MINUTES OF THE MEETING OF THE
GOVERNOR'S TASK FORCE ON TAX POLICY IN NEVADA

(Assembly Concurrent Resolution 1 of the Seventeenth Special Session)

February 13, 2002

The Governor's Task Force on Tax Policy in Nevada was called to order at 9:35 a.m., on Wednesday, February 13, 2002. Chairman Guy Hobbs presided in Room 4412 of the Grant Sawyer Office Building, Las Vegas, Nevada. The meeting was videoconferenced to Room 3137 of the Legislative Building, Carson City, Nevada.

COMMITTEE MEMBERS PRESENT IN LAS VEGAS:

Mr. Guy Hobbs, Chairman
Mr. Russ Fields
Ms. Eva Garcia-Mendoza
Mr. Brian Greenspun
Mr. Kenneth Lange
Dr. Luther Mack
Mr. Mike Sloan
Ms. Nancy Wong

EXHIBITS:

Exhibit A: Meeting Agenda
Exhibit B: Attendance Records
Exhibit C: PowerPoint presentation by the Governor's Task Force on Tax Policy in Nevada, Technical Working Group, entitled, *Phase 1: Problem Assessment, the Structural Deficit*
Exhibit D: PowerPoint presentation by the Governor's Task Force on Tax Policy in Nevada, Technical Working Group, entitled, *Phase 1: Problem Assessment, the Structural Deficit,* revised
Exhibit E: Prepared statement, read by Edward Duffy, concerned citizen
Exhibit F: PowerPoint presentation, presented by Jack McLaughlin, Ph.D., Superintendent of Public Instruction, State Department of Education
Exhibit G: Education Week, January 10, 2002
Exhibit H: Handout, presented by Dr. McLaughlin, entitled, *Nevada K-12 Education*
Exhibit I: Handout, presented by Dr. McLaughlin, regarding K-12 education funding in Nevada

Roll Call

Chairman Hobbs called the meeting to order at 9:40 a.m. He stated he would take public comment at the end of the meeting rather than after each agenda item, unless the comment was specific to the item under discussion. Chairman Hobbs declared gratitude on behalf of the task force for the magnitude and professionalism of the material provided by the technical working group with Mr. Jeremy Aguero as Acting Chair. Chairman Hobbs also acknowledged the work of the members of the technical working group regarding their contributions to the information on the task force's Web page and the quality and quantity of information provided to the task force. Chairman Hobbs commented the technical working group has been providing these extensive services without benefit of compensation of any kind. Chairman Hobbs stated the task force members had discussed possible methods of obtaining funding to help support the technical working group. Chairman Hobbs also expressed the task force's appreciation to Mr. Aguero for attending the meetings to present the information, and recognized the presence in the meeting room in Las Vegas of technical working group members, Mr. Phillip Stoeckinger, Mr. Randall H. Walker, Mr. Bill Bible, Mr. Mike Alastuey, and the working group members present in Carson City via videoconference.

Presentation of Technical Working Group Report regarding Projections Relating to the Issue of Structural Deficit.

Discussion and Possible Action Regarding Projections Relating to the Issue of Structural Deficit

Chairman Hobbs introduced the second and third agenda items to be considered simultaneously. He explained the second agenda item was a continuation of a discussion from the previous meeting. He offered a recap stating Assembly Concurrent Resolution (A.C.R.) 1 of the Seventeenth Special Session addresses several topics. Chairman Hobbs explained, one of these topics from A.C.R. 1 concerns structural deficit, which the task force is currently attempting to define in order to refine their approach. Chairman Hobbs added A.C.R. 1 also addresses funding for certain state programs, including, specifically, kindergarten through twelfth grade (K-12) education and long-term care. In addition, Chairman Hobbs said A.C.R. 1 references the stability of the tax structure in Nevada. He stated A.C.R. 1 requires the task force to promulgate thoughts, ideas, suggestions, and recommendations regarding each of the aforementioned points.

Chairman Hobbs stated the task force had been taking an approach that compartmentalizes each of the topics from A.C.R. 1 individually. Chairman Hobbs explained, the task force is currently examining the potential future status of the structural deficit based on per-capita expenditure levels with no changes to the current structure. He declared this baseline estimate is different from a revenue and expenditure imbalance, which may be created by the addition of programs or the addition of costs to current programs.

Chairman Hobbs continued, the task force is concurrently reviewing the current tax structure. He commented, some of the components of the current tax structure are not very stable. Chairman Hobbs declared there is a desire by the authors of A.C.R. 1 to have the future revenue structure better reflect the diverse nature of Nevada's economy.

Chairman Hobbs reiterated he does not want anyone to be under the impression that by identifying this initial definition of structural deficit and discussing remedial matters related to it, the task force has concluded their discussion of budgetary gaps that may exist. Chairman Hobbs said he had received numerous calls regarding this matter and wanted to clarify the issue.

Ken Mahall, President, Nevada Seniors Coalition, asked Chairman Hobbs if the information would be available on the Internet. Chairman Hobbs replied, there is substantial material currently available on the Web site. Chairman Hobbs continued, anything discussed would also be added to the Web site after the material is reviewed by the members of the technical working group. Chairman Hobbs stated the information discussed at the current meeting would be posted to the Web site as soon as practically possible.

Jeremy Aguero, Acting Chairman, Governor's Task Force on Tax Policy in Nevada, Technical Working Group, stated, generally the summaries of all the presentation materials from the analysis to date have been placed on the Web site. Mr. Aguero added, in the past, the technical working group has made a policy to post materials to the Web site within two days of the meetings, and the technical group intends to continue this procedure. Mr. Aguero stated, some of the background information from these presentation summaries is not completed but could also be posted, as appropriate. Chairman Hobbs added the task force was also attempting to post information to the Web site prior to the meetings; however, resources and time constraints were a factor.

Chairman Hobbs asked Mr. Aguero how many times the Web site had been visited. Mr. Aguero responded the average for last week was approximately 3400 visits per day. Chairman Hobbs commented he hoped the availability of the Web site is a convenient method of accessing information to all interested parties. Chairman Hobbs announced the Web site address: www.appliedanalysis.com, which is linked to the Governor's Task Force on Tax Policy in Nevada.

Mr. Aguero stated, since the last meeting, the technical working group had worked closely with Mr. William Anderson, Economist, State of Nevada, Department of Administration. He expressed gratitude to the Governor's office, the Legislative Counsel Bureau, and others for providing information to the technical working group. Mr. Aguero stated he provided copies of the PowerPoint presentation to each of the members and audience. He noted, however, the original copies provided (Exhibit C) had been slightly changed since they were distributed to meeting attendees in Carson City. Mr. Aguero stated these changes were only some additional detail and nothing very material to the discussion. Mr. Aguero announced, technical working group members, Randy Walker, Mike Alastuey, and Marvin Leavitt would be participating in his presentation. Mr. Aguero extended his personal gratitude to all the members of the technical working group for their participation.

Mr. Aguero began his PowerPoint presentation entitled, *Phase 1: Problem Assessment, The Structural Deficit* (Exhibit D), stating the technical working group had identified four questions regarding the problem assessment. Mr. Aguero stated the first question is, What is a structural deficit? He noted Chairman Hobbs had also alluded to the various interpretations of this defining issue earlier. Mr. Aguero said the next question asks, Does Nevada have an existing or potential imbalance between its revenue generating ability and the cost of providing services? He declared if there is an imbalance, there is a problem. For the next question, Mr. Aguero asked, If Nevada does have an imbalance, what is its magnitude? Mr. Aguero stated the final point raises the question, If there is an imbalance, what solutions are available under the existing tax system?

Mr. Aguero continued his PowerPoint presentation (Exhibit D) by reviewing the reasoning and processes of the technical working group's effort to answer the question, What is a structural deficit? He sited the definition of renowned economist, Dr. Hal Hovey. Mr. Aguero stated he does not always agree with all of Dr. Hovey's work, but acknowledged Dr. Hovey is well respected and often quoted in Nevada. Mr. Aguero quoted Dr. Hovey's report, *The Outlook for State and Local Finances,* "[Structural deficits] reflect a mismatch between growth in spending needed to maintain current services and growth in taxes and other revenues." Mr. Aguero commented this is generally a traditional economist's view of a structural deficit in a fiscal situation. Mr. Aguero suggested Dr. Hovey asks a similar question to the question Chairman Hobbs has queried in this first phase of the process; How can we maintain current services under the existing structure? Mr. Aguero said Dr. Hovey's definition is known as the "status quo gap" and restated Dr. Hovey's definition as maintaining the ability to provide the current level of services in the future.

Mr. Aguero continued his PowerPoint presentation (Exhibit D) describing the second definition of a structural deficit and quoting Donald Tsang Yam-kuen, Hong Kong's Finance Secretary, "Recurrent expenditures consistently exceeding revenues." Mr. Aguero explained this as "a budget forecast gap." Mr. Aguero restated this definition as knowing in the future spending will be higher, revenues will be less, and the imbalance between revenues and expenditures will create problems. Mr. Aguero mentioned this definition relates to previous task force discussions regarding increased caseload costs and other program deficits.

