

**MINUTES OF THE  
LEGISLATIVE COMMISSION'S SUBCOMMITTEE TO  
STUDY THE ALLOCATION OF MONEY DISTRIBUTED FROM  
THE LOCAL GOVERNMENT TAX DISTRIBUTION ACCOUNT  
(Assembly Bill 71, 2011 Legislative Session)  
February 1, 2012**

The Legislative Commission's Subcommittee to Study the Allocation of Money Distributed from the Local Government Tax Distribution Account (Assembly Bill 71 of the 2011 Legislative Session) held its first meeting of the 2011-12 Interim on February 1, 2012, in Room 4401 of the Grant Sawyer State Office Building, 555 East Washington Avenue, Las Vegas, Nevada. The meeting was videoconferenced to Room 3138 of the Legislative Building, 401 South Carson Street, Carson City, Nevada and Room 120 of the High Tech Center, Great Basin College, 1500 College Parkway, Elko, Nevada.

**COMMITTEE MEMBERS PRESENT IN LAS VEGAS:**

Assemblywoman Marilyn Kirkpatrick, Chair  
Senator John Lee  
Senator David Parks  
Assemblyman John Ellison

**COMMITTEE MEMBERS PRESENT IN CARSON CITY:**

Senator Mike McGinness (Alternate for Senator Elizabeth Halseth)  
Assemblyman Richard Daly

**COMMITTEE MEMBERS PRESENT IN ELKO**

None

**COMMITTEE MEMBERS ABSENT:**

None

**OTHER LEGISLATORS PRESENT:**

Assemblywoman Irene Bustamante Adams  
Assemblywoman Dina Neal

**STAFF MEMBERS PRESENT IN LAS VEGAS:**

Russell Guindon, Principal Deputy Fiscal Analyst, Fiscal Analysis Division  
Michael Nakamoto, Deputy Fiscal Analyst, Fiscal Analysis Division  
Joe Reel, Deputy Fiscal Analyst, Fiscal Analysis Division  
Dan Yu, Principal Deputy Legislative Counsel, Legal Division

**STAFF MEMBERS PRESENT IN CARSON CITY:**

Cheryl Harvey, Committee Secretary, Fiscal Analysis Division

**EXHIBITS:**

[Exhibit A](#) – Agenda and Meeting Packet

[Exhibit B](#) – Nevada League of Cities, J. David Fraser, Executive Director, Testimony.

**I. ROLL CALL.**

Chairwoman Kirkpatrick called the meeting of the Subcommittee to Study the Allocation of Money Distributed from the Local Government Tax Distribution Account to order at 3:02 p.m. and the secretary called roll. All members were present at the meeting, with attendance in both Las Vegas and Carson City.

**II. INTRODUCTION AND OPENING REMARKS.**

*ASSEMBLYWOMAN MARILYN KIRKPATRICK, CHAIR*

Chairwoman Kirkpatrick welcomed the members and the audience to the meeting. She acknowledged there had been Local Government Tax Distribution Account and Consolidated Tax Distribution (CTX) studies in the past, but stressed this study would be different. She thought there was much information to digest in the scheduled timeframe for the study and committed to have as many meetings as possible in order to promote a full dialog on the subject. Chairwoman Kirkpatrick noted that during her tenure in the Legislature the issue of the CTX was brought up at the beginning and end of every session. She indicated it was important to talk about the history of the CTX in Nevada and how it came to fruition, especially because of legislator term limits and staff turnover. She said staff had worked diligently to recreate the history of the CTX. She thought the committee meetings presented an opportunity for everyone concerned to be part of the process. The meetings would start at 3:00 p.m. to allow for ease of attendance and continue into the evening until the discussion was completed. Chairwoman Kirkpatrick explained all the meetings would be held in Las Vegas and videoconferenced to Carson City and either Elko or Winnemucca to accommodate the rural areas. She thanked the members, including Assemblyman Daly and Senator McGinness (alternate for this meeting) in Carson City (representing the north), and Assemblyman Ellison in Las Vegas (representing the rural areas), and Senator Lee and Senator Parks in Las Vegas (representing the south).

**III. PUBLIC COMMENT.**

Chairwoman Kirkpatrick asked for public comment on any agenda item from attendees in Las Vegas, Carson City and Elko.

Ken Kraft of North Las Vegas, a member of the North Las Vegas Utilities Advisory Board and former member of the North Las Vegas Parks and Recreation Advisory Board came forward to testify. He was anxious to learn the history of this revenue distribution stream, which he thought was the “life blood” of the counties and cities. However, he did not think the CTX formula was responsible for the financial woes impacting the city of North Las Vegas. Mr. Kraft said a regular review of the distribution

formula was a good exercise every ten years and any update of the formula would be beneficial to North Las Vegas as well as the growing areas of the Las Vegas Valley. He appreciated everyone in attendance, especially the representatives from Clark County and North Las Vegas and thanked the Committee for delving into the issue. Mr. Kraft looked forward to watching the process move forward and would monitor it closely.

Chairwoman Kirkpatrick appreciated Mr. Kraft's testimony and commented he was one of her constituents. She would do her best to make sure the CTX was not discussed for another ten years.

There was no other public comment.

#### **IV. OVERVIEW OF THE LOCAL GOVERNMENT TAX DISTRIBUTION ACCOUNT AND THE CONSOLIDATED TAX DISTRIBUTION (CTX).**

Chairwoman Kirkpatrick asked staff to provide an overview of the CTX.

Russell Guindon, Principal Deputy Fiscal Analyst, Fiscal Analysis Division, pointed out that the meeting was being broadcast on the Internet and the meeting materials and the history of the CTX were available on the Legislative Counsel Bureau's website so everyone could follow along and participate.

Chairman Kirkpatrick requested a link to the meeting materials be placed on the front page of the Legislative Counsel Bureau's website so constituents had easy access to the information.

Mr. Guindon thought having a link on the front page of the website was important and with direction from the Chairwoman, Fiscal staff would work with Information Technology staff to make the material more prevalent on the website. He explained there were various materials available on the website, including statutes related to the CTX from 1995 to 2011 as it existed after each legislative session, organized by revenue source; the history of the legislation, with related bills and minutes from the bills; as well as bulletins from prior CTX interim studies. All the information was offered on the website to help the members and staff understand the legislative history of the CTX, especially since most of it predated those participating in the current interim study.

Mr. Guindon moved to Agenda Item IV, an overview of the Local Government Tax Distribution Account and the CTX. Staff prepared information for the overview starting on page 15 of the meeting packet ([Exhibit A](#)), which established an information set that could be utilized by the Committee members, local governments, staff and any other participants during the study. He said page 15 showed a flow chart graphic of the CTX. In order to promote familiarity of the CTX process he would explain the components and terminology of the CTX at a high level and then more detail would be provided under subsequent agenda items. Mr. Guindon pointed out page 16 showed the six revenues dedicated to the Local Government Tax Distribution Account or CTX, which referred to distributions of revenue into the first-tier and second-tier distribution. He said the six

revenue sources dedicated to the CTX were the Supplemental City-County Relief Tax (SCCRT), the Basic City-County Relief Tax (BCCRT), the Governmental Services Tax (GST), Real Property Transfer Tax (RPTT), Cigarette Tax and Liquor Tax. Mr. Guindon noted that the six revenue sources either had an established rate, or there was a portion of the taxes that were dedicated to the CTX. He said at the first-tier distribution (page 17), the six revenue sources had statutory formulas for their distribution to the 17 counties and noted that for purposes of the CTX Carson City was considered a county. After the money was distributed to the 17 counties then at the second tier (page 18), another distribution occurred to entities within each county. Mr. Guindon stated there were three types of entities eligible to receive money under the CTX at the second-tier distribution, including Enterprise Districts, Local Governments and Special Districts (page 19). He explained that there were provisions for distributing that money within the second tier to the three types of entities called base distribution and excess distribution (page 20). Further explained, the excess distribution involved local governments and special districts where one-plus and no one-plus formulas (based on growth in population and assessed value) were used for determining the share of the excess that would be distributed between those local governments and special districts. Mr. Guindon said staff would provide more detail on the structure of the CTX in subsequent agenda items, but he wanted to familiarize all the participants with terms used in the CTX and attach meaning to those terms. He concluded his overview.

Senator Lee asked for an explanation of the term no one-plus. Mr. Guindon appreciated the question, but said if Senator Lee was willing to wait staff intended to discuss it during Agenda Item VI.

Chairwoman Kirkpatrick thought it was important to explain the CTX in layman's terms so that all the participants had a full understanding of the structure and the process of the CTX.

In response to Chairwoman Kirkpatrick, Mr. Guindon said it was staff's intent to create charts (starting on page 15, [Exhibit A](#)) to use as a reference document, which included all the terms of the CTX. He pointed out to the Committee members that Michael Nakamoto, Joe Reel and himself were non-partisan legislative staff to the committee. While staffing session committees in the past they had been asked what were the problems with the CTX and consequently what were the solutions. As non-partisan staff, Mr. Guindon said there were not any problems with the CTX and thus staff did not have any solutions. He explained that the Legislature passed laws related to the CTX, the Governor signed the laws, and the Department of Taxation was the Executive Branch agency responsible for the compliance and administration of the laws related to the CTX. He wanted to be clear that as non-partisan staff that they were available to assist the members as the CTX study went forward, but said this was a local government issue, not a legislative staff issue. Staff's intent was to continue to guide the Committee through information related to the CTX, including how it worked under current law and the history.

**V. OVERVIEW OF THE SIX REVENUE SOURCES DEDICATED TO THE CTX AND THEIR DISTRIBUTION TO COUNTIES UNDER THE FIRST TIER OF THE CTX: SUPPLEMENTAL CITY-COUNTY RELIEF TAX (SCCRT), BASIC CITY-COUNTY RELIEF TAX (BCCRT), GOVERNMENTAL SERVICES TAX (GST), REAL PROPERTY TRANSFER TAX (RPTT), CIGARETTE TAX, AND LIQUOR TAX.**

**a) Current Rates and Distribution**

Michael Nakamoto, Deputy Fiscal Analyst, Fiscal Analysis Division presented an overview of the six revenue sources dedicated to the CTX and the distribution of the revenue to the counties under the first-tier distribution. He said there had to be revenue sources in order to distribute revenue to the local governments and that was the function of the first-tier distribution of the CTX. Pages 75 and 76 of the meeting packet ([Exhibit A](#)) showed an overview of the six revenue sources, and the current rate and distribution of the revenue (Table 1). Pages 77 through 100 (Table 2) included detail about all six of the revenue sources and the legislative history.

Mr. Nakamoto said the six revenue sources in the first-tier distribution of the CTX (page 16, [Exhibit A](#)) were:

- Supplemental City-County Relief Tax (SCCRT)
- Basic City-County Relief Tax (BCCRT)
- Governmental Services Tax (GST)
- Real Property Transfer Tax (RPTT)
- Cigarette Tax
- Liquor Tax

The statutory language for each of these revenue sources had different criteria for distributing the local portion of the revenue back to the counties at the first tier of the CTX. He said the current rate for the statewide Sales and Use Tax, which was the tax imposed upon the taxable sale or use of tangible personal property, was 6.85%. The SCCRT and BCCRT (page 75, [Exhibit A](#)) were a portion of the Sales and Use Tax with the 6.85% divided into the following portions:

- State General Fund – 2%
- Local School Support Tax – 2.6%
- BCCRT – 0.5%
- SCCRT – 1.7 %

Mr. Nakamoto explained there were various local option taxes that were imposed in 12 of the 17 counties throughout the state, which varied the tax between the statutory minimum of 6.85% and the maximum of 8.1% in Clark County. However, for this part of the presentation he referred to the portion levied in all 17 counties. The statewide Sales and Use Tax was generated by people paying sales tax on purchases of tangible personal property. The tax was collected by retailers – referred to as taxpayers in

NRS Chapter 377 – and then remitted to the Department of Taxation. The taxpayers were allowed to keep a collection allowance of 1/4 of 1% as long as payments to the Department of Taxation were made on time. He said when the proceeds of the Sales and Use Tax were received by the Department of Taxation, 1.75% was withheld and deposited in the state General Fund to cover the state's cost of collecting and administering the sales and use tax. After the 1.75% was taken out, the Department of Taxation distributed the remainder of the proceeds into the CTX. Page 23 ([Exhibit A](#)) showed all 17 counties as either guaranteed or non-guaranteed, which referred to how the SCCRT revenues were distributed to the counties at the first-tier distribution.

