

MINUTES OF MEETING - COMMITTEE ON TAXATION - 56TH ASSEMBLY SESSION
March 3, 1971

PRESENT: Kean, Swallow, Lingenfelter, May, Smalley, Glaser, Smith

GUESTS: Mr. Curt Blyth, Nevada Municipal Association
Mr. Clay Lynch, North Las Vegas City Manager
Mr. Dave Branch, Assemblyman, North Las Vegas
Mr. Gene Echols - Mayor, North Las Vegas
Mr. Harold A. Laird, City of Las Vegas
Mr. Wm. E. Adams, City of Las Vegas
Mr. Joe H. Latimore, City of Reno, City Manager
Mr. C. J. Thornton, City of Reno
Mr. Leroy R. Bergstrom, Kafoury, Armstrong, Bernard & Bergstrom, CPA's
Mr. Nick Orphan, City of Ely
Mr. Del Heidrich, City of Reno
Mr. Claude E. Hunter, City of Reno
Mr. Roy Young, Assemblyman, Elko
Mr. J. D. MacEarlan, City of Las Vegas
Mr. John Brooke of Sparks

Mr. Kean convened meeting at 8:00 A.M.

AB-361 - Establishes minimal payments to incorporated cities and unincorporated towns from liquor and cigarette tax revenues.

Mr. Joe Latimore, City Manager of Reno, said that the bill as written would provide \$390,000 more for the City of Reno than it would receive if the allocation were based on the 1970 census figures. They have pared their budget to an absolute minimum and have had to use money from their reserve fund. They have attempted to hold over in their general fund \$700,000 - one month's operating expenses. This fund is now down to \$45,000, a very small margin. If this bill does not go through, it will be necessary to ask the Legislature to find a means of providing \$400,000 to the city; or the city would have to increase the one-half cent city-county option sales tax to one cent. The only other alternative would be to trim the budget to a point that would curtail many services. They would have to make a reduction in personnel.

Mr. Kean asked Mr. Latimore if the newspaper report of a \$2,000,000 surplus for the City of Reno were true. Mr. Latimore said it was a mis-statement. Reno had reserve funds for repayment of bond issues, operating expenses and pending contracts. This money was not surplus as it was allocated.

Mr. May asked questions pertaining to the ad valorem tax rate, utility excise tax, and business license fees. Mr. Latimore replied the City of Reno's ad valorem tax was \$.80 and the county's was \$4.70 and they anticipated a \$.20 increase in the county. The utilities were taxed at 3%. Business licenses averaged \$100 per year per business. The city's income from licenses was about \$550,000.

Mr. Latimore stated that if other sources of revenue could be made available to the City of Reno, he would withdraw his support from AB-361.

There was a difference of \$100,000 in estimates of amounts of monies that the City of Reno would receive if AB-361 were passed. Mr. Smith said this should be investigated and correct figures determined. Mr. Kean said he had a note from Mr. McDonald to the effect that there was an error in the bill but he had not been able to determine the exact nature of the error.

Mr. Smith suggested cigarette and liquor taxes could be increased. Experience had shown that increasing costs of these items did not decrease the volume of sales. More money could be derived that would meet the needs of the small towns and not deprive Clark County of its fair share.

Mr. John Brooks of Sparks stated that actions of Legislatures in 1967 and 1969 in basing allocation of cigarette and liquor taxes on the 1960 population figures was a recognition of the problems of small cities. It was not their intent in 1970 to "cut off the heads" of these entities. Mr. Brooks asked that they be given a transition period to adapt to this decrease in revenues. If the 1970 population figures were used in allocation of these taxes, Sparks would lose \$110,000 - a very costly reduction.

The City of Sparks anticipates a population growth in the early 1970's. If population figures are adjusted to reflect this increase, the allocation of funds on a population basis would not have such a drastic impact on their economy. A ten year period between population counts is too long. There are means of making reasonable estimates in changes in this area without a census. Mr. May stated that in two years Clark County would have control of the legislature and if this legislature did not see fit to rectify the present situation, Clark County would do so when they took control at the next session.

Assemblyman Branch of North Las Vegas spoke in opposition to AB-361. He stated, for Mr. Latimore's benefit, that if it were not for the Clark County Delegation's action two years ago in getting through the one half cent county-city sales tax, Reno would not have the benefit of that tax now. \$379,000 of this cigarette and liquor money from Clark County is a great deal. He agreed that if allocation of this money is not changed now, it will be done in two years. Clark County is where the people are and that is where the money should go.

Mr. Echols, Mayor of North Las Vegas, asked that in lieu of an adverse decision, that they be allowed a continuation of the hearing to afford an opportunity to officials of Las Vegas to speak in opposition of the bill. These people could not attend because of a conflict of meetings.

