shift of revenues from the general funds of all entities within Elko County, plus the school district’s general fund, into the capital projects fund.

Exhibit A, pages 103 to 113, contained information from Elko County, including an analysis depicting the changes, and

Ms. Ritter stated that all Elko County entities, including the school district, would ask that the language added to the NRS by A.B. 501 be repealed. Another fact that she felt should be noted was as debt was paid off, the amount allocated toward the capital project fund decreased, and Ms. Ritter suggested that perhaps additional study should be initiated regarding the first level distribution formula of the governmental services tax, in order to ensure that a school district was not penalized for using a “pay-as-you-go” tax versus a regular debt service tax.

Ms. Ritter emphasized that in total, the change had caused a significant impact in Elko County, which was the only county currently utilizing a “pay-as-you-go” tax. Ms. Ritter advised that representatives from the Elko County School District were present in Carson City, and would address the committee. Also present in Carson City was Martin Johnson, President, Johnson Consulting Group, who had testified in favor of the bill before the Assembly Committee on Taxation (Exhibit A, pages 57 and 58). Ms. Ritter noted that letters from Elko County and the school district, which voiced support for repealing the language, were included in the exhibit. Should it be the desire of the Legislative Committee that the Advisory Committee review the first tier distribution formula of the governmental services tax, in order to ensure that school districts were not penalized, Ms. Ritter stated she would be happy to coordinate that effort.

Dr. Allen R. Brown, Superintendent of Schools, Elko County School District, introduced Jeff Zander, Business Manager and Comptroller, Elko County School District to the committee, and emphasized that the resultant language from passage of A.B. 501 had been extremely detrimental to the school district’s general fund in the amount of \$418,420 (Exhibit A, page 113). Dr. Brown stated that amount was not needed in the “pay-as-you-go” category, but rather was needed in the general fund, as the school district was faced with budget cuts in the vicinity of \$1.5 million for FY 2002-03, and current projections for FY 2003-04, anticipated an additional approximately \$2.5 million in budget cuts. Simply stated, Dr. Brown advised that the school district did not need any additional damage to its general fund, and would request that the language created by passage of A.B. 501 be studied for repeal.

Senator O’Connell noted that Assemblywoman Chris Giunchigliani was the sponsor of A.B. 501, and she asked whether Ms. Giunchigliani had been provided notification regarding the requested BDR to repeal the language created by passage of the bill. Ms. Ritter replied that she was unaware of any communication with Ms. Giunchigliani regarding the matter, however, she would be happy to provide such notification. Senator O’Connell stated if it was the desire of the committee to repeal the language created by A.B. 501, it should provide formal notification to Ms. Giunchigliani, and explain the unforeseen problems created by passage of the bill resulting in the request for the BDR.

Chairman Parks stated it was his understanding that A.B. 501 was initially introduced, and subsequently amended via Amendment No. 430 and Amendment No. 761 (Exhibit A). Most of the original language in the bill was deleted and the language as amended proceeded forward to passage. Mr. Combs concurred, and noted that A.B. 501 was one of the bills created via the interim study on maintaining school structures, and the provisions related to that maintenance, other than the “pay-as-you-go” issue, were deleted from the bill and included in other proposed legislation. Regardless, Mr. Combs explained that the “pay-as-you-go” provision remained in the bill, and there did not appear to be any testimony in the legislative history that would suggest what effect that would have on other entities within the county, therefore, it was not possible to ascertain whether or not that aspect was considered prior to passage of the bill.

Senator Neal asked for further clarification regarding the real effect of the bill. Chairman Parks referenced the chart depicted on page 113 of Exhibit A, which provided some explanation. Ms. Ritter explained that the chart depicted an analysis of the impact after implementation of A.B. 501, and the column entitled, “Diff” defined that impact. The chart also pointed out that the general fund of Elko County was reduced by \$238,918, and the school district’s general fund was reduced by \$418,320, while other entities realized smaller reductions. Ms. Ritter noted that the chart depicted an increase in the school district’s capital projects fund of \$862,168, and explained that last year, the voters in Elko County approved a 75-cent “pay-as-you-go” tax. As indicated by Dr. Brown, funding for capital projects was adequate, and it was the operating funding that was problematic at the present time, which was the reason for the requested BDR to repeal the language.

Senator Neal indicated that the Summary of A.B. 501 indicated that the bill provides for a change to the method of calculating a school district’s share of the governmental services tax (previously referred to as the motor vehicle privilege tax). The bill indicates that when calculating the tax rate for a school district, if the sum of the rate for the district’s debt service and the rate levied for capital projects is greater in any fiscal year than the rate for Fiscal Year

1978-1979, the higher rate will be used to determine the applicable debt service rate. Senator Neal asked for clarification. Ms. Ritter explained that language was correct, and set FY 1978-79 as the base, which meant that school districts would never receive less than the allocation received in that year; however, as school districts increased their debt over time, a proportion based on that increase was included in the debt service. A.B. 501 placed the “pay-as-you-go” tax, which was accumulated from taxpayers, into the distribution formula, and it was not a debt service payment. The bill added the 75-cent rate to the formula, which caused Elko County to have a very large increase in the debt service rate and a reduction in operating funds, along with a substantial increase in the capital project funds. Ms. Ritter reiterated that Elko County was asking that the “pay-as-you-go” rate be excluded, and that only the actual debt rate be included, as the “pay-as-you-go” rate was not debt, but rather was used for cash payment for capital projects.

Senator Neal stated that the “pay-as-you-go” method was the method selected by Elko County for building schools. Ms. Ritter concurred, and explained that the county did choose to pay for capital projects on a cash basis, because the county felt that was prudent based on the possible instability of the future economy. According to Ms. Ritter, Elko County had utilized that method for many years, and it was not until after passage of A.B. 501 that the school district felt an impact on its operating revenues. Ms. Ritter believed that at the time the bill was passed, the effort was to maintain the amounts received in the governmental services tax, but adding the “pay-as-you-go” rate resulted in a much larger increase. It did not just hold the debt rate to what it was prior to paying off a portion of the debt, but added a substantial amount to the rate, and in proportion, the school district realized a substantial increase in its capital project fund. However, that increase was realized at the expense of the operating fund, which was extremely problematic to many entities that were struggling for such revenues. Ms. Ritter stated that letters were included in Exhibit A from Elko County and the City of Elko, and other entities had also indicated a desire that the language be repealed.