Mr. Aguero then described the third definition of structural deficit from page 68 of the 1995 Economic Report of the President. He quoted "the deficit that would result if the economy were operating at or near its potential output . . . ." Mr. Aguero noted this definition is more traditional. Mr. Aguero restated the definition; if the economy as a whole is not able to produce what is needed, then the expected revenues will be deficient, which is also called a structural deficit. Mr. Aguero elucidated, this type of analysis is often used to evaluate the effects of public policy decisions excluding the impacts of some business cycles.

Mr. Aguero presented the final definition of structural deficit from a speech delivered by LC Jain and Dr. A. Indira at the International Budget Project Conference. Mr. Aguero quoted, "the discretionary policy actions of an expansionary fiscal stance of the government measured as a proportion of Gross Domestic Product." Mr. Aguero elucidated, if a government is attempting to have a larger presence within the local economy, it can create an expansionary government deficit.

Mr. Aguero summarized, though the aforementioned definitions are varied, they all agree a structural deficit is defined as any deficit created by noncyclical factors. Mr. Aguero noted this only partially addresses what A.C.R. 1 describes for the task force. He said the task force must also investigate a budgeted forecast gap. Mr. Aguero described a budgeted forecast gap as an imbalance at projected, policy-based, service levels; or restated as there may be additional impacts for greater services provided. Further, Mr. Aguero continued, there may be cyclical deficits; imbalances resulting from a relatively unstable economy may be vulnerable to economic cycles. In conclusion, Mr. Aguero recommended on behalf of the technical working group, the task force define a structural deficit as "a public-revenue, service-cost imbalance." He elucidated the elements of this definition include the ability to maintain a status quo service level, cyclical impacts, and policy-based enhancements to existing services which will likely increase costs.

Mr. Aguero continued his PowerPoint presentation (Exhibit D) with the next question; Does Nevada have an imbalance? Mr. Aguero stated, for the status quo, state revenues appear to be growing at a rate insufficient to cover costs at current service levels. He explained the reason for this: as growth slows, the property tax base will begin to erode as depreciation adjustments reduce the tax base and generate less revenue over time. He added, gaming tax revenues are declining at a compounded annual growth rate of approximately 2.2 percent. Mr. Aguero also noted, several taxes do not have inflation adjustments; for example, business license fees do not change, and therefore, generate less dollars per capita each year. Mr. Aguero reiterated, there are numerous taxes where built-in erosion exists, which creates a status quo gap.

Next in the PowerPoint presentation (Exhibit D), Mr. Aguero discussed the imbalance question by addressing cyclical gaps. Mr. Aguero said the state's revenue-generating capacity is extremely vulnerable to economic cycles. He reiterated from a previous discussion, the local economy entered a period in early 2001, of what could be categorized as economic recession, or, at least, slower growth. Mr. Aguero explained, nationally, recessions generally equate to higher unemployment and less disposable income, which decreases the propensity to travel and negatively affects tourism. Less disposable income also affects economic input from other states, other industries, as well as, internal expansion, Mr. Aguero noted. He also added, the well documented, and yet, not fully understood, impacts of the events of September 11, have also affected revenues.

Mr. Aguero addressed the third tier of the imbalance problem, the budget forecast gap. He stated increased government service levels have the potential to put upward pressure on per-capita revenue requirements beyond the status quo. Mr. Aguero pointed out these are policy-based decisions: higher costs for providing a certain level of services, larger caseloads, or expanding the level of services. He reasoned these policy decisions can create a higher cost in the future. Mr. Aguero mentioned the technical working group has not received all the information from all the expenditure areas of the state; however, there is some indication the character of the caseload is changing. He expounded, there is some preliminary indication that population and inflation will grow at a rate of approximately 80 percent, and the cost of Medicaid could grow as much as 210 percent over the next 10 years. Mr. Aguero added, the cost of education could grow 147 percent over the next 10 years. Mr. Aguero qualified, these are only preliminary numbers and have not been thoroughly investigated; however, they could suggest the magnitude of the problem. Mr. Aguero stated these are not status quo problems, but represent the increased demand for government services, such as, a greater population of children needing education per capita and an increase in Medicaid-qualified recipients per capita.

Mr. Aguero next addressed the legislative appropriations for fiscal years 2002 and 2003. He stated these appropriations include some policy-based decisions. Mr. Aguero said he would present models showing revenues growing at a rate slightly higher than the rate of population growth, as well as, an inflation rate of approximately 2.97 or 3 percent. He noted the budgeted appropriations for 2002 have an 11 percent increase and the budgeted appropriations for 2003 have a 7 percent increase in expenditures. Mr. Aguero stated these appropriation budgets are higher than the population increases, which creates the budget forecast gap discussed earlier. He mentioned the state is spending slightly less per capita because the state is generating fewer dollars per capita on an inflation-adjusted basis and the balanced budget amendment requires the state to spend less.

Mr. Aguero continued his PowerPoint presentation (Exhibit D) with the next question; What is the magnitude of the existing and projected imbalance? He stated the imbalance at fiscal year 2010 appears under all four aforementioned scenarios. Mr. Aguero stated, under the status quo gap, there will be a 1-year, $76 million gap in fiscal year 2010. Mr. Aguero explained, this scenario looks at normal revenue growth, and expenditures expanding based only on population growth and adding 3 percent inflation. Mr. Aguero explained the second scenario under the status quo with no revenue growth assums there is a cyclical problem this year and going into next year; the 1-year gap at fiscal year 2010 would be $198 million. The third scenario, Mr. Aguero stated, under the budgeted fiscal gap using normal revenue growth, would be a 1-year gap in fiscal year 2010 of $240 million. He concluded the budgeted fiscal gap with no revenue in 2002, would be $362 million for fiscal year 2010. Mr. Aguero pointed out the final two scenarios include only the additional service levels budgeted into fiscal year 2002 and fiscal year 2003 and they do not expand over time. He noted those expenditures will likely change along with other expenditure data.

Next, Mr. Aguero considered work sheets in his PowerPoint presentation (Exhibit D) representing revenues, expenditures, and gaps broken down by each fiscal year. He described the first chart, which deals with the status quo gap under normal revenue growth. Mr. Sloan asked Mr. Aguero to clarify "normal revenue growth." Mr. Aguero explained, in order to determine an estimate of revenues over time, the technical working group expanded data from each revenue category independently, such as, population growth, growth in income, and growth in employment. Mr. Aguero said they included the three largest revenue sources, gaming, sales, and business activity taxes, as well as, every other known revenue they could identify, no matter how small. He stated the technical working group projected the growth rate based on what they expect to happen over time and not based entirely on historic data. Mr.

Aguero gave the following example: the population has historically grown at 6.5 percent and the technical working group does not expect this trend to continue, which would add to the status quo problem. From the chart, Mr. Aguero pointed out the projected revenues for the fiscal year 2010, under the status quo, would be $2.532 billion. Mr. Aguero stated the expenditures for the same analysis would be $2.6 billion, creating a 1-year status quo gap of about $76 million. Mr. Aguero noted this scenario does not include the expenditures appropriated for 2002 and 2003, which are higher than the figures listed. He reiterated this scenario only addresses growth at a normal pace.

Mr. Aguero then presented a chart representing the status quo gap with no revenue growth in 2002 from his PowerPoint presentation (Exhibit D). He explained, in this scenario, the technical working group assumed revenue growth between the years 2002 and 2003 would remain relatively flat, which is similar to what Mr. Anderson and also Mr. Schwer reported in earlier testimony. Mr. Aguero qualified these are only estimates for the sake of discussion. He continued, the chart calculates if revenues do not grow in fiscal years 2002 and 2003, and then resume normal growth-rate returns in 2003 and forward, the 1-year status quo gap goes up to $197 million from the previous chart's estimate of $75 million. More importantly, Mr. Aguero added, the cumulative gap goes from positive $59 million to negative $885 million. Mr. Aguero qualified, the technical working group has estimated a 10-year period and there are numerous exogenous variables, such as, the state of the national economy.

Mr. Aguero next presented the chart relating to the budget forecast gap with normal revenue growth. He noted the expenditures in fiscal years 2002 and 2003 are accelerated, which produces a budget forecast gap going forward, with a total gap of $240 million in fiscal year 2010 and a $1.1 billion cumulative gap at the end of the period.

The final scenario Mr. Aguero presented relates to the budget forecast gap assuming there is no revenue growth in 2002. Mr. Aguero stated in that case the total annual gap will be $362 million in fiscal year 2010 and approximately $2 billion cumulatively by fiscal year 2010. Mr. Aguero reminded the task force that the technical working group has not yet received all the information from all the expenditure categories and these numbers do not reflect all the long-term forecasts.

Mr. Sloan asked Mr. Aguero if there was no revenue growth for a second year, in addition to the no-growth-in-2002 scenario, would that exponentially compound the gap. Mr. Aguero responded yes, it would be an adjustment to the base like a principle payment on a house. Chairman Hobbs clarified the difference between scenarios one and three, and scenarios two and four is the difference between holding the revenues constant and an adjusted revenue assumption. Mr. Aguero agreed with Chairman Hobbs' statement and explained, the budget forecast gap for the third scenario, is approximately 8.7 percent in the fiscal year 2010; and the budget forecast gap for the fourth scenario, with no growth in 2002, is approximately 13 percent in the fiscal year 2010.