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Mr. Echols stated it was not reasonable to take money from an area with financial problems and give it to another area. They have increased ad valorem to the absolute maximum and also increased other taxes to the point they had to go to the courts to defend them. The taxes of North Las Vegas exceed those of other municipalities. If this bill is enacted in its present form, it would deplete the treasury in the neighborhood of \$1,000,000. There is a possibility this could bankrupt Las Vegas - a situation that would make for nationwide publicity. No other municipality's difficulties would create this nationwide notice. Southern Nevada is where the people are and that is where the expenses are also.

Of the seven members of the Committee, six are from areas that will lose funds if this bill is not enacted. It is difficult to ask them to vote against a measure that would benefit their people.

Mr. Swallow stated that all members were aware that Clark County had grave financial problems. The small entities also have problems that cannot be ignored and will not be ignored. He asked if Mr. Echols had any suggestions for the solution of their problems.

Mr. Echols stated perhaps the professional people could make a study of this and come up with suggestions. A comparison of tax structures in Clark County with others would show that Clark County residents paid more taxes in more areas than the smaller area residents.

Mr. Glaser stated that Mr. Echols need not fear that because there was a representative imbalance on the committee, that his area would not receive fair treatment. Clark County's problems were recognized. However, if cigarette and liquor taxes were distributed on the 1970 population figures, Wells would lose \$23,000 and that is a large part of their total budget. We are concerned with a transition period here. Las Vegas has been budgeting for a number of years and this would represent additional income to them. These small areas that would experience a loss are unprepared and unable to cope with it. They have to continue police and fire protection. They have nowhere else to turn for information.

Mr. Lynch, City Manager of Las Vegas, said that this city had budgeted very carefully. This tax money would be a chance for them to get even. They had fewer firemen and fewer policemen than they needed. The small towns should have anticipated a decrease in funds with the population change and budgeted for less.

He said they had gone on record as approving the Nevada Municipal Association's proposal to increase the 1/2% sales tax to 1%.

We have worked with the Association on figures that prove this would solve the problems of all the 26 entities involved. Interim changes in allocation of taxes to conform to population would help solve our problems. We would like to look forward to a time when our city can break even, or catch up on taxes.

Mr. Echols said that in 1969 the Legislature passed a Senate Concurrent Resolution #11 that called for an in depth study of municipal finances in Nevada. They spent the bulk of their time examining the finances of North Las Vegas. Mr. Bergstrom made that study. He gave a series of recommendations to the Legislature. Everyone of those recommendations were implemented by the Legislature or North Las Vegas except the one that specified revenues should shift with the population. Ab-361 is regressive against that general principal that was recommended to you by your own auditors.

Mr. Smith stated there was complete awareness and concern by the members of the committee. He considered AB-361 a broad brush treatment of specific problems. Attention should be directed to the specifics of the case. The small towns have to have additional support but AB-361 was not the vehicle. I suggest that Nevada Municipal come up with some recommendations and soon. If we don't get cooperation we will have to do it legislatively.

Mr. Curtis Blyth said they had taken a position and had bills drafted to provide relief for local governments in general; however, he had been strongly advised by several senators to not submit the bills until after the Supreme Court had made its decision on the 1/2% sales tax measure. We are proposing the imposition of a mandatory 1% statewide sales tax, to be distributed to the cities and counties on a population basis. The figures for that tax are reflected in the worksheets previously furnished. There will be changes because of inaccuracies in the figures because of population changes. Those corrections will be given to those concerned.

Mr. Adams, City of Las Vegas, stated that Mayor Gragson and others would appreciate a continuance of the hearing so that they may also appear before the committee. They recognize the problems but feel the tax should be distributed back to the area where the people are. It has been agreed in the past to try to solve the problems on a local basis. This has been attempted; a limit has been reached. Passage of this bill would create a decrease of over \$1,000,000. This would very seriously hurt Las Vegas.

Mr. Swallow said that there are areas within the state that need assistance that cannot be overlooked. The committee does not feel that this is the proper measure to accomplish the desired goals. An in-depth study would be made in an attempt to create an acceptable measure.

Mr. Harold Laird, Las Vegas Director of Finance, said there were people more sympathetic to small towns than he was and he

was qualified to understand their problems. He was concerned with the impact of the bill as presently written because a \$1,000,000 loss on an \$18,000,000 budget was very serious. He suggested increasing the liquor and cigarette tax by about 20% and there would probably be sufficient revenue to solve the problems of the entities that would lose money on the 1970 population allocation of taxes.

Mr. Blyth said that in only three counties had the governments exercised the privilege of levying the 1/2¢ sales tax. If the Supreme Court decision is favorable, this would be a method by which they could regain some of the revenue. Some of them would gain more than they would lose in cigarette and liquor taxes.

