

**MINUTES OF THE MEETING OF THE
GOVERNOR'S TASK FORCE ON TAX POLICY IN NEVADA
(ACR 1 of the 17th Special Session)**

July 17, 2002

The Governor's Task Force on Tax Policy in Nevada was called to order at 8:35 a.m., on Wednesday, July 17, 2002. Chairman Guy Hobbs presided in Room 4401 of the Grant Sawyer Office Building, Las Vegas, Nevada. The meeting was videoconferenced to Room 3143 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

COMMITTEE MEMBER ABSENT:

Ms. Nancy Wong

LEGISLATOR PRESENT IN LAS VEGAS:

Assemblyman David Parks

EXHIBITS:

Exhibit A: Meeting Agenda
Exhibit B: Attendance Records
Exhibit C: Handout presented by Kendall Stagg, Policy Manager, Nevada Tobacco Prevention Coalition
Exhibit D: Copy of PowerPoint presentation, presented by Gene Weller, Deputy Director, Department of Wildlife
Exhibit E: Mental Health Crises Overview, submitted by the Southern Nevada Mental Health Coalition and the Chronic Public Inebriate Task Force
Exhibit F: Handout titled Task Force on Hospital Overcrowding and Mental Health Coalition, presented by Katherine Landreth, Las Vegas Metropolitan Police Department
Exhibit G: Letters of support for mental health issues to be included in the record as requested by Chairman Hobbs
Exhibit H: Copy of verbatim testimony, Walt Elliott, President, AFL-CIO
Exhibit I: Presentation Agenda, Business Group on Tax Policy
Exhibit J: Copy of complete presentation by Ray Bacon, Nevada Manufacturer's Association
Exhibit K: *Revenue Proposals for Consideration by the Governor's Task Force on Tax Policy*, presented by Ms. Carol Vilardo, Nevada Taxpayers Association
Exhibit L: Analysis of Proposed Broadly Based Taxes, presented by the Business Group on Tax Policy
Exhibit M: Spreadsheets submitted by Jeremy Aguero, Chairman Technical Working Group
Exhibit N: Binder containing analysis summaries, submitted by Jeremy Aguero
Exhibit O: Report provided by Mr. Sloan, Employer-Sponsored Health Insurance and Uncompensated Care: The Role of the University Medical Center in Clark County
Exhibit P: Handout provided by Stephanie Licht, Legislative Consultant, Elko County

Roll Call

Chairman Hobbs called the meeting to order and asked the secretary to call the roll.

*Presentation from the American Cancer Society Regarding the
Cigarette Tax*

Kendall Stagg, Policy Manager, Nevada Tobacco Prevention Coalition (NTPC), explained the NTPC included 40 member groups, including the American Cancer Society, the American Heart Association, and the American Lung Association. Mr. Stagg then introduced Ms. Barbara L. Wood, Executive Director, American Heart Association, Southern Nevada.

Ms. Wood indicated her support for an increase in excise taxes on cigarettes and said heart disease and stroke were the number one killers of all Nevadans. Smoking was the number one preventable cause of heart disease and stroke. Ms. Wood quoted a 1985 statement made by the Phillip Morris Tobacco Company: "Of all the concerns, there is one—taxation—that alarms us the most. While marketing restrictions and public and passive smoking do depress volume, in our experience taxation depresses it much more severely."

Ms. Wood said the American Heart Association supported an increase in the excise tax for the same reason "big tobacco" feared the increase; increased taxes would result in reduced cigarette sales. For every 50-cent pack increase in the cost of a pack of cigarettes, 7 to 10 percent fewer young people would smoke. In 1987, a Phillip Morris internal document stated that increasing cigarette taxes did decrease consumption. Ms. Wood said an increase in the excise tax on cigarettes would provide additional revenue that would help address Nevada's critical budget shortfall.

In conclusion, Ms. Wood said the American Heart Association recommended that a percentage of any excise tax increase be committed to funding tobacco control programs in Nevada.

Mr. Stagg said all of the information included in his PowerPoint presentation was included in the binder that was disseminated to the Task Force (Exhibit C). Mr. Stagg encouraged the members to consider increasing the tobacco excise tax. Tobacco use was the number one health threat in the state and was the leading preventable cause of death. The majority of lung cancer cases were caused by tobacco. One-third of all cancers were caused by tobacco, and reducing tobacco use would dramatically reduce the two biggest killers in the nation—cancer and heart disease. More people in Nevada died from tobacco use than from drugs, alcohol, AIDS, murder, suicide and car accidents combined. The annual health care expenditures related to tobacco use in Nevada were \$440 million. In 2001 Nevada generated only \$61.2 million in tobacco excise taxes.

Mr. Stagg continued his presentation and said increasing the tobacco excise tax would drastically reduce prevalence rates and consumption, especially among youth, lower income populations, ethnic minorities, and pregnant women. Despite the inevitable decline in the consumption of cigarettes, increasing the tobacco excise tax always increased state revenues. In 2000, the state of New York increased the tobacco excise tax by 55 cents per pack, resulting in a 20.2 percent decline in consumption and \$365.4 million in new revenues. The national decline in tobacco consumption was only 5.7 percent. Mr. Stagg read a statement made by a Phillip Morris Tobacco Company executive:

It is clear that price has a pronounced effect on the smoking prevalence of teenagers, and that the goals of reducing teenage smoking and balancing the budget would both be served by increasing the Federal excise tax on cigarettes.

An increase in Nevada's excise tax of 50-cents per pack would result in approximately 1,700 fewer youth smokers and would save approximately 5,500 youth from premature death, there would be 11,400 fewer adult smokers, and approximately 2,500 would be saved from deaths caused by smoking—\$81.2 million in new revenue would be generated. Mr. Stagg stated for the record that the Task Force had permission to increase the excise tax. The NTPC had conducted a poll of 507 citizens throughout the state, stratified by county, and found voters did not favor increases of other taxes, but 57 percent strongly supported an increase in the excise tax. The respondents also indicated they did not want cuts in state spending for social programs. There was strong support for increasing the excise tax to \$1 per pack.

Cyndi Lewis, Regional Advocacy Representative, National Center for Tobacco-Free Kids, Western Regional Office, continued the presentation. Ms. Lewis indicated during 2000, 17 states had increased tobacco excise taxes. Tobacco companies claimed tobacco taxes unfairly targeted low-income smokers and promoted smuggling and black market sales. Ms. Lewis said low-income individuals made up the majority of smokers in any state; however, they were also

the most likely to quit when the price of a pack of cigarettes was increased.

Ms. Lewis referred to polling conducted by the center in various states. In Kansas, 76 percent of voters with family incomes of less than \$30,000 per year supported a 75-cent tobacco tax increase. In Indiana, 77 percent of people making \$25,000 per year or less supported a 50-cent tobacco tax increase. In 12 other states approximately 57 percent of low-income voters supported substantial tobacco tax increases. Ms. Lewis acknowledged smuggling was a significant problem internationally but was not the problem it was portrayed to be in the United States. Every state that had increased the excise tax had experienced increased cigarette tax revenues despite any revenue losses from the small amount of cigarette smuggling that might have occurred. Ms. Lewis said it was important to understand that only 1 percent of all tobacco sales in the United States were from “casual cross border sales,” and only 3 to 5 percent of tobacco sales were from organized smuggling. Tobacco companies suggested price increases would result in increased smuggling; however, those same companies did not hesitate to increase the prices.

Mr. Stagg said in 2000, more people smoked in Nevada, per capita, than any other state in the nation. Tobacco use severely impacted the economic and physical health of Nevada’s citizens. Increasing the tobacco excise tax must be a top priority. Mr. Stagg concluded his presentation and said increasing the tobacco excise tax would be a win for the state budget, a win for public health, and would be a political win. In response to a question posed by Mr. Greenspun, Mr. Stagg referred to section 2 of the handout (Exhibit C) that indicated New York had the highest tobacco excise tax.

Chairman Hobbs asked how the increase in the tobacco excise tax recommended in the *Two Plus Two Proposal* presented by the Progressive Leadership Alliance of Nevada (PLAN) compared to the recommendations recommended by NTPC. Mr. Stagg said the NTPC had presented increases in the tobacco excise tax for various amounts. Mr. Stagg explained that Senator Ray Rawson had discussed a 65-cent increase in the tax, and the NTPC handout (Exhibit C) included information on what that increase would generate. The purpose of NTPC’s presentation was not to prescribe a certain level of increase. The PLAN had proposed an increase of 20 cents per pack and that amount would not cover the cost of inflation. The cigarette excise tax had not been increased in over a decade.

Chairman Hobbs asked if NTPC had a position on the use of proceeds derived from an increase in the tobacco tax. Mr. Stagg said he would prefer to see the funds expended on health related programs, but understood additional General Fund money would provide funding for existing health programs.

Ms. Lewis encouraged the members to contact Eric Lindblom, Campaign for Tobacco-Free Kids, at elindblom@tobaccofreekids.org or 202-296-5469 to answer any questions related to the projections included in the presentation.