Mr. Sloan expressed concern with the uncertainties of forecasting 10 years in the future. He recalled only 2 or 3 years ago when the federal government was going to eliminate deficits forever and the surplus would be returned to the taxpayers. Mr. Sloan continued, the recession and the events of September 11 changed that to a discussion of deficit spending. He sited a recent report from National Public Radio, which said 44 other states were also having deficit problems because they did not accurately forecast the recession, which was compounded by the unforeseen events of September 11. Chairman Hobbs responded a model can only be made from what we know and many external influences cannot be predicted. Chairman Hobbs added this is the best we can do, if other things are held constant, and commented a model can be manipulated to reflect any possible scenario. Mr. Aguero expounded the technical working group has collected approximately 260 variables back to 1980. Mr. Aguero stated those years reflect periods of recession and periods of growth. Mr. Aguero noted it is especially difficult to fashion the southern Nevada model with the appropriate degree of vulnerability so the model will adjust enough to periods of economic downturn.

Mr. Sloan expressed no one can know what the impact will be on gaming in Nevada from the recent change in the law for gaming in California. Mr. Sloan added, these changes are difficult to predict, and the task force should be cautious when making revenue assumptions. Chairman Hobbs asked Mr. Aguero what the average annual growth rate is for the revenue forecast for the period on the charts. Mr. Aguero answered, approximately 4.4 percent. Chairman Hobbs asked what the average growth rate was 10 years ago. Mr. Aguero responded, considerably higher, possibly about 6.5 or 7 percent. Chairman Hobbs commented, although the revenue estimates are tempered, there could be other factors which could influence the revenue side of the equation. Chairman Hobbs also hypothesized, if there is a slow down which affects job growth, there would likely be an impact on population growth, and consequently some impact on the expenditure side. Chairman Hobbs added, these changes would not necessarily be equal; however, some revenue changes may also influence expenditures. Mr. Aguero noted gaming in nearby states is definitely a threat to Nevada's gaming revenues, and the best the technical working group can do is try to build in as many assumptions as they can.

Chairman Hobbs commented there will be variance on the estimates, and the models can be adjusted when information becomes available. He stated he had hoped to agree on a range for a baseline value of an inherent imbalance with the understanding this estimate can be affected by unforeseen external influences. Chairman Hobbs noted this baseline value could be affected by policy decisions for levels of spending and programming, and also by possible changes to the revenue side, which could accelerate the divergence. Chairman Hobbs reiterated he wanted to establish a baseline for discussion.

Chairman Hobbs asked Randall H. Walker, member, Governor's Task Force on Tax Policy in Nevada, Technical Working Group, for his opinion of the accuracy of the base-year assumption from the presentation. Mr. Walker commented he agreed with Mr. Sloan's assessment that there are numerous unknown variables, but said he felt agreeing on a range was necessary in order to proceed. Mr. Walker sited the difficulty the Department of Aviation was having predicting the recent changes in air travel.

Mr. Sloan asked Mr. Walker and Mr. Aguero if there is a decoupling of the link between gaming industry revenues and sales tax revenues. Mr. Sloan recalled testimony from Mr. Bill Bible, member, Governor's Task Force on Tax Policy in Nevada, Technical Working Group, who stated sales tax revenues had not fallen as dramatically as the gaming tax revenues. Mr. Sloan suggested this may be indicative of other growing segments of the economy. Mr. Aguero responded he felt the sales tax figures were inflated by the recent surge in buy-now-pay-later sales, especially for automobiles. Mr. Aguero stated this is a national trend since the events of September 11 and offered to provide the figures supporting his conclusion. Chairman Hobbs commented the figures representing sales tax by commodity clearly point to an increase in sales of new and used cars.

Mr. Sloan asked Mr. Aguero to comment on the home-building industry in Nevada. Mr. Aguero responded, though he did not have the figures available at the moment, he believed there were over 24,000 new homes constructed in the past year. Mr. Aguero added the newspapers were reporting an increase in new-home sales, which is associated with decreases in the prime rate. Mr. Sloan noted, because other nongaming aspects of the economy have increased, revenues generated by gaming industry taxes have decreased in importance. Mr. Hobbs suggested the technical working group could track the number of housing units and the taxable sales in construction commodities. Mr. Sloan reiterated state revenues may not be as dependent on the vicissitudes of the gaming industry as they were in the past. Mr. Walker suggested besides the senior population, the main reason to build new housing is for people who have come for jobs, and if the gaming industry declines, so will the job opportunities. Mr. Sloan suggested the level of housing being built is generally more expensive than the average casino worker could afford. Mr. Walker replied, as people upgrade, casino workers may purchase the smaller home. Mr. Sloan stated about 75 percent of the people who live in Nevada do not work for the gaming industry, and also, Nevada has the fastest growing senior population in the United States. Mr. Walker commented as a percentage, the total number of nongaming, primary jobs is still fairly small.

Mr. Sloan stated other businesses are moving here. Mr. Sloan added there are $95 billion of gross sales in Nevada each year with only $14 billion of gross sales associated with the gaming industry. Mr. Sloan suggested they try to harvest some of the income from nongaming sales to pay for the services those people are consuming.

Mr. Marvin Leavitt, member, Governor's Task Force on Tax Policy in Nevada, Technical Working Group, suggested it is a mistake to try to estimate these figures based on recent events such as last month's sales, special circumstances like the events of September 11, or changes in the automobile industry. Mr. Leavitt stated he believed they needed to take a longer view in order to try to eliminate the influence of cyclical events. Mr. Leavitt commented they have no way to know the state of the economy in the future. He noted, in reviewing past projections, the estimates were almost always incorrect, however, in those same projections the expenditure and revenue sides generally retain similar relationships to each other. Mr. Leavitt added there is a minimal variance in the per capita, real terms. Mr. Leavitt stated when the technical working group prepared the figures, the expenditure levels remain constant in per capita, real terms over a period of time. Mr. Leavitt explained, if Nevada does not grow for whatever reason, then the expenditures will also be less. This, he clarified, will only be true for the long term. Mr. Leavitt opined, in the long term, there is a relationship between the growth in population and the growth in the need for revenues. He commented, though the numbers presented seem large, they are estimates over a long period of time and are not as insurmountable as they seem. Mr. Leavitt said he believes, assuming there will be no new programs, the deficit could be relieved by "tweaking" the current system rather than adding numerous, new revenues or a major restructuring. Mr. Leavitt suggested the problem could be solved by making changes to things, such as, the depreciation on property, business tax, and the exemptions on sales tax, as opposed to adding new revenues.

Chairman Hobbs stated one charge of the task force was to look at the stabilization of revenues which make up Nevada's general fund revenue mix. He elucidated these consist of existing revenues and other added revenues for program enhancement or to deal with the baseline structural deficit. Chairman Hobbs commented the depreciation issue should be discussed, because, though property tax is not usually recognized as a major revenue source, it does include the Local School Support Tax, which contributes a great deal. Chairman Hobbs continued, stating sales tax revenues are an extraordinarily narrow base, which decreases as additional exemptions are added. Also, he stated, the sales tax base is being eroded by e-commerce and other factors. Chairman Hobbs suggested there may be sales tax modifications in the future as A.C.R. 1 suggests. These changes, Chairman Hobbs commented, could even result in a lower sales tax rate with a broader base.

Chairman Hobbs queried the task force and the technical working group members if they could agree on a baseline range based on the information presented. Mr. Greenspun commented he believes Nevada's growth over the next 10 years will be nothing like the growth from the past 10 or 20 years. Mr. Greenspun exemplified, if the nuclear dumpsite comes to Yucca Mountain and the Clark County study that anticipates decreased tourism is correct, there will be a huge decline in revenue in the future. At the same time, Mr. Greenspun continued, the influx of the senior population with independent incomes may persist. Mr. Greenspun added, the need for services may increase due to the kind of population coming in. Therefore, Mr. Greenspun stated, even if the Legislature does nothing to improve Nevada's poor rankings in so many service areas, it could cost the state more just to stay where it is in terms of services to the population. Mr. Greenspun added, at the same time Nevada's revenues are declining significantly. Mr. Greenspun stated if this assumption is correct, the structural deficit could be $3 or $4 billion cumulative of 10 years, rather than the $2 billion estimate from the presentation. Mr. Grenspun concluded, he believes, though all would agree there will be a structural deficit, they can not make a guess as to what the amount will be without knowing the effects of the nuclear dump site at Yucca Mountain.

Chairman Hobbs stated, the purpose of the presentation was to identify a baseline with all things held constant and without considering future events. Chairman Hobbs suggested the nuclear dumpsite should be considered separately and commented there may even be increased mitigation revenues involved in its implementation, which could offset some of the negative impacts. Mr. Greenspun interjected he did not know what would happen with the nuclear dumpsite, but added he did not see how its future impacts could be ignored. Mr. Greenspun also commented he believes the gaming industry drives the economy of Nevada and will continue to do so for a long period of time. Mr. Greenspun stated he believes the task force should accept the higher end structural deficit range and work toward generating revenue sources to accommodate these estimates rather than "tweaking" existing revenues. This method, he added, would allow the Legislature some leeway for enhancing programs.

Mr. Sloan stated he believes it is impossible to assume Nevada will have no revenue growth in the year 2002. Mr. Sloan noted if 1 year in 10 can change the deficit estimates so drastically, he agrees with Mr. Greenspun, they should accept the higher end of the scale. Mr. Sloan said he also agrees, A.C.R. 1 does not direct the task force to "tweak" the current system, but rather to recommend a more stable, broader tax base.