Continuing, Mr. Nakamoto explained guaranteed and non-guaranteed counties (page 23, [Exhibit A](#)). The guaranteed counties (page 24) – Douglas, Esmeralda, Lander, Lincoln, Lyon, Mineral, Pershing, Storey and White Pine – received the first cut of the distribution of SCCRT revenues. He said under NRS 377.057 the guaranteed counties received an annual distribution equal to the amount that each county received in the prior fiscal year, with that amount adjusted by the lesser of either of the growth in statewide SCCRT revenue of the sum of the Consumer Price Index of the prior year and the percentage growth in population for that county. Those calculations were performed on an annual basis by the Department of Taxation and for each of the guaranteed counties it determined the monthly amount of SCCRT revenue it received. Mr. Nakamoto stated because the counties were guaranteed they received no less than that amount and not more than that amount. Even if a guaranteed county had greater SCCRT revenue than its guaranteed amount, it still only received the guaranteed portion. The non-guaranteed counties (page 25) – Carson City, Clark, Churchill, Elko, Eureka, Humboldt, Nye and Washoe – received the portion of the SCCRT revenues after the Department of Taxation distributed SCCRT revenue to the guaranteed counties. Each non-guaranteed county received a percentage of what was left over from the guaranteed county distribution every month in proportion to what that county actually collected as a percentage of the total collections among those counties. Using Eureka County as an example, Mr. Nakamoto explained if the county generated 3/4 of 1% of the SCCRT collections among the non-guaranteed counties, it would receive 3/4 of 1% of what was left over. If Clark County generated 75% of the SCCRT revenues among the non-guaranteed counties then it received 75%. He noted the FY 2011 percentage of the total first-tier distribution CTX revenue for the SCCRT was 65.9%, which equated to approximately \$680 million at the first-tier distribution. Just over \$1 billion was distributed in the first tier of the CTX of which a considerable amount was the SCCRT.

Senator Lee asked if there was a threshold where a county went from guaranteed to non-guaranteed status. He cited Douglas County as an example of a guaranteed county that had experienced significant growth over the last 10 to 15 years.

Mr. Nakamoto said the criteria for whether a county was guaranteed or non-guaranteed was established in NRS 377.057. The guaranteed counties were originally established by the Legislature during the 1991 Session, but there were provisions within NRS 377.057 that required a guaranteed county to move from guaranteed status if the



county's actual SCCRT collections grew for a 12-month period preceding February 15 of any given year. On February 15 of each year, the Department of Taxation was required to check each of the guaranteed county's taxable sales for the 12-month period, to determine if those sales would have generated 10% more SCCRT revenue than what their guaranteed amount was during that period. If more SCCRT revenue was produced, the county would be required to move from guaranteed status to become a non-guaranteed county unless it applied for a waiver from the Nevada Tax Commission to stay in guaranteed status. Mr. Nakamoto intended to provide more detail later in his presentation on the statutory provisions to move a guaranteed county out of guaranteed status and into non-guaranteed status if it had a sustained increase in taxable sales.

Kirkpatrick asked whether changes made by statute to components of the sales and use tax, such as SCCRT or the LSST, applied uniformly throughout the state.

Mr. Nakamoto answered she was correct. He explained all of the four taxes that made up the statewide rate were imposed statewide and were subject to the same rules and laws in all of the 17 counties.

Chairwoman Kirkpatrick wanted people to understand the minimum sales tax rate was 6.85% and the distributions were based on that amount; however, local governments had the ability to raise the sales tax rate for its individual needs.

Mr. Nakamoto said there were guidelines by which counties through a county ordinance, permission of the Legislature, or voter approval could increase its sales tax rate for specific purposes, but that was completely independent of the CTX.

Mr. Guindon added that a county could not raise the tax rate to any level it wished. The law did not offer that type of flexibility and the law specified the level of the rate that could be imposed for a specific purpose.

Moving on to the next revenue source, the BCCRT (page 26, [Exhibit A](#)), Mr. Nakamoto said it was the portion of the statewide Sales and Use Tax rate imposed at the rate of 0.5%. The method of collection from the average citizen to the taxpayer to the Department of Taxation was the same as with all of the other methods for Sales and Use Tax collection. The taxpayer (retailer) is allowed to retain a 0.25% collection allowance and remits the proceeds to the Department of Taxation. The Department of Taxation keeps 1.75% commission depositing it into the state General Fund and then distributes the remainder of the proceeds to the CTX. He explained the BCCRT is distributed to counties based on tax collections from in-state and out-of-state sales. In-state sales occur when people shop at a retail store and hand-carry the merchandise from the store. Those proceeds are remitted to the CTX and distributed to the county based on where the taxable activity occurs. Out-of-state sales related to the BCCRT (page 27, [Exhibit A](#)) are proceeds from businesses not maintaining a fixed place of business in the state. When those proceeds are deposited into the CTX, the revenue is distributed to each of the counties based on its proportional share of the statewide

population as determined by the State Demographer. The Department of Taxation performs the calculation so each county received a share of the out-of-state BCCRT.

Chairwoman Kirkpatrick questioned if living in Clark County in the city of North Las Vegas, but shopping in North Las Vegas, Las Vegas or Henderson, if the Sales and Use Tax proceeds still went to Clark County.

Mr. Nakamoto said as long as the purchase was made in Clark County it would be distributed to Clark County at the first-tier distribution and then would flow to each of the government entities who received a portion in the second-tier distribution.

Chairwoman Kirkpatrick said it appeared there was no “turf” when it came to the first-tier distribution because it was based on the county where the dollars were generated. Mr. Nakamoto agreed.

Before continuing, Mr. Nakamoto pointed out an error in the bound meeting packet on pages 26 and 27 ([Exhibit A](#)), which showed the rate for the BCCRT incorrectly listed as 1.75%, and it should have read 0.5%. For those that had the meeting material contained in the 3-ring binder the error was corrected before distribution.

Mr. Nakamoto moved to the GST (page 28), which made up approximately 11.1% of the total revenue at the first-tier distribution in FY 2011. This tax was imposed when motor vehicles were registered in the state and could not exceed 5 cents for each dollar of the value of the vehicle pursuant to Article 10, Section 1 of the *Nevada Constitution*. The tax was levied in lieu of a personal property tax upon motor vehicles operated in the state. He said the statewide rate was currently 4 cents per dollar of determined value and the value was defined by taking 35% of the vehicle’s original manufacturer’s suggested retail price at the time the vehicle was new, times a depreciation factor established in statute based on the age of the vehicle. Some of the proceeds from the 4-cent portion went to the CTX and was distributed back to the county in which the vehicle was registered. A distribution formula for each county determined how much of the revenue went to the school district and how much went to the CTX. Mr. Nakamoto noted there was a supplemental rate of 1 cent per dollar imposed in Churchill County and Clark County. In Churchill County, the proceeds of the imposed tax were to benefit the county’s general fund, and in Clark County, the county had the option to either use the proceeds for general operating or for transportation projects.

Referring to the 4-cent CTX portion, Mr. Nakamoto said it was distributed to the county in which the vehicle was registered and then the distribution formula (shown on page 29) for each county determined what part of the revenue went to the school district and what part went to the CTX. The distribution formula calculation was based on the assessed value of each of the entities participating in the CTX and then multiplied by a set property tax rate. He explained the FY 1979 school district property tax rate was used for the basis of the school district’s calculation, which was a combination of their operating rate plus their debt rate. However, if their debt rate during any fiscal year was higher than their debt rate in FY 1979 then that particular debt rate could be used.



In order to have a clear understanding, Chairwoman Kirkpatrick asked for an explanation of that rate.

Mr. Nakamoto said certain local governments had their property tax levied for general operating and some local governments were allowed to impose an additional rate for their debt service. At that time, in 1979, there were school districts that had an additional property tax levied that was used to service their debt. He was referring to that portion of the rate.

Chairwoman Kirkpatrick asked if it was “pay as you go.” Mr. Nakamoto said he did not have the answer to that question.

Chairwoman Kirkpatrick asked if the GST was the highest of the charges when registering a motor vehicle. Mr. Nakamoto explained the GST charge was dependent upon the value of the vehicle; therefore, it could be as low as the statutory minimum of \$16 or \$200 or higher. He said the GST revenue was the portion transferred to the state General Fund and based on the actions the Legislature took in Senate Bill 429 of the 2009 Session the depreciation schedule was increased by 10% in each category, except new vehicles, with that portion going to the state General Fund. That statutory change did not affect the calculation for the CTX or the school districts as they still received the same amount as they would have received otherwise.

Mr. Guindon added the vehicle registration fee, which was part of the total motor vehicle registration amount was a fixed fee of \$33 and it was separate from the charge for the GST. He noted that none of the vehicle registration fee went to the state General Fund, or was distributed to the school districts or the CTX.

Chairwoman Kirkpatrick pointed out that the revenue generated from the GST went to the county in which the vehicle was registered.

Mr. Nakamoto said that was correct, with the exception of any vehicles registered under the motor carrier provisions (NRS Chapter 704), which included inter-county truck lines and had its own statutory formulas that distributed a portion of the revenue to each of the counties. He said the revenue generated from the GST for the majority of motor vehicles registered in the state went to the county where it was registered. Even if the fees were paid in a county different from the county where the vehicle was registered, the Department of Motor Vehicles remitted those proceeds to the registering county.

Chairwoman Kirkpatrick thought it was important to breakdown all the terminology into simple language in order for everyone to be clear on how the CTX worked.

Mr. Nakamoto reiterated that the school districts’ share of the GST was calculated by taking the district’s total current assessed value times its property tax operating and debt rates from FY 1979. For any of the other local government, enterprise districts, and special districts eligible to receive some portion of the revenue under the CTX it

was calculated by taking their current assessed value times their tax rate from FY 1981. The school district and the CTX received GST revenue based on their proportionate shares from these calculations based on property tax rates.

Continuing with the next revenue source, Mr. Nakamoto explained the RPTT (page 30, [Exhibit A](#)) was a tax based on transfers of real property. It was a tax levied on the value of real property transferred where the value of the transfer, exclusive of any encumbrance, exceeded \$100 and was collected by the county recorder when the deed showed the transfer of title was to be recorded. He pointed out that the rate was dependent upon the county. Clark County had the highest rate at \$2.55 per \$500 of value, with \$1.30 going to the state General Fund, \$.60 to the Clark County School District's capital construction fund, \$.55 to the CTX, and \$.10 to the Low-Income Housing Trust Fund. In Churchill County and Washoe County the rate was \$2.05 per \$500 of value with nothing imposed for their school district's capital construction fund; however, each imposed a \$.10 rate that was deposited into their county general fund pursuant to the Local Government Tax Act of 1991. In all of the other 14 counties the rate was \$1.95 per \$500 of value, with \$1.30 to the state General Fund, \$.55 to the CTX and \$.10 to the low income housing trust fund, with none of the other portions imposed in Clark, Churchill or Washoe counties. Mr. Nakamoto said the \$.55 per \$500 portion generated in each of the 17 counties was distributed back to the particular county as their portion of the CTX.

Turning to the next revenue source, the Cigarette Tax, Mr. Nakamoto indicated it was the excise tax levied on each cigarette sold at wholesale in the state. The tax paid was based on the stamp affixed to the top of each pack of cigarettes. The current tax rate was 40 mills (1 mill = 1/10 of 1 cent) per cigarette, which equated to 4 cents per cigarette; there were 20 cigarettes per pack, so the tax in 2012 was \$.80 per pack. He explained of the 40 mills, 35 mills or \$.70 per pack of 20 cigarettes went to the state General Fund, and 5 mills per cigarette or \$.10 per pack went to the CTX. The proceeds for the cigarette tax were distributed to each of the 17 counties in proportion to each county's population as a total of the whole. It was potentially difficult for the Department of Taxation to determine where a pack of cigarettes was sold because there were just a few distributors in the state who distributed cigarettes to all 17 counties; as such, population was the method of distribution at the first tier.

Mr. Ellison asked how the population numbers were derived.

Mr. Nakamoto said that every year the Governor was required to certify population statistics for the state, counties, cities and towns pursuant to NRS Chapter 360. The estimates were prepared by the State Demographer, who was part of the Department of Taxation. He pointed out the population statistics changed on a fiscal year basis and the numbers were used by the Department in making the distributions each year.

Chairwoman Kirkpatrick inquired if there had been any time in history in which a local jurisdiction challenged the population statistics.

Mr. Guindon said the Department of Taxation administered the CTX laws with regard to the distribution of the revenue. Staff from the Department of Taxation was available at the meeting in Carson City and would be better equipped to answer that question.

In response to whether there had ever been a dispute of the population numbers, Marian Henderson from the Department of Taxation came forward to testify. She was only aware of one time; however, it preceded her time working at the Department. Ms. Henderson thought it was in either 2000 or 2001 by Humboldt County. She explained it was written in statute that the Department had to distribute the revenue according to the population numbers set forth by the State Demographer, and set aside any difference in money if the population numbers were to be changed. Ms. Henderson did not remember what resulted from Humboldt County's appeal, but there was an account to hold the set-aside funds in case it was necessary to adjust the county's distribution.

Chairwoman Kirkpatrick was curious about the process and the result of Humboldt County's challenge of the population numbers. She thanked Ms. Henderson and asked if she were to find out the information before the end of the 2011-2012 Interim the information it would be appreciated.