Presentation Regarding the State Division of Wildlife

Terry Crawforth, Administrator, State Department of Conservation and Natural Resources, Division of Wildlife, introduced John Moran, Chairman of the Wildlife Commission; Bill Bradley, Member, Wildlife Commission; and Gene Weller, Deputy Administrator, Division of Wildlife. Mr. Crawforth said wildlife in Nevada was a quality of life issue and an economic issue. Each year, Nevada’s rural and urban economies received millions of dollars based on wildlife and wildlife-related recreation. Traditionally, wildlife funding had been based on “user pay” and numerous species had been brought back from the brink of extinction because of hunter and fisherman-funded programs. That model had served the nation and Nevada well for the past hundred years. However, additional consistent sources of revenues were needed to protect wildlife and wildlife habitat for future generations.

Gene Weller referred to the American Model of funding the operation of wildlife conservation that was developed in the early 1940s. Users supported wildlife management and conservation in the state through a series of hunter and fisherman excise taxes and license support. Mr. Weller explained that in the past the primary focus was on hunted and fished species of wildlife and said the base must be broadened.

Mr. Weller began the PowerPoint presentation and reviewed the history of wildlife conservation in Nevada beginning in the late 1800’s through 1995 (Exhibit D). Mr. Weller referred to the diversity of the wildlife in Nevada—355 species of birds, 125 species of mammals, 91 species of fish, 50 species of reptiles, and 15 amphibian species. Mr. Weller then read the mission statement of the Nevada conservation program:

To protect, preserve, manage and restore wildlife and its habitat for their aesthetic, scientific, educational, recreational, and economic benefits to citizens of Nevada and the United States, and to promote the safety of persons using vessels on the waters of this state.

Mr. Weller continued his presentation and outlined the agency program profile of the Division of Wildlife (Exhibit D). Mr. Weller referred to a recent poll that indicated 3 out of 4 Nevadans supported initiatives to enhance recreational opportunities, 2 out of 3 were willing to pay significantly to protect rivers, lakes and other habitats, 3 out of 4 enjoyed outdoor recreation, and the Division of Wildlife received a 65 percent approval rating.

Mr. Weller addressed the goals, objectives and strategies established by the Division of Wildlife:

- Agency Management
- Funding
- Information Delivery
- Wildlife Population Management
- Habitat Management Protection and Enhancement
- Consultation
- Compliance and Enforcement
- Public Service and Documents

The division's annual budget of approximately \$30 million per year consisted of five budget accounts. The division received 37 percent of revenue from licenses and fees; 32 percent from federal grants; 27 percent from gifts, grants, and transfers from boating; 3 percent from the General Fund; and 1 percent from tourism. Mr. Weller noted hunting and fishing growth was flat throughout the nation. Based on existing expenditures, the division projected a \$7.5 million shortfall by FY 2007. Potential new revenue sources included new federal funds, new bond initiatives, the Missouri and Arkansas Model, and the Arizona and Colorado Model.

Mr. Weller concluded the presentation and said Nevada had a strong record in wildlife conservation and it was important to maintain that record.

In response to a question posed by Dr. Mack, Mr. Crawforth said a 20 percent increase across the board would be required to maintain the agency at the current level. Mr. Crawforth said the 20 percent increase would generate approximately \$10 million over a five-year period.

Chairman Hobbs asked if the agency was considering any sort of future indexing to keep pace with inflation. Mr. Crawforth said he would like to propose an index-based trigger that would allow the agency to keep pace with inflationary increases rather than having to return to the Legislature to request additional funding.

Mr. Greenspun asked how much the agency needed on an annual basis to fund the areas of non-wildlife species. Mr. Crawforth estimated \$10 million was needed annually for wildlife habitat and non-game species and to take advantage of federal funding, which required a state match. Chairman Hobbs asked Mr. Crawforth to provide a breakout of what the division would need for state match versus funding for capital outlay.

John Moran said the division had achieved great success with game and fishing programs. Many other states looked to the wildlife and habitat program in Nevada. Mr. Moran recognized the state was fortunate to have dedicated staff and asked the Task Force to keep in mind the importance of wildlife for future generations when making their recommendations.

Chairman Hobbs noted that ACR 1 included a provision for reviewing existing fees.

Presentation Regarding the Needs of the Mentally Ill

Janelle Kraft, Budget Director, Office of Finance, Las Vegas Metropolitan Police Department, said her presentation would address the unmet needs of the mentally ill, particularly in southern Nevada, and she urged the Task Force to consider adequate funding to meet the long-term needs of that growing population. Ms. Kraft had worked with a

group of emergency medical professionals to try and resolve the problems of overcrowded hospital emergency rooms. A major reason for the overcrowding was the significant increase in the number of inebriates and mentally ill patients being held in emergency rooms for more than one day. Approximately 13,000 chronic public inebriates (CPI's) and mentally ill patients accessed emergency services in 2001. Ms. Kraft referred the members to a handout submitted by the Southern Nevada Mental Health Coalition and the Chronic Public Inebriate Tax Force (Exhibit E) that included strategies to be presented to the Health Care Committee for bill draft presentation.

Katherine Landreth of the Las Vegas Metropolitan Police Department, said she was representing the Southern Nevada Mental Health Coalition and Sheriff Jerry Keller. Ms. Landreth explained the 1992 decision to drastically cut state funding for mental health services had a continuing impact on levels of treatment. Ms. Landreth referred to a handout containing charts (Exhibit F) that dramatically illustrated the consequences of the budget cuts. The charts provided detail on the cost of detoxification services, volume of patients in emergency departments, and cost comparisons. Ms. Landreth thought Governor Guinn had done a remarkable job attempting to restore the mental health budgetary levels, but state mental health services were currently operating at the 1992 funding level. Ms. Landreth stressed the current method of providing services to the CPI and mentally ill was extremely inefficient—a disservice to the taxpayers and to those individuals entitled to care. Two principal solutions were proposed for the care of mentally ill and the CPI's; creation of a crisis triage center and significant increases in state resources for in-patient and out-patient services in southern Nevada.

Dr. Mack asked the average cost of transporting a patient, and Ms. Landreth said the cost depended on whether an ambulance was deployed. Ambulance costs were between \$400 and \$500 for the trip between University Medical Center (UMC) and West Charleston; a distance of several miles. The cost for a medic car was approximately \$50.

Mr. Greenspun thought mental health care had historically been a low priority for the Legislature. Ms. Landreth said mental health had some “real champions” in the current Legislature. A letter was included in the handout (Exhibit E) from Senator Townsend urging the Task Force to include mental health care among the services deserving of state support. Senator O'Connell, Senator Rawson, and Assemblywoman Buckley were all very aware of the mental health problems and all were chairing committees that focused on the mental health crisis in southern Nevada. There were also legislators from northern Nevada who supported mental health issues.

Chairman Hobbs stated letters supporting increased funding for mental health issues had been received from Senator Townsend, Las Vegas Councilman Larry Brown, Sheriff Jerry Keller, and Dale Carrison of University Medical Center. The chairman requested the letters be made part of the record (Exhibit G).

Presentation by the AFL-CIO Regarding Tax Policy in Nevada

Walt Elliott, President, Nevada State AFL-CIO, said his testimony was being presented for himself and Danny L. Thompson, Executive Secretary-Treasurer, Nevada State AFL-CIO. Mr. Elliott stated more than 165,000 working Nevadans from 120 individual unions belonged to the Nevada State AFL-CIO. The members feared a severe structural deficit and acknowledged the state's tax revenue had not expanded with the rapid growth in population. Mr. Elliott said consumption taxes were “inelastic” and regressive taxes and would capture a higher percentage of the wages of lower paid individuals. Mr. Elliott stated the solution to the tax problem should not be short-term, and the logical choice was a broad-based business tax that would capture all of the state's economic activity. The tax should be levied on gross business receipts, or on net profits. Mr. Elliott said a head tax and increased sales tax would raise one-third the amount of a business tax. In addition, many companies that conducting business in Nevada were headquartered out-of-state and those businesses also needed to pay Nevada taxes. (See Exhibit H for a copy of Mr. Elliott's verbatim testimony.)

Chairman Hobbs asked Mr. Elliott to provide the Task Force with the data used to determine that a head tax and increased sales tax would raise one-third of the amount of a broader-based business tax. Mr. Elliott agreed to provide the information.

Mr. Greenspun asked if Mr. Elliott disagreed with an increase in the excise tax on cigarettes. Mr. Elliott explained he did not support smoking, but felt working people would suffer the most from an increase in the tobacco tax. Mr. Greenspun thought working people would benefit if they quit smoking as a result of a higher excise tax. Mr. Elliott agreed, but did not agree with the concept that “we tax them into submission.”

Mr. Lange asked Mr. Elliott to comment on the arguments that a broad-based business tax would reduce the profits of the owners of the company and there would be less money for benefits and wages, regardless if the company was unionized. Mr. Elliott said he represented 47,000 workers in the gaming industry and that industry had paid all the taxes necessary to support this state and protected the highest level of benefits in the gaming community. The industry had never indicated they would reduce benefits and wages because of a high tax structure, but might in the future if gaming was the only industry being taxed.