Chairman Hobbs commented "tweaking" is a poor term to use; it may be more appropriate to discuss the existing sources of revenue, which are less stable then they should be, specifically, sales tax and the assessment base on property tax due to depreciation. Chairman Hobbs added he does not believe these are a panacea for the funding issues. However, Chairman Hobbs stated, he believes this is an opportunity to deal with a longstanding weakness in the sales tax base. Chairman Hobbs commented he agreed with Mr. Leavitt as to the magnitude of the problem and that they may be able to substantially change the existing status quo discussions by addressing the weaknesses in the existing tax structure before undertaking more extraordinary measures. Chairman Hobbs declared, the task force is charged with making recommendations to better match the revenue mix with the diversity of the economy. Chairman Hobbs qualified, no matter what range of figures the task force decides to accept, the task force will not be "marrying" themselves to any particular value. Chairman Hobbs noted forecasts beyond a year erode quite dramatically and the task force is fully aware of this. However, he suggested, there must be a place to begin. Chairman Hobbs added, any mitigating method for any problem will have to include an element which allows it to change as events change. Chairman Hobbs stated it is ridiculous to assume the task force could recommend a revenue change which would produce the dollars needed to eliminate the $362 million deficit in fiscal year 2010 as shown on the chart entitled, "Budget Forecast Gap (no revenue growth in 2002)" from the PowerPoint presentation (Exhibit D), and that would solve Nevada's problem.

Mike Alastuey, member, Governor's Task Force on Tax Policy in Nevada, Technical Working Group, stated he believes the technical working group should tier their observations for consideration by the task force. He said the technical working group should identify the relationship, on a status quo basis, between revenues and expenditures without significant policy changes. This, he explained, is the separate structural part, status quo, without major external influences. Mr. Alastuey noted when the technical working group used similar revenue and expenditure assumptions to those presented by the Fiscal Forum, the resulting structural deficit was considerably less. Mr. Alastuey stated the second component would involve policy questions. He explained these policy questions would include the near term including the appropriations from the 2001 Legislature, as well as, policy assumptions for increases in the future. He summarized there should be a separate presentation of the status quo conditions without major policy changes, major shifts in the market appeal of Nevada, or other external influences; a presentation of those figures with policy changes factored in; and finally, those figures superimposed with external influence predictions.

Mr. Leavitt commented there seems to be a concern from some members of the task force that perhaps the 10-year projection of Nevada's revenues will be less than presented. Mr. Leavitt suggested, in order to assuage those concerns, the technical working group should present another set of figures reflecting that assumption and adjusting the revenue side as well as the expenditure side. He noted if the concerns are more regarding the short term, Mr. Leavitt suggested the economy will probably fluctuate and then even out. Mr. Sloan responded, elements of Nevada's economy will continue to be strong, however, if new businesses come to Nevada, which attract new people, and there is no mechanism for generating revenue from those businesses, the problem will be compounded. Mr. Sloan declared, Nevada continues to depend on sales tax and a special tax on the mining industry, the insurance industry, and the gaming industry, at a time when the businesses that are not paying those taxes are growing more rapidly than the taxed industries. Mr. Sloan asserted there are numerous reports indicating you cannot have a diversifying economy, which brings in new businesses and new residents, without a corresponding method of having them participate in the cost of providing government services.

Mr. Leavitt responded, if the concern is what Mr. Sloan mentioned, and not the deterioration of the entire economy, then there are things that could be changed within the existing structure. Mr. Leavitt stated it is known that the sales tax in Nevada is based on the sale of personal property and that the service industry has gained in importance over time. Mr. Leavitt said it is also known that the percentage of revenues from gross gaming taxes is less significant then it once was. Mr. Leavitt added there is also a problem with revenue generation from property taxes due to depreciation. Mr. Leavitt reiterated, if there is still a general feeling the economy will move forward, then the gross estimates are not out of line, but there should be an adjustment in the gross to show a change over time.

Mr. Leavitt suggested these changes could include expanding the base, eliminating some of the exemptions on sales tax, eliminating the depreciation on property tax, or providing a factor on business tax. Mr. Leavitt stated all of these changes could be done basically within the existing structure. Mr. Sloan responded, he believes the mandate of A.C.R. 1 does not limit the task force to the existing tax structure and said he believes the task force should be investigating ways to broaden the tax base. Mr. Sloan suggested increasing property taxes would be an extremely unpopular idea, and also that expanding the sales tax to services could be problematic, as demonstrated in Florida. Mr. Sloan asserted the business communities have not participated in Nevada as they would in any other state, except Wyoming and Alaska.

Chairman Hobbs stated the presentation by the technical working group was intended as an incremental approach to components of the problems. He commented the task force must first analyze the situation before exploring solutions. Chairman Hobbs asserted the task force was charged with the diversification of the tax structure as well as the stabilization of the tax structure. He added there are components of the tax structure which have stability problems and components which have growth-related problems.

Mr. Lange commented he sensed the task force was not yet comfortable with choosing a range of numbers to represent the projected imbalance. He said he is comfortable with the model as a tool to consider the variables. Mr. Lange stated he believes it is more important to investigate building a system capable of responding to fluctuations, such as, cyclical variations, low demands, periodic adjustments in markets, and long-term impacts by known or unknown influences. Mr. Lange said he is comfortable accepting the assumptions made in the presentation by the technical working group for the basis of discussion. Mr. Lange suggested there is a danger in choosing a range of numbers because it has the potential to lock in the task force and also transfers to the policy debate. He commented the quality of the work presented already points to a range.

Mr. Aguero responded, when all the variables are factored in, the task force will have to agree on a set of variables and a set of totals in order to suggest a valid series of solutions to the issues. Mr. Aguero added no one knows what will happen with the dynamic economy, and suggested another group revisit this issue in the next couple years after changes have occurred. Mr. Aguero said the technical working group is in the process of compiling figures related to the diversification of the economy and its relative impacts on state and local revenues. Mr. Lange asked Mr. Aguero if there was a consensus in the technical group regarding a range of numbers for the deficit. Mr. Aguero stated the technical working group's largest agreement was between scenario 2 and 3, which would be a structural deficit in the range of approximately $250 million. He qualified, this number will change when policy matters appear. Mr. Aguero said $250 million represents a true structural cyclical deficit.

Phillip Stoeckinger, member, Governor's Task Force on Tax Policy in Nevada, Technical Working Group, instructed, in statistical models there are often a range of outcomes, and usually 80 or 90 percent of the outcomes fall somewhere in the middle. Mr. Stoeckinger stated the general consensus of the group agreed on the $250 million figure. However, he added, there is a great deal of variability, and the higher number of up to $350 million may be more realistic. Mr. Stoeckinger stressed a 10-year period is nearly impossible to predict, and the process should be monitored over time. Mr. Stoeckinger pointed out gaming tax revenues do not have an inflationary factor because people tend to retain betting habits, whereas sales tax is linked to the inflation of the price of goods, this accounts for some of the reason the two revenue sources are diverging.

Mr. Greenspun stated he believes the task force should suggest something structural to the Legislature, not a specific amount, but rather, suggest from where the money will originate. Mr. Greenspun said then it would be up to the Legislature to adjust, as circumstances require. Mr. Greenspun asserted, if there are no added revenues, the Legislature will be forced to cut 15 percent of expenditures over the next 10 years to balance the budget. Mr. Greenspun asserted the task force will have to do something significant just to get to the baseline figures presented by the technical working group. He commented in order to do this, the task force must investigate big ideas, not big taxes. Mr. Greenspun continued, and then it will be up to the Legislature to decide how much is needed and to change the amounts as the future dictates. Mr. Greenspun said he agreed with Mr. Sloan, there are many people who have benefited from the tourist industry and those who service the tourist industry, but have not contributed as much as they should. Mr. Greenspun expressed his displeasure with the fact that Nevada ranks fiftieth in the United States for the amount of money provided for kindergarten through twelfth grade education. Mr. Greenspun declared he believes Nevada must expand its tax base.

Chairman Hobbs commented he believed, in order to design a solution, the task force must have an idea of the magnitude of the problem. He noted the purpose of the discussion was not to "marry" the task force to specific amounts or to disregard other components. Chairman Hobbs stated the task force must be able to quantify what various increments of possible tax base expansion methods or existing tax base stabilization would produce. He reiterated he only wanted to quantify and not to hold the task force to specific amounts. Chairman Hobbs stated the task force would be making a substantial step if they could inform the technical working group they agreed on a range for the magnitude for the status quo total with all other factors held constant. Chairman Hobbs stated, then the task force could proceed to hear testimony on program enhancement issues. He noted, as new factors enter in, the task force would retain flexibility to address the problem and to modify solution recommendations. Chairman Hobbs opined if there is not general agreement on the magnitude of the problem, there will be disagreement regarding solutions.

Mr. Sloan commented he was concerned the amounts for the year 2002 may be inaccurate and that later in the year the task force will have more concrete information to better assess the growth rate. Mr. Sloan sited the difference in the two charts from the PowerPoint presentation (Exhibit D) representing deficits accumulated with or without normal growth in the year 2002. Mr. Sloan stated, the figures from September 2001 to date are known to be below average; therefore, the chart representing normal growth in the year 2002 can already be shown to be incorrect. Mr. Aguero replied, the technical working group was only trying to demonstrate the effects of cyclical events. Mr. Sloan responded he would be more comfortable if the chart reflected the actual amounts to date. Chairman Hobbs stated the technical working group would be updating data as new information became available. Chairman Hobbs reiterated these figures represent an order of magnitude and not actual totals.