Mr. Nakamoto moved to the last revenue, Liquor Tax (page 32, [Exhibit A](#)). He said in FY 2011 the Liquor Tax made up approximately 0.3% of the total of the first-tier distribution, which equated to approximately \$3.3 million. The Liquor Tax essentially was an excise tax consisting of four different rates imposed upon wholesalers of intoxicating beverages sold in the state. Malt beverages, including beer were taxed at a rate of \$.16 per gallon and it all went to the state General Fund. Liquor containing 0.50% and up to 14 percent alcohol by volume – liquors that were not malt beverages – were taxed at a rate of \$.70 per gallon or proportionate part thereof, and all of the revenue went to the state General Fund. Liquor containing more than 14% up to and including 22% alcohol by volume was taxed at a rate of \$1.30 per gallon or proportionate part thereof, and the total amount went to the state General Fund. Liquor containing more than 22% alcohol by volume was taxed at a rate of \$3.60 per gallon or proportionate part thereof, and \$2.95 per gallon went to the state General Fund, \$.50 went to the CTX and \$.15 went to the Tax on Liquor Program Account, which was administered for substance abuse programs. Mr. Nakamoto said the \$.50 portion distributed to the CTX was allocated among the 17 counties by population in the same manner as the cigarette tax because under the state's three-tier liquor laws, there were only a few liquor distributors located in certain counties, but operating in multiple counties. He concluded his overview of the six revenues dedicated to the CTX.

#### **b) Historical Overview of the Structure and Distribution of Each Revenue Source**

Mr. Nakamoto addressed the historical overview of the structure and distribution of each revenue source, including the major legislation affecting local government tax rates, or distributions of revenue to local governments before the CTX and under the CTX.

He said all of the revenue sources referred to in the meeting actually preceded the CTX. The terms of distributions at the second tier of the CTX was created under Senate Bill 254 of the 1997 Session, but all six of the revenue sources were collected much before that time. The Liquor Tax, for example, was the earliest of the collections at any level and started during the 1935 Session. Mr. Nakamoto noted the Cigarette Tax, which started in the 1947 Session, was the earliest of the revenues that went to the local governments.

Mr. Nakamoto directed the Committee's attention to pages 76 through 100 of the meeting packet ([Exhibit A](#)) to the legislative history of all the revenue sources prior to the CTX. He intended to cover a few of each of the bills for each of the revenue sources to address how the taxes were distributed among the entities at the county level before the CTX was enacted. Page 34 ([Exhibit A](#)) showed a listing of the major legislation affecting the SCCRT and Mr. Nakamoto started with Assembly Bill 369 of the 1981 Session, which created the SCCRT. The 1981 Session required the imposition of the SCCRT at a rate of 1.75%, with distribution to the counties in proportion to their property tax at that time. He said it was a move by the Legislature to replace property taxes with sales tax. The SCCRT revenue was designed to be distributed by property tax to replace a portion of the property tax revenue that was lost by each of the entities. Assembly Bill 104 of the 1991 Session changed that distribution from a property tax base to the current distribution of guaranteed and non-guaranteed counties. Mr. Nakamoto said when the bill was passed 10 guaranteed counties were established: Douglas, Esmeralda, Eureka, Lincoln, Lyon, Mineral, Nye, Pershing, Storey and White Pine. Each of those counties were allowed to get a fixed amount of the revenue based upon the formulas (discussed in Agenda Item V.a) of what the county received in the previous year adjusted by either SCCRT collections, or the combination of taxable sales growth and population change. The non-guaranteed counties received the left over revenue in proportion to what the county generated. Mr. Nakamoto said by FY 1993 Eureka County, once designated as a guaranteed county, had fallen out of guaranteed status because of a period when the county's taxable sales grew by more than 10% of their guaranteed distribution amount. He said Senate Bill 506 from the 1993 Session made some changes to the SCCRT. The bill added Lander County as a guaranteed county and added waiver provisions. If a guaranteed county had its taxable sales grow by an amount that would force them from guaranteed status to non-guaranteed status, the provision in Senate Bill 506 allowed the county to apply to the Tax Commission for a waiver to stay in guaranteed status. The county had to meet certain criteria to be eligible for the waiver and had to show that the taxable sales growth that changed the county's status was a result of non-recurring or one-time activity. He cited as an example a rural county that had a new mine open with subsequent large equipment purchases, which would increase taxable sales on a short-term basis. If the county could substantiate the non-recurring taxable sales activity then the Tax Commission was required to grant a waiver. If the Tax Commission did not grant a waiver, the county moved to non-guaranteed status and was not allowed to return to guaranteed status. Mr. Nakamoto said besides Eureka County coming out of guaranteed status in FY 1993 to become non-guaranteed, Nye County's status was also changed in FY 2007. Based on current information from the Department of Taxation, Lander

County and Storey County were in guaranteed status only after receiving a waiver from the Tax Commission to remain in guaranteed status.

Chairwoman Kirkpatrick asked if the waiver was valid for only one year.

Mr. Nakamoto said the waiver was valid until the county needed a new waiver. It was not necessary for the county to apply every year unless the circumstances required the reapplication. He explained if a county had a waiver to stay in guaranteed status and their taxable sales in their first year were not more than 10% above their guaranteed amount the county did not need to get a waiver. However, hypothetically if three years later the county's taxable sales went up by more than the guaranteed amount they would have to apply for another waiver.

Chairwoman Kirkpatrick asked if that information was audited every year by the Department of Taxation when local governments submitted their budgets.

Mr. Nakamoto said it was his understanding the Department of Taxation looked at the taxable sales in each county on February 15 for the preceding 12-month period. To explain further, he said the Department looked at the last 12 months of actual numbers to make the determination and then provided the results to the county. Mr. Nakamoto asked Ms. Henderson to verify the accuracy of his information.

Chairwoman Kirkpatrick also asked Ms. Henderson if the taxable sales numbers collected on February 15 were public information.

Ms. Henderson said Mr. Nakamoto's explanation was correct. In addition, she explained the counties that exceeded their collection for the previous 12 months exceeding their distribution of the SCCRT by 10% (those that were eligible to come off of guaranteed status) had to notify the Tax Commission by February 20 if they were applying for a waiver in order to be included on the agenda.

Chairwoman Kirkpatrick commented the taxable sales information must be public since there was a Tax Commission hearing. She asked if a non-guaranteed status county after doing well on taxable sales for a few years could then go back to a guaranteed status.

Ms. Henderson said once a county came off of guaranteed status it could never go back to being guaranteed again. She said the taxable sales collected on February 15 was public information. The SCCRT in-state and out-of-state collection as well as the distribution was posted on the Department of Taxation's website. Many counties performed their own calculations to know in advance whether they would be getting a notice to come off guaranteed status.

Before continuing with the major legislation of the six revenues, Mr. Nakamoto pointed out the last bill listed on each page of the section (pages 34 through 39), Senate Bill 254 from the 1997 Session. He would explain the significance of Senate Bill 254 at the end

of his presentation. He moved on to the major legislation affecting the BCCRT (page 35). The first bill was Senate 365 of the 1969 Session in which the Legislature authorized any county with one or more incorporated cities to enact an ordinance that imposed a 0.5% Sales and Use Tax rate within that county. Mr. Nakamoto said it was referred to as the County-City Relief Tax, noting the word city preceded county in the title. He said the tax was renamed the City-County Relief Tax in Assembly Bill 317 of the 1975 Session. The proceeds for the County-City Relief Tax in any county where it was imposed at the time depended on how many incorporated cities were located within that county. If the county had one incorporated city, the proceeds were apportioned to the county and the city general fund by population. The population was determined by the decennial census prepared by the U.S. Census Bureau. If a county had two or more incorporated cities, the proceeds were apportioned among the cities by population, but the counties did not get any portion of the proceeds. Mr. Nakamoto reported that if there were any out-of-state collections to which the tax applied, they were apportioned by population among the counties that were imposing the rate. He said in 1969 the City-County Relief Tax was optional and not a mandatory tax. The only counties in 1969 that could impose the tax had an incorporated city. In Carson City, even though it was considered a consolidated municipality, the city was given the option under Senate Bill 365 to impose the tax if it wished, and if so, all of the proceeds would go to Carson City's general fund. Additionally, Assembly Bill 288 of the 1971 Session increased the authorization for this tax to counties with no incorporated cities and with this bill, any county could impose the tax if it wanted. Mr. Nakamoto said if a county with no incorporated cities chose to impose the tax, the county general fund received all of the proceeds from the tax within the county. Assembly Bill 369 of the 1981 Session changed the tax from optional to mandatory. From 1981 onward, the County-City Relief Tax at the 0.5% rate became the BCCRT and it was required to be imposed by all 17 counties. He said the distribution between the counties and the cities stayed the same so if a county had no incorporated cities the county general fund got all the revenue. Further, if a county had one incorporated city the revenue was divided between the county and the city by population and if a county had two or more incorporated cities, the cities received all the revenue and the county received none. He noted that Carson City continued to get all of the revenue. Mr. Nakamoto recalled that another change which occurred in Assembly Bill 36 of the 1981 Session was that the population component was required. However, instead of using the decennial census by the U.S. Census Bureau, the annual population estimates performed by the State Demographer and certified by the Governor were to be used.

Chairwoman Kirkpatrick asked about Assembly Bill 369 and if there had been any discussion at that time on what was required for a city to incorporate because if all the cities in a county were to incorporate the county could lose all its revenue.

Mr. Nakamoto said he could not answer that question and thought it would be better addressed under Agenda Item VII for Mr. Leavitt and Mr. Hobbs.

Mr. Guindon thought it was a good question, but unfortunately did not have an answer either. He also wondered about the policy discussions at that time because a county



with one incorporated city and then a town in that county incorporated and suddenly the county under statutory rules was not eligible to receive any more revenue.

Mr. Ellison agreed it was an important part of the history and important information for the CTX study to know what happened when a county started to allow smaller entities to incorporate and the effects of those decisions.

Chairwoman Kirkpatrick said she would note that question and asked for staff or anyone listening to the meeting to advise her on how to find that historical information.

Mr. Nakamoto said many of those decisions were from the 1967 and 1969 Sessions and staff could look at the minutes to glean any information as to why some of those policy decisions were made.

The next revenue resource was the GST (page 36, [Exhibit A](#)). Mr. Nakamoto stated the first piece of legislation to affect it was Assembly Joint Resolution 6 from the 1960 Session. He noted that the 1960 Session was the only regular session held in an even-numbered year and was the only time the state conducted annual sessions before returning to a biennial format. He clarified Assembly Joint Resolution 6 was a regular session bill that proposed a constitutional amendment to Article 10, Section 1 of the *Nevada Constitution*, which exempted motor vehicles from personal property taxes. Up to that point citizens of the state paid personal property taxes on their vehicles. The amendment required the imposition of a privilege tax in lieu of the property tax not to exceed 5 cents per dollar of value, which was still currently in the *Nevada Constitution* because Assembly Joint Resolution 6 passed in the 1960 and 1961 Regular Sessions. It was approved by voters as Question 1 at the general election on November 6, 1962, by a margin of 56.3% to 43.7%, with approximately 71,000 votes that were cast on that question. Mr. Nakamoto said Senate Bill 256 of the 1963 Session imposed tax known at the time as the Motor Vehicle Privilege Tax at a rate of 4 cents per dollar. The value was based on 35% of the manufacturer's suggested retail price of the vehicle when it was new less the depreciation factors. The depreciation factors used in 1963 were used until Senate Bill 429 of the 2009 Session when all of the factors were increased by 10%, with the exception of new vehicles, and the revenue went to the state General Fund. The proceeds from the Motor Vehicle Privilege Tax were returned to the county in which the vehicle was registered. He said the revenue was distributed among the government entities within that county in the same manner, to the same recipients, and in the same ratio as the personal property tax on motor vehicles as it was imposed in the last year that the personal property tax on motor vehicles applied. Senate Bill 256 intended to be a seamless transition to get the revenue to carry over from the personal property tax over to the new Motor Vehicle Privilege Tax so that no one was affected by the change. Mr. Nakamoto stated the tax was called the Motor Vehicle Privilege Tax up until Senate Bill 59 of the 2001 Session where the name was changed to the present day name of the GST. The last noteworthy bill affecting the GST was Senate Bill 43 of the 1981 Session, which changed the distribution of the revenues requiring the revenue to be distributed within the county based on the property tax shares with the school district (using tax rates from FY 1979), and all the other entities (using tax rates from

FY 1981) to determine their shares. He said there were several changes to the distribution between 1963 and 1981, but the 1981 legislation was the distribution that was used in the present day.