***Presentation by the Business Representatives Group
Regarding Tax Policy in Nevada***

Elaine Barkdull, Executive Director, Elko Chamber of Commerce, said the Business Representatives Tax Policy Group had conducted a thoughtful, positive, and extensive exercise over the past year. The comments that would be presented by representatives of the group were products of many committed people. Ms. Barkdull stressed the presentation did not represent the group's final position. Some members of the group had not had the opportunity to present the recommendations to their boards, members or clients. The business group was diverse and represented businesses and business groups from all over Nevada. The group had spent over 50 hours meeting as a large group and hundreds of additional hours in smaller group discussions, emails and telephone calls. Many members traveled long distances and absorbed the costs to be part of the process. The business group included members from large and small businesses, trade associations, chambers of commerce, corporations, individual proprietors, and small independent businesses. The group was limited to businesses and business representatives and many hours were dedicated to analyzing and determining tax options. Ms. Barkdull introduced numerous members of the group who were attending the Task Force meeting in both Las Vegas and Carson City.

Ms. Barkdull continued her presentation and said the goal of the business representatives was to review the needs and expenditures facing Nevada and to find and propose revenue producing and funding possibilities. The group did not evaluate or target specific industries or sectors, and did not discuss any ideas that did not have the broadest implications across the Nevada business community. Ideas and policies that could be adopted by consensus and would be best for the state and the business community were reviewed. The recommendations were limited due to the inability to get defined expenditure numbers to maintain levels of state services or allow for enhancements. More than 30 different tax proposals were considered. The group looked at policy first, practicality second, and politics third. Ms. Barkdull said the group would continue to develop a full proposal. Ms. Barkdull concluded her presentation and referred the Task Force to a presentation agenda (Exhibit I).

History and Background

Mr. Ray Bacon, Nevada Manufacturers Association, said since the creation of the sales and use tax in the 1950s, Nevada's tax system had faced some of the weaknesses that Adam Smith warned about in the Wealth of Nations in 1776. Some contended the mid-1940s creation of a gaming tax based on gross income rather than net income was the beginning of the state's structural problems. Businesses paid approximately half of the property taxes in Nevada. Property tax was one of the broader based taxes in the state.

Mr. Bacon contended the Legislature had been constrained with a set of rules governing the sales and use tax system since the 1950s. There were many exceptions, exemptions and exclusions. Because the sales tax fluctuated with the economy, it was considered an unstable tax.

Mr. Bacon said the Nevada business community had vigorously opposed the teachers' initiative in 2000 because many thought it was flawed from a tax, spending, and implementation view. The business group understood there would never be sufficient funding for all the programs, projects and functions that government would like to provide. When the private sector experienced economic trouble, the public sector had to make reductions to be effective and prosperous. Mr. Bacon stressed that government could not spend their way to prosperity. The business community created a coalition in 2001 and continued to work on a tax commitment for the 2003 Legislative Session. The business community acknowledged some level of additional tax revenue was needed within the state.

Mr. Bacon continued and said the group did not believe the business community could afford all of the ideas that had been presented to the Task Force. The business group commended Mr. Aguero and the working group for the development of such a comprehensive database. Mr. Bacon said the business group generally supported Mr. Knight Allen's view on the importance of having a strong reliance on a voluntary tax structure. The group had

not considered any industry specific tax and decided early in the process that tax changes, or new taxes, should be broad based.

Mr. Bacon acknowledged changes were needed and said the business group would return to the Task Force with expenditure and performance challenges. Providers of governmental services needed to become more efficient. (See Exhibit J for a copy of Mr. Bacon's complete presentation.)

Mr. Sloan said it appeared the business group did not take into consideration the mandate of ACR 1 to formulate a mechanism to broaden the tax base. The Task Force was entitled to submit 5 bill draft requests, but any recommendation for legislation must include a plan to broaden the tax base so that it reflected the diversity of the state's economy. Raising tax rates on existing taxes did not seem to be responsive to the mandate of ACR 1 nor reflective of the reality that mining and gaming, because of economic turndowns, had experienced difficult times. Mr. Sloan stated Mr. Aguero had provided the Task Force with information that indicated the combined business community in Nevada, including gaming, mining, and insurance industries, generated approximately \$100 billion of revenue annually. The gaming and non-gaming revenue generated by the gaming industry was approximately 15 percent of the \$100 billion. In response to a question asked by Mr. Sloan, Mr. Bacon said the group was not aware of any state that funded its General Fund on a head tax. Mr. Bacon said the business group would address the issue of expanding the tax base substantially later in the presentation.

Recommendations-Basic Principles

Carol Vilardo, Nevada Taxpayers Association, stated there was no fair tax and some people would suggest there was no equitable tax. A fair tax was defined as a tax paid by someone else. Ms. Vilardo said people who benefited from government expenditures approved of any tax, as long as someone else paid the tax. Nevada's tax system had not grown with the state because it did not reflect the state's economy.

Ms. Vilardo referred to her report (Exhibit K) titled *Revenue Proposals for Consideration by the Governor's Task Force on Tax Policy* and said pages 1 and 2 showed the existing tax loopholes. The majority of the business group had received approval from their boards to support the recommendations included in the report. Ms. Vilardo understood the Task Force might not want to use a bill draft to address the loopholes, but the group believed there was close to \$20 million, if not more, that was not being collected because of loopholes or changes in administration. Ms. Vilardo said it was important to build on the baseline number that would be presented to the Legislature. Raising a rate or implementing a new tax would have a chilling effect. For example, a new business tax could result in a business reevaluating any planned move to Nevada. Ms. Vilardo stressed the importance of any tax change occurring in a good economy, rather than a soft economy.

Mr. Sloan said Arizona and Utah had experienced tremendous increases in growth and business, and Nevada, which historically had no business taxes, should have been the "promised land" for business activity. Ms. Vilardo said New Jersey was in the process of major tax changes, and businesses indicated they could not afford the changes; Tennessee was on the verge of a tax revolt. Ms. Vilardo concurred the tax structure could be changed, and some changes were needed, and reiterated the tax structure should reflect the economy. The business group had focused on simplicity, administration, and avoidance of competition between governments vying for the same revenue source. There needed to be flexibility. The first step with which there was any specificity from the group was what needed to be done in general expenditure reform, which would help free up money and help stabilize revenue for the bad times, particularly because of use of the "rainy day fund." Ms. Vilardo recognized when existing revenue was "going out the cracks," it was difficult for membership-based groups to commit to increasing a rate or expanding the base. The process of the business group was to try to come up with solutions that would ultimately meet the baseline, and allow the Governor and Legislature to provide additional enhancements. Ms. Vilardo said she would be happy to answer any questions related to pages 1 through 3 in her handout (Exhibit K), or she could respond to the questions during her presentation later in the meeting.

Chairman Hobbs explained recommendations presented by Ms. Vilardo would be under the classification of passive revenue generators, which were procedural modifications, some of which required statutory modifications and some that did not. The ability to implement those on a fairly quick basis was high. The chairman hoped Ms. Vilardo would provide additional detail on the recommendations during her presentation under agenda item VII. It would be irresponsible of the Task Force not to look at increasing the efficiencies of existing revenue sources prior to enhancing existing or implementing new revenue sources.

Mr. Lange said Ms. Vilardo had commented there was no such thing as a fair tax. He recognized there were tax systems that were more equitable than others. Mr. Lange stated, as a representative of constituents who were recipients of taxes, the comment, “we never met a tax we did not like” was a broad characterization in terms of the ability to discriminate between those taxes that may be regressive or may have elements that were not as effective. Ms. Vilardo apologized and said her statement was not directed to any particular group.

Immediate Revenue Concepts

Ms. Mary F. Lau, Executive Director, Retail Association of Nevada, and member of the Business Group on Tax Policy, said her testimony would address the revenue needs of the state. Nevada was not unique in experiencing financial difficulties; immediate revenue needs and concerns were shared by 45 other states. Ms. Lau quoted the New York Times:

Officials of the National Governors’ Association said, by their count 45 states reported revenue shortfalls over the last year, totaling \$50 billion, caused by a drop in sales, capital gains, and corporate and personal income tax.

Ms. Lau explained the taxes, sales, gains and income were all drastically dependent upon a stable economy. An economy that may or may not rebound to be a reflection of what it was in the 1990s. There had not been stability in U.S. or world financial markets, but there had been turmoil and unrest, coupled with concern of congressionally interjected accounting standards in the wake of corporate restructuring.

Ms. Lau said the business group had discussed the immediate financial needs of Nevada and hoped to offer a plan that would provide for businesses to fund all, or substantially all, of the immediate revenue needs of the state. The taxes also needed to be permanent. The term “bridge” had been used, however, the business group dismissed that concept and suggested a permanent structure that businesses could plan and budget for in the long-range financial considerations. The group demanded criteria that the tax be broadly based, stable, predictable, infrastructure in use, and easily calculated by the taxpayer. The group also had to find a funding structure that would consider the future value of money. Therefore, a business tax was chosen. It was suggested that the business tax, when originally put in place, depended only on the addition of personnel to increase its value to the state. Hours of testimony had been provided on the business activity tax (BAT), which in final form became the business license tax. The business community largely testified in favor of the tax.