Senator Neal questioned whether there was another method of flexibility that would be available to Elko County, should the language be repealed. Ms. Ritter pointed out that the Advisory Committee had discussed the possibility of studying the first tier distribution formula of the governmental services tax, which she would volunteer to coordinate, in order to ensure that a school district was not harmed for enacting a “pay-as-you-go” type of capital financing mechanism. Arriving at a plan that would benefit all entities would require some study and careful analysis regarding the impact.

Chairman Parks inquired whether Dr. Brown had further comments to present to the committee. Dr. Brown stated it appeared that Senator Neal felt Elko County had erred by including the “pay-as-you-go” rate in A.B. 501, and explained that the county was clearly unaware of the possible effect of that language. In retrospect, obviously, the county recognized the detrimental impact on its budgets, and beyond admitting that a mistake was made, the county would simply request that the language be repealed.

Senator McGinness commented that page 77 of Exhibit A contained a portion of the minutes of the Senate Committee on Taxation which addressed A.B. 501. At that meeting, sections 7 and 8 were suggested for deletion, and Senator Neal had asked, “What does it do then?” Senator McGinness pointed out that Kevin Welsh, Deputy Fiscal Analyst, Fiscal Division, LCB, replied, “Sections 7 and 8 allow those entities having alternate kinds of capital programs, other than bonding, primarily pay-as-you-go, to be held harmless from the other provisions that she may pursue in another bill. It applies primarily to the Elko County School District.” Chairman McGinness asked Mr. Welsh whether or not the committee had accomplished the outcome it sought.

Mr. Welsh explained that the intention of that amendment was to provide additional funding for the “pay-as-you-go” rate for Elko County School District, which was the only district it would affect. Ultimately, implementation of the bill took operating money from all entities, including the county, the city, and the school district’s operating fund, and put it into the school district’s capital projects fund. Dr. Brown commented that it appeared everyone’s heart was in the right place at the time the bill was passed, and the outcome was simply unforeseen.

Chairman Parks inquired whether there were further comments, and hearing none, asked the committee how it would like to proceed with the request. Senator O’Connell offered the following motion:

SENATOR O’CONNELL MOVED THAT A BDR BE REQUESTED TO REPEAL THE AMENDMENTS TO NRS CAUSED BY PASSAGE OF A.B. 501, WHICH IMPACTED THE “PAY-AS-YOU-GO” TAX RATE IN ELKO COUNTY, AND THAT A LETTER OF EXPLANATION BE



FORWARDED TO ASSEMBLYWOMAN CHRIS GIUNCHIGLIANI, AS SPONSOR OF THE ORIGINAL BILL.

Senator Neal remarked that Ms. Giunchigliani had indicated she did not wish to penalize any program that used the “pay-as-you-go” system. Senator O’Connell felt that added to the importance of the committee’s action, because hopefully, it would take action that would impact the tax structure only after it had reviewed all pertinent facts. According to Senator O’Connell, it was impossible to make changes in the tax structure without causing some impact, and she felt action often caused unintended consequences that could not be corrected until the subsequent Legislative Session.

ASSEMBLYWOMAN FREEMAN SECONDED THE MOTION.

THE MOTION CARRIED UNANIMOUSLY.

Chairman Parks opened discussion on Agenda Item VI:

***Report Regarding the Activities of the Governor’s Task Force on Tax Policy (ACR 1) – Linda Ritter***

Ms. Ritter indicated she would ask Guy Hobbs, as Chairman of both the Advisory Committee and the Governor’s Task Force on Tax Policy in Nevada, created by A.C.R. 1 of the 17<sup>th</sup> Special Session, to present the report to the committee. Mr. Hobbs stated he would provide an overview of the accomplishments of the Task Force during the first six months of its existence, along with some indication of issues he felt would be addressed during the next two meetings. According to Mr. Hobbs, there was obviously much of a complimentary and supplementary nature between the accomplishments of the Legislative Committee and the Task Force.

Mr. Hobbs reported that the Task Force spent at least the first four months gathering a substantial amount of data, which was available on its website. Some information contained on the website had been specifically requested by members, and some information was that which members felt would be necessary in order to address the Task Force’s additional responsibilities, primarily model building and forecasting. Mr. Hobbs commented that A.C.R. 1 charged the Task Force with the following responsibilities:

- Review of the structural deficit that was presumed to exist by the bill;
- Quantify that structural deficit;
- Make recommendations regarding mitigation of any imbalance between revenues and expenditures;
- Review public service costs specifically associated with K-12 education and long-term care, as obvious elements that could contribute to a gap between revenues and expenditures;
- Review of the existing overall revenue mix; and,
- Determine whether that mix could be diversified more broadly to better reflect the nature of Nevada’s economy.

Mr. Hobbs explained there were various other issues for review by the Task Force that would pale somewhat in importance compared to the aforementioned issues. The Task Force found that not all of its objectives fit neatly together, which resulted in a tremendous amount of time spent on segregation of tasks. The Task Force set out to reevaluate exactly what type of structural deficit might exist, and in doing that, was forced to redefine the term “structural deficit,” not as defined in other works brought forth by groups in an effort to establish a particular position before the Legislative Committee, but rather in its own terms. Mr. Hobbs stated the Task Force interpreted the term as a determination of the status of the state’s budget at the end of the ten-year timeframe, provided no changes were made on the revenue side of the state budget and no assumptions were made regarding changes in levels of programming in the state budget, other than those that would occur via natural growth in population, caseloads, and inflation. The Task Force utilized a ten-year database to forecast for each of the line items within the state’s budget.

According to Mr. Hobbs, at the current time, the structural deficit would be approximately \$350 million by the tenth year; however, it was a fluid number, because the Task Force was still using actuals received on a monthly basis to

reevaluate the model, particularly in light of the fact that some of the economic information over the past several months had suffered significant impact because of the attacks of September 11, 2001. Mr. Hobbs indicated that in the first year of the analysis, the Task Force projected the structural deficit to be approximately \$80 million. If all values were accumulated over the ten-year timeframe, the amount would be somewhere in the vicinity of \$1 billion to \$2 billion, and probably closer to the \$2 billion value by year ten.