Chairman Hobbs restated, the process is only to identify an order of magnitude for a baseline problem, and after agreement, the task force could proceed to identify additional forces which may change the figures. Mr. Sloan replied the task force could proceed to recommend solutions for multiple ranges of deficits and let the Legislature decide which solution is needed. Chairman Hobbs commented this portion of the exercise is only a starting-point figure. Chairman Hobbs added during the next phase of the discussion, the task force will listen to testimony to determine if the expenditure figures should be adjusted to accommodate identified needs. He noted these decisions would obviously be policy decisions made by the Legislature. Chairman Hobbs stated, after possible funding needs are identified, the task force will begin to identify potential solutions. Chairman Hobbs commented, at that time there would be an opportunity to add diversification to the base. Mr. Sloan stated he did not agree with that approach. Mr. Sloan asked Mr. Aguero if the technical working group changed the assumption of revenue growth in the year 2002 to a midpoint between normal growth and no growth, how that would affect the 2010 total. Mr. Aguero responded the total would be somewhere between the two totals, slightly higher than half. Mr. Sloan stated, if he had to choose a baseline number, he would pick the amount between no growth and normal growth for the year 2002, because it reflects known quantities.

Mr. Aguero divulged that all the members of the technical working group had not received all the information presented; therefore, the presentation should not be considered a consensus of the entire group. Chairman Hobbs stated the task force realizes only those members of the technical working group who comment are understood to be participating.

Mr. Lange asked Mr. Aguero if his model incorporates growth in expenditures based on past expenditure increases. Mr. Aguero replied the models reflect a 3 percent cost-of-living increase for all expenditures. Mr. Aguero commented these amounts represent a less aggressive approach to population growth than some figures others may have presented.

Chairman Hobbs suggested the task force agree the information presented by the technical working group, which included the participation of state and private entities, is the best assessment of the structural deficit with a midpoint value of approximately $250 million, with a range on either side of approximately $100 million. He qualified this would only be a statement of a starting point and would be adjusted as additional data for both revenues and expenditures becomes available. Mr. Greenspun commented he felt it would be more appropriate to look at the cumulative deficit at fiscal year 2010 rather than the one-year gap for that same year. Mr. Greenspun stated he could accept that assessment with all the caveats, but warned this figure would be "a moving target." Mr. Greenspun declared, there is clearly a structural deficit, in any case. Chairman Hobbs stated the figure he mentioned is generally a midpoint between all four scenarios presented in the PowerPoint presentation (Exhibit D). Chairman Hobbs added the model can be stress tested and will be adapted to policy-related options identified in the future.

Discussion and Possible Action Regarding the Identification of Potential Solutions for any Fiscal Deficiency Previously Identified.

Chairman Hobbs asked the task force if they wanted the technical working group to assemble recommended options for dealing with the identified baseline problem. Mr. Lange stated he believed this discussion should be deferred until possible additional expenditures are identified. Chairman Hobbs responded he believed it would be best to investigate possible solutions at this preliminary level in order to assess the extent and difficulty of addressing the problem before further expenditures are considered. He noted there are probably stability problems within the existing revenue sources, which could be part of the solution. Mr. Sloan replied it was too early to discuss a series of tax recommendations before the amount needed is identified. Mr. Sloan commented he and others on the task force may believe the quality of life in Nevada may require additional funding over the next 10 years and this should be discussed before a solution is explored. Chairman Hobbs stated he did not mean to constrain the discussion to a quantitative problem that does not consider quality of life as a component.

Chairman Hobbs stated he was attempting to assign the enormous amount of work incrementally for the technical working group so they could begin to compile the information for next step in the process. Mr. Greenspun stated this would be an opportunity to have the technical working group compile figures to see how much revenue property taxes would generate if they were increased to the maximum allowed under the Constitution. Mr. Sloan stated he would like to see figures representing the revenues from a split-role, which would tax residents at a different rate from businesses. Mr. Sloan added he would also like to see numbers related to broadened sales tax and eliminating some of the sales tax exemptions. He noted Florida recently passed a package to broaden their sales tax. Chairman Hobbs asked Mr. Sloan if he wanted to see figures representing property tax changes based on assessments or rates. Mr. Sloan commented, he believed the task force should recognize they should treat an individual who lives in a home differently from a land speculator or a business that has income-producing property. Mr. Lange asked the technical working group if they felt all the existing sources of revenue had been identified.

Mr. Aguero presented the remainder of the technical working group's PowerPoint presentation (Exhibit D) entitled, "Current Tax System Alternatives." He explained the presentation only included the major sources of revenue. Mr. Aguero read the listed major existing sources of revenue: retail sales and use tax, gaming percentage tax, property tax. Chairman Hobbs requested that the property tax be further broken down to include split-role taxes. Mr. Aguero agreed to add the split-role property tax to the list. Mr. Aguero continued to read the list of major existing sources of revenue: nonrestricted slot license fee, restricted slot license fee, flat fee on games, casino entertainment tax, advance license fee, annual slot tax, net proceeds on mineral tax, liquor tax, cigarette tax, tax on other tobacco products, gasoline tax, jet fuel tax, petroleum products cleanup fee, government services tax, insurance premium tax, business license tax, short-term car rental fee, estate tax, real property transfer tax, tire tax. Mr. Aguero noted some other taxes, which were not included in the list: the corporate business tax and the lottery.

Mr. Sloan reminded the task force, they had earlier addressed changing, but not increasing, the fuel tax and the energy tax. Mr. Sloan noted there is also an admissions tax. Mr. Aguero replied the admissions tax had been classified under the retail sales and use tax. Chairman Hobbs clarified, the fuel tax is currently required by the constitution to be used for construction, repair, and maintenance of roads and does not go into the general fund. Chairman Hobbs stated fuel tax regulations are extremely complicated, including, distribution, mechanics, and application, and fuel tax may not be relevant to the current discussion. Mr. Sloan interjected, the task force had included fuel tax on the list because of the concerns of an individual in testimony from a previous meeting. Chairman Hobbs recalled that previous testimony to be interested in a statewide fuel tax policy which would allow the rate to increase by inflation. Chairman Hobbs mentioned splitting the property tax may require a constitutional amendment.

Mr. Lange recommended the technical working group consider the efficiency of the tax collection process to determine if system improvements could increase revenue without increasing taxes. Mr. Lange stated he would also like to consider other sources of revenue, which do not currently exist in the tax structure, such as, general excise tax and business profits tax. Mr. Lange mentioned there may also be internal revenue sources, such as, increasing the Local School Support Tax. Mr. Lange suggested the technical working group investigate other states' tax systems. Mr. Aguero responded he would request testimony from someone from the state to address the issue of the efficiency of collections. Mr. Aguero commented the technical working group had submitted their report regarding the tax structures of other states in the previous meeting and asked the task force to review the list of revenue sources to check for omissions.

Ms. Garcia-Mendoza stated the technical working group had provided a summary of the rate and income from gaming taxes for all the states. Ms. Garcia-Medoza asked the technical working group to calculate a 1 percent increase in the taxable gaming revenues in Nevada. Mr. Sloan stated he had information listing the revenue by industry and the listing of the industries which are subject to taxation. Mr. Sloan noted, though there are approximately four dozen categories of businesses which have gross revenues of a total of approximately $95 billion, only three are subject to taxation: mining, insurance, and gaming. Mr. Sloan asked the technical working group to also calculate figures, which would reflect a 1 percent gross revenue tax on the currently untaxed businesses in Nevada. Mr. Sloan stated the gaming industry currently pays a 6.25 percent gross receipt tax. Mr. Sloan commented he would like to investigate the sales tax in Nevada. He noted Arizona and Florida have fairly broad sales tax. Mr. Sloan added, Arizona generates substantial revenue by applying their sales tax to commercial rental payments. Mr. Sloan stated, according to the Price Waterhouse-Urban Institute study, Alaska, Wyoming, and Nevada are the only states that do not have a broad-based business tax. Mr. Sloan noted, in all the states with legalized gambling, there is also a corporate income tax and a personal income tax. Mr. Sloan stated, though Nevada gaming enjoys the lowest tax rate, it produces the highest amount of revenue, and is the only state where the citizens do not pay a personal income tax and there is no corporate income tax.

Ken Mahall, President, Nevada Seniors Coalition, stepped forward to testify. Mr. Mahall suggested the task force consider the transient population and consider ways to try to stabilize the population. Mr. Mahall sited a study from the mid 1990's, commissioned by the gaming industry, conducted by Arthur Anderson, which advised the Legislature that each new resident moving into Nevada costs the tax payers $7000 per year. Mr. Mahall stated, at the current rate of over 32,000 people per year, the total would be over $200 million per year, and could be much more if the costs are updated. He noted the impacts of the transient population are greatest in health care and education. Mr. Mahall stressed he believes people leaving the state is one of the biggest problems facing Nevada.

Dr. Mack asked if inheritance tax had been included on the list. Chairman Hobbs stated they would add inheritance tax to the list.