Ms. Lau continued her presentation and stated the business group proposed the tax be increased on a per-employee basis; the rate of the increase should be left to the Legislature and the Governor. The tax should be revamped to consider the future value of money. The policymakers needed to raise the tax to an appropriate level. Because the economies were not stable, the business group proposed that the business license tax be permanently indexed to the Consumer Price Index (CPI). Although some considered the business tax regressive, the business group remained committed to it. True, it does not reflect business structure and could be considered to under collect from companies with relatively high per employee value; however, it would be stable, predictable, broadly based, and could be implemented immediately. It does not require any capital investment by the state.

The business group also proposed an annual business licensing fee to be housed in the Department of Taxation. Every business in the state would have to obtain a license. A database containing information on all businesses in the state could be developed.

The Registered Agents had been requested to review the annual filing fees received by the Secretary of State and make recommendations on possible enhancements. It was estimated that 150,000 to 170,000 businesses, many located out of state, could provide additional revenues.

Mr. Sloan asked about the average number of employees of the businesses represented in the business group. Ms. Lau said statistical data was currently being collected and would be provided to the Task Force at a later date. Mr. Sloan said Mr. Aguero had generated a document that indicated approximately 60 percent of all the businesses in Nevada had four or fewer employees. The National Independent Federation of Small Business reported the national average for all businesses was four employees. The report generated by Mr. Aguero indicated 61 percent of all Nevada businesses had revenues of approximately \$266,000. Mr. Sloan stated there did not appear to be a

relationship between the business license tax increase recommended by the business group and the revenues, let alone the profitability of the entity being asked to pay. Mr. Sloan did not understand how the proposal presented by the business group broadened the tax base. How would doubling the existing per head tax broaden the tax base—it seemed instead to double the tax burden on the individuals paying the tax. Ms. Lau said the recommendation made by the business group was intended to meet the immediate revenue needs. Randy Robison would be addressing the long-term and long-range plan of the business group.

Chairman Hobbs noted the current business license tax generated between \$70 million and \$80 million for the State General Fund.

In response to a question asked by Mr. Fields, Ms. Lau clarified that the proposals presented to the Task Force were those of the business group and reiterated the proposals made by the group were a work in progress.

Dr. Mack asked if there had been Hispanic participation in the business group. Ms. Lau affirmed there had been Hispanic representation at some of the meetings and stated everyone who attended the meetings participated. She noted Brian D. Ayala had participated but had not yet presented the recommendations to his board. Ms. Lau stated the business group planned a large outreach program into the rural areas.

Ms. Garcia-Mendoza noted Tony Sanchez, President of the Latin Chamber of Commerce, was included on the list of business group participants.

Long-Term Revenue Concepts

Randy Robison, representing the National Federation of Independent Business, explained the previous presentation had centered on the immediate needs of the state. The business group had also addressed the long-term revenue needs. Mr. Robison referred to three fundamental principles the group had focused on and said an effective tax policy proposal must:

- Stabilize and broaden the state’s tax structure;
- Equitably distribute the tax burden and responsibility across all sectors; and
- Preserve the favorable business climate we enjoy in Nevada to ensure continued economic development and diversification.

The group had studied a variety of potential revenue sources. The discussions and decisions of the group focused on sound tax policy. The revenue sources found to be unacceptable included a personal income tax, a business income tax, an asset-based tax, removing the sales tax exemption from food, a payroll tax, and a gross receipts tax. Mr. Robison referred to a handout titled Analysis of Proposed Broadly Based Taxes (Exhibit L) that encapsulated discussions of the unacceptable sources of revenue. In addition to the several near-term revenue sources mentioned earlier in the presentation, the group had also identified acceptable long-term revenue sources consistent with the adopted principles of stability, equity, and acceptability. Chief among the preliminary recommendations was the expansion of the sales tax base to include a range of services that would create a new and sizable source of potential revenue, primarily generated by business and, when linked with a reduction of sales tax on products, it might provide an effective means of tax relief. Based upon the experience of other states with expanding sales tax to include services, the implementation and administration needed to be “careful and cautious.” The business group would have further discussion on services to be included and appropriate tax rates.

Mr. Robison said a property tax increase might need to be considered. The group believed their proposals were integral considerations in a long-term solution to balancing Nevada’s needs with available revenue. The proposals, appropriately and responsibly, addressed the issues of structural stability, tax equity, and business acceptability.

Chairman Hobbs asked if the group reviewed areas such as assessment practices, split roll, and depreciation when discussing property tax. Mr. Robison said the group’s discussions throughout the process had not delved into details.

Mr. Fields referred to the focus of the group on services as a potential source of revenue and recognized there were elements of regressivity in any sort of a sales tax, which would also apply to a tax on services. In prior testimony Knight Allen had explained that no tax ended up unpaid by the final customer—the tax would be collected by the business, but the consumer would pay the tax. Mr. Fields said the mining industry looked at the final customer and

considered if the industry had the ability to increase the price to cover the tax that would be passed through, and the answer was a resounding no. Mr. Fields concluded a tax on services would result in a business that was already paying a hefty share of the taxes paying even more taxes. In that regard, a sales tax on services would not broaden the tax base. A tax on services could result in numerous new tax collectors, but not necessarily new generators.

Mr. Greenspun recognized the efforts of the business group was a work in progress and was evolving. Mr. Greenspun stated the Task Force would have to determine real baseline numbers and work from those numbers and wondered if the business group would accept the same numbers. Sam McMullen responded and said the numbers and the work product generated by the Technical Working Group and the Task Force had been instrumental in the discussions and calculations of the business group. Mr. Greenspun asked if a majority of the group would be willing to support the final number used by the Task Force, or ultimately the Legislature, as long as it fit within the parameters of the kind of revenues recommended by the business group. Mr. McMullen said he would like to say the answer was a very simple yes but it was probably not. If the magnitude of the final number was much greater for the first biennium than the earlier projections, that would not be the order of magnitude discussed by the group. If the final baseline numbers increased significantly, the group intended to meet for further discussions. The group had looked at a \$100 million to \$120 million target and had recommended sources that would address the short-term problem. The group had a great sense of responsibility and commitment to solve some problems and do some very unusual things.

Mr. Sloan asked if it was the intent of the business group to have the short-term sources phased out as the long-term sources phased in. Mr. McMullen said the group did not think they should be suggesting revenue that phased out. Mr. Sloan referred to the analysis (Exhibit L) that referenced the cost of collection and asked if the group could provide data to back up the pros and cons included in the analysis. Mr. Robison agreed to provide the data in the future. Mr. Sloan asked the group to identify the services that would be recommended for a sales tax. Mr. Robison said that was part of the group's ongoing discussion, because expanding the sales tax to services too broadly in other states had resulted in various pitfalls. Mr. Sloan asked if the group would support a sales tax on office and commercial rentals. Mr. Robison said that area had been considered during the analysis and offered to bring that discussion back before the group. Mr. Sloan referred to the large number of companies that were not headquartered in Nevada who had participated greatly in the prosperity of the state over the past decade. He emphasized those businesses had a responsibility to participate in paying for the cost of government in Nevada.

Accountability and Performance

Phil Stout, Nevada Association of Independent Businesses, said the association was created in 1991 in order to fight a business tax, however, his opinion of a business tax was changing. Mr. Stout indicated the business group would like to see an accountability program included in any legislation. The group had worked hard and would continue to try to get the business community to agree on some of the recommendations.

Wrap-Up

Mr. McMullen concluded the presentation and said it was important for the Task Force to understand the recommendations made by the business group were preliminary. The group was interested in the work product of the Task Force and had great interest in how their recommendations would be received by the Task Force and other policymakers. The business group was committed to continue reviewing the broad based side. Mr. McMullen recognized the business group did not have the same charter as the Task Force and did not necessarily define the terms in the same manner. Mr. McMullen reiterated the group had focused on what was technically possible in the coming months.

Chairman Hobbs thanked the business group on behalf of the entire committee. Whether the committee agreed or disagreed with some or all of the components in the recommendations, there was appreciation for the broad nature of the business group's thinking as far as giving consideration to history, existing procedural defects that could enhance revenues, the accountability and performance, as well as the more specific recommendations. The Task Force had been trying to get to this point for some time. The chairman said there would be discussion later in the meeting about the baseline and, as the baseline continued to change, some of the recommendations might also need to be modified. The chairman asked the business group to have representatives attend either the August or September meeting of the Task Force. Mr. McMullen said the group would like to participate and provide assistance to the Task Force.