Mr. Hobbs pointed out that the Task Force tended to focus on the incremental amounts rather than the cumulative amounts, because it felt that if the incremental problem were solved on a cash-flow basis, it would naturally solve the cumulative problem. Rather than focusing on the creation of something that within a ten-year timeframe would produce a particular sum of money, members focused on something that on an annual basis would match the projected difference between revenue and expenditures. Mr. Hobbs noted that there were many causes for that particular value, and the primary causes identified by the Task Force were both sales and gaming taxes, and the manner in which those revenues were expected to perform over time. The Task Force noted a reduction in per capita values on certain taxes adjusted for inflation, and the question was if taxable sales per capita dropped, what were the contributors. For example, was there a shift from the purchase of goods to the purchase of services over time. That was sometimes a difficult concept to embrace, but Mr. Hobbs indicated that was a trend the Task Force observed happening slowly over a period of time, along with the impact of Internet sales, which removed taxable sales from the equation. Per Mr. Hobbs, there were some issues that contributed to that value, but that, in a nutshell, was the target value identified by the Task Force, and he felt it was an extremely important phase to create a target for the construction of a solution around a baseline value, or what the Task Force referred to as the "structural deficit."

Mr. Hobbs indicated the Task Force could go beyond those particular values by increasing the amount of programming on the expenditure side, i.e., adding a program, or making a different assumption about wages or benefits, however, the Task Force presumed those to be policy decisions, and noted the numbers would increase quickly. The Task Force had presumed that making decisions regarding enhancement levels for education or health care programs was not necessarily within its purview, but rather felt it was the Legislature's purview. The Task Force would not identify and make suggestions regarding programs, but rather would identify the programs brought before it. Mr. Hobbs stated that by way of example, the various school superintendents approached the Task Force at its meeting on May 15, 2002, and presented what they felt would be the needs of the school districts over the next biennium, which totaled over \$900 million for the two-year period. Over a ten-year period, with such additional education costs, the value of \$350 million identified ten-year structural deficit by the Task Force would triple.

Continuing, Mr. Hobbs remarked that the Task Force had spent a considerable amount of time and effort on the development of a quantitative model that considered each element of the state's General Fund on the revenue and expenditure side, and was the basis of projections. The model had been retooled several times, in order to make it capable of accepting different impacts as requested by Task Force members, as well as anticipated impacts during legislative deliberation. For example, if the Legislature wanted to see the impact of the broadening of a particular tax to an area that was currently not taxed, or the imposition of a particular new form of tax, the model would be capable of accepting that information and producing projections. Likewise, stated Mr. Hobbs, the model could accept adjustments on the expenditure side. In almost a real time fashion, those types of deliberations could be held in context with the model, to determine the ten-year-forward impacts.

Mr. Hobbs commented that given the fact the Task Force had assembled its own Technical Advisory Committee, which included several members of the Legislative Committee's Advisory Committee, i.e., John Sherman, Linda Ritter, Phil Stoeckinger, Mike Alastuey, and Marvin Leavitt, who brought considerable expertise and knowledge to the table, there was general concurrence surrounding the numbers being utilized by the Task Force at the present time. Mr. Hobbs noted that for persons who had not necessarily worked on the technical side of the issue, Task Force members concurred as far as the values being used. At the present time, the Task Force had finalized development of the model, which would allow for a sensitivity analysis to be conducted of various combinations of revenue mixes and adjustments to both sides of the equation.

According to Mr. Hobbs, the Task Force recently finished a more qualitative type of model, one that took each revenue source currently available within the state, and the various proposed sources of revenue, i.e., those identified for further study in the process, and assembled each one in a matrix that identified a variety of criteria against which a particular

revenue source could be measured. That measurement could include such items as stability of administration, transparency, equity, uniformity, et cetera, with each criteria scored and weighted according to importance in order to produce scaled results. Mr. Hobbs noted that the Task Force had also produced forward projections of all of revenue sources under consideration, therefore, had completed the quantitative and qualitative modeling. At the May 15, 2002, meeting of the Task Force, Mr. Hobbs had asked members to submit any thoughts and ideas they might have regarding different mixes of revenues for further analysis to its Technical Advisory Committee, as the Task Force attempted to deal with the baseline structural deficit. At that time, no additional revenue sources were submitted. Mr. Hobbs indicated members would provide written information in the form of questions that would be run through the model to produce the various results.

Mr. Hobbs mentioned that it had taken an extraordinary amount of work for the Task Force to unite around a particular concept, and that concept was centered around the aforementioned baseline or "structural deficit." If the Task Force solved that baseline, it would simply enable the state to continue along its present course, and nothing more, which obviously was a point of substantial debate. Mr. Hobbs indicated the reason the Task Force had taken the aforementioned direction was because it was felt that perhaps the state should be doing more; however, the Task Force felt the baseline figure had to be covered as a prerequisite, and in fact, it was instructed by the wording of A.C.R. 1 to accomplish that. The enhancements to programs beyond that would be a matter of policy debate regarding the extent of implication, or timetables of implementation. Mr. Hobbs indicated the Task Force would provide the information to the Legislative Committee, and by the construct of a baseline solution, would provide the Legislature with the analytical tools, as well as identification of available sources to address points beyond the baseline solution, which was fundamental to the entire approach undertaken by the Task Force.

Mr. Hobbs asked whether the Legislative Committee wanted him to conjecture the direction in which the Task Force might be headed. Chairman Parks replied in the affirmative. Mr. Hobbs stated he would proceed with the caveat that he was but one member of the very hardworking, but nonetheless eclectic group. It was difficult to predict the direction of the Task Force with any degree of precision.

Mr. Hobbs felt the direction of the Task Force was that there seemed to be an understanding developing among the members of the group, which represented a broad base of interest from development, to large business, to gaming, to various small businesses; however, it had to reach a blended solution, or one that would actually enable the Task Force to reach several different objectives simultaneously. Those objectives were: (1) Coverage of the baseline; (2) Stabilization within the existing revenue mix; and, if constructed correctly, (3) To assist in modification of the revenue mix that would better replicate the diversity of Nevada's economy. Mr. Hobbs stated the Task Force had not yet reviewed the "nuts and bolts" of the third objective. In a balanced solution, Mr. Hobbs felt the Task Force would focus some discussion on the elements of the business tax. There were significant issues to deal with in that area, and members understood that it could not be addressed by simply considering gross profits, gross receipts, or net profits.