Mr. Nakamoto moved to the major legislation affecting the RPTT (page 37, [Exhibit A](#)). He said Senate Bill 456 of the 1967 Session imposed the first real property transfer tax in the state at a rate of \$.55 per \$500 of value and noted that \$.55 imposed was the same as the current local government portion. However, in 1967, the \$.55 portion was not a local government source; it was primarily a state General Fund source. The state General Fund received 95% of the proceeds and the county general fund of the county in which the transfer occurred received the other 5% for collecting the tax. Mr. Nakamoto explained that Assembly Bill 196 of the 1971 Session changed the distribution of the revenue, with 75% of the proceeds remitted to the state General Fund and the remaining 25% to the county general fund. Assembly Bill 268 of the 1979 Session removed the state from the distribution; the state General Fund received none of the revenue. He said all \$.55 per \$500 of value went to the county in which the transfer occurred; however, it did not all go to the county general fund and was distributed under a certain set of criteria as follows:

- If the county had no incorporated cities then the county general fund received all of the revenue.
- If the county had one or more incorporated cities the county received 25% , and 75% was distributed under another set of formulas.
- If there was one incorporated city the 75% was divided between the county and the city according to population.
- If there were two or more incorporated cities, the 75% was distributed among those cities and the county only received their original 25%.

This distribution stayed in place until Senate Bill 254 of the 1997 Session. Mr. Nakamoto noted that the \$1.30 state General Fund portion that existed currently came into effect due to the passage of Senate Bill 8 of the 20<sup>th</sup> Special Session in 2003.

Major legislation affecting the Cigarette Tax (page 38, [Exhibit A](#)) was the next revenue addressed. Mr. Nakamoto said the first local government Cigarette Tax was enacted by Assembly Bill 309 of the 1949 Session. In the previous session (1947), the Legislature imposed its first Cigarette Tax at a rate of 2 cents per pack. Assembly Bill 309 increased the rate to 3 cents per pack and the Legislature made the decision to give some portion to local governments. He stated 12.5% of the tax generated was given to local governments and according to the provisions of the legislation, the Tax Commission was required to determine the quarterly Cigarette Tax generated in each calendar quarter. It was up to the Tax Commission to determine how many cigarettes were sold in each county and then distributed back to each of those counties in accordance to how much revenue that they generated. Moving to Senate Bill 379 of the 1967 Session, Mr. Nakamoto said that legislation increased the Cigarette Tax rate to 7 cents per pack and all of the 7 cents remitted to the local governments. The distribution of the revenue was no longer based on the sales within each county; the

distribution was based on population, but within each county there was a separate distribution formula to disperse the revenue among the entities in the county. If a county had no incorporated cities all of the revenue went to the county general fund, and if a county had one incorporated city the revenue was split between the city and the county based on their population at the last decennial census. Further, if the county had two or more incorporated cities, the revenue was distributed between the cities based on their populations and the county received no portion of the revenue. Mr. Nakamoto stated that Senate Bill 236 of the 1969 Session increased the Cigarette Tax from 7 cents to 10 cents per pack with all the proceeds going to the local governments. He pointed out that this was the same 10 cents per pack currently distributed at the first tier to local governments. Recalling for the Committee that the distribution formula from the 1967 Session was based on counties with incorporated cities, he said the Legislature took that further with Senate Bill 236 and added separate distribution formulas for counties with less than 5,000 in population that had unincorporated towns. The legislation stipulated that if the county had no incorporated cities or unincorporated towns, all the revenue went to the county treasury. If the county had one incorporated city or unincorporated town, the revenue was distributed between the county and the city or town based on the population. If the county had two or more incorporated cities, unincorporated towns or a combination of cities and towns, the revenue was apportioned between the cities and towns, and the county did not receive any portion of the revenue. This criteria only applied to counties whose population was less than 5,000. Lastly, he said the population threshold for that particular distribution increased after Assembly Bill 873 of the 1989 Session and applied to counties whose population was less than 6,000.

Continuing, Mr. Nakamoto said the major legislation affecting the Liquor Tax was listed on page 39 and noted there was not much history of this tax in the state. As early as 1905 local governments were given the authority to regulate and issue liquor licenses, but Prohibition started when the Eighteenth Amendment was ratified and became a part of the federal constitution, and the National Prohibition Act, or Volstead Act, was passed by Congress on October 28, 1919. When Prohibition became an unpopular decision, President Roosevelt signed a partial repeal of the National Prohibition Act that allowed beer and wine to be sold in the U.S. where the alcohol content was up to 3.2%. That legislation was signed by President Roosevelt on March 22, 1933, and became effective on April 7, 1933. The first bill affecting the Liquor Tax in Nevada was Senate Bill 199 of the 1933 Session. Mr. Nakamoto pointed out that the Nevada Legislature on March 24, two days after President Roosevelt signed the partial repeal legislation, passed Senate Bill 199, which authorized Nevada's incorporated cities to "fix, impose and collect the license tax on and regulate the sale of beer, wines or other beverages authorized to be sold by an act of Congress". In 1935, Assembly Bill 40 was passed and essentially repealed all of the provisions from Senate Bill 199. Assembly Bill 40 imposed a statewide tax on alcoholic beverages to be collected and administered by the Tax Commission, but it prohibited the imposition of local taxes on liquor, essentially repealing the 1933 legislation. The authority for local governments for receipt of some portion of the Liquor Tax did not come until Senate Bill 439 of the 1969 Session, which increased the tax on hard liquor (defined as liquor whose alcohol content was above

22%) by \$.50, from \$1.40 to \$1.90 per gallon. He said that \$.50 increase was distributed to the counties based on their statewide population. For example, if Clark County had 75% of the population, then they received 75% of the revenue, but within each of the counties the proceeds were distributed based on how many incorporated cities were in each county. If the county had no incorporated cities, then the county general fund received all of the proceeds. If the county had one incorporated city, the revenue was divided between the incorporated city and the county based on their population. If the county had two or more incorporated cities, the revenue was divided among the cities and the county received no portion. In Carson City, the city general fund received all of the revenue. Mr. Nakamoto noted this was similar to the distribution formula that was in effect for other revenues, such as BCCRT and the cigarette tax.

In conclusion, Mr. Nakamoto stated there were six different revenue sources associated with the first-tier distribution of the CTX, with six different distribution formulas. At the end of every list of the major legislation affecting the six revenue sources was Senate Bill 254 of the 1997 Session. This bill was significant because it created the CTX. It took the proceeds from all of the six revenue sources and consolidated them at the first-tier distribution so each county received a portion to distribute. Then it took the distribution formula for all of the six revenue sources and consolidated them into a single formula, which was the second-tier distribution of the CTX, which would be explained in the next agenda item.

Chairwoman Kirkpatrick thanked Mr. Nakamoto for his presentation and commented it seemed to her that at least there was a thought process with the first-tier distribution of the CTX.

## **VI. OVERVIEW OF THE DISTRIBUTION OF FIRST-TIER REVENUES TO ENTITIES WITHIN A COUNTY AT THE SECOND TIER OF THE CTX.**

### **a) Entities within a County that are Eligible to Receive a Distribution at the Second Tier**

Joe Reel, Deputy Fiscal Analyst, Fiscal Analysis Division, stated that Agenda Item VI began on page 41 ([Exhibit A](#)). He noted that page 41 displayed the six revenues that were distributed to entities within a county at the second tier of the CTX. The distribution of the six revenues are to three types entities within a county: the enterprise districts, local governments and special districts. When the Department of Taxation administered the CTX revenue they were basically performing the same calculation for each of the 17 different counties. Therefore, it was the same formula but the calculation was performed 17 different times based on the structure within each county. Although the slide showed that the second-tier distribution of the CTX distributed money to each of the three different types of entities, some counties did not necessarily have enterprise districts or special districts. However, all counties would have local government entities. The process replaced the distribution to the entities that were discussed in Agenda Item V.b., so it was a new distribution based on the second tier of the CTX.

Chairwoman Kirkpatrick asked for clarification and some of the taxes were already distributed based on whether an entity was incorporated or in towns, so the formula also was going to double it sometimes.

Mr. Reel explained that the distribution essentially replaced the prior distribution where those revenues went straight to the entities. Currently, it was consolidated at the county level.

Mr. Reel stated that the enterprise districts, local governments and special districts that received money at the second-tier distribution of the CTX totaled 154 entities in Fiscal Year 2011. Fourteen of the entities were enterprise districts, which were not counties, cities or towns, but determined to be an enterprise district by the Department of Taxation. He noted there was criteria used to determine whether an entity qualified as an enterprise district, which was typically related to an enterprise fund, and the entities provided some type of service or product related to water, sewerage, television and sanitation.

Mr. Reel said that there were approximately 72 local government entities – counties, cities or towns – that received a portion of the CTX revenue. As of FY 2011, approximately 68 special districts received a portion of the CTX revenue, which were all local governments that were not enterprise districts or local governments, and typically included fire districts and general improvement districts (GID). These entities were receiving one of the six revenues prior to the CTX.

#### **b) Base and Excess Distribution of First-Tier CTX Revenues at the Second Tier**

Moving to page 43 ([Exhibit A](#)), Mr. Reel said the entities received a base distribution in each year the Department of Taxation calculated the fiscal year base distribution. For an enterprise district, it was the base distribution amount received in the prior fiscal year. For local governments and special districts, the base distribution was the amount received in the prior fiscal year, but was adjusted for changes to the Consumer Price Index (CPI). The CTX adjustment was added to the local governments and special districts. Mr. Reel noted that in the real world the CTX was collected and distributed by the Department of Taxation on a monthly basis. Page 44 showed that the fiscal year base distribution amount was divided by 12 to determine the monthly base distribution to each entity, as the actual CTX revenues are collected and distributed on a monthly basis. The enterprise districts also receive a monthly allocation equal to 1/12 of their base amount, but enterprise districts do not receive the CPI adjustment to their base.

The first step in distributing the base distributions is that enterprise districts receive their distribution prior to any other distributions made to the local governments or special districts. Therefore, the first distribution went to enterprise districts. Page 44 showed what happens after the initial CTX distribution is made to enterprise districts. The Department of Taxation looks at the amount of money remaining and determines if there is enough to make the base distribution to local governments and special districts. If there is not enough money remaining to make the base distribution to the other entities, then the local governments' and special districts' amount of base distribution is

reduced proportionately and distributed. Therefore, the amount that is available is essentially distributed based on the shares that are determined by the base amounts. Accordingly, the base amounts that are calculated for the local governments or special districts are based on the total amount for local governments and special districts. If there is not enough money, the local governments' and special districts' shares are reduced proportionately.

Senator Lee asked about the process of allowing the Director of the Department of Taxation to make an arbitrary decision to determine whether an entity was an enterprise district. He was aware the Director had the discretion statutorily, but in any other factor the Executive Director seemed relevant to make such a decision. He stated that the enterprise fund seemed to trump the local governments and the special districts.

Chairwoman Kirkpatrick questioned why the enterprise fund does not get a base adjustment for changes. She indicated that Senator Lee's question and her concerns would be addressed later in the meeting.

Continuing with his presentation, Mr. Reel directed the committee to page 47 ([Exhibit A](#)). He noted if the remaining amount of revenue available for distribution is greater than or equal to the amount necessary to distribute the full base allocation amount, then the amount would be distributed to each local government and special district. After making the determination, the Department of Taxation looks to see if they were able to make the base distribution to local governments and special districts in prior months. If unable to make distributions for the prior months, the Department would go back and true-up their monthly base allocation to make them whole for the prior months the base allocation could not be made. Once that occurred, if the Department was able to true-up the prior months and local governments and special districts are caught up with their base allocations, then the amount that is remaining is deemed to be excess revenue available for distribution through the excess formula. If a determination was made that local governments and special districts had received sufficient revenue to cover any shortfalls in prior monthly base allocations, and there was excess available for distribution, then the excess could be distributed to the local governments and special districts.

### **c) One-Plus and No One-Plus Factors Used to Determine Excess Distribution**

Mr. Reel stated that page 48 noted that only local governments and special districts within a county may participate in the distribution of the excess. The enterprise districts cannot receive any of the excess revenue and just received the same base amount each year, which is not adjusted for inflation, and the enterprise districts also do not participate in the excess revenue. The excess revenue is distributed to local governments using a formula based on growth in both population in that jurisdiction and assessed value. The formula for special districts is based on assessed value, due to the fact that the geographic boundaries for special districts do not always align with the Demographer's estimates for population, so there were no population estimates for special districts; however, there were for cities and counties.



Mr. Reel explained that the local governments' no one-plus factor used to determine the distribution of excess revenue is calculated by taking the sum of the 5-year average percent change in population and the 5-year average percent change in assessed value. The no one-plus factor for special districts used to determine the distribution of excess revenue is calculated by taking the 5-year average percent change in assessed value. Those factors in the example on page 50 are then added and multiplied by the base amount, and the calculations are the determined shares of excess to be distributed.

