

MEMBERS PRESENT:

Chairman May
Vice Chairman Coulter
Mr. Craddock
Mr. Price
Mr. Stewart
Mrs. Westall
Mr. Bergevin
Mr. Brady
Mrs. Cafferata
Mr. Marvel
Mr. Rusk

Members Absent:

None

GUESTS PRESENT:

See attached guest list

WITNESSES TESTIFYING:

Patrick Pine, Assistant Comptroller, Clark County

Chairman May convened the meeting at 3:05 P.M. He said this meeting was a work session especially for members new to the Taxation Committee. The purpose of the meeting was to discuss Senate Bill 204, enacted by the sixtieth session. Mr. Price and Mr. Bergevin would outline the bill and discuss the areas of success and the areas of the bill's deficiencies. It was Chairman May's opinion that this was a good bill and accomplished a great deal but did fail in a few areas.

SB 204 - An act relating to governmental finance; fixing statutory limits on the state budget, on expenditures by local governments and on the general tax rate; making appropriations; and providing other matters properly relating thereto.

Assemblyman Price expressed the opinion that no better bill dealing with the tax problem had been passed. It does not address the appraisal and assessment issue, the source of most of the criticism of the present tax system. That aspect should now be dealt with. It was not felt two years ago, that to try and go to one year appraisals was a good idea. SB 204 reduces tax rates as a means of reducing taxes. The appraisals have been at such a high percentage that people are in a state of revolt.

In explaining how the reduced tax rates were arrived at, Mr. Price said the reduced rates did not effect the cities or counties all, only the school districts and the State. No other taxes were imposed to help support the cities and counties. The State absorbed the loss. Two years ago the tax rate was \$5.00 or very

close to it. This encompasses the tax rates of the city, county, schools, and special programs such as mosquito control. The school board set rates for the school districts, the major part of the rate. SB 204 relieves the county of collecting the tax for: medicaid - 11¢; property tax - 25¢; mandatory school tax - 70¢; optional school tax - 30¢ (still allows schools to collect up to 50%). This totals \$1.36, the amount by which the \$5.00 tax rate was reduced to the \$3.64 current rate. The money was replaced to the schools through the distributive school fund. The \$3.64 was on a scale with a triggering device based on estimated receipts from sales tax and gaming tax that is self balancing. If the State funds continue to increase the 50¢ that was left in the mandatory school tax would reduce and more money would go to the distributive school fund. If State funds decrease, 1978 was used as a base year, the school districts could increase the tax rate over the 50¢ allowable. That is why the tax rate today is up to \$3.71. Spending caps are imposed because increases in tax rates are allowed. These caps to a great degree control the tax rate and limits state and local government spending.

Assemblyman Bergevin outlined and explained the reasoning behind SB 204. There are 7 major parts:

- 1) the tax rate limitation
- 2) removed taxes on household goods and services
- 3) created a renter rebate section
- 4) limited proposed state budget to a formula based on price-cost index and State population growth
- 5) limited local government spending by putting spending caps on them; however, Section 15 of the bill also exempted certain funds and projects from the expenditure caps. This is an area that needs revision.
- 6) imposed a revenue cap on school districts - rather than a spending cap based on a cost-price index of school population.
- 7) Trigger mechanism - if the sales and gross gaming revenues rose by a certain percentage the optional tax of the school district would rise; if the revenues decrease the optional tax would increase.

A product of the trigger mechanism was that the more of the 80¢ that the state picked up through the distributive school fund, the more money the school districts received. When any of the money was taken out of the states contribution and put back into the local level it came under the revenue cap procedures.

Mr. Price elaborated on the bill. Section 1 deals with the \$3.64 tax rate; section 3 provides that the overlapping districts could not exceed \$3.64 or the limit set in the scale on pages 19 and 20. Section 3.5 eliminates household goods; section 6 deals with

renter rebate, a very controversial subject and several alternatives were discussed before the final provision was arrived at; section 11 places a limit on the State budget - the legislature has the authority to exceed the budget as one legislature cannot statutorily bind another; section 14 deals with spending caps for local governments and a number of methods were considered. He related this to California's experience. The formula was arrived at by beginning with the base year, 1978, taking into account the budget, the population change, times 80% of the price index over the last five years and that would equal the amount of money in the current budget. If spending caps are retained this year it is very important that determination of the base year and guidelines for resolution of disputes be established.

In reply to a question from Mrs. Westall, Mr. Price explained how the 80% cap had been determined. It was a decision that was made after looking at the impacts of various alternatives. He added that no matter what was done, it impacted one way or the other on local governments. There was no solution wherein each was equally affected. The intent was to lessen as much as possible any negative effects and at the same time mandate spending cuts. The solution arrived at was the most equitable. There is a mechanism for appeals and emergency overrides. Applications for overrides can be made to the Legislative Commission, or variances can be made by ballot approval of the electorate.