For example, explained Mr. Hobbs, consider review of gross receipts for a business that utilized significant material purchased at the retail level in production of the goods it sold, like home builders, where \$4,000 to \$5,000 in sales tax was paid and then became part of the base price of the home. When that home was sold, the sales tax then became part of the gross receipts which was, at least in part, a tax on a tax. Mr. Hobbs indicated that was where the issue of transparency would come into play, because the Task Force wanted to identify such occurrences. In reality, the imposition of a gross receipts-type of tax began to take on the appearance of a sales-type tax, and when followed through to conclusion, it began to replicate a transaction-type of tax, and would broaden beyond simply tangible personal property sold at retail. Mr. Hobbs stated those were examples of the complexity regarding the collection of a tax, beyond simply writing procedures. The working and integration with current taxes would clearly have to be understood. Mr. Hobbs felt that future discussions of the business tax alone would require substantial time and analysis, in order to create the understanding necessary to truly conduct a fair and reasonable discussion.

Continuing, Mr. Hobbs opined that gaming tax was still on the table, however, it was difficult to predict what form that discussion would take. There was a strong sense among Task Force members regarding property tax, and the ability to diversify the state's tax base, notwithstanding the fact that the state had a larger stake in property tax than it profited itself as having. Mr. Hobbs indicated the Task Force had clearly "debunked" that myth in its discussions. It was felt that some flexibility should be given beyond the \$3.64 cap on an integrated basis between local government needs and

state government needs, because there were constant discussions about the transference of certain state responsibilities to the local government level, where there was less sovereignty to deal with funding issues. The Task Force viewed that as a means of perhaps bridging the gap over time.

Mr. Hobbs also felt that the sales tax base itself would come under consideration and, in fact, he had strongly pushed that issue. He noted that one of the causes of the structural deficit, at least in part, was the degradation of taxable sales per capita. The state obviously needed to address and deal with that issue, as both local and state governments were experiencing that degradation and still allowed extraordinary exposure of the sales tax base in certain industries, such as the construction industry. Mr. Hobbs pointed out that a downturn in the construction industry would produce a significant reduction in the sales tax revenue. Nevada had one of the most narrow sales tax bases, which was very susceptible to particular industry issues. Mr. Hobbs felt that evaluation should begin regarding ways to provide additional stability and growth within the sales tax base. The Task Force would suggest, at least in part, some measure of broadening the base to include items that were currently not considered tangible personal property sold at the retail level. The discussion should also focus on certain areas of discretionary spending that did not currently fall under the definition of retail personal property.

Mr. Hobbs stated that those areas would dominate future discussions of the Task Force, and substantial variations of each theme would come under discussion and evaluation. The Task Force was at the point where it actually would begin discussion of such revenues sources, and revenue sources beyond that since each member of the Task Force would provide input regarding what should be included in the model. According to Mr. Hobbs, the hope was to assemble a blended solution using one or more of the four areas previously discussed, and provide that information to the Legislature in the form of a report, along with a model which would enable it to evaluate what might be needed beyond the baseline within those revenue sources to enhance the funding of the state's General Fund beyond the baseline.

Senator O'Connell inquired whether the Task Force had had an opportunity as yet to analyze any of the federal mandates that would be new to the state in the upcoming year. For example, the "No Child Left Behind Act of 2001," (H.R.1), along with the many mandates that dealt with special education and would possibly be costly to the state. Mr. Hobbs stated that the cost side of mandates had been represented to the Task Force at its May 15, 2002, meeting by the various superintendents, who identified several mandates, and requested both funding and relief from some of those mandates. The decision regarding whether to provide that relief would be a policy decision, since those mandates, in part, had been imposed upon education by the Nevada Legislature. On the other side of the equation, interestingly enough, the availability of federal funds to offset the baseline was not a fully resolved issue. Mr. Hobbs explained that in previous projections, a stair-step assumption regarding federal funds had not been included, and those projections utilized data from 1991 forward.

According to Mr. Hobbs, with each census, the population value was adjusted, which drove the distribution of various federal funds. Nevada, for example, was undercounted in the 1990 census, so it deviated from the real numbers faster and further than any other state. Consequently, in 1999, Nevada ranked 50<sup>th</sup> among the states in per capita federal funds received, and the population undercount and the growth over and above that undercount, had impacted the ranking. Mr. Hobbs could not project where Nevada would rank today had the population been counted correctly, but from a quantitative monetary sense, moving in rank from 50<sup>th</sup> to 45<sup>th</sup> would completely wipe out the \$350 million projected structural deficit. However, Mr. Hobbs felt it should be noted that most federal monies were targeted funds and might not match with issues that created the structural deficit. Mr. Hobbs noted that there would be some offset based on the 2000 census to the value the Task Force had produced. That offset was still being studied, and to the extent that funding was in targeted programs where a supplanting technique could not be used from other state General Fund resources, the effect on the \$350 million deficit would be minimized.

Senator Neal inquired why the \$350 million was referred to as a structural deficit. Mr. Hobbs explained that the Task Force was searching for definitions to define the term "structural deficit," because A.C.R. 1 used that terminology, but did not provide a definition, and simply implied that one existed. To the best of his knowledge, Mr. Hobbs revealed that the term was first introduced within the State of Nevada as a consequence of a report commissioned by the National Education Association and completed by an economist approximately four years ago. That report identified a structural

deficit somewhat differently than the Task Force by projecting more on a program basis forward, where it was assumed certain things would have to occur to drive the expenditure. Mr. Hobbs stated the Task Force had not presumed that identification, as it did not believe that was within its purview. Therefore, the Task Force defined structural deficit by stating if the state continued to purchase the same items as were purchased today from the state's General Fund, would there be sufficient revenue to continue such purchases within the ten-year timeframe. Mr. Hobbs noted there were some limitations to that definition, but that was chosen as the beginning point.

Senator Neal said it appeared the Task Force had spent most of its time gathering the necessary data on the expenditure side, and inquired whether that was correct. Mr. Hobbs commented that a great deal of time had been spent on both sides, in an attempt to project both expenditures and revenues forward. One of the limitations of A.C.R. 1, which was troubling to some persons, was because of the way it was written, the Task Force was not necessarily empowered to review the expenditure side to balance the equation, but was charged with identification of new revenue sources in order to provide stability and deal with the structural deficit.