Mr. Reel referenced the hypothetical example, page 51, under the no one-plus formula for one county, two cities and two special districts. Column A identified hypothetical 5-year average growth in population, and column B showed the 5-year average assessed value growth, which were added together for each entity. Column A plus column B resulted in the sum of the population growth and assessed value growth, which was expressed in a percent term (column C). The actual no one-plus factor in percentage was also expressed as a decimal (column D). The 0.045 in the hypothetical example (column D) was the no one-plus factor, which was multiplied by the monthly base distribution amount that each entity would receive (column E). For example, taking the county on the first line, the 0.045 was multiplied by the \$300,000 (column E) to get \$13,500 (column G). That calculation was then performed for each of the entities and the sum of those was a figure (column G), the monthly base distribution times the no one-plus factor. The no one-plus distribution share (column H) took the share of each entity to the sum of monthly base distribution amount of \$54,000 (column G). Column H was the no one-plus distribution shares based on the calculations for each entity. The shares were then multiplied by the amount of excess available for distribution (column I). The \$100,000 was the amount available in total to be distributed to all the entities. Column J displayed the 25%, multiplied by \$100,000 (column I) for the distribution amount of \$25,000 (column J). Therefore, the entity received 25% of the no one-plus percent of excess (column K). Columns K and H were basically the same in that their distribution share was the same as the amount of excess that would be allocated to each entity. The no one-plus formula was referring to the factor and was the sum of the 5-year average growth in population and 5-year average change in assessed value weighted by the base amount.

Continuing, Mr. Reel stated that the one-plus factor used to determine excess revenue was basically the same formula, but the difference was that one plus the sum of the 5-year average percent change in population and 5-year average percent change in assessed value was used. The local governments' one-plus factor were calculated by taking one plus the sum of those two. The special districts' factor used to determine the distribution of excess revenue was calculated by one plus the 5-year average percent change in assessed value. For example, page 53 showed the exact calculation – the same 5-year average change in population (column A), plus the same 5-year average change in assessed value (column B) to get the same population growth and assessed value growth (column C). Column D was the same 4.5% expressed as a decimal, but adding the one to a get one-plus factor of 1.045 (column D), which was multiplied by the same monthly base distribution amounts (column E) to get the monthly

base distribution times one-plus factor (column G). The column G monthly base distribution times one-plus factor were summed up to the total, and the shares were determined by the percent that each one of the entities make up of that total. The share was multiplied by the \$100,000 total excess available for distribution (column I) to determine the entities actual excess distribution. Columns H and K were the same in terms of the excess distribution share.

Mr. Reel said that page 54 ([Exhibit A](#)) showed a comparison of the hypothetical examples of excess revenue distribution under the no one-plus versus the one-plus calculations. The examples in the comparisons showed the county and the city with the same monthly base allocation, but with different growth factors associated with their population and assessed value. City 1 on the first line had a higher factor due to more growth in population and assessed value. The special districts had the same population and assessed value factors but had different base amounts, so the movement between the two different formulas was seen – how they treat different growth rates and different base amounts.

Chairwoman Kirkpatrick asked if anyone had questions on the one-plus and no one-plus factors used to determine excess revenue for distribution.

Continuing, Mr. Reel stated that pursuant to NRS 360.690, subsection 4, the no one-plus formula was the default formula used for the distribution of excess revenue to local governments and special districts, unless certain conditions applied regarding population growth, assessed value growth and net proceeds of minerals in the county. The exceptions for the one-plus calculation would be used if the average net proceeds of minerals in the county over the previous five fiscal years were \$50 million or more, or if the change in population in the county over the five previous fiscal years was negative. If one or both of these events occur, the one-plus calculation is used for the distribution of excess revenue for all local governments and special districts in the county.

Mr. Reel noted that another circumstance that would require the use of the one-plus formula was if the average change in population and assessed valuation in each local government entity, and the change in assessed value in each special district were negative. Another situation that could occur, which would require a modified one-plus formula, was if the average change in population and assessed value in each local government were negative, but the average change in assessed value in any special district were positive. Mr. Reel said the difference for special districts, under the regular one-plus formula, is that the special districts' factor in terms of the one-plus formula is only based on assessed value. The modified one-plus factor for special districts requires the change in population for the county to be added to the change in assessed value for the special district, so that both of these factors are used for special districts when the modified one-plus formula is required.

Chairwoman Kirkpatrick stated that she was “in the weeds” regarding the default formula used to determine excess revenue. She thought maybe her concerns would be addressed later in the meeting as the discussion continued.

To address the concerns of Chairwoman Kirkpatrick regarding the distribution of excess revenue, Mr. Guindon referred to a table on page 141 ([Exhibit A](#)). He reiterated that, under current law, the no one-plus formula is currently the default formula used to calculate the distribution of excess. However, he noted that when the CTX was created, the original default was one-plus, but legislation passed in 2001 that would move away from the one-plus formula and phase in the no one-plus.

Referring to the table on page 141, he noted that the original intent of the 2001 Legislation was to move everyone to the no one-plus formula. However, legislation was brought forward for consideration and eventually enacted by the Legislature that would allow counties to stay in one-plus when certain conditions are met. Mr. Guindon noted that the shaded areas in the table on page 141 showed those entities that were supposed to move to the no-one plus formula, but met the conditions to stay in one-plus. He noted that some of these entities, even though they were supposed to move to no one-plus, have actually never been in the full no-one plus status, because they met one of the criteria to stay in one-plus. He also noted that for the entities that were in one-plus, the table specifically noted whether it was as a result of subsection 5, subsection 6, or subsection 7, to illustrate which of the criteria was met.

In addition, Mr. Guindon noted that a person would not see the specific terms “no one-plus,” “one-plus,” or “modified one-plus” in statute, but he or she would see language requiring the formula to take the number one plus the sum of the average growth rates. The “modified one-plus” term is one that the Fiscal Analysis Division uses because the formula is different than the original one-plus formula.

#### **d) Additional Issues Related to Distribution and Use of Second-Tier CTX Revenue**

Mr. Guindon believed that the slides (beginning on page 59) helped staff to have a complete record of other statutory provisions in NRS 360 related to the CTX distribution, including information on interlocal agreements, being able to use the funds for bonding or being able to maintain bonding proceeds, as well as other legislative history. Mr. Guindon thought it would be more appropriate at this point, in terms what has been happening historically, to move to Agenda Item VII, Overview of the Creation of the CTX and Changes to the CTX, and address the questions being asked. He believed some of the questions may actually be addressed in this agenda item, and if time allowed, the Committee could return to the slides starting on page 59 or address them at a later meeting. He believed the focus of the Committee should be on the first-tier and second-tier distribution and history of the CTX. Mr. Guindon did not want to segue into the wrong direction and get too much additional information before the Committee had a chance to hear testimony from Mr. Hobbs and Mr. Leavitt.

Chairwoman Kirkpatrick stated that she would like to hear how some of the factors for the formulas came about. She agreed with Mr. Guindon to move to Agenda Item VII.

Senator Lee asked for clarification on the assessed value – residential versus commercial. He said that some communities had a larger population base and less assessed value because the community did not have a lot of commercial property. For example, the cities of Fernley and North Las Vegas had a huge population base, but a lot less assessed value. He asked if there was a way to see what the disparity could be so the assessed value could be considered differently as the Committee gets further in the process.

Chairwoman Kirkpatrick wanted to wait until the end of every meeting to determine the direction they wanted to send staff because they had to pick which issues to address since the Committee was limited to five meetings. She thought some the concerns would be addressed when they heard testimony on the assessed valuation from Mr. Hobbs and Mr. Leavitt.

Mr. Guindon noted that staff was working with the Department of Taxation on creating some additional historical data, and tables showing the population and assessed value for each of the local governments were forthcoming.

Chairwoman Kirkpatrick recognized Assemblywoman Dina Neal and Assemblywoman Irene Bustamante Adams, who were in attendance at the meeting.

## **VII. OVERVIEW OF THE CREATION OF THE CTX AND CHANGES TO THE CTX.**

Guy Hobbs, Principal, Hobbs, Ong and Associates, stated that staff of the Legislative Counsel Bureau provided a good summary of the first-tier CTX distribution and the revenues that comprise the CTX distribution. After hearing the descriptions of the various formulas that they were contending with in previous years, they could understand why the state moved from having six revenue sources being distributed under six different sets of mechanics and why it made sense to consolidate those into one formula as opposed to six. He said that a couple of the questions that came up were indicative of this – you could force the problems with the previous regimen for distributing these revenues if there were no incorporated cities. However, if there were one and then there became two cities, there were certain financial incentives and disincentives that were built into the formulas back then for whatever reason. With the adoption of CTX they have essentially gotten rid of those formulas. Mr. Hobbs guaranteed that if those six formulas were still in place today, there would be six different interim committees studying the individual formulas because of the problems that each formula created. While the CTX formula itself was not perfect, it certainly reduced the incidence of those types of issues.

Mr. Hobbs said that when originally looking at this, which he believed was important for the historical context, there were certain things that were discussed by the S.C.R. 40 Subcommittee (1997), an interim study on the laws relating to the distribution of revenue among local governments from state and local taxes. The S.C.R. 40 Subcommittee believed that there should be a consolidated tax formula, but they also spent considerable time trying to work through the principles that would be the foundation for that formula. One of the principles that inevitably came up when discussing changing

any revenue distribution mechanics was what kind of revenue change in the initial years was tolerable for the state, referred to as revenue neutrality. If a formula was drastically changed and resulted in an entity getting a different amount of revenue than the entity would have previously received from their share of those six revenues, was that something that would enable them to continue to provide the services for which they were created, or would it provide a potential negative jolt to their ability to do that? Mr. Hobbs said it was determined back at that point that revenue neutrality would be one of the underpinnings going forward for the consolidated tax formula, which was both positive and debatable. One of the things that was built into the system when there was revenue neutrality were all the sins of the formulas that preceded that. In addition, there was no question there was an intimate tie between consolidated tax, because it was so driven by sales tax, and property tax because of the changes to the tax structure in 1981. The sales tax was a minor player in the 1981 tax shift, and after the property taxes were reduced and replaced with sales tax, they became intricately locked together. Therefore, when looking at local government revenue, consolidated taxes was certainly one of the revenue sources that was extremely important to look at, but in his mind having been around during the 1981 Legislative Session, it was very hard to just simply look at consolidated tax without also considering its counterpart in 1981 – property tax. If the Committee truly wanted to look at the overall funding for an entity, both of those taxes had to be taken into account. It was that relationship which led to the basis, and the basis because of the revenue neutrality was still carried forward today.

Mr. Hobbs noted that people might remember the times when local governments would look at certain types of assessed value and want to have that within their jurisdictions, and there were other types of assessed value that they did not want. For example, it was much more economically positive to have assessed valuation that required very little services inside of the entity. Consequently, entities in those days would look for low maintenance assessed valuation, which was the commercial and industrial type of assessed valuation and less of the residential type of assessed valuation because it required more services. As a result, there were things like annexations and potential creations of one entity or another that were largely driven by coveting certain types of assessed valuation. In addition, there was a lot of inter-jurisdictional competition that often was rewarded because of the formulas in place. In other words, there were formulas largely driven by population which might make economic sense to do – not necessarily public service sense – and the same thing with the assessed valuation. Therefore, one of the underpinnings of the consolidated tax formula was to do whatever possible to reduce the type of inter-jurisdictional competition that existed between entities. Put another way, did they want to design a formula that rewarded growth, whether the growth occurred naturally or because of jurisdictional realignment. At the time they did not feel, nor did the legislators that adopted the changes to the tax structure feel that they should provide an incentive and reward system for that type of growth for the sake of growth; therefore, that was very much one of the foundational pieces. Mr. Hobbs stated he was talking about a formula that was devised 12 to 15 years ago and circumstances have changed, and the Committee may want to consider what those principles were going forward. He wanted the Committee to have a

clearer understanding of some of the things that were very much in their minds when they were devising the otherwise very complicated sounding formula.

Chairwoman Kirkpatrick thanked Mr. Hobbs and Mr. Leavitt for their hard work on behalf of the Committee. She thought they should be recognized because often they forget to thank the people that helped with the changes to the tax structure in 1981, which made the state successful for an additional 20 years. However, the state was now in a different situation and the Committee needed to revisit the tax structure.

Mr. Hobbs appreciated the comments from Chairwoman Kirkpatrick.

Marvin Leavitt, Chair, Committee on Local Government Finance, stated that there was a conscious direction from the Legislature to the A.C.R. 40 Subcommittee that the most desirable local government was a general purpose local government as opposed to a special purpose local government. In addition, governments that were acting like enterprise funds, where their principal revenues came from charges for services, should receive a minimum of tax revenue coming from general property taxes or sales taxes. Therefore, looking at the formulas the way they currently existed, the general purpose governments – the counties, cities, and towns, when they compute how much they were going to get in excess money, growth in their assessed valuation and population had to be added, so there was combination of both when growth was determined which was the most desirable formula. When the same growth was determined, for a special district, only assessed value was added, and nothing was added to compute the growth for an enterprise fund, so it was tiered, with the most desirable being the general purpose government.