Knight Allen, private citizen, testified he believes the assumption that businesses pay taxes is incorrect. Mr. Allen asserted, the mining industry, the gaming industry, and the insurance industry do not pay taxes. Mr. Allen said his insurance bill declares on the face of the bill that the insurance tax is included in the premium. He declared he is not opposed to raising or changing taxes; however, it should be acknowledged that it is the consumer who will pay the taxes. He interjected he does not believe there is a budget deficit. Mr. Allen suggested the task force confine its recommendations to the classical, liberal principles rooted in free economic choices made by the people.

Mr. Sloan responded he agrees with Mr. Allen it is the consumer who pays the taxes and the businesses are only a collection mechanism. However, Mr. Sloan continued, in return, the people who pay those taxes receive the services government provides. Mr. Sloan stated the cost of government services are substantially exceeding the revenues the government collects. Mr. Sloan noted the technical group advised the task force this gap will broaden over the next 10 years. Mr. Sloan stated A.C.R. 1 charges the task force to investigate solutions to this problem. Mr. Allen replied the challenge is to solve the problem with the existing principles and the current system. Mr. Sloan stated, A.C.R. 1 directs the task force to broaden the tax base. Mr. Allen asserted there is no other tax system in the country standing up as well as Nevada's. Mr. Allen added, Nevada is the state most affected by the events of September 11, with the possible exception of Hawaii.

Jeanette Belz, representing Associated General Contractors, Nevada Chapter, testified the Associated General Contractors both in the north and the south have commissioned a study to investigate the impact of fuel tax on road construction and maintenance. Ms. Belz said the Associated General Contractors had notified the task force by letter that the study would be complete by the beginning of April and had asked that the Associated General Contractors be allowed to present the results of that study after April 1, 2002. Chairman Hobbs responded he had received the letter.

Chairman Hobbs stated aside from producing different levels of revenue, there are also some quantitative and qualitative attributes the task force may want to consider, such as, administrative costs, stability over time, credit worthiness, and others. Mr. Lange asked the task force and the technical working group to consider the following factors when contemplating existing and new taxes: Stability, does it produce relatively constant revenue? Equitability, does it treat individual and businesses fairly? Simplicity, is it easy to understand? Complimentary, is all economic activity and wealth contributed proportionately? Balanced, is it based on a diverse and broad-based range of revenue sources and tax types? Economically neutral, it does not interfere with private economic decisions in the market place. Accountable, the law should be explicit and the tax should not be hidden. Mr. Sloan suggested the task force use this or a similar system to evaluate taxes. Chairman Hobbs suggested the technical working group compile a list of criteria for the task force's review. Mr. Sloan noted they should also consider competitiveness as a criteria. Mr. Sloan explained this would be an attempt to keep Nevada's tax rates competitive with other states in order to maintain the attraction to new business.

Edward Duffy, concerned citizen and member of Nevada Seniors Coalition, commented he should have made his remarks at an earlier time. Mr. Duffy read a prepared statement (Exhibit E) regarding his belief that there is no real structural deficit in Nevada and urged the task force to reject A.C.R. 1 in its entirety.

Presentation Regarding the Response to Solicitation of Comments by the Task Force

Chairman Hobbs stated the task force had received approximately twenty responses to the their letter soliciting comments. Chairman Hobbs said the task force had sent out more than 400 requests for comment, and with the networking from recipients of these letters, he estimated several hundred additional people were also notified. Chairman Hobbs acknowledged the receipt, to date, of the following replies: The Progressive Leadership Alliance of Nevada; Nevada Women's Lobby; Office of the State Controller; Join Together Northern Nevada; Grant Thornton

Accounting and Management Consultants; Nevada Manufacturers Association; Elko County; Jon Sasser, Esq., Legal Services; University and Community College System of Nevada; Reno-Sparks Chamber of Commerce; Regional Transportation Commission of Washoe County; Carson City Assessor; Elko Chamber of Commerce; Nevada Chapter, Associated General Contractors of America; City of Las Vegas; City of Sparks; Bridge, Structural, Ornamental and Reinforcing Iron Workers, Local 118; Clark County School District. Chairman Hobbs noted he had also received some comments by e-mail. Chairman Hobbs commented, most of the letters received requested an opportunity to testify at a later date regarding tax policy, or appropriations for programs.

Lorne J.Malkiewich, Director, Legislative Counsel Bureau, stated the responses to the letter soliciting comments, which contained specific suggestions, recommendations, or resources, would be placed on a link through the Web site, www.appliedanalysis.com .

Scheduling of Future Meeting Dates

Chairman Hobbs recommended March 13 for the next meeting date and a suggested having that meeting in Carson City. Chairman Hobbs requested they schedule the next few meetings closer together, because they would likely involve testimony from agencies and organizations. He noted this would give the technical working group time to prepare information requested. Mr. Sloan asked Chairman Hobbs if they would schedule a future meeting in Elko. Chairman Hobbs replied the task force would probably schedule a meeting in Elko in the spring or summer. Chairman Hobbs commented there is no travel reimbursement yet available. Mr. Sloan suggested the task force consider requesting donations for a fund, which could assist with travel expenses. Chairman Hobbs mentioned there may be a way to set up a blind trust to handle the contributions so the task force would not be concerned with the origin of the contributions. Chairman Hobbs commented the technical working group had already donated a huge amount of hours to the endeavor.

Public Comment

Carole Vilardo, Nevada Taxpayer's Association, stated there is an inherent danger in comparing rates with other jurisdictions. Ms. Vilardo explained, comparing rates and revenues with the other fifty states does not produce a comprehensive picture. Ms. Vilardo noted there are so many variables in the calculation and payment of taxes, for instance, property tax is assessed differently in different states. Mr. Vilardo suggested other states may have a lower sales tax rate but may also tax more items, for example, Utah has a tax on food and Nevada does not tax food. She added, Hawaii, New Mexico, and North Dakota tax all services. Ms. Vilardo reiterated, the task force should not put too much emphasis on rates without considering other factors.

Ms. Vilardo also commented, the principles of taxation are an important consideration. She noted the accepted principles of taxation have remained constant, with only minor changes over the years, since Adam Smith's concept was revisited by Josiah Charles Stamp in the 1920s. Ms. Vilardo opined, it does not matter what other states do, the task force must do what they believe is right for Nevada.

Mr. Lange stated he agreed with Ms. Vilardo's assessment of the rate issue and that broadening the base would be the best approach. Mr. Lange asked Ms. Vilardo if she knew of an instance where increasing a tax rate could increase the stability of the structure. Ms. Vilardo answered, "Generally speaking, no." Ms. Vilardo stated Nevada is currently experiencing a cyclical deficit, comparing it to the cycle of the Nevada Taxpayer's Association, where every 10 to 13 years membership disproportionately declines, and there is an economic downturn.

Ms. Vilardo said base stability of the taxes is one of the issues the task force should consider. Ms. Vilardo also commented the modeling presentation by the technical working group was valuable because it is best to have a benchmark number on which to base changes. Ms. Vilardo stated the task force must investigate the existing structure because there are certain components that could be stabilized.

Ms. Vilardo said it was a mistake for Nevada to remove food from the sales tax base. She explained, because everyone must buy food, its tax would have lessened the degree of the downturn in revenues. Ms. Vilardo commented taxing food is a very political issue. Ms. Vilardo sited the Price Waterhouse-Urban Institute study, which suggested expanding services and taxing food. Ms. Vilardo noted the Price Waterhouse-Urban Institute study recognized taxing food would be regressive and they had suggested a rebate to low-income individuals to help offset it. Ms. Vilardo exemplified, Nevada currently offers, through the senior citizens tax rebate, a reduction or rebate on property taxes.

Presentation Regarding K-12 Education Funding Needs

Jack McLaughlin, Ph.D., Superintendent of Public Instruction, State Department of Education, began a PowerPoint presentation (Exhibit F) with a slide representing where Nevada ranks in the United States for spending per student as reported in Education Week, January 10, 2002 (Exhibit G). The slide (Exhibit F) shows Nevada ranking sixth from the last. Dr. McLaughlin noted the figures represent operational spending only. He stated the taxpayers have funded bonds in the two largest districts but those bonds cannot be used for general operational purposes. Mr. Sloan asked if Dr. McLaughlin felt the rankings he showed in the slide were actually true, comparable figures. Dr. McLaughlin stated the handout presented entitled, "K-12 Education" (Exhibit H), sites four different groups who all claim Nevada's teachers earn a different salary. Dr. McLaughlin noted the letter received from the American Federation of Teachers (Exhibit I) has still another figure. Dr. McLaughlin reiterated there are different means by which amounts are calculated for school rankings; it is difficult to assess their validity. However, Dr. McLaughlin commented, generally, it can be said that Nevada is not at the same level as a lot of other states in various ways. Dr. McLaughlin noted, as demonstrated in the publication, Education Week, January 10, 2002 (Exhibit G), state education systems are rated and ranked regularly.

Mr. Aguero commented the technical working group met with Douglas C. Thunder, Deputy Superintendent for Administrative and Fiscal Services, State Department of Education. Mr. Aguero stated the working group reviewed all the figures and sources of Dr. McLaughlin's presentation. Mr. Aguero commented though they may have used different definitions and characterizations, in the end, he felt they all agreed completely with their conclusions.

Dr. McLaughlin continued with the next slide from his presentation (Exhibit F), showing the census of children in Nevada's schools for the year 2000 and a projection of 400,000 students for the year 2005. The next slide Dr. McLaughlin presented showed the student ethnic diversity. Dr. McLaughlin pointed out the rapidly growing Hispanic population, and emphasized, the percentage of students who do not speak English is projected to grow to 75,000 by the year 2005.