Senator Neal gathered that as far as resources were concerned, the Task Force had not conducted much review of the expenditure area in terms of formulating some type of solution. He inquired whether that information would be provided after the general election in Nevada. Mr. Hobbs replied that he was somewhat surprised at the May 15, 2002, meeting of the Task Force that certain suggestions had not been presented, because earlier in the process, certain members seemed to be headed in the direction they felt resolution of state's problems should follow. He expected that the next meeting of the Task Force would discuss the aforementioned focus area.

Senator Neal inquired whether consideration had, or would be, given to areas such as education, where the state was constitutionally mandated to provide funding. Mr. Hobbs said consideration would be given to those areas, and noted the Task Force had projected forward based on current expenditures, which had come under attack based on the comparison of national averages per pupil spending. For some persons, those statistics had become the barometer regarding the appropriate level of funding. Mr. Hobbs stated he did not personally agree with use of that particular statistic to construct the expenditure side of the state's budget. He reiterated that at the May 15, 2002, meeting of the Task Force, the superintendents had identified programs that would meet both current and projected needs, along with expanded program needs. Those needs totaled approximately \$900 million for the first biennium, beyond what was currently being spent.

Senator Neal asked what the Task Force had done in terms of review of the exemptions. Mr. Hobbs explained that property and sales taxes were "two legs of the stool," and would not disappear. The issues that dealt with property, sales, and gaming taxes needed to be reviewed, in order to make those revenues perform better into the future. For example, in the area of sales tax, the base continued to become narrower and more constrained by adding additional exemptions over time, and also because a portion of the tax base was being lost to Internet sales. The Task Force anticipated action would be taken to fix that base. Mr. Hobbs mentioned that the notion of broadening to discretionary, less aggressive areas of trade was an attempt to take an area that was currently implicitly exempted from tax and give it further consideration in an effort to broaden the base. Mr. Hobbs indicated the property tax area had also been discussed, i.e., the type of exemptions that currently existed. Generally speaking, most Task Force members did not possess the great depth of knowledge enjoyed by legislators regarding individual exemptions. Members spent five or six meetings reviewing "stacks" of material without benefit of the history surrounding the areas.

Mr. Hobbs felt there was an understanding regarding the narrowness of the base, and he would bring the exemptions forward as a matter of discussion. It was impossible, however, to predict the outcome of those discussions. Depreciation was one issue that Mr. Hobbs had brought before the Task Force, and while members understood the concept of depreciation, he was not sure they were as inclined to view the depreciation issue in the same light as the \$3.64 cap. Mr. Hobbs stated that, as a bridge between the Task Force and the Legislative Committee, he would secure acknowledgment from the Task Force that there were issues that should be reviewed regarding the current method of assessment for property tax, and the sales tax base. He felt the Task Force should at least make some recommendation for setting objectives for further review.

Senator Neal asked Mr. Hobbs for his estimation regarding the amount of exemptions granted each year. Mr. Hobbs

stated that past discussion by the Task Force reviewed transactions that were now taxed under sales tax, as compared to the overall amount of economic activity in the state, and the “ballpark” figure was approximately 20 percent of the transactions in the state were taxed, and the remaining 80 percent, which consisted of various forms of services and exemptions, were not taxed. That spoke to the narrow manner in which certain taxes had been constructed. Senator Neal inquired whether the figure would be in the vicinity of \$900 million per year. Mr. Hobbs stated the Task Force reviewed the total amount of transaction value rather than tax value, and he would provide that information to the Legislative Committee. He could not recall the exact figures, however, it was several billion dollars as far as overall economic activity was concerned.

Senator Neal asked for clarification regarding “tax value” and “transaction value.” Mr. Hobbs explained that for a \$1.00 transaction, the sales tax value would be 7-cents, and the Task Force was reviewing the overall economic activity, because the member who had requested the information was attempting to reach the gross economic activity value in the state for the purpose of considering a gross receipts or gross profits tax.

Assemblywoman Freeman asked whether there had been discussion regarding a lottery. Mr. Hobbs replied in the affirmative, and indicated that lotteries had been identified at the initial Task Force meeting as a possible source for further study. Since that time, the Task Force had reviewed several sources for study, and a lottery remained on the list. Mr. Hobbs pointed out that the Task Force was expending a tremendous amount of analytical time and effort in the review of sources, but it was also aware that there were several other groups, clubs or associations that were producing independent versions of a tax plan. The plan compiled by the Progressive Leadership Alliance relied heavily upon a tax on unearned income, which would basically include interest, dividends, and passive income components, and a 5 percent net profits tax on business. Oddly enough, stated Mr. Hobbs, the plan included huge tax increases on cigarettes and liquor, which were among the most regressive taxes in the state, and would be opposite of what would be expected from a progressive group. There were other groups formulating tax plans, and some of those plans were more specifically focused on a lottery as a component.

Assemblywoman Freeman then questioned exemptions on sales tax, and asked for a “ballpark” figure regarding what percentage of the current sales tax exemptions would be attributable to the sale tax on food and medications and/or drugs. Mr. Hobbs advised that the Task Force had recently completed an analysis that it would share with the Legislative Committee. The analysis reviewed every area of trade broken down as discretely as possible, and ran a regressive index along with review of the revenue production from each area of trade currently taxed. Mr. Hobbs indicated that the analysis also reviewed areas not currently taxed in an attempt to make the same estimates regarding potential revenue production, as well as levels of potential regression. Mr. Hobbs suggested that Legislative Committee members access the website for the Task Force, because it included several pieces of analytical work; the matrix that reviewed existing and prospective sources of revenue contained extremely interesting and enlightening information. The crossover value of that information to the Legislative Committee was extraordinary. Mr. Hobbs stated the website address for the Task Force was [www.appliedanalysis.com](http://www.appliedanalysis.com), and explained that site contained a link directly to the Task Force section of the website.