Mr. Leavitt stated that initially when they looked at the formulas they wondered if it was possible to use a really simple method, such as population, to determine how the revenue should be distributed. First, they recognized there was the Supplemental City-County Relief Tax, the 1 ¾% sales tax, which started out as being property tax and was property tax driven. There were the cigarette, liquor, and Basic City-County Relief Tax, which were population taxes driven by population from the onset. He noted the desire was that they recognized that there were all kinds of different local governments in the state. If they thought about the town where the Strip was located, there was a really heavy assessed valuation and very little population, so the desire was to have a formula that would work as much as possible for all kinds of jurisdictions; however, there was double trouble when they talked about population. For instance, if trying to do a formula by population – what was included as population of the county – was it the entire county including the cities, because they provided a certain amount of services for the entire county? Also, consideration had to be given to special districts and enterprise districts, which often did not share common borders with cities or counties, and for which no population data was available. Therefore, one of the difficulties was trying to come up with something that would work for a wide variety of entities.

Providing some historical perspective on the original population-based taxes and how they came to be, because it comes through the formula, Mr. Leavitt noted that, during



the 1960s, there were tax fights between the entities on a regular basis. Essentially, the fights were related to the \$5 constitutional property tax limit, and if a local government filing their budgets came out with \$5.10, someone had to give \$0.10, which had to be arbitrated by the Nevada Tax Commission. However, since the county had a bigger base and \$0.10 of revenue would amount to more money for the county than it would for the cities, there was a general feeling among the cities that when the tax fights came they lost more often than not. Therefore, in the 1960s the cities devised a system by which they would have this Basic City-County Relief Tax, cigarette and liquor tax, which was carried forward clear up until the time this formula came into being. Mr. Leavitt stated that the towns, particularly the big towns in Clark County, wondered how come they did not share in any of those taxes because they were like a city. So the question was asked about establishing new entities when the county was receiving all of the taxes in certain cases. Mr. Leavitt recalled that in 1981 the County Commission had the right to enact the tax and had to enact the tax if the cities petitioned, but some of the cities wanted the money but did not want to take the political heat for enacting the tax. Therefore, the cities thought if the Legislature would force them to enact the tax, then they would get the revenue without taking the political heat, which was where it came about. He recalled there was not a discussion about new cities being created and the desire to get the additional revenue coming from the tax.

Mr. Leavitt explained that the one-plus factors used to determine excess revenue recognized growth among the entities that were growing on a gradual basis. If they looked at the numbers over a long period of time, the additional revenue would follow growth, but does not follow growth near as rapidly as with the no one-plus factors, because then the additional revenue only follows growth. He noted the problem was what happened when there was growth in revenue but almost all entities had a negative combination of assessed value and population. Currently, there was a huge decrease in assessed valuation in the state as a result of the depressed housing market, as well as the commercial market. So there was the situation where the 5-year average was negative for most of the local governments and there was very little population growth, and combined, resulted in negative numbers for most local governments. He asked the Committee to suppose that scenario occurred at a time when sales tax was still seeing growth, and conceivably there could be one small local government located in a large county that was growing. If that was the case, any additional sales tax money would only go to that small local government. He brought up the example of a theoretical huge project in a county that brought in \$1.0 million of extra sales tax revenue, and the only city eligible to receive the extra money was a small local government, which happened in the City of Mesquite. He said the Legislature was able to do something about the disparity because they were in a session, which could be a problem in a non-legislative session. So if the desire was for the growth in revenue to really rapidly follow growth in assessed valuation of population, which was the no one-plus factor, then he believed something had to be done to resolve the problem of what happened when there were negative numbers. Otherwise, there could be a situation that was completely out-of-line with no resemblance to where the money should be going.

Mr. Hobbs added that the inclusion of the one-plus factor when the CTX formula was originally designed and passed into law was something that was very thoughtfully done for the reasons that Mr. Leavitt discussed. He wondered whether the S.C.R 40 Subcommittee was desirous of rewarding growth regardless of why that growth may have occurred, because that growth could have happened because of new housing or by an entity simply redefining its borders. He thought that a more methodical approach to channeling the revenue to where growth occurred made sense, and consequently, the one-plus language was inserted in statute as a moderator. He noted there were some entities over the past decade that were growing at a faster rate – the entities were desiring to grow at a faster rate and wanted the money that could possibly come along with growth. The entities became somewhat dissatisfied with the way the formula rewarded them for that growth, and special accommodations were made in the formula by way of an artificial adjustment to the base to give entities some additional money, which was somewhat unprecedented and beyond what the formula ever contemplated. In addition, the same entities had a strong desire to get rid of the one-plus factor because they felt it would reward the growth that they were undertaking at that time on a more rapid basis. Therefore, it may have worked well for the faster growing entities for a short period of time, but he could not say it worked well for the entities once the growth went away. Mr. Hobbs said that whether it was re-imposition of the one-plus factor or some other moderating factor in the formula, that some type of moderating statistic needed to be in the factor that accomplished at least the same thing as the one-plus language, and it was unfortunate that type of artificial tinkering took place with the formula to begin with. He was sure there were other views that differed from those of Mr. Leavitt and himself, the basis from year-to-year and the degree to which they were allowed to roll up and become the base for the subsequent year was something that he thought the Committee should take into consideration. It was their feeling that the bases should roll up, in order to minimize the amount of excess revenue subject to the distribution of that part of the formula from year-to-year, which were the recommendations he and Mr. Leavitt would make to the Committee at the outset. Mr. Hobbs was sure the Committee would hear other points of view and ideas from entities that were in positions where they felt that the formula may not be serving them as well as they would like.

However, Mr. Hobbs asked the Committee to bear in mind that there were over 150 entities receiving distributions from the CTX formula. Although he could not speak for all of the entities, he believed there were fewer than 5 entities that were dissatisfied or had concerns with the formula. This was not to say that those concerns should not be heard, but an indictment of the formula in the whole because of the concerns of a few entities should be kept in its proper context.

Chairwoman Kirkpatrick asked for questions from the Committee. She indicated that was tired of being “beat up” by her constituents regarding what happened when the legislation came about, which resulted in big changes to different entities. She would be more blunt about what happened and wanted to go back and check the bill to understand why she heard on a daily basis that North Las Vegas was short-sided because of their library tax. She wanted to know if there were discussions because she

thought it was only fair to have public discussion and input. Chairwoman Kirkpatrick has read minutes from previous meetings and was glad to hear that incorporation was not part of the discussion. She thought the Committee had to discuss incorporation because the town of Laughlin was moving in that direction and she was unsure how many other towns were moving that way. She did not want incorporation to become a situation where entities only incorporated because they thought they would get more money. She believed that the philosophy of revenue neutrality was very good and had to be the basis for every entity. One entity that came to mind was the Southern Nevada Water Authority – she wondered if they received a portion of the CTX. She wanted a clear understanding of which enterprise districts received CTX. In addition, she was aware that some of the General Improvement Districts (GIDs) received CTX while others did not. She asked if the presenters could explain what property taxes were intended to do because she thought that the public had a different perception of the purpose of property taxes.

Mr. Leavitt stated that in 1981 the state was in a period of rapidly growing property values similar to the Proposition 13 situation in California. During the 1979 Session, the Legislature drastically reduced property taxes. He noted that the formula for distributing the Governmental Services Tax, which took into account school district property tax rates in 1979, were purposely set this way so that the decrease in property tax rates from the 1979 Session did not diminish their share of what later became the Governmental Services Tax.

Mr. Leavitt stated that the big switch in the tax structure came about because between 1979 and 1981 the state was still in a period of high inflation and rapid growth in assessed valuation. The Legislature was aware that they had to do something to drastically reduce property taxes and there was the feeling that if sales tax was increased – which eventually became the 1  $\frac{3}{4}$ % SCCRT – they could reduce property taxes sufficiently to stop a Proposition 13 situation taking place in Nevada. Therefore, the original desire was to eliminate property taxes for operating purposes, so that the only property taxes that would be left were property taxes for debt. Mr. Leavitt said that, as it turned out, the state had to have too much sales tax to be able to do that, so what every local government was levying for operating purposes in 1981, which varied among local governments in the state, and put whatever the entity was levying for property taxes for operating purposes, would be multiplied going forward by the current assessed valuation. Even at that point, some local governments thought they were not levying as much as they could and wanted a bigger rate. Essentially, the legislators asked the local governments how they could expect to get a reimbursement from sales tax that was greater than the property taxes they were actually levying. Basically, the local governments who were levying property taxes at a lower rate in 1981 believed they were not being compensated adequately by sales tax, which was back to the political heat argument of how an entity could levy \$1.00, but did not want the political heat, and only levied \$0.75, and another entity levied the \$1.00 and was reimbursed from sales tax for the \$1.00 levied, while the other local government only received the \$0.75 because they were not willing to take the political heat for the \$1.00. This became part of the formula in 1981 and stayed in place until the state came to the

consolidated tax in 1997. Since the amount of money the local governments were getting in 1997 was the base going forward, the formula essentially still existed.

Mr. Leavitt said that, looking at the numbers, the largest portion of the tax that became part of the CTX was the component of the tax that was a replacement for property tax. He noted that the local governments that were dissatisfied in 1997, at the creation of the CTX, were really dissatisfied with the fact that they were levying a smaller property tax rate in 1981 than everyone else, yet they still wanted to receive more revenue than the formulas allowed.

He also indicated that the CTX, in its present form, has taxes whose taxes had a basis in the value of property – the GST, which is essentially driven by the value of automobiles, and the SCCRT, which was originally driven directly by property taxes – and those taxes were essentially population-driven taxes – cigarettes, liquor, and the BCCRT.

Mr. Hobbs added that, following up on the relationship between property tax and consolidated tax and looking at entities' overall funding, it was hard to decouple the two because the taxes were so intricately married and both taxes formed approximately 70% of the revenues that fund most classic local governments in the state. He noted that because of the way it has come about, the problem that some of the entities may be experiencing was not necessarily because the consolidated tax formula was not mechanically working correctly, but because of things that may have taken place in 1981, well before consolidated tax and the formula even existed.

Chairwoman Kirkpatrick was aware when the decision was made to adjust the one-plus formula there were other pieces within that legislation that were also adjusted. Although she did not think the system was necessarily broken, she believed the Committee needed to revisit the formula and look at the original intent and address some of the issues that have come up since then. She thanked Mr. Leavitt and Mr. Hobbs for providing historical data.

Chairwoman Kirkpatrick said that it appeared that when the changes to the tax structure were made in 1981 everybody thought things would eventually change. She knew that Mr. Hobbs and Mr. Leavitt always provided non-biased testimony and opinions because they cared about the numbers as opposed to the politics, although she could not find their testimony in support of tax changes. She said it was very consistent for local governments to blame the Legislature because it was easy, and likewise, the Legislature criticized the local governments, so she understood the political part. She asked what type of services property taxes were intended to cover.

Mr. Leavitt could not recall testifying in favor of the bill, although he believed he must have testified on the details of the changes because he was directly involved in the process. He noted the S.C.R. 40 Subcommittee was in existence for several legislative sessions and there were also changes made to the fuel taxes among other things. He noted that there were advisory committee members that worked in concert with the

legislative members of the S.C.R. 40 Subcommittee, which Senator Ann O'Connell chaired, and he believed the legislation was presented by the legislators that were on the Committee.

Mr. Hobbs asked Chairwoman Kirkpatrick if she was talking about the original passage of CTX or the modifications that were made a few years later to address certain circumstances. Chairwoman Kirkpatrick said she was asking about the modifications that were made.

Mr. Hobbs replied that he and Mr. Leavitt did not testify in respect to the modifications; however, they did testify on the original design of the formula. Mr. Leavitt stated that he testified in opposition to that bill during the 2001 Session.

Senator Lee recalled when West Wendover had grown by only 26 people, and the City of Elko was building a Home Depot and expanding in the community, yet the distribution formula provided West Wendover, not Elko, a lot of additional revenue.

Mr. Leavitt replied that there was a similar situation where they had the special legislation, the conditions under which a entity reverted to the one-plus formula. The bills that were enacted were designed in such a way when it brought in net proceeds of mines, it was legislation that was written in general terms, but could only apply in one place, which was what it was designed for because of that unusual situation. He said it turned out to be similar to what was in Mesquite during the last session that brought this problem on. He believed that whether they liked the one-plus formula or not, or how rapidly they thought money should follow growth, he believed something needed to be done to fix the situation where there were negative numbers for the big governments and one small government had a positive number. Personally, Mr. Leavitt believed that was the situation that needed to be fixed. In addition, they needed to fix the condition that Mr. Hobbs mentioned previously where there was the rolling-up of the base, because even in 2001 when the legislation was enacted, the desire of the legislation was to reward the governments that were growing the fastest. However, when there was negative growth, they had to eat through the layer of excess that was built up, which eventually hurt the governments that were growing rapidly. He believed those were technical problems resulting from the 2001 Session changes, which he thought the Committee needed to fix or the formula would not work well when those were in there, regardless of what they thought about how rapidly money could follow growth.