Mr. Sloan said the disparity between the revenue per employee by category of business seemed stark and seemed to underscore that there was no rhyme or reason with the ability to pay. The business group asserted a business tax would broaden the base, and Mr. Sloan asserted the gaming industry, which currently paid the largest amount of tax, would pay more in taxes. The business group needed to question the element of equity and fairness if the tax targeted people without regard to their ability to pay. There were large numbers of people in Nevada who paid little or nothing in the way of taxes, and Mr. Sloan thought those people were prepared to spend a great deal of money to keep it that way. He agreed with the chairman that it was useful and helpful to have people present options. Outside of the Progressive Leadership Alliance of Nevada (Plan), which had the courage to propose a tax on investment, the proposal of the business group was the only real proposal the Task Force had received on generating new revenues.

Mr. McMullen said the business group believed for a business license tax to be fair it had to touch everybody, and exemptions only narrowed the base.

Mr. Sloan asked if the business group opposed a business income tax? Mr. McMullen stated at this point that would be an accurate characterization. The handout (Exhibit L) was intended to show the substance of the discussions of the group and did not necessarily reflect the taxes that would not be considered.

Mr. Lange acknowledged the tremendous amount of work generated by the business group. He was concerned that a significant volume of economic activity in the business community was “untapped” in terms of the needs presented to the Task Force and recognized a tax on services would address some or part of that concern. Mr. Lange reiterated his dislike of the business license tax. Unfortunately, the \$80 million the tax represented was a significant portion of revenue upon which the state relied.

Mr. Lange addressed Mr. Agüero and the Technical Working Group and asked them to provide data on how much a services tax would impact the individual taxpayer in addition to the out-of-pocket per capita tax burden, and how much of that was covered by business and business transactions.

Mr. McMullen referred to the services tax and said the group believed individuals and businesses would pay a service tax, and thought businesses would pay more. He explained services might be more discretionary, as opposed to mandatory. Mr. McMullen stated there was a discretionary level in some of the products and services; depending on location, an individual could pay \$15 or \$6 for a haircut, or pay \$15 or \$100 for a pair of Levis. The group theorized that services probably would be less regressive than products. Mr. McMullen reiterated the business group was relying on the outstanding data being generated by the Technical Working Group and the Task Force.

Chairman Hobbs said discussing the extent over which a service tax might be applied or considered for application, would determine whether or not it was regressive or progressive. A service tax added to all of the current services in a natural increment, or increments, would solve the baseline problem by a substantial margin.

Mr. McMullen said the theory was that a sales tax on services could raise and generate hundreds of millions of dollars and there would be the ability, on a case by case or policy basis, to define those services that would be more regressive or more problematic in terms of the success of a certain industry and its contribution to regions of the state.

Chairman Hobbs referred to earlier discussions about the effects of altering the treatment of depreciation, possibly changing the ratio of valuation from 35 percent to some other number, and a split roll, which treated non-residential property differently than residential property for purposes of taxation. Chairman Hobbs asked Mark W. Schofield, Clark County Assessor, to provide feedback on the issues related to depreciation.

Mr. Schofield stated he was present to act as a resource to the Task Force and represented the Clark County Assessor’s Office and the majority of assessors throughout Nevada. The assessors of the state had not reached a consensus on questions related to depreciation. Mr. Schofield stressed he was not advocating or opposing any type of tax increase.

Mr. Sloan asked Mr. Schofield for comments on the effect of eliminating the depreciation factor. Mr. Greenspun then asked Mr. Schofield to provide a brief history of depreciation.

Chairman Hobbs said depreciation and other issues related to the combined caps on property tax were matters of great

scrutiny by the SB 557 Committee, chaired by Assemblyman David Parks, and noted there was a great deal of crossover between the Task Force and the committee.

Mr. Schofield said a property tax revolt began in Nevada in 1979 on the heels of Proposition 13 in California, where values on property were frozen and an inflationary factor of 2 percent was applied. When property was purchased, the value of the property immediately increased to the purchase price. In Nevada, Question 6 was formulated, and the Legislature promised the people that the issue of escalating property taxes would be addressed through legislative measures rather than through a referendum. The Legislature shifted from a stable property tax base to a sales tax base; the sales tax was increased and the property tax was rolled back. The Legislature reduced the rate in 1979, and in 1981 created the new assessment methodology currently used in all 17 counties. Because the amount of sales tax proceeds was overestimated, the shift created a tremendous burden on local governments. In 1983 there were serious fiscal issues to be addressed. Mr. Schofield informed the members that assessors throughout the state had the responsibility to put value on property, not create the property tax. The process must be completed constitutionally in a uniform and equal fashion.

Mr. Schofield emphasized the property tax was second only to income tax in being the most detested tax. Only two states in the nation utilized the methodology used by Nevada to value property. Any methodological change in the assessment practices of the assessors created a tremendous uproar in the communities, particularly if the change resulted in a property tax increase. Mr. Schofield did not want his opinions to create a problem for the other assessors in the state. Many of the assessors did not have the same technology as Clark County and could not “rollover” as quickly using a different methodology. Mr. Schofield said the people accepted the current methodology.

Mr. Schofield referred to depreciation and said no one had been able to show him where depreciation had been a culprit as it related to property tax. Clark County reappraised property in the entire county every year. Clark County used the Marshall & Swift manual, utilized by the insurance industry to determine replacement costs. In Clark County there were 136 opportunities through the constitutional maximum of the tax rate of \$5.00, as opposed to \$3.64, to raise \$4 million for each penny increase in the rate. Mr. Schofield thought that would be a policy issue that most taxpayers would understand. However, changes made to the rate, rate of depreciation, or the assessed value ratio, would be a “back door property tax increase.” Most people would not know their property taxes were going to increase until receiving their tax bill.

Mr. Schofield referred to the split roll, the bifurcated roll, and thought the public should participate in that decision. A split roll would create an additional burden on non-residential property, but could also be a rate-based function, as opposed to methodology. Another words, the rate for commercial and industrial properties could be increased at a higher level than currently paid for residential properties.

Chairman Hobbs referred to the 1981 tax shift and said the property tax rates at that time were high and were reduced to a state average of below \$2.00. The current statewide average was approximately \$3.25. The chairman explained the property tax was a two-pronged issue—the assessment side and the rate side.

Mr. Schofield said in many Nevada counties there were reappraisal cycles, allowing up to five years to reappraise property. In those counties, there would be a reduction in value as a net effect of the depreciation. That phenomenon would not occur if re-costing occurred every year. If the state was going to use property tax as the vehicle to address the fiscal crisis, the state needed to make certain the citizens understood the impact of the change. Mr. Schofield said between the months of January 2002 and June of 2002, Clark County picked up \$4.2 billion in taxable improvement value, which translated into approximately \$42 million in property tax revenue, of which 55 percent was enjoyed by the Clark County School District. Mr. Schofield emphasized other counties were not experiencing the same increases in taxable improvement value.

Mr. Greenspun asked Mr. Schofield’s opinion on a tax that was progressive in nature and broad based in terms of equity. Mr. Schofield said the *Price Waterhouse Study* reported the property tax system in Nevada was a regressive system. The only way the system would be progressive would be to tax on actual market value. Mr. Schofield said changing to market value without lowering the property tax rate would result in a revolution; the public would be outraged. Property tax was a regressive tax, because the ability to pay does not come into play. Mr. Greenspun asked if there was another option within the current structure to make the tax progressive. Mr. Schofield replied “No.” The current market value had to be used to make the tax progressive. Mr. Greenspun asked about increasing

the rate of assessed valuation, and Mr. Schofield said he had tried to get the assessed value ratio changed during the 2001 Legislative Session, but had been unsuccessful. Mr. Schofield explained the taxable value was multiplied by 35 percent, which became the assessed value, and then the rate was applied to that amount.

Ms. Vilardo said prior to the 1965 Legislative Session, the state assessed the market value of property. A number of things happened in the 1960s that resulted in review of Nevada's property tax. A study was conducted on what ratios were running on assessed value, and it was found that the ratios were going from 11 percent in some counties to 38 percent in other counties. Because of the way the formula worked in the Nevada Plan, the state was putting in much more money to cover the expense in some counties. It appeared the highest level was used to create an artificial 35 percent assessed ratio value.

In response to a question posed by Mr. Greenspun, Mr. Schofield said it was his preference to not change the current property tax structure. Taxpayers in other states were revolting against taxes based on market value, and the assessors were being forced to roll back values. Mr. Schofield assured the members of the Task Force that Nevada's property tax system was acceptable, which was a primary criteria when reviewing any tax. A change in the property tax methodology could possibly decimate local government budgets and the school districts. A change to market value would have to be phased in administratively. Chairman Hobbs agreed with Mr. Schofield, particularly if no other changes were made to the system.

Presentation from the Nevada Taxpayers Association Regarding Tax Policy in Nevada

Ms. Vilardo began a brief review of the Nevada Taxpayers Association's report (Exhibit K). She referred to the "Proposals to Provide Increased Collection Efficiencies and Enhancements to the State's Revenue Stream" and asked the members to refer to the charts included in Appendix A, pages A-3 and A-4, which included a description of the proposals, law changes, approximate time frames, revenue expectations, and miscellaneous notes. Ms. Vilardo continued and referred to the "State General Fund Revenue Reform" and said the Nevada Taxpayers Association and a number of members from the business group hoped there would be a more efficient use of funds, particularly the Rainy Day Fund. Ms. Vilardo referred to item 6 on page 4 (Exhibit K): "the state should develop program budgets when applicable," and said the presentation made earlier in the meeting by the mental health advocates indicated the need for well-coordinated programs that eliminated duplication.