With no further questions forthcoming regarding Agenda Item VI, Chairman Parks opened Agenda Item VII:

### ***Report Regarding Meetings with Rural Local Governments and the Fiscal Health of Those Governments***

Mr. Combs referenced the Memorandum of May 15, 2002, which had been provided for the perusal of the committee, Exhibit C, and contained a report of the meetings with rural local governments that were conducted on May 8, 9, and 10, 2002. The exhibit addressed the following counties and unincorporated towns with the counties: (1) Humboldt County; (2) Lander County; (3) Pershing County; (4) Mineral County; and, (5) Lincoln County. Mr. Combs indicated that various members of the Advisory and Legislative Committees had attended the meetings. Chairman Parks and Advisory Committee member Janet Murphy attended all three days; Mr. Leavitt attended the meetings on May 8 and 10, 2002; Senator Neal attended on both May 9 and 10, 2002; and, Mike Alastuey attended the meeting with Lincoln County officials on May 10, 2002.

Mr. Combs explained that the exhibit listed each county visited and provided general information regarding current population, projected population, some revenue concerns identified by the entities in the areas of net proceeds of

minerals tax, as well as assessed valuations and how that would affect the property tax. Previous information had been received from the Nevada Association of Counties (NACO), and the information included in the exhibit differed slightly in the population section, as the State Demographer had published new numbers. Mr. Combs indicated he would not review the statistical information for each county, and had provided it for members to read at their leisure.

Mr. Combs explained that on page 3 of Exhibit C, under the heading, “Expected Expenditure Increases,” was an explanation of the three main issues facing local governments that would drive expenditures in the near future:

1. Expected continuation of escalated costs for providing services for indigent populations in need of long-term care.
2. Increased cost associated with court and justice systems.
3. Concern that costs for workers’ compensation coverage would increase substantially as a result of certain presumptions that had been included in statute recently regarding diseases contracted by firemen and police officers.

Also on page 3 of the exhibit, Mr. Combs indicated the heading, “Revenue and Fund Balance Concerns,” included the following concerns of the local governments:

1. Assessed valuations had decreased or were expected to decrease in all counties, except Lincoln County, which was currently experiencing some growth in its assessed valuation.
2. Drastic reduction in the amounts that were received from the net proceeds of minerals tax.
3. The fund balances of the various local governments were of concern in that most governments were tapping into reserves to offset some portion of the decreased revenues from property taxes and the minerals net proceeds tax.

According to Mr. Combs, the situation in Mineral County had progressed to the point where the fund balance was depleted and expenditures had been reduced significantly via personnel cuts in order to balance the budget. Although Pershing County still retained approximately 15 percent of its operating budget as a fund balance, the county would be dipping into reserves to balance next year’s budget.

Mr. Combs explained that one of the reasons for the meeting was that committee members wanted to ask representatives of the rural local governments what they thought the Advisory and Legislative Committees should be looking at in terms of solutions for the current revenue problems. Some specific questions were about items the Advisory Committee was currently reviewing, which included increasing the percentage used to determine assessed value, decreasing or eliminating depreciation, raising the \$3.64 property tax cap, or excluding certain portions of the property tax from that cap.

Mr. Combs stated that elected officials in most of the local governments were not necessarily excited about the prospect of raising taxes in their jurisdictions, and therefore, changes in the percentage of assessed value, as well as raising the cap, were issues that caused elected officials some concern, mainly from the aspect of how much of an increase they felt their citizenry would be able to afford, based on the problems with the economy in the rural jurisdictions. The county assessors who attended a portion of the meetings voiced concern about the costs to their offices associated with any issue that might change the manner in which depreciation was calculated. Mr. Combs pointed out that concern was expressed in many of the areas that were already experiencing the problem of market value being below the replacement cost plus depreciation, and therefore, elimination of depreciation would cause a situation where market value was used for most if not all homes. Mr. Combs stated from that standpoint, increased revenue would not be generated if the market value counteracted the loss of depreciation.

Unanimously, stated Mr. Combs, representatives felt their progress, and the solution to part of their budgetary problems, rested in the promotion of economic development within each jurisdiction. Each jurisdiction offered a different focus and different aspects of the area that would make it attractive to companies that wanted to move into the area, along with the types of companies the counties might attempt to target. Assistance in promoting tourism was also mentioned as beneficial to some areas, and officials specified that they would seek additional state assistance in that area.

Mr. Combs pointed out that additional concerns expressed by counties were; (1) The perception that the state was reviewing the possibility of moving a portion of the local revenue sources to the state; and, (2) The imposition of unfunded mandates. One county commissioner in Mineral County suggested that when certain counties were in financial danger, and met a certain as yet unidentified set of criteria, the state might consider reverting the revenue generated by the 15-cent portion of the property tax utilized for state capital construction needs to local governments faced with such a period of need.

Mr. Combs stated that Lincoln County mentioned a proposal for keeping a larger portion, if not all, of the taxes generated by a proposed power plant that would be constructed within the county, and the county manager inquired about the possibility of presenting that proposal at the next meeting of the Advisory Committee.

Ms. Ritter indicated that as a point of clarification regarding the revenues received from the net proceeds on minerals tax, it appeared the assessed value was listed in Exhibit C rather than the revenue received from the net proceeds on minerals tax. For example, under the heading "Humboldt County," the exhibit stated, "The revenues received by the county from the net proceeds of minerals tax have decreased from a high of approximately \$127.5 million in FY 1995 to approximately \$27.8 million in FY 2001." Ms. Ritter indicated that was actually the assessed valuation and not the actual revenue. Mr. Combs stated he would check the information received from NACO in order to clarify that issue.

Senator Neal indicated one issue that had come up during the meetings with rural counties was that the small counties were in need of additional economic development funds in order to proceed with various projects. Mineral County indicated it could promote and attract certain industries if it had sufficient funds to construct the necessary infrastructure in order to attract those businesses. Senator Neal stated he got the impression that the same problem existed in Lincoln County. One of the arguments raised was that Clark County received a large portion of the development money, even though that county had several means of attracting industry. The rural counties felt they should share more of the development funds, as their economy was more depressed than Clark County.