Senator Lee responded that this was his point and he thought what they tried to provide was growth by escalators instead of growth by elevators. He said it was seamless when going between Henderson and Las Vegas and people never know they have entered another entity. When talking about the race for assessed value, he asked Mr. Leavitt if he agreed that currently the state was to a point that population might be a better barometer than the assessed value of all the commercial property in a particular county.

Mr. Leavitt disagreed with Senator Lee simply from the fact of what property tax theoretically was supposed to cover. He believed that hypothetically, property tax covered services to property, such as fire protection. When looking at the legislation from 1995 through 1997, there were different kinds of local governments in the state that needed services. Some local governments had very high populations in relation to assessed valuation, which he called bedroom-type communities. In addition, there were other communities that do not have a large population, but had high assessed valuation, and the people that lived in the bedroom communities went to the other communities to shop and receive services. Therefore, if revenue was simply based on one factor and ignoring the others, then he thought they did not recognize the state had an interchange of communities. For instance, there was a situation a few years ago where people were suggesting that maybe the solution to sales tax was to find out how much was collected in every single entity as opposed to countywide, and the revenue was distributed that way and a formula was not needed. But when that was done, a person from North Las Vegas would go to the county to purchase an automobile, or a person from the county would go into the City of Las Vegas to shop, or a large hotel was being built on the Strip, and people from every entity were working on the hotel. It was the combinations of these things that were really in a way one community, but the tax had to be divided between the individual entities. There had to be a formula that took into account all of the different circumstances, and if the formula was only based on one factor, they would be missing a lot of situations.

Mr. Hobbs added that there could be a very large hotel, like the MGM in Las Vegas, with over 5,000 rooms and a population of zero next to a small apartment complex that had maybe 10 units and a population of 13 people. In one case there was zero population and in the other case there was a larger population and services had to be provided to both. There had to be a way of weighing that into the equation, and the combination that was being used was designed to try to reflect both situations.

Assemblyman Ellison believed Mr. Hobbs was right, that there could be entities paying for infrastructure in other areas and supplying health care and fire protection, and it would be hard to break that down. Changing the formula might come back and hurt the county that was actually providing the services. He said it looked like the first-tier distribution was engineered to look at that and be fair to every entity. He believed the first-tier distribution was working well, although he thought it needed to be fine-tuned. He believed Mr. Leavitt, Mr. Hobbs and staff spent a lot of time on the formula and looking over all the different bills that addressed the distribution and use of the CTX revenues.

Chairwoman Kirkpatrick wanted to address incorporation because she believed that had to be on the radar of the Committee. She was aware entities wanted to incorporate and from her perspective, many cities do a lot more than what was ever intended. From the local governments' perspective there was a lot of overlap, but in addition there were cities that do not quite fill the gap on what they should be doing. In addition, there were the GIDs which were an infrastructure-based group, and the enterprise funds, which were a different type of infrastructure. She wondered if she was correct that the statute

allowed for counties to work with entities within their area, and whether there was a timeframe for that, so that the county could make changes to the formula based on special needs, which she believed was done in Mesquite based on a memorandum of understanding.

Mr. Hobbs replied that the ability existed for entities to share revenue coming from consolidated tax on an alternative basis if they agreed by interlocal agreement to do that. Mr. Leavitt concurred with Mr. Hobbs.

Mr. Leavitt stated that currently, Laughlin was discussing incorporating. He said a group of people in Laughlin wanted to incorporate because they wanted principal revenue, the CTX, which was most likely going to the county. The question was: how much does the county currently spend to cover the area where the proposed city was being located? Also, there was a separate situation in Clark County, because there were police being funded by contributions from a separate entity in addition to the county. Therefore, there were complications and whenever there was a city that going to be incorporated, revenue had to come from somewhere. He said property tax could be levied within the citizens of the area, but often there was not enough CTX if they tried to work it into the formula, which he thought would happen in Laughlin. In order to operate effectively, Laughlin had to have more CTX. Mr. Leavitt disclosed that he was the Chairman of the Committee on Local Government Finance, which has just been through this situation with Laughlin. The practical matter was that they had to take more CTX than they were currently getting as a town to be able to fund Laughlin, which becomes a complicated and messy situation. He understood the problem better than he understands the solution. Mr. Leavitt did not think they wanted to preclude people from incorporating, but somehow they had to have a situation where they do not bankrupt one entity to bring on another.

Chairwoman Kirkpatrick thanked Mr. Leavitt and Mr. Hobbs for their testimony. She appreciated their insight at the meeting and for being part of the discussion. She asked them to continue to be involved in the discussion because as the Committee moves forward there may be additional questions that needed answers. She thought it was very important that there were parameters when making changes because the statute had to be clear up front so people cannot come back and say they meant something else. She would like to hear from each individual local governments at the next meeting, whether they agreed or disagreed with the issues, which could include Mr. Hobbs and Mr. Leavitt.

#### **VIII. PRESENTATION OF ACTUAL REVENUES DISTRIBUTED UNDER THE FIRST TIER AND SECOND TIER OF THE CTX AND OTHER STATISTICS RELATED TO THE CTX DISTRIBUTION.**

This agenda item was taken out of order.

Russell Guindon, Principal Deputy Fiscal Analyst, Fiscal Analysis Division, referred to page 109 of the meeting packet ([Exhibit A](#)), Table 1. He said the Fiscal Division staff worked with the Department of Taxation and Applied Analysis to provide the data. He



said the table contained data on a fiscal year basis from FY 1999 to FY 2011 in terms of the actual amount of the six revenue sources that were collected and available to be distributed at the first tier. The largest revenue source was the Supplemental City-County Relief Tax (SCCRT), followed by the Basic City-County Relief Tax (BCCRT). The Real Property Transfer Tax (RPTT) has never been a sizeable revenue source, but it did increase during the boom years when there was more construction and larger numbers of residential property sold. He said Table 2 (page 111 to page 128, [Exhibit A](#)) showed the amount that each county received of the six first-tier revenue sources. Using Carson City as an example, he explained that the orange shaded line showed that the SCCRT was approximately 67.2% of the county's total FY 1999 first-tier CTX revenue. The green shaded line showed the percentage of statewide fiscal year total SCCRT money. The blue shaded line showed the percentage of that SCCRT distribution compared to all six revenue sources statewide.

Mr. Guindon said Table 3 (page 129, [Exhibit A](#)) showed the information from Table 2 on the percentage of SCCRT statewide fiscal year total by revenue source as a share of the total for that revenue source. Table 4 (page 133, [Exhibit A](#)) showed each revenue source as a share of a county's total first-tier revenue from all revenue sources by fiscal year. Table 5 (page 137, [Exhibit A](#)) showed the first-tier distribution of SCCRT revenue to the Local Government Tax Distribution Account, showing the non-guaranteed county versus guaranteed county. He pointed out that Nye County had been a guaranteed county, but became non-guaranteed pursuant to statute. Table 6 (page 139, [Exhibit A](#)), showed the population estimates of the State Demographer that were certified by the Governor, and used by the Department of Taxation for the purposes of distributing the out-of-state BCCRT, cigarette and liquor tax collections, that are distributed on a per capita basis based on those population estimates.

Chairwoman Kirkpatrick asked Mr. Guindon to notify her of requests from the Committee members to staff so that she could prioritize the work. Mr. Guindon suggested that the Committee members copy the Chairwoman on their requests. He said some of the requests were time-consuming for LCB and Department of Taxation staff to complete.

Continuing to the second-tier distribution tables, Mr. Guindon said the table on page 141 ([Exhibit A](#)), showed whether the counties were in "one-plus" or "no one-plus," and if they were in one-plus from FY 2005 on, which rule forced them to one-plus status.

Chairwoman Kirkpatrick asked for clarification on how to read the table. She noted that in FY 2005, Esmeralda County used the one-plus, based on subsection 5, which was explained on footnote 9 on the following page. Mr. Guindon agreed and said footnote 9 explains the criteria for subsections 5, 6 and 7.

Mr. Guindon said the one-plus rules only apply if there was actual excess to be distributed in that month. He said the one-plus factor rule was required to be used under section 5 if: 1.) the 5-year average in net proceeds of minerals over the 5 fiscal years preceding the fiscal year in which distribution was made in the county was at least

\$50 million; or 2.) the 5-year average percentage change in population in the county was a negative number; or 3.) the 5-year average in net proceeds of minerals over the 5 fiscal years preceding the fiscal year in which distribution was made in the county was at least \$50 million and the 5-year average percentage change in population in the county was a negative number. The one-plus factor rule was required under subsection 6 if: 1.) the sum of the 5-year average percentage change in population and the 5-year average percentage change in assessed value for each local government (county, city, town) in the county was a negative number; and 2.) the 5-year average percentage change in assessed value for each special district in the county was a negative number. The modified one-plus rule would be applicable under subsection 7 if: 1.) the sum of the 5-year average percentage change in population and the 5-year average percentage change in assessed value for each local government (county, city, town) in the county was a negative number; and 2.) the 5-year average percentage change in assessed value for any special district in the county was a positive number. The modification to the one-plus factor rule was that the 5-year average percentage change in population for the county must be added to the 5-year average percentage change in assessed value of each special district when determining the one-plus factor for each special district in the county.

Chairman Kirkpatrick asked when each of the changes in the legislation took place in regard to the one-plus factor. She said from 1999 to 2012 the formulas seemed to be consistent with the process. She wondered why some people described the process as “broken.” Mr. Guindon said that information was shown in the history of the CTX legislation (page 101, [Exhibit A](#)). He said the mathematical formulas used no one-plus as the default. If the criteria are met, the Department of Taxation was required to use the one-plus formula to determine a county’s share. He recalled that during the 2011 Legislative Session, a bill was amended to allow Clark County to enter into an interlocal agreement. Clark County had not met any of the criteria for one-plus. Mr. Guindon said, in his opinion, for the process to be broken, the Department of Taxation would not be able to perform the statutory calculations required to determine the distribution of the revenue. He explained that a local government entity could have a zero share for the distribution of the excess. That result came from the application of the mathematical rules. The entities may not like the result of receiving a zero weight for the distribution of excess revenues. The law allows the local governments to enter into interlocal agreements for alternative distributions, and that was exactly what happened in FY 2012 with Clark County. He noted that the formula resulted in some counties receiving zero weights, while other counties received hugely positive weights. Additional rules were added to alleviate that result. In FY 2012, there was a situation where the no one-plus generated shares for accounting that were zero. That would have pushed the distribution toward Mesquite and other local government entities. Another rule could have been added, but instead, there was an interlocal agreement.

Senator Lee said he did not completely understand the process. He asked, if a local government knew that enterprise districts would be weighted to receive more distributions, and pushed to build enterprise districts, was there a way to “game” the

system to allow those entities to be given priority over local government? If so, would the local government keep the money that it might have put into those areas?

Mr. Guindon said when the CTX was created, the local governments must have already been receiving one of the six revenue sources to be included in the distribution. He said the enterprise district language that was in statute was necessary to initialize the CTX and determine how to deal with growth and excess. He wondered whether there had been an enterprise district created since the implementation of the CTX that was receiving a distribution from the CTX. He said enterprise districts needed to be classified to indicate a distribution of the base amount, and no adjustment to that base amount. He said that language gave some authority to the Executive Director of the Department of Taxation to determine whether a district was a special district or enterprise district when the CTX was initialized. He said more research would be needed to understand the transition from pre-CTX to CTX, and how many new entities had been created since.

Senator Lee observed that an enterprise district was guaranteed to get the money every year, whether there was a need for it or not. He asked if the funds were ever retained from distribution because they were not being used. Mr. Guindon understood that once the CTX proceeds were distributed, they belonged to that entity. That did not mean there were not provisions in the law that would allow enterprise district funds to go back to another fund. He said there were staff within the Department of Taxation that monitored the local governments and their budgets. He would consult those staff and provide an answer to the Committee at its next meeting.

Chairwoman Kirkpatrick asked for a list of the enterprise districts. It was unclear to her which enterprise districts were part of the CTX and which were not. She asked if the same argument could be made that some of the enterprise districts never received a population increase. For example, in Clark County there are at least four enterprise districts. Clark County does not have the same population today as it did in 1980, and the enterprise districts have more responsibility than they did in 1980. She asked if that growth should be considered when distributing the revenue.

Mr. Guindon said that he would learn more about the enterprise districts, pre- and post-CTX, and report back to the Committee.

Assemblyman Ellison said in the 76<sup>th</sup> Legislative Session changes were made to the net proceeds that pertain to some of the deductions that would be allowed. He asked if that would affect the CTX as revenue increases and decreases. Mr. Guindon agreed that changes to the statutory definition of net proceeds could have an impact on whether, but for those actions, the revenue may have been above or below the \$50 million threshold. He did not know whether there was any impact from that change. He thought with mining booming, additional counties would meet that threshold. He would put together a table with the counties' net proceeds amounts. He noted that negative population growth could also result in a one-plus status. If there was a decision to return to the one-plus process, it would not matter what the net proceeds were.