Mr. Nick Orphan of Ely said his city was in dire trouble if they lost these revenues. He had stated most of their problems to the committee at a previous meeting. They would have to ask the Legislature for help in solving their financial problems if AB-361 failed to pass. They were small and sources of revenue limited. Ely would lose 39.3% of their revenue and the county would lose 39.8%.

Mr. Lee Berstrom, CPA, represents five cities that would benefit from AB-361, two counties that would lose, one county that would lose either way and one county that would eventually lose. The bill recognizes that it is unreasonable to expect a community to deliver public services at a constantly increasing rate with lower revenues. That is the problem that the bill attempts to deal with, and he does not think it solves any long range problems. The reason the problem exists is because population figures are adjusted only every ten years. Nevada is a rapidly growing state and the population shifts rapidly. One of the most important facts that came out of the fiscal examination of North Las Vegas was that revenue must respond more quickly to population changes. The Legislature reacted to this by enacting the 1/2¢ city-county option relief tax. It seems that rather than AB-361 in its present form, it would be more appropriate, more useful and more likely to solve problems to do these things: (1) to modify the distribution formula of this and other population based revenues to provide for at least bi-annual recomputation of the population base upon which the distribution is predicated. (2) That the Legislature enact an optional 1¢ city-county sales tax to be distributed on population basis within the county, the adjustment formula to follow the concept of the unincorporated areas as a population base and each incorporated area as a population base of the tax so distributed.

This would make it possible for the countywide community to respond when it is time to respond. Communities that feel they do not need this would not have to adopt the measure. This recognizes the fact that some counties perform people services also. Mineral County does this. The unincorporated areas should be able to benefit from this type of revenue. If a package of a modified AB-361 providing for a change in the apportionment formula on a periodic basis during the 10 year period of biennial censuses, were taken together with the adoption of a 1¢ optional countywide sales tax (they think) would solve the problem concerned.

The benefits would flow for a considerable period of time. If something could be adopted that had long-range impact, you would not be concerned every two years with these same problems.

The suggestion that an increase in cigarette and liquor tax might be an alternative - this may be but not a wholly satisfactory alternative. It would not deal with the problem Mineral County has where they are ignoring some school bonds they have the authority to sell but do not have any money to pay for it. They are 42¢ over their \$5 limit. AB-361 would solve only temporary problems for the small entities. The only function of AB-361 is to be amended to provide for period changes in the population basis and that it should be supplemented by a county-wide tax on an option basis.

In response to a question from Mr. Kean, Mr. Bergstrom stated he was here because his firm was deeply involved in the municipal auditing and accounting field. They have a basic interest in the problems of government. He was not representing the cities or counties but there was a problem which should be met and dealt with.

Mr. Kean stated that in the slight recess one of the members went to the Governor on the subject just discussed. Mr. Kean suggested that Mr. Bergstrom and Mr. Ashworth get together and come up with a formula recognizing that the small cities had to exist and had to get some money. This is to come up with some solution other than AB-361.

Mr. Roy Young, Assemblyman from Elko and sponsor of AB-361, said he knew it would cause some excitement in the large cities but until he got the report from Mr. Blyth he did not know so many cities would be affected. It was his wish, whether this bill or some other was passed, that the drastic reduction in revenues of the small cities would be taken into consideration. Mr. Blyth stated Elko, Carlin and Wells had indicated they were willing to adopt the 1/2¢ sales tax and they would gain more by this than they would lose in the cigarette and liquor tax. The Supreme Court decision is vital to this measure.

Mr. Keith Ashworth stated that they were legislating for all the people in the state. He had just had a conference with the Governor and he was not receptive to increasing the cigarette and liquor tax. The local option tax was also discussed. The Governor did not say "no" but suggested we try to come up with a solution. We need to know just what is necessary and needed in the area of additional money. A small amount to alleviate the situation over a 2 or 3 year period may be taken from Clark County.

MR. ASHWORTH, GLASER AND BERGSTROM were appointed as a sub-committee to study and report back to the Committee a substitute measure for AB-361 that would be fair and acceptable. The report to be made no later than Wednesday, March 10.

Meeting adjourned.

ASSEMBLY

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AGENDA FOR COMMITTEE ON TAXATION

Date March 3 Time 7:45 a.m. Room 240

<u>Bills or Resolutions to be considered</u>	<u>Subject</u>	<u>Counsel requested*</u>
<u>AB-361</u>	<u>Establishes minimal payments to incorpo- rated cities and unincorporated towns from liquor and cigarette taxes.</u>	
	<u>PUBLIC INVITED</u>	

*Please do not ask for counsel unless necessary.

HEARINGS PENDING

Date _____ Time _____ Room _____
Subject _____

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