Mr. Combs commented that issue was almost universal among the counties visited, and those counties felt they should bring forward the possibility of receiving a larger share of the state funding, even suggesting that the available "pot" of money be increased. The situation differed from county-to-county depending on whether infrastructure was the problem, or whether it was the actual ability to attract the businesses. Mineral County indicated it had infrastructure problems which needed to be resolved before it could attract large companies that would employ a number of people in the community, and attract new people to the community. Mr. Combs noted that at one point during the tour, participants had driven through an industrial park in Lovelock which included infrastructure including industrial site pads and fire hydrants; however, the city was still experiencing difficulty in bringing companies into the area. Mr. Combs noted that the officials in all the rural counties visited on the tour seemed to be very actively involved in the effort to attract additional businesses.

Chairman Parks explained that the state allocated some \$990,000 during the 2001 Legislative Session for economic development, and approximately one-third of that amount was allocated to Clark County, one-third was allocated to the northwestern part of the state, and the final approximately \$300,000 was divided among between the rural counties. Lincoln County indicated it had only received approximately \$7,800 from that fund. Chairman Parks indicated that review of Nevada's neighboring states, Arizona and Utah, revealed those states had invested a tremendous amount of money into industrial development activity in comparison to Nevada, and they appeared to be benefiting significantly from that investment; perhaps that would be a good indication that Nevada should work more aggressively in promoting those type of programs. According to Chairman Parks, industries that would be attracted to an urban area were not likely to look for a location in a city such as Lovelock, therefore, the industries that would generally locate in a major metropolitan area might look at the Las Vegas area rather than the Reno area, because geographically it was beyond the area of development, or there might be other considerations that were particular to that business and its interest. Chairman Parks felt if there was going to be any viable growth in the rural areas, the Legislature would need to review possible areas of assistance, and economic development was one area that might return some very good payoffs for minimal investments.

Assemblywoman Freeman referenced a bill passed by the 2001 Legislature that dealt with utility rates, where renewable energy was one of the issues. Rural areas in years past had experienced problems securing funding for industries, and



she wondered if there was something the committee could do that would help encourage that type of investment, not necessarily only in the urban areas.

Chairman Parks opened the issue for discussion. Mr. Leavitt felt that one issue which had clearly resulted from the rural tour was the feeling that the state was not accomplishing anything by “fooling around” with the present tax system, i.e., an increase in the rate, depreciation, et cetera, because the counties did not have the economic base, and it would not help to allow counties to increase taxes because local economies could not bear the burden of those increases. Mr. Leavitt indicated the rural counties were most interested in the means to encourage economic development in their areas, and interestingly enough, it was also indicated that rural counties were not asking for a handout for revenue from other parts of the state. For example, funds were currently available via the supplemental city/county relief tax distribution system, which were essentially generated by the more populated areas, and allocated to the rural counties because of the guarantee structure; however, rural counties had not expressed any interest in expanding that system.

Mr. Leavitt stated it was also discovered that the current financial condition in the rural counties was generally very good. The counties appeared to be very aware of their situation and were taking action to control financial conditions. However, it was almost universally stated by counties that without drastic changes, they would be unable in the future to maintain a decent level of services for their citizens because of the decline in assessed value, and the decline in revenue.

Also of concern to rural counties was the increase in the delinquency numbers on property taxes, and Mr. Leavitt noted such an increase indicated that the stability of the property tax system was challenged by the economic situation in the rural areas, where citizens were currently unable to pay property taxes. Mr. Leavitt indicated at the present time, most rural counties were at the \$3.64 cap, and had no debt other than school districts. In counties that had experienced significant economic development, such as Clark County, more and more of the tax rates were allocated to debt, because the county had built its infrastructure to accommodate the economic growth.

Mr. Leavitt indicated the problem facing rural counties was that in order to encourage economic growth, the only way they could accommodate the issuance of debt would be to lower operating rates; however, counties had already reached the point where they were unable to provide a decent level of services. Mr. Leavitt felt that was a significant problem for the rural counties, and noted that Lovelock in Pershing County had the infrastructure in place, however, future economic development would bring additional persons to work in the industrial park, which would require additional infrastructure necessary to accommodate the growth on a community-wide basis. He emphasized that rural counties were not in a good position to encourage economic growth, which he perceived as a tax problem that should eventually be addressed. Mr. Leavitt recognized that the counties were not faced with these infrastructure problems presently because of the lack of development, and during the tour, the mayor of Lovelock stated that the last building permit had been issued 24 months ago. That information provided a feel for the little economic growth experienced by rural counties.

Mr. Leavitt noted that members had asked several questions during the tour regarding financing utilities with user charges, and whether appropriate taxes were being levied, et cetera. Most counties were utilizing all available resources, and it was felt that nothing short of economic development was going to resolve the problems. He opined that in the future, rural counties would suffer declining service levels, and hopefully the counties would control their own finances.

Senator O’Connell inquired whether there had been much discussion regarding regional services among the rural counties, and whether the time was at hand to identify those regions; she wondered whether that would be a viable solution.

Mr. Hobbs stated that one of the discussions during the May 16, 2002, meeting of the Advisory Committee centered around development activities that occurred on borders between counties and/or between other entities. The examples that came to mind were the development that was occurring on the Douglas County side of the Douglas County/Carson City border; the situations that had existed for several years between Elko and Eureka Counties; the potential development of the I-80 corridor in Washoe and Storey Counties, which could have an effect on four or five counties; the Coyote Springs Development which straddled the Clark County/Lincoln County border; along with other issues in Mesquite. Mr. Hobbs indicated the state was experiencing more and more situations that created multi-jurisdictional

impacts where revenues could be drawn to one entity while service demands were imposed on the other entity.

While the Advisory Committee would attempt to deal with specific cases, its agenda item referenced the identification of multi-jurisdictional impacts as an issue, and formulation of a work product that would identify methods to deal with such situations beyond those that currently existed in law. Mr. Hobbs noted the point had been brought forward regarding the importance of county boundaries, however, the committee would, in time, have to look past those boundaries for the purpose identifying the source and distribution of revenues. According to Mr. Hobbs, it was the “common economies” that created the synergies which lead to demands on counties caused by employment, and migration of people from home to work. He felt the committee should begin to focus on those “common economies” as cost and revenue centers, versus review on a county-by-county basis. The terminology used by the Advisory Committee to identify those “common economies” was “enterprise zone,” which Mr. Hobbs felt was an appropriate descriptor. Those situations would springboard into the issue addressed by Senator O’Connell.