Mr. Guindon said Table 3 on page 147 ([Exhibit A](#)) showed the entities in the second-tier distribution that were receiving money. He noted that Carson City had no enterprise districts and two special districts. The table show how much was received and the percent change. He said future tables would show how much was base and how much was excess, year by year.

Mr. Guindon said Table 4 on page 187 ([Exhibit A](#)) showed the distribution at the second tier as a percentage by county.

Chairwoman Kirkpatrick asked if Carson City received a distribution as both a city and a county. Mr. Guindon explained that there are no incorporated cities. A city could have enterprise districts, but Carson City did not. In Carson City, there were two overlapping special districts. He noted that the Carson-Truckee Water Conservatory crossed several counties. He said they were treated as a county for the purposes of the CTX, and thus, money was distributed to Carson City at the first-tier distribution, and the special districts at the second-tier distribution.

Chairwoman Kirkpatrick noted that the special districts were typically put into place for a reason, sometimes for a short-term purpose. She asked if the special districts were temporary, or whether bonding would keep them in existence indefinitely.

Mr. Guindon was not familiar with the local government enterprise districts. He suggested that question be posed to a representative from the local governments. He supposed that any special district was getting one of the six revenue sources prior to the CTX, but he did not know that any other special districts had been created since the implementation of the CTX. He said there was a fairly high hurdle to new local government entities in getting the CTX funds, especially for a special district.

## **IX. POTENTIAL ISSUES FROM LOCAL GOVERNMENTS REGARDING THE CTX.**

Jeff Fontaine, Executive Director, Nevada Association of Counties (NACO), said that when A.B. 71 was heard in committee, NACO did not take a position, and none of the counties had issues relative to what was being discussed about CTX at that time. He said NACO was pleased to participate. He said all of the counties had been contacted, and the topic was brought before the NACO Board of Directors.

Mr. Fontaine said there were two global issues. First, the NACO Board of Directors unanimously agreed that they would not like to see the first-tier distribution analyzed as part of the study. That was also supported by members of the individual counties. They do not believe that the first-tier distribution method was broken or a source of inequity. There have been a number of questions about the guarantee counties, how that works, and whether it has accomplished what was intended. He reviewed the data, and in his opinion, it has done what it was intended to do, which was to be somewhat of a safety net to those rural counties that otherwise could not generate enough sales tax on their own. In the last couple of years, those guarantee counties have also seen a decline in

revenue. The Department of Taxation has reported a decline in revenue of over 22%. The rural counties are not necessarily benefitting, while the other counties are not benefitting. Mr. Fontaine said the Committee heard testimony about how Nye County passed the threshold and was no longer a guaranteed county. He said any county would prefer not to be a guaranteed county, and would prefer to be a non-guaranteed county. Douglas County came very close to reaching that threshold. The recession hit, and like others, they saw a decline in revenues. He said the mining counties are still guaranteed counties, but in reality, they have become export counties due to purchases of large mining equipment. He believed there were inequities within the second-tier distribution.

Mr. Fontaine said the second issue was the expenditure side of the equation, which the Committee discussed briefly. He pointed out that to analyze the distribution of CTX revenue to local governments, and have that be reflective of today's economy, it was also important to consider what those revenues are used for, and what the local governments are required to do. In the case of the NACO members, they have certain responsibilities, such as indigent defense and medical care, which are countywide regional services. He said everyone was aware of what has occurred in the past couple of legislative sessions – more responsibilities were placed on the shoulders of county governments. He hoped that as the Committee deliberates, all of that will be considered as well.

Senator Lee said he appreciated NACO's position. He asked if the counties understood that there may be opportunities to review the distribution more frequently; they would not have to wait for 20 years to give input on additional changes. He asked if a 5- or 10-year review would be agreeable to the counties. Mr. Fontaine said it was always healthy to have a periodic review of policy, particularly tax policy. He was not part of NACO when the current system was put together, but he did not know whether anyone could have foreseen the tremendous growth, or the recession that we are experiencing. He did not think NACO would be opposed to a periodic review.

Senator Lee recalled pushing very hard for Senator McGinness to do what the Committee was doing. The topic came up quite a bit. He recommended that a BDR be put forth to provide the ability for the cities and counties to get together to discuss changes to the distribution. He thanked Mr. Fontaine for his work for the state and the counties.

Chairwoman Kirkpatrick was amazed that all 17 counties could agree to something, because the counties were so diverse. She asked for a letter stating that all of the counties were in agreement, and that there were no issues. She was not opposed to a review process, but wanted a true record of the agreement, so that it was clear that everyone was in agreement that the first-tier distribution worked for them. She would like for local governments and counties to put the topic on their meeting agendas and agree that their position was that the first-tier distribution was fine the way it was, and then submit a letter to the Committee. She said those who do not come to the table

during the six hearings should know that they must be part of the discussion when there was an open debate, or sit on the sidelines and say, "I should have."

Mr. Fontaine said the position that he stated was the position of the NACO Board of Directors. It has not been taken up by individual counties; however, he has heard from six counties that they supported that position. He said the question of how to codify or memorialize that was certainly something that they could talk about. He agreed that it would be nice to have a clear record as to what was agreed to and what was not agreed to, and NACO would take that up with the counties.

Chairwoman Kirkpatrick said if there was disagreement, she wanted to have the time to sort it out. If the counties agree, that would allow the Committee to spend more time on the rest of the issues. If the counties do not agree, they should be given a fair opportunity to be heard. Her thought was that if it was on the meeting agenda, people would pay attention. It did not need to be a consent item, but she thought there should be some discussion as to whether they were in agreement. This will be a record for legislative staff and new legislators to learn about the concerns of the counties. To have a record of that agreement on paper would provide transparency to the process. She said the sooner the letters were received, the better.

Mr. Ellison agreed with having the counties bring a dialog to the Committee. He asked about the incorporated cities within the counties.

Chairwoman Kirkpatrick said a representative from the Nevada League of Cities and Municipalities would also provide testimony. She said the counties were the first-tier distribution, so that was where the focus would be.

David Fraser, Executive Director, Nevada League of Cities and Municipalities, agreed that typically, when he appeared before an interim committee, he was speaking on an issue upon which his members had general agreement. However, this was not one of those issues. He read the following from a letter from the Nevada League of Cities and Municipalities to the Committee dated February 1, 2012, ([Exhibit B](#)).

In response to the Chair's request, we have prepared the attached information in connection with item IX (Potential Issues from Local Governments Regarding CTX) of your February 1, 2012 meeting agenda. As evidenced by the attached table, the members of the Nevada League of Cities and Municipalities have varying opinions regarding the issues associated with the Consolidated Tax Distribution. What our cities do share is an appreciation for the importance of the issue.

We have prepared the attached summary table in consultation with our members. As you can see, we have identified six primary issues, along with four sub-issues, for the Committee's consideration. I wish to amplify that there were points of disagreement (some significant) among our members. Hopefully, the attached table indicates not only points of

disagreement; but also areas of greater general interest.

Though the table only shows responses from six of our members, it should provide a good representation of our members concerns. Several of our members indicated that they did not have issues to contribute at this time, but would be engaged in the process. Each, of course, reserves their right to provide future input.

We appreciate the opportunity to provide input early in the process. We hope that the information provided is of assistance to the Committee in its consideration of this very important issue.

Mr. Fraser said attached to the letter was a table that indicated some of the issues that were reported. He said there was not general agreement among the members of the Nevada League of Cities and Municipalities. He indicated that the member cities' representatives were present, and they would be happy to come forward to address specific questions.

Chairwoman Kirkpatrick said along the same lines of the county, she wanted for the cities and municipalities to also have a discussion. She requested that each entity include the topic on the next meeting agenda, have the discussion, and send a letter to the Committee explaining the issues, so that each one of the issues can be discussed in the Committee. She would need those letters within a few weeks. She understood that people would not agree on this issue – if they had all agreed, the Committee would not have been formed. She did not want for disagreement among the council members to become an issue during the 2013 Legislative Session. She said that there would not be agreement among everyone at this point, but it would allow for an open discussion. The City of Sparks should be included, although they were not a member of the Nevada League of Cities and Municipalities. Chairwoman Kirkpatrick wanted for the Committee to have a history of the issues, and determine whether there was a solution to the issues. Chairwoman Kirkpatrick cautioned that if there was no discussion among the council, and no letter to the Committee, that entity would not be part of the discussion.

Mr. Fraser said he did not know if the responses from the cities and municipalities could be provided within a few weeks. Given the requirement of public notice prior to these kinds of debates, that was not a reasonable timeframe. Chairwoman Kirkpatrick said that the entities already knew what the issues were. She said that the Committee will meet six times over a short period. The cities and municipalities must figure out a way to do this. Mr. Fraser said that the letters that the Committee would receive in response to this request would include the same issues on the list (page 2, [Exhibit B](#)). He understood that the Committee wanted something more definitive.

Chairwoman Kirkpatrick said that the list does not show the problems of the specific cities. She said that the list “begs a fight,” and that fight would happen now rather than during the 2013 Legislative Session. Chairwoman Kirkpatrick said she wanted a letter from each local entity on its letterhead stating the issues. She said that discussion must



be on the agenda of the next council meeting, and the letter should be sent to her in an expedited fashion. This would provide a written record of the process going forward. The issues would allow for a policy discussion so that the Committee could move forward.

Mr. Fraser said he would like to thank the LCB Fiscal Analysis Division staff for its work in preparation for the meeting. In addition, the presentations from Mr. Hobbs and Mr. Leavitt were very educational, and lots of hard work went into them. He also thanked the Committee for its time.

Adam Mayberry, Government Affairs Manager, City of Sparks, said the City of Sparks would be engaged in the process, and would follow the requests of the Committee.

Senator McGinness said he appreciated the Chairwoman's candor.

Mendy Elliott, representing the City of Fernley, thanked the Committee for their attention to the CTX issue. She said the City of Fernley was in the unique position to be the only city that has incorporated since the CTX was implemented. She said the city looks forward to telling its story. She said the obstacles that the City of Fernley encountered defined some equity and parity issues, as it relates to the CTX and the distribution. She thanked the Committee and the Chairwoman for addressing the issues, and looked forward to future discussions.

Senator Lee said that the City of Fernley was a fantastic place with fantastic leadership. They were unique in that they had their own local government, but outsourced police services and some other services from the county. He asked, if the CTX were to be revised in a certain way, would the city then have to go outside of the local government to get those services.

Chairwoman Kirkpatrick said she wanted to hear that the full story when there was adequate time. She said, if the City of Fernley submitted a letter outlining its issues, the full discussion would happen later. She asked for a brief synopsis.

Ms. Elliott said Senator Lee identified one of the opportunities for the City of Fernley. She said Fernley wanted to have an opportunity to be in control of its destiny, and do what is best for its citizens. She said, as we tell our story, it is not just for police and fire services. Rather, it is about streets and sidewalks, and an opportunity to run the city, day to day. She said to have a dialog about the challenges that the local governments and cities have, and the funding inequities that we see in the City of Fernley, would help the Committee to see that there need to be changes made on an ongoing basis. She hoped that the City of Fernley would have the opportunity to tell its story on the record.

Chairwoman Kirkpatrick said she would like to give the local governments some direction. At the very least, the next two meetings of the Committee would be spent discussing the issue of local government entities. Any change to the CTX would affect the entire state, and many hundred entities. That is why she was very particular about

what she was looking for from the local governments. She asked the entities to provide a hard copy of the letter by U.S. mail rather than e-mail. She asked for them to provide that information to Fiscal Analysis Division staff by the end of the month.

Mr. Guindon recommended that NACO and the Nevada League of Cities and Municipalities should act as the focal point for that information.

#### **X. SCHEDULING OF FUTURE MEETINGS.**

Chairwoman Kirkpatrick said that the next meeting of the Committee would take place sometime in March. She said that Mr. Leavitt and Mr. Hobbs have agreed to present information on the history of the local government enterprise funds and special districts. She asked the Committee members to let her know if there were any items they would like to see on the agenda. She expected to hear from the local governments about suggestions for the agenda for the next meeting.

Mr. Fraser said he would get the requests to the cities and municipalities with all haste, and he was certain that the members would be responsive. He noted that some of the rural communities may have already had their monthly meetings. Since the Committee asked for council action as opposed to a response to management, there may be issues. Chairwoman Kirkpatrick asked Mr. Fraser to let her know which local governments already had their monthly meeting.

#### **XI. PUBLIC COMMENT.**

There was no public comment.

#### **XII. ADJOURNMENT.**

The meeting was adjourned at 7:39 p.m.

Respectfully submitted,

---

Cheryl Harvey, Committee Secretary

APPROVED:

---

Marilyn Kirkpatrick, Chairman

Date: \_\_\_\_\_