Dr. McLaughlin said Nevada is ranked the lowest in the nation for the number of 18- to 24-year-olds who have no high school diploma. Dr. McLaughlin pointed out, this number is inflated by the fact that 80 percent of jobs in Nevada require an A.A. degree or less. Therefore, Dr. McLaughlin stated, many 18- to 24-year-olds, many of whom have not completed high school, come to Nevada for jobs. Dr. McLaughlin commented there is a tremendous need to educate those citizens who do not have high school diplomas for the future of Nevada's workforce. Dr. McLaughlin noted Hispanics and African Americans have the highest dropout rate in Nevada.

Dr. McLaughlin continued to the slide (Exhibit F) entitled, "Kids Count, National Report Card." He noted Nevada is in the lower third of all the states in every category. Dr. McLaughlin stated a recent article said Nevada is one of the ten worst states in which to be born. From the next slide Dr. McLaughlin noted almost two out of three children in Nevada enter kindergarten without a preschool experience. He pointed out, in Nevada kindergarten is a 2-hour program with up to 32 students per class. Dr. McLaughlin commented Nevada students are starting behind in many ways.

Dr. McLaughlin noted from the slide regarding district size (Exhibit F) that Clark County School District grows more each year then the total size of any other district in Nevada, except Washoe County School District. Dr. McLaughlin said growth is a major challenge for school districts, and added Clark County opened 16 new schools this year. He commented Clark County had to fund the overhead for those 16 new schools with basically the same children they had the year before. Dr. McLaughlin noted Washoe County School District is also growing at a tremendous rate, though not as rapidly as Clark County School District.

Dr. McLaughlin stated the mandatory age for school attendance in Nevada is 7 years old. He commented Nevada is one of the few states that wait until age 7 to make kindergarten mandatory, noting many other states are reducing their age requirement to 6 and 5 years old. Dr. McLaughlin reminded the task force, the lower the age, the more students, and the greater the expense.

In the next slide (Exhibit F), Dr. McLaughlin pointed out the large number of teachers living in Nevada for five years or less. He also noted Nevada hires over 2000 teachers per year and most of them are from out-of-state. Dr.

McLaughlin said only approximately 768 teachers are prepared by Nevada's Universities per year. Dr. McLaughlin stated Nevada teacher's average salary generally approaches the national average, and added this is important in order to attract and retain teachers.

Continuing his PowerPoint presentation (Exhibit F), Dr. McLaughlin stated he believes Nevada has a good system of standards, curriculum, instruction, assessment, and accountability. He noted President Bush's No Child Left Behind Act of 2001 will now require testing in every grade from third through eighth, which will require additional funding to develop tests.

Regarding the slide entitled, "Student Achievement" (Exhibit F), Dr. McLaughlin explained, 60 percent of the questions in the National Assessment of Education Progress test require written answers, which involve high-level thinking skills. He commented Nevada does not have a program that prepares students well for that type of test and therefore Nevada ranks lower. Dr. McLaughlin noted almost every student in eighth grade in Nevada must be tested in order to fulfill the 250,000 student sampling required for each state, regardless of size. Dr. McLaughlin pointed out in the next slide (Exhibit F) that The National Census Bureau reports Nevada ranks 50th of the 50 states and the District of Columbia, in per-pupil expenditure, per $1000 of personal income.

Next, Dr. McLaughlin addressed per-student expenditure by county in Nevada (Exhibit F). He noted Clark County School District and Washoe County School District spend less per student than the state average. Dr. McLaughlin stated the figures sited in Education Week, January 10, 2001 (Exhibit G) rank Nevada 45th in the Nation for per-student spending.

Dr. McLaughlin noted in the next slide (Exhibit F) that the five states with larger class sizes than Nevada are Nevada's nearest neighbors. He commented Nevada lead the nation in legislating class-size reduction to 15 students to 1 teacher, though it was never funded at that rate. He stated the current ratio is 16 to 1 for first and second grade, 19 to 1 for third grade, and kindergarten was not included in the legislation.

Dr. McLaughlin noted under "Challenges" (Exhibit F), state's disaggregated scores show Hispanic and African American students score significantly lower than White or Asian students. He stressed, with the growing population of Hispanic students in the schools, this is a major problem, which should be addressed. Dr. McLaughlin also pointed out, Nevada ranked 47th in the nation for number of students per computer. Dr. McLaughlin mentioned, though Nevada has a teacher salary near the national average, it has a high percentage of young teachers with fewer advanced degrees than other states.

Dr. McLaughlin discussed the federal programs administered by the Nevada Department of Education. He referred to attachment B in the handout (Exhibit H). Dr. McLaughlin noted, most of the programs listed represent "pass-through dollars." Dr. McLaughlin stated the percentage of funding received from the federal government is very small, all the funds are targeted to a specific program, and none of the funds may be used for general purposes. He added, these federal grants are competitive and cannot be depended on as a solid source of on-going funding. Chairman Hobbs asked Dr. McLaughlin if some of those federal funds directly offset general-fund requirements such as class-size reduction or adult education. Dr. McLaughlin replied, no, those funds supplement programs. Dr. McLaughlin indicated federal class-size reduction dollars are used at the upper levels for language and math. Dr. McLaughlin noted the federal class-size reduction funding, under President Bush's new teacher quality legislation, has been lumped together with Eisenhower Math and Science funding, teacher training, and class-size reduction, so the school districts can decide where the money is spent. Dr. McLaughlin reiterated these are not stable sources of funding. He also pointed out the federal funding year does not coincide with Nevada's school year.

Dr. McLaughlin continued his PowerPoint presentation (Exhibit F) with the next slide entitled, "Annual Budget Challenges." Dr. McLaughlin indicated many of the challenges associated with constructing an annual school budget are out of their control, such as, increased utility costs. He added there have recently been events, which increase the need for added safety and security measures. Dr. McLaughlin stated schools are required by federal law to serve all students who require special education. Dr. McLaughlin said health benefit costs can spiral. He stated mandated programs are sometimes under funded. Dr. McLaughlin noted revenue also fluctuates. He said Nevada wants students to be involved in modern technology, but there is no control over the rising costs of providing education in these areas. Dr. McLaughlin pointed out, also, the local impact of collective bargaining cannot be predicted.

Dr. McLaughlin described the average annual school budget in Nevada (Exhibit F). He stated 89.3 percent of the budget is used for personnel, which is divided as follows: 53.6 percent for instructional personnel, 1.6 percent for non-site administration, and 34.1 percent for other support staff. Dr. McLaughlin continued, 3.4 percent of the annual school budget is used for fixed costs such as insurance and utilities. Dr. McLaughlin stated, this leaves 7.3 percent to provide instructional materials, textbooks, maintenance, and for the purchase of new equipment. Dr. McLaughlin emphasized, Clark County School District's revenue has not kept up with its expenditures. Dr. McLaughlin stressed this is the third or fourth year Clark County School District has been forced to cut their budget. He declared budget cuts can not continue indefinitely.

Dr. McLaughlin presented the slide representing expenditures for selected line items in sample districts for the fiscal year 2001 (Exhibit F). He commented smaller school districts have different needs and allocate their funds differently.

Dr. McLaughlin continued his PowerPoint presentation (Exhibit F), noting Clark County School District has cut $74 million from 1999 to 2002. He stated Washoe County School District has also made significant cuts in their budget for 2002. Dr. McLaughlin stated Washoe County School District is considering a budget realignment in order to accommodate an $8 million shortfall. He noted Clark County School District is facing a $10 million shortfall for next year.

Dr. McLaughlin drew attention to the handout regarding projected budget shortfalls (Exhibit I). He stated Clark County School District's estimated shortfall before the recent, one-time, special appropriation from the Interim Finance Committee was $16 million. Dr. McLaughlin pointed out, with theses special appropriations calculated into the budget, the Clark County School District is still facing a $10 million shortfall for the district's fiscal year 2002-2003. Chairman Hobbs asked Dr. McLaughlin to explain the term "shortfall." Walt Rulffes, Deputy Superintendent, Clark County School District stepped forward to address the question. Mr. Rulffes stated a "short fall" is the difference between what it would cost to continue the same program on a status quo basis and the expected revenues. Dr. McLaughlin commented Washoe County School District included the Interim Finance Committee special appropriation in their calculations, without which they would have projected a much larger shortfall for 2002 as well as 2003 (Exhibit I). Dr. McLaughlin also noted Washoe County School District received $291,767 to reinstated "Endangered Programs," however, those funds do not change the projected $8 million shortfall.

Dr. McLaughlin continued his PowerPoint presentation (Exhibit F) noting the challenges facing the school districts, such as, rising costs for which they have no control and the lack of a mechanism for raising additional revenues. Dr. McLaughlin stated the local school boards have very few options in making budget reductions that do not affect classrooms and students. He pointed out Clark County School District's high school-level class sizes are approaching 36 or 37 students. Dr. McLaughlin added the accrediting agency is considering suspending accreditation at some Clark County Schools because of class size. Dr. McLaughlin asserted the situation is becoming quite desperate.