Senator Neal stated he had toyed with the idea of initiating discussion regarding the concept of regional services during the recent rural tour; however, after hearing the degree of commitment on the part of individuals who resided in, and represented, those counties, he did not feel they would be amenable to that concept. Senator Neal indicated emphasis was placed on securing additional resources so that counties could be self-sufficient. The particular issue of regional services had been broached by the Legislature in the past, and was discussed in terms of school districts. Senator Neal did not feel the counties were looking toward any type of regional government. He noted that the sheriff in Mineral County advised that after arrest and conviction of a person, oftentimes the state would not immediately transport that person, and the cost inured to the county. In many instances, the county could not afford the additional costs, and it was hoped that the state would respond immediately and transport those individuals to state facilities, or reimburse the counties for housing those individuals. Senator Neal gathered from the Mineral County sheriff that such situations created a substantial expense to the county, and elimination of that expense, along with possible reimbursement would be of help to the sheriff’s department.

Chairman Parks referenced hospital costs, which was also a significant issue that came to light in the smaller rural communities, where a substantial portion of the population were older residents who fell into the indigent category, and required local government services. That situation was more significant in smaller counties than in a more populace county such as Clark or Washoe. Chairman Parks also noted that many persons arrested by the Department of Parole and Probation were incarcerated in county facilities at county expense, which added to the burden.

Chairman Parks indicated that Advisory Committee member Janet Murphy had provided a packet of information for the committee’s perusal regarding the rural fiscal tour, Exhibit D, and inquired whether Ms. Murphy would like to address the Legislative Committee. Ms. Murphy explained that the packet contained information she had obtained during the tour, including newspaper articles that she felt would provide some insight regarding the economy in those areas such as housing costs and rental costs. Ms. Murphy stated the packet included an article she had obtained in Hawthorne regarding grant money received for revitalization, and how those funds were applied. She felt the packet might be helpful to committee members regarding the economy of the rural areas.

Chairman Parks noted that local newspapers were quite enlightening and provided a different perspective on the issues. Chairman Parks asked whether there was any further testimony or comments regarding Agenda Item VII.

Andrew List, Policy Research Coordinator, NACO, stated he would provide clarification of the numbers included in Exhibit C regarding the net proceeds of mines. As indicated by Ms. Ritter, the figures provided by NACO represented the actual proceed numbers rather than the amount of revenue received by the county. He thanked committee members who participated in the rural tour, and noted that such visits reinforced the concept that counties and the state were in the economic crisis together. According to Mr. List, feedback from county commissioners and other local officials indicated that the meetings have been very productive.

Chairman Parks thanked NACO and the Nevada League of Cities for their assistance in organizing the meetings with various elected officials during the rural tour. With no further comments forthcoming regarding Agenda Item VII, Chairman Parks opened discussion on Agenda Item VIII.

***Discussion of Future Meeting Dates of the Subcommittee to Study the Cost of Maintaining Highways, Roads and Streets, the Advisory Committee and the Legislative Committee***

Chairman Parks indicated future meetings of the committees were scheduled for June 26 & 27, 2002, and August 22 & 23, 2002, for a work session in order to meet the BDR deadline, and that all meetings were scheduled to be held in Las Vegas. Chairman Parks opened discussion regarding the proposed dates, and the possibility of consolidating into one meeting versus the scheduled two-day meetings.

Mr. Hobbs indicated the question of consolidation was difficult to answer, as the meeting of the Advisory Committee on May 16, 2002, did not adjourn until approximately 3:00 p.m. He felt that by the August meeting dates, the Advisory Committee would be refining recommendations for BDRs, which would take less time, therefore, the meetings could probably be combined in August. The Advisory Committee might require one more meeting to delve into issues under consideration, and perhaps the June meeting should remain as two separate days, however, meetings thereafter could be combined. Mr. Leavitt concurred with comments made by Mr. Hobbs regarding consolidation, and felt the Road Subcommittee would also require at least one additional individual meeting.

Extensive discussion ensued regarding the availability of members on the aforementioned meeting dates, and it was pointed out that a conflict existed for many members regarding the June 26 & 27, 2002, meeting dates. Chairman Parks noted that summer schedules often complicated future meeting dates, and inquired whether members wanted to change the June dates.

Mr. Combs recommended that the June meetings be combined, as he was unsure how much information would be completed within the five-week timeframe for presentation to the Legislative Committee for possible action. Receipt by the committees of identical status report information would be conducive to a combined meeting in June. Mr. Combs stated he would prefer the August meeting to be held over a two-day timeframe, because that was the deadline for the Advisory Committee to present its recommendations to the Legislative Committee, which might require additional time. He suggested that if members were amenable to a combined meeting in June, he would poll members for a meeting date within that general timeframe that would not present a conflict. Mr. Hobbs concurred with the suggestions made by Mr. Combs regarding the June and August meeting dates, and indicated that the Advisory Committee would make the combined June meeting work.

Mr. Combs noted the conflicting meeting scheduled for June 26, 2002, and reiterated that he would poll members for an acceptable meeting date for a joint meeting. He would attempt to arrive at a date that would be amenable to the committee chairs, and as many members as possible within the general timeframe of June 27, 2002.

Chairman Parks declared that staff would poll members for an alternative date for the combined June meeting; the location of the hearing would also be determined via the poll.

Chairman Parks opened discussion on Agenda Item IX, Public Comment, however, no persons came forward to address the committee and he called for a motion to adjourn.

Mr. Welsh announced that his retirement from state service was imminent, and he expressed his thanks to the committee. Chairman Parks acknowledged that this was Mr. Welsh's last meeting, and voiced the appreciation for his diligent work with the current committees, and with past committees over the years. Chairman Parks wished Mr. Welsh the best of luck on his retirement.

SENATOR O'CONNELL MOVED TO ADJOURN THE MEETING OF THE LEGISLATIVE COMMITTEE FOR LOCAL GOVERNMENT TAXES AND FINANCE.

ASSEMBLYWOMAN FREEMAN SECONDED THE MOTION.

THE MOTION CARRIED UNANIMOUSLY, AND THE HEARING WAS ADJOURNED AT 12:07 P.M.

Respectfully submitted,

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Carol Thomsen, Interim Secretary

APPROVED:

\_\_\_\_\_  
Assemblyman David Parks, Chairman

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