Ms. Vilardo referred to the "Revenue Enhancements" included in her handout. The business tax, which was employee-based, would address the growth issue. In response to a question asked by Mr. Sloan, Ms. Vilardo said she was not aware of any state that funded the entire General Fund through a "per head tax." Mr. Sloan said the number of employees was relevant to the number of services that might be required. In most taxing systems the ability to pay was viewed as a fair approach to taxes. There was no correlation between the number of employees and the ability to pay. Ms. Vilardo pointed out the gross receipts tax was not based on the ability to pay or profitability. In the past few decades, each time a major change was made in Nevada's tax structure it was made due to a poor economy. Every 10 to 13 years Nevada had experienced cyclical downturns and temporary fixes were applied. Loopholes were created because taxes were added without reviewing related statutes. Ms. Vilardo said rates that could be enacted quickly should be considered for immediate revenue needs.

Ms. Vilardo said the annual business license renewal fee had multiple purposes. Businesses might not understand their tax liability because of the conflict in interpretation. The association recommended the creation of a business database that included the category of each business in Nevada. Ms. Vilardo noted there was a statutory conflict--under one statute a sole proprietor with one employee was required to pay the head tax, and under another statute was not required to pay that tax.

A third enhancement related to the business tax was an increase in the quarterly rate per full-time employee. Ms. Vilardo acknowledged there would be opposition to the recommendation. If another business tax were to be adopted, the association would recommend repealing the quarterly rate. However, because the requirement existed, the current rate, which had been in effect since 1991, could be increased to provide additional revenues.

Ms. Vilardo then referred to an enhancement related to the fees collected by the Secretary of State. The association recommended an increase in the annual filing fee for all for-profit entities, which would not be burdensome to the business community. Ms. Vilardo noted even small increases in various taxes would result in a large amount of new

revenue. The association recommended an increase in the filing fee from \$85 to \$110.

Ms. Vilardo referred to a recommendation to expand the sales and use tax and stated the sales tax base nationally was much more stable than the income tax. Only the personal income tax provided any stability, and Ms. Vilardo recognized the voters would probably not support a personal income tax.

Another revenue enhancement would be an increase in the statutory \$3.64 cap on property tax. Ms. Vilardo emphasized the cap must be increased. Many of the rural counties were at the \$3.64 cap and did not have the capacity to build needed facilities. Ms. Vilardo said sales tax and income tax were based on a taxpayer's ability to pay, however, property tax was classified as a "benefits received" tax. A poll conducted in Clark County revealed strong sentiment for increased funding for schools and an increase in the cap might address that issue. Last fiscal year, 1 penny raised \$5.3 million statewide, the amount for this fiscal year was \$5.8 million—in 1981 the amount was \$1.79 million statewide. Ms. Vilardo said voters would have the opportunity to approve Senate Joint Resolution No. 11, adopted by the 2001 Legislature, which provided for an abatement of the tax on a single-family dwelling occupied by the owner suffering an economic hardship.

Ms. Vilardo referred to tax restructuring and asked the members to review Appendix A, pages A-1 and A-2 (Exhibit K) which included the executive summary and a matrix containing an analysis of the recommended transaction tax on amusements, admissions, and entertainment. Ms. Vilardo stated the association had contracted with Jeremy Aguero and had received a regressivity analysis, which was based on economic spending patterns—the amusements, admissions, and entertainment tax was the most progressive. If the entertainment tax and boxing and wrestling fees were eliminated and a transaction tax was created covering all areas of amusements, admissions and entertainment, a tax rate of 3.7 percent would be required to offset lost revenue. Per capita gaming revenue in Nevada had declined, but tourism and entertainment, such as concerts and racing had increased significantly. Ms. Vilardo said she would recommend to the Task Force, the Legislature, and the Governor's Office that 1 percent of the proceeds of a transaction tax be held in abeyance for unforeseen needs.

Ms. Vilardo referred to the miscellaneous revenue proposals (Exhibit K) and said the association's board had agreed to recommend that the *Nevada Constitution* be amended to permit a state lottery. She thought the board had approved the recommendation based on caveats proposed for careful structuring of the lottery. The association recommended participation in a "power ball." The revenue received should be placed in a trust fund and should be limited to expenditures for essential services.

Ms. Vilardo referred to the net proceeds of mines tax and said the association recommended annually placing 20 or 25 percent of the net proceeds revenue into a trust fund. The trust fund would be available to assist rural counties experiencing declining mining revenues.

Mr. Sloan thought there would be merit in restructuring the organization of the local state governments due to the variances in size. Ms. Vilardo agreed, and said small steps had been taken in that area over the last few years. Recently an interim committee made the recommendation to increase the population base required to become a city to 5,000—larger than some of the counties. Additionally, the 2001 Legislature provided funding for regional facilities. Ms. Vilardo thought the next few legislatures would provide funding for regional services for the rural counties.

Ms. Vilardo referred to the depreciation factor of the property tax and said most people did not understand that "you value upwards before you depreciate down." Ms. Vilardo said there was a problem with redevelopment, and it needed to be restructured. Redevelopment districts were extended during the 1997 Legislative Session from 30 years to 45 years, without allowing a "peel back" at any point.

Chairman Hobbs said he would like the members to review some of the measures indicated by Ms. Vilardo that were more procedural in nature, particularly the first four pages of the summary (Exhibit K). He would like to have those measures brought back for consideration for action at the next meeting. The chairman asked if there were other revenue enhancements that should be added to the list for consideration at the next Task Force meeting?

Mr. Sloan thought the Task Force should take action on the revenue enhancements that Ms. Vilardo identified on page 5 of the report (Exhibit K) with the exception of item 3, which recommended increasing the quarterly rate for full-time employees. Mr. Sloan also thought the Task Force should take a position on the cigarette tax and the alcohol tax, and said he was ready to take action on recommending that the Legislature consider a lottery.

Ms. Vilardo apologized for skipping the enhancement that recommended expanding the sales and use tax base to include those services purchased in conjunction with the sale of tangible goods and reducing the collection allowance. She did not feel eliminating sales tax on tangible products would stabilize revenue. However, the sales tax needed a limited expansion since it was on a base that was constantly decreasing. The base had to be expanded due to the movement to services.

Mr. Sloan said he would also include item 6 on page 6, as well as item 8 on page 6, and thought the members would have an opportunity to discuss the rate, if any, that would be used on item 8 if it was not merely a sales tax rate.

Mr. Lange requested clarification on where the Task Force was heading procedurally.

Chairman Hobbs said he envisioned an agenda item for the next Task Force meeting that would include the items on pages 1 through 4, and items 1, 2, 4, 5 on page 5, and items 6 and 7 on page 6. He thought the transaction tax, item number 8 on page 6, would require a separate discussion.

In response to a question posed by Mr. Sloan, the chairman said item 7 on page 6, which increased the \$3.64 cap on property tax, could also be reviewed as a separate item. Chairman Hobbs said increasing the cap from \$3.64 to \$4.00 without changing the tax rates only increased the cap. No additional revenue would be generated unless the rates were changed.

Mr. Lange requested item 6 on page 2, reducing the sales and use tax collection allowance, also be included as a separate item.

Chairman Hobbs summarized the recommendations, which included pages 1 through 4; page 5, items 1, 2, 4, and 5; page 6, items 6 and 7; a separate item for number 8 on page 6; and a separate item for number 6 on page 2

Chairman Hobbs said other items that had not been mentioned, such as the cigarette tax and lottery, should not be rejected for consideration at this point.

Mr. Greenspun asked the chairman what kind of action he was expecting on the items at the next meeting. The Chairman said it depended on the level of comfort of the Task Force and thought the members might have additional questions after reviewing the recommendations.

Mr. Greenspun said he did not take issue with the revenue enhancements on the first two or three pages (Exhibit K), but was concerned that the items would be addressed piecemeal. Mr. Greenspun said he preferred discussing an entire package, or an array of revenue enhancements, or new taxes, and then select from all the options. He feared approving selected items without effecting change would result in not addressing the big issues.

The chairman said he shared the concerns voiced by Mr. Greenspun. Certain revenue enhancements did not require much deliberation, but an item like a transaction tax needed more definitive work. There would be a substantial amount of focus on a mix of revenues to achieve the broad scope of goals, which included raising sufficient revenues for at least the baseline and providing revenue opportunities beyond the baseline for consideration by the Legislature; such as, adding stability to the existing system, broadening the base of the existing system, and all of the other objectives and requirements listed in ACR 1.

Mr. Greenspun was concerned that the members would approve a new revenue source and then decide the change would not work because, in conjunction with the rest of the revenue opportunities, it was not as important, or politically it was not quite as important, to proceed with. Mr. Greenspun thought the group's hands would be tied if they started approving and taking action on the various issues.