Chairman Hobbs asked for further information regarding funding for the class size reduction program. Mr. Thunder replied Nevada currently expends approximately $90 million per year for the class-size reduction program which was designed to lower class sizes in first and second grades to 16 students per teacher, and in third grade to 19 students per teacher. Mr. Thunder noted these funds also support approximately 23½ teachers who were initially added to help reduce the class size in kindergarten. Mr. Thunder said second grade was added a few years later. Mr. Thunder said a flat amount was appropriated for the third grade, and the class sizes were reduced to 19 students per teacher as a result of that appropriation. Mr. Thunder commented some individuals have suggested, in order to maintain these class sizes in grades one through three, class sizes in the upper grades have increased slightly.

Mr. Thunder explained the Federal Class Size Reduction program, which provides approximately $5 million per year, was intended to, he believed, reduce class sizes in the lower grades to 18 students per teacher. Mr. Thunder noted, because Nevada had already mandated class size reduction, a waiver was granted to utilize those federal funds for other purposes, such as, reducing class sizes in higher grades or professional development. Mr. Thunder restated class size reduction funding will be combined with other federal funding in the future. Mr. Thunder clarified all the class size reduction funding, approximately $90 million per year, must be used for salaries and benefits, and no funding was provided for other expenses incurred in reducing class sizes.

Ralph Cadwallader, Executive Director, Nevada Association of School Administrators, testified the accreditation agency for Nevada, Northwest Association of Schools and Colleges, for which Mr. Cadwallader was formerly State

Chairman, requires teachers at the high school level to teach no more than 160 students per day, which is an average of 32 students per class. Mr. Cadwallader noted the increased average of 36 or 37 students per class would exceed the requirements for accreditation. He added there are a few exceptions to these requirements; such as, physical education, typing, drama, and choir. Mr. Cadwallader stated the current State Chairperson recently told him many Clark County School District high schools are currently being warned at the first level of three warning levels they are in danger of being disaccredited by the Northwest Association of Schools and Colleges.

Dr. McLaughlin continued his PowerPoint presentation (Exhibit F) addressing the long-term K-12 issues, with the major issues including workforce, desired achievement level, and adequacy funding. He noted Nevada also must examine the current major deficits in the current structure. Another point Dr. McLaughlin identified was the need to determine the future configuration of the structure.

Under the work force issue, Dr. McLaughlin reiterated, 80 percent of jobs in Nevada currently require an A.A. degree or less. He asked if the task force felt that is the level of education and economic base that is best for the future of Nevada. Dr. McLaughlin continued by addressing the desired achievement levels for Nevada schools: including, safe schools; additional time to learn; highly qualified, trained, stable workforce; high quality materials and equipment; additional time for special needs; high standards and assessments to drive decisions.

Dr. McLaughlin continued the PowerPoint presentation (Exhibit F) by stating many states offer programs which Nevada does not; including, universal preschool, all-day kindergarten, summer school, smaller class sizes, full inclusion for special education, differentiated compensation programs. He added many states are currently expanding these programs.

Dr. McLaughlin continued, the adequacy of support for Nevada schools is another important issue that must be addressed. Dr. McLaughlin stated there is no longer the emphasis on the equity of having all students receive the same amount of dollars, but rather, whether that amount of money is adequate to provide the appropriate achievement levels for each individual student. He noted, states have been sued by districts over the adequacy issue. Dr. McLaughlin explained if there is a high-stakes outcome, such as the requirement of a high school student to pass the proficiency examination in order to graduate, and the perception is that the student was not adequately provided the opportunity to learn in order to pass that test, the state could be sued. He said the same concept holds true for districts. Dr. McLaughlin pointed out in Education Week (Exhibit G), Nevada received a C- grade for their adequacy rating for the number of districts in Nevada which are at or below national averages. Dr. McLaughlin noted, different populations of students require different funding levels in order to achieve their potential. He exemplified, nationally the funding needs of non-English speaking students are figured at a 20 percent higher level than English speaking students.

Dr. McLaughlin summarized the previous portion of the PowerPoint presentation (Exhibit F) by addressing the challenges facing decision makers. He stated Nevada's workforce needs are rapidly growing. He added if the future economy is going to require workers with training beyond an associate degree level, the K-12 public education system must improve post-secondary readiness. Dr. McLaughlin stressed, the desired level of student achievement should be the basis for decision-making. He reiterated, adequacy of support for Nevada schools must also be addressed.

In conclusion, Dr. McLaughlin stated, Nevada has many needs and challenges. He said the population is ethnically diverse, the districts vary dramatically in size, and there are many instructional opportunities. Dr. McLaughlin declared Nevada has a very workable structure. Dr. McLaughlin emphasized the K-12 public education system is ready to work with the Governor's Task Force on Tax Policy in Nevada on this project and views this as an opportunity to "go further" on behalf of Nevada children.

Chairman Hobbs stated part of the charge of the Governor's Task Force on Tax Policy in Nevada is to identify future funding needs for K-12 education in Nevada. Chairman Hobbs noted some of the presentation focused on weaknesses and objectives, and stated the task force should attempt to ascertain what funding would be needed to achieve certain identified objectives over time.

Mr. Lange asked Dr. McLaughlin to identify what he believed to be Nevada education's most critical funding needs. Dr. McLaughlin responded he would like to provide better opportunities in early education. Dr. McLaughlin stated he also believed the growing number of non-English speaking students was an area of great need. Dr. McLaughlin added he felt teacher retention and training is of crucial importance.

Mr. Lange asked Dr. McLaughlin to identify to what extent the recent trend towards increased academic standards drive the need for more funding. Dr. McLaughlin stated, when standards change, staff must be trained. Dr. McLaughlin added because of the high-stakes scenario regarding high school proficiency exams, “safety nets” must be in place to ensure the success of the students.

Mr. Lange asked Dr. McLaughlin to describe the range of opportunities available to the Nevada graduates regarding student preparation for Nevada’s workforce needs. Dr. McLaughlin said he believes Nevada has an outstanding higher education system. Dr. McLaughlin stated he does not feel as many students as he would like train at the higher education level. Dr. McLaughlin opined more attention should be given to the high end of the education system as well. Dr. McLaughlin declared, these are not meant to be criticisms of Nevada.

Mr. Fields asked what percent of Nevada’s general fund is allocated to K-12 education. Mr. Thunder responded the funding for all education in Nevada, from preschool through the university system is approximately 51 percent of the general fund and the funding for K-12 education is in the low thirty percentiles. Mr. Thunder offered to provide the figures in the near future.

Mr. Fields also asked how much of K-12 education in Nevada is funded by local government. Mr. Thunder stated the amounts vary by district and the amounts are dependent on a definition of local funding. Mr. Thunder noted the 2.25-cent sales tax and the 75-cent property taxes are mandated by the Legislature and the definition of a local tax would be that it is mandated by the local government. Mr. Thunder said he believes the percentage of school funding is approximately 40 percent from the state and 60 percent from local government. Mr. Thunder added, the federal component is approximately 5 percent. Mr. Thunder qualified these were only estimates and offered to provide the precise figures. Chairman Hobbs stated at least 25 cents of the 75-cent property tax rate and the 2.25-cent Local School Support Tax directly offset the state’s funding obligation. Chairman Hobbs noted the other 50 cents from the property tax is treated differently.

Mr. Fields asked, if $5632 per-student spending from the presentation (Exhibit F) represented both general fund and local funding. Mr. Thunder stated the figures representing per-pupil spending include all current expenditures for K-12 education. Mr. Thunder commented other groups who record those figures may use some slightly different definitions, but the intent is to include only expenditures used for the current year and for kindergarten through grade 12. Mr. Thunder explained expenditures such as programs beyond the twelfth grade and capitol expenditures would not be included in the per-pupil spending figures.

Chairman Hobbs asked that comments from the Nevada State Education Association the Clark County School District be postponed until the following agenda.

Public Comment

Reverend Chester Richardson stated he has three children in the Clark County school system. Rev. Richardson expressed concern regarding the recent vote by the University Board of Reagents to raise the academic standards for admission into the Nevada University system, though the state has not increased the funding for K-12 education to address the deficiencies that clearly exist.

Rev. Richardson stated he lives in a distressed area in the Windsor Park neighborhood of North Las Vegas where frequent shootings occur. Rev. Richardson suggested the task force should approach the problem in a more holistic manner than simply identifying funding needs. He noted Clark County School District recently contracted a private company to handle distressed schools. Rev. Richardson indicated, when one of the distressed schools was recently removed from the list, the school district neglected to ask the principal of that school what methods were utilized to improve conditions. Rev. Richardson asserted Nevada should consider whether the money spent on schools is being utilized in the most efficient manner. Rev. Richardson exclaimed his home has been broken into eight times and the perpetrators were kids who were stealing food and toys.

Rev. Richardson also expressed his disapproval that the primary industry in Nevada does not even require a high school diploma to be hired. Rev. Richardson concluded there is more than a financial component that must be addressed to solve the problems facing the schools. Mr. Lange invited Rev. Richardson to the next meeting of the Governor’s Task Force on Tax Policy in Nevada to hear the presentation by the Nevada State Education Association.

Adjournment

There being no further business to come before the Committee, the Chairman adjourned the meeting at 3:08 p.m.

Respectfully submitted,

Jude Greytak
Secretary

APPROVED BY

Mr. Guy Hobbs, Chairman

Date

Copies of the exhibits mentioned in these minutes are on file in the Research Library of the Legislative Counsel Bureau, Carson City, Nevada. You may contact the library at (775-684-6827).