Chairman Hobbs reiterated the intent was to include an item on the next meeting agenda to be discussed. For example, discuss a lottery and perhaps, at the end of the discussion, qualify how a lottery ought to be considered or not considered.

Mr. Fields said it was his understanding that the revenue proposals enumerated under Mr. Sloan's motion would come back for further discussion, and possible action. Chairman Hobbs confirmed that was the recommendation.

Mr. Greenspun thought, in addition to the presentation made by Ms. Vilardo, the Task Force needed to listen to other testimony related to the revenue proposals. The chairman agreed.

Chairman Hobbs said part of the challenge the Task Force faced was determining if a topic had been defined enough.

Ms. Garcia-Mendoza agreed with Mr. Greenspun, and thought it was premature for the Task Force to start selecting and eliminating certain proposed taxes. The group might place something on the table this month and have to remove it the following month due to pressure. If the Task Force was going to act as an independent arm, using the best judgment after listening to all of the testimony presented over these many months, then decisions should be made all at once, without giving people the opportunity to come in and sway the members one way or the other.

Mr. Greenspun said he did not have a clear understanding of the impact of the recommended revenue proposals. He suggested amending the recommendation made by Mr. Sloan to address every tax that had been recommended and let the public testify, allowing 10 minutes for testimony, and then make a decision.

Mr. Sloan said he wanted to defer to the chairman in terms of scheduling, but said he thought the intent was to take those things that might be the least objectionable and place item number 8 aside. Mr. Sloan did not think there could be testimony from every person who might be affected by a gross receipts tax, a business profits tax, a personal income tax, or a property tax increase.

Chairman Hobbs said the members would have to discuss the items individually and collectively. Achieving the goals of the Task Force would require a blend of different revenues. The chairman thought discussion would focus on the stability of the recommended tax and the amount of increase. Some items would require slightly less discussion and some more, and the chairman hoped the group could at least resolve the recommendations on pages 1 through 4 (Exhibit K) and get those numbers worked into the model. Chairman Hobbs thought the discussion on a business tax would take more than one meeting.

Mr. Sloan withdrew his earlier recommendation.

MR. SLOAN MOVED TO BRING FORWARD PAGES 1 THROUGH 4 WITH THE EXCEPTION OF ITEM 6 ON THE TOP OF PAGE 2; THE ITEMS ON PAGE 5, NUMBERS 1, 2, 4, AND 5; AND THE ITEMS ON PAGE 6, NUMBERS 6 AND 7. INVITE PUBLIC COMMENT ON THE PROPOSAL TO ESTABLISH A FORM OF TAXATION ON AMUSEMENTS, ADMISSIONS, AND ENTERTAINMENT, AS SET FORTH SET FORTH IN THE NEVADA TAXPAYERS ASSOCIATION WHITE PAPER. INVITE PEOPLE FROM VARIOUS AFFECTED COMMUNITIES TO PRESENT TESTIMONY WITH A PRESENTATION TIME CONSTRAINT OF 15 MINUTES.

Chairman Hobbs asked if Mr. Sloan wanted to address the cigarette tax in the same manner as the transaction tax. Mr. Sloan said he was prepared to suggest taking action on the cigarette tax. Consumers having concerns with increasing the cigarette tax could have testified at the Task Force meetings, or communicated in writing. Mr. Sloan noted that Mr. Elliott did speak on behalf of the AFL-CIO.

The chairman asked if Mr. Sloan wanted the cigarette tax included as a separate item using the Taxpayers Association white paper as a template. Have cigarette tax be an item for discussion and possible action. And then the transaction tax, we are inviting testimony at this time. Mr. Sloan said that would be fine.

Mr. Greenspun asked Mr. Sloan if the issues enumerated could be taken individually. Chairman Hobbs said the agenda item backup would be annotated to remove those items that would be discussed separately.

Mr. Lange asked what the distinction was between looking at items in the aggregate and looking at other items separately.

Mr. Sloan thought the expectation was to reach agreement on the simple things quickly and begin to determine what revenues those items would generate. There would be more continuous issues in the future; there were already some reservations on taxes on amusements. Mr. Sloan envisioned a workshop where members could actually begin

discussions as to an approach on that which remained.

MR. LANGE SECONDED THE MOTION BASED ON THE UNDERSTANDING THE TASK FORCE WOULD TAKE EACH ITEM SEPARATELY FOR DISCUSSION.

THE MOTION WAS APPROVED UNANIMOUSLY.

Chairman Hobbs said agenda items VIII, IX, and X would be presented in succession by Jeremy Aguero, Chairman of the Technical Working group.

Report from the Technical Working group Concerning Activities since Previous Meeting of the Task Force and Direction to the Technical Working group

Discussion and Approval of Sections 1, 2 and 3 from the Draft Report

Discussion and Adoption of Variables and Assumptions for Economic Models

Jeremy Aguero, Chairman, Technical Working group, said all of the information that had been and would be provided to the Task Force would be available on the Web site, www.appliedanalysis.com.

Mr. Aguero began his presentation and referred to a packet of spreadsheets (Exhibit M) which contained information largely associated with the information that had been requested by the Task Force over the past few months. The first spreadsheet was a comparison of assessment rates at 35 and 40 percent—every penny of property tax generated an extra 14.3 percent of additional revenue. The second spreadsheet compared taxes used across the 50 states. There were approximately 70 footnotes that were not included due to limited space, but were available to the members upon request. The next spreadsheet included year to date General Fund estimates. Mr. Aguero thanked Mr. Russell Guindon, Deputy Fiscal Analyst, Fiscal Analysis Division, Legislative Counsel Bureau, for his assistance in collecting a great deal of information. Mr. Aguero said the first column on the spreadsheet should read “Through May 2001” instead of “May 2002.” Mr. Aguero stated the first presentation made by the working group to the Task Force estimated revenues would remain relatively flat; the last set of revenues projected \$1.73 billion and the current, and hopefully final, estimates were \$1.741 billion. The projections included everything that had been reported through the current month.

Mr. Aguero referred to the next worksheet, a summary of business statistics, which included information on businesses, and employment and sales receipts of industries by the number of employees. Mr. Sloan said Mr. Aguero had agreed to provide a revised version of the spreadsheet containing information on the disparities between revenue per employee for each of the categories and by industry. Mr. Aguero continued and referred to a worksheet dealing with tax committees throughout the nation. The data included contact information. Mr. Aguero asked the members to put aside the final two spreadsheets, which would be addressed later in the presentation.

Mr. Aguero referred to the binder containing the analysis summaries (Exhibit N). The binder included Sections 1, 2, 3 and 4. Chairman Hobbs said the Task Force was required to file a final report, and the members felt it was important to document each step and the assumptions used. The intent of the various sections was to share information and receive feedback and not wait and provide all of the documentation at the last minute. The Task Force needed a record comparable to the *Price Waterhouse Study*, which was presented ten years ago.

Mr. Sloan indicated the work product generated by the Technical Working Group exceeded the efforts of Price Waterhouse in terms of depth of analysis. Mr. Sloan said he had been negligent in not providing comments and thought a work session was needed. There were both substantive and stylistic issues that needed to be addressed. Mr. Sloan said he would give Mr. Aguero his comments on the four sections and recommended the other members do the same, since each would be a signatory to the final report. Mr. Sloan commended the chairman and Mr. Aguero for their efforts.

Chairman Hobbs suggested no action be taken on agenda item IX during the current meeting. As we get to Section 6, we would like to know that Sections 1 and 2 were properly founded, since they all build on one another. The chairman asked the members to please provide comments on the variables and assumptions. A work session would be

scheduled to approve the final report.

Mr. Aguero provided a brief overview of Sections 1, 2, and 3:

- Section 1, Nevada Economic Overview and Baseline Assumptions, included population, employment, unemployment, income and earnings, analysis of individual industries, consumer behavior, and inflation within the state. Trending was determined using historical data. The report was a general synopsis of the criteria.
- Section 2, Fiscal System Overview, reviewed the role the *Nevada Constitution* had in the state's tax structure, as well as financial reporting documents issued by the state government. Mr. Aguero said the legislative appropriations reports used in the analysis were specific to the state General Fund. The analysis also contained historical performance and reported how Nevada's revenues and expenditures had changed with time.
- Section 3, Defining the Problem, divided ACR 1 into three principal areas: 1) defining the structural deficit, 2) tax stability, and 3) providing additional revenue for state programs.

Mr. Aguero referenced Section 4, General Fund Outlook, and said he would provide a more detailed description of the analysis. The third page included the most current revenue and expenditure projections. A structural deficit of \$85 million was projected for FY 2002 and \$374 million was projected for FY 2011. The cumulative deficit was projected to be \$255 billion. Mr. Aguero said Exhibit 4A-1 included all of the revenues included in the General Fund. All of the analyses were completed in aggregate terms as well as in per capita or per employee terms and in nominal and inflation-adjusted terms. Exhibits 4A-2 and 4A-3 included growth rates and dollar increases for taxable retail sales and the gross gaming win for the past 20 years; the remaining charts were very similar to 4A-2 and 4A-3.

Mr. Sloan asked if there was a difference between population growth and employment growth and asked why Exhibit 4A-6 used per employee data rather than per capita data. Mr. Sloan said per employee data did not take into account the demographics of the number of children. Mr. Aguero agreed, and said in some cases that might overstate some of the impacts. However, the ratio between population and employment had remained relatively constant. Mr. Aguero said the current retail sales and use tax collection on a per employee basis was similar to the decline experienced in the 1992 recession. The gaming tax was also declining.

Mr. Aguero said thus far the working group had looked at expenditures and expenditure growth as a function of both population growth and the rate of inflation, which had a tendency to underestimate total expenditures because it did not take caseload growth into account. As the demographics changed, the number of participants would change. There was also a level of interdependence within the programs. The Technical Working Group requested direction from the Task Force on how to handle the caseload issue.

Mr. Aguero referred to the last worksheet (Exhibit M), an analysis of the Distributive School Account (DSA). The analysis began with FY 1990 through FY 2001 and was projected out to FY 2011, and included data on "Basic Support," "Additional and Special Programs," and "Additional and Special Programs-Inflation Adjusted Per Pupil." Mr. Aguero referred to the "Less Offsets" heading and noted the first offset was Local School Support Tax (LSST). When retail sales and use tax revenues were less than projected, the LSST allocated to schools was less. *The Nevada Plan* insured that the State General Fund made up the difference, which placed additional pressure on the State General Fund that went beyond population growth and inflation.

Mr. Aguero said eligibility and offset issues were included in the baseline, and models had been completed for education, Medicaid, prisons, some welfare programs, as well as the University System. The basic support per pupil calculation included another portion of property tax that had historically grown at rates faster than population and inflation growth. Mr. Aguero referred to the line titled "Balance Reverting to the General Fund" on page 4 of the education spreadsheet (Exhibit M) and said the model held funding for education flat, but there would still be a General Fund obligation due to the revenues and expenditures being interdependent.

Chairman Hobbs referred to the \$85 million deficit projected for FY 2002 and the \$374 million projected for FY 2011, and said the projections represented a status quo view of services and did not take into account higher caseloads in the future. It was evident that, based on prior presentations, the baseline values would increase significantly under an assumption that included caseload driven projections. The Task Force agreed with the chairman's suggestion to

run a second set of projections that was driven more by caseload.

Mr. Aguero noted, even if caseloads remained constant, if revenues came in under projections, the offset would be that the General Fund, under the current structure, had the obligation to make up the difference. Mr. Aguero then explained that the model was constructed where a one-person change in population rolled completely through the model, and the change affected how education was funded, as well as how retail sales and use taxes were collected. Mr. Aguero said, with the approval of the Task Force, the projections would be returned to the various agencies for review to confirm the validity of the process.

Mr. Aguero reviewed the calculations included in the spreadsheet titled "Scenario Master File" (Exhibit M). The spreadsheet included the structure for how each scenario could be run. Based on testimony provided by the Department of Taxation at a previous meeting of the Task Force, a line item was included for additional costs resulting from any tax changes. The majority of scenarios could be "done on the fly."

Ms. Garcia-Mendoza said the budget deficit was based on FY 2002 data and noted that the fiscal year ended June 30, 2002. Mr. Aguero said the model was created in November of 2001, so FY 2002 was used as the projection year. Mr. Aguero said the model could be carried out to FY 2112 if the members desired. In response to a question asked by Ms. Garcia-Mendoza, Mr. Aguero stated the deficit of \$85 million was not cumulative. However, the worksheet on page 4-3 in section 4 of the binder (Exhibit N) included a cumulative number and a first year number. Ms. Garcia-Mendoza asked if the cumulative number was the number the Task Force should be looking at, and Chairman Hobbs stated both the annual and cumulative amounts needed to be considered. Mr. Aguero said he would add another line item to Scenario Master File spreadsheet for cumulative deficit or surplus.

Mr. Lange asked if four or five changes were made to the model, would the numbers remain constant from page to page. Mr. Aguero explained that the base for each of the revenues was its own line item, as were the rates, and were shown in each of the historical years and in each of the projection years.

Because health issues were a concern of the Task Force, Mr. Sloan distributed a study titled *Employer-Sponsored Health Insurance and Uncompensated Care: The Role of the University Medical Center In Clark County*, prepared by C. Jeffrey Waddoups, Ph.D., Associate Professor, Department of Economics, University of Nevada, Las Vegas (Exhibit O). The study attempted to quantify the cost of uncompensated health care to the taxpayers of Clark County.

Mr. Sloan said the state of Washington had the ability to use state lands to generate revenue. Mr. Sloan wondered if it would be valuable to consider asking the federal government to allow the state of Nevada to have access to the Bureau of Land Management (BLM) lands. Chairman Hobbs said he would ask for input from the Nevada Association of Counties (NACO), which was pushing heavily for more control of public lands.

Scheduling of Future Meetings

The next meeting was scheduled for Wednesday, August 21, 2002, in Las Vegas. Chairman Hobbs thought future Task Force meetings would be held every two weeks and would include a meeting in Carson City and one meeting in the rural part of the state. Stephanie Licht, Legislative Consultant, said she would advise the chairman on the availability of teleconferencing from Elko.

Public Comment

Stephanie Licht, representing Elko County, referred to a packet of materials (Exhibit P) and said the first part included an historical perspective of Nevada. The rural areas, because of distance and access to the markets, had to rely heavily on natural resources. Ms. Licht briefly reviewed the second part of the packet, which included information on counties and cities in the western states, and information on federal land ownership. Mr. Sloan noted Clark County and Eureka County had the same percentage of federal land and asked about the population of Eureka County. Ms. Licht said the population of Eureka County was 2,000 and Clark County was 2.1 million. Ms. Licht reviewed the third packet, which related to grazing trends on public lands. The document showed there had been a large decrease in animal unit months (AUM's) in the rural counties of Nevada. Ms. Licht said the Reviving Nevada's Economy Team asked permission to submit recommendations that might be used in the final report of the Task Force. Chairman Hobbs thanked Ms. Licht for all the effort that went into her presentation.

Knight Allen, Public Citizen, said there were definitions of progressive and regressive taxes, which he had addressed in past meetings. Mr. Allen said the Task Force must follow the fundamental principles that any tax imposed on a free economic choice of a free person was a fair, just, equitable, and progressive tax. Any tax imposed through government force and coercion was not only regressive, but was oppressive. Mr. Allen thought the Task Force was convinced that the state had to have more revenue, the citizens of Nevada were under taxed, and the purpose of the members was to find additional sources of revenue.

Mr. Sloan said Mr. Allen had referred to the fundamental principles for the past seven months, and wondered why the principles were not followed by other states. Mr. Allen responded and said the principles originated with the nation's founding fathers, and over the years, governments had moved away from them. To date, Nevada had not moved away from the principles. Mr. Allen said the *Wealth of Nations* included an entire segment related to taxation. The whole point of the American system was to create and increase the wealth of the nation.

Chairman Hobbs asked Mr. Allen for his recommendation on a new source of revenue. Mr. Allen said the panel seemed very interested in the presentation made by Ms. Vilardo, who had an outstanding reputation, and yet at the core of her presentation was "deal with the existing tax base." Mr. Allen thought the amusement tax fit perfectly. The chairman said he appreciated the answer but did not believe the amusement tax, in combination with the other recommendations presented by Ms. Vilardo, would provide enough revenue. Mr. Allen agreed to provide a response to the chairman's request at a future Task Force meeting.

Mr. Allen continued and referred to an article in the July 1, 2002, edition of the *Las Vegas Sun* related to the budget crises in various states. The states with the broad-based stable systems were having the greatest troubles. All of the states were in far worse shape than Nevada. Mr. Allen said the market was everything—capital must respond to the market and tax systems must respond to the market. In a good economy the flaws in a board-based tax system would not have been exposed. With the recession, all of the flaws and underlying assumptions were proven wrong. Mr. Allen emphasized the right assumption was that capital must be free economically and the people must be empowered economically.

Mr. Allen emphasized that the Task Force should abide by the recommendation of Mark Schofield to not change the property tax laws. Mr. Allen did not think the Task Force should place elected officials in a no win position by proposing property tax increases. Ms. Vilardo had provided the members with many alternatives to increase revenues, and the members seemed willing to embrace the recommendations. Mr. Allen asked for clarification on which items would be included as action items on the next agenda, and wondered if the panel would make a final decision on any of the items. Chairman Hobbs said the way the items would likely be written would be for discussion and possible action. One of the items would be presented for hearing. The Task Force would receive additional testimony on the pros and cons of any recommended change in the tax structure.

Mr. Sloan said the motion passed unanimously and items would be brought before the members and final action might be taken. However, the members reserved the right to adopt another package if necessary. At the next meeting, Mr. Sloan expected the members would be prepared to act upon those items that were generally non-controversial. Chairman Hobbs agreed with Mr. Sloan's assessment.

Adjournment

The meeting adjourned at 4:14 p.m.

Respectfully submitted,

Linda J. Smith

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.