Continuing with the explanation of SB 204 he said section 15 dealt with the controversial spending caps, elaborating on the intent of the term "general fund"; the enterprise fund was even more controversial - it is a fund that is self generating which was excluded from the general fund caps. The 1978 base figure is very important in that any change is magnified up or down over the years. The discrepancy is that enterprise funds were juggled to alter the general fund. Paragraph 4 of Section 15 was intended to resolve this. There is objection from local governments, with cause, to the State determining their budgets. The Attorney General has ruled that the legislature does not have the authority, through present language, to adjust local budgets. This area needs further consideration.

Mr. Bergevin interjected that Section 15 exempts the fund set up for projects of capital construction or revenues from special assessments, which was probably the most abused of the exemptions, whereby the will of the people was circumvented. The purpose of the review of SB 204 is to propose a new bill that corrects the deficiency of the previous. A dollar value for capital improvements without voter approval needs to be established. Some of the counties have generated a tremendous amount of money in capital improvement projects.

Mr. Price said that Section "b" of Subsection 3, dealing with the metropolitan police department was a subject of considerable discussion as to whether they should have been placed under spending caps. They receive their budget from the county and the city, both of whose budgets are capped. It was felt that the amount allocated to the police force should be determined by the city

(Committee Minutes)

county commissioners. The commissioners wanted the legislature to make the limitation decision because they received a lot of pressure in this area. The legislature determined it was not their responsibility. Subsection 2 of Section 15 also provides that interim finance can take money out of contingency funds, if a local government encounters a serious financial problem.

Mr. Price, continuing, said the next major part, Section 20, sets up the revenue caps for school districts. This presented a tremendous problem during the last session.

Mr. Bergevin observed that the particular language in that section was the desires of the various school districts in the State. The school districts were originally under the same expenditure caps as cities and counties. They are now not happy with the language. Under the new tax bill none of the language in this section would be applicable, because the governor's budget eliminates the 30¢ school tax and proposes an additional .003 percent of the State support school tax be allocated to the distributive school fund and beyond that to allow a 50¢ uncapped school property tax on 1981 values. This is premised on a 10% personnel cut in school districts. Mr. Bergevin believes the personnel cut is unrealistic. The final decisions on the tax package as far as the total percentage of sales tax is going to be conditioned on the outcome of the budget as far as the distributive school fund is concerned.

Mr. Price said that in section 22 the 70¢ was removed from the school and sub-subsection "a" added the 50¢, a trigger also. The actual trigger and the scale that allows the tax rate to go from \$3.46 up to \$3.94 depending on the income of the State is toward the end of the bill. Perhaps they should have gone further. 1978 was a banner year for gaming and had a reasonably good year following, 1980, that caused the trigger to move up and allow the \$3.71 tax rate. It may have been better to have gone back a year or two on the income. That is a decision that was made.

The last and final section of the bill was the limitation whereas had question 6 passed, all this would not have been. There is a "self-destruct" provision. Had Question 6 passed, every possible means to generate funds would be considered today.

Mr. Bergevin added there was a section that dealt with the distribution of the Motor Vehicle Privilege tax, there was some language change so it would be allocated on the same basis as always. Basically there are some things in SB 204 that should be retained and some that should not. He recommends for reading Senate Bill 411, and the corresponding Assembly Bill 338.

Chairman May appointed a subcommittee composed of Mr. Price, Mr. Bergevin and Mr. Marvel to study SB 204 and report back to the committee the advantages and disadvantages of the bill.

Pr. Patrick Pine, Assistant Comptroller, Clark County spoke on SB 204, saying that the bill had been more effective than had been foreseen. The foremost problem with the present tax system was the appraisal and assessment system which was not addressed by subject legislation. He believes the enterprise fund issue would

impact tax rates but was a situation that could be resolved by cooperation between local and state entities. SB 204 did need some revisions most of which were discussed by the Interim Committee and solutions were not difficult. For Mr. Pine's testimony in its entirety, see EXHIBIT I.

Mr. Bergevin said the sales tax had done an excellent job of financing the state, including schools. He does not share the concerns expressed by Mr. Pine as to the risks involved. He believes there are enough safeguards to take care of any risks that may arise.

Mr. Pine replied that he had not referred specifically to the sales tax base. He said the risks became more apparent when ending fund balances were also restricted to the point there was not a cushion. The State officials have testified that an ending fund balance of ten percent or more was desirable. In the case of the subject proposals 8.3% is the maximum. The State contends that an ending fund balance in the neighborhood of 10% is sufficient. This proposed legislation, in addition to shifting to a sales tax base, also decreases the ending fund balance and therein lies the element of risk.

Mr. Bergevin commented there would be public hearings and all would be open to discussion and possible revisions.

Mr. Pine stressed the thing that most upset people was the five year span between appraisals in conjunction with inflation that generated shocking assessments. He added that SB 204 did not create the problem neither did it address it.

Mr. Bergevin said the legislature wanted to deal with the appraisal and assessment problem this session.

Mr. Rusk commented that it was the legislature that had not gone far enough on the previous tax measure and addressed the issue of appraisals. Something radical now needs to be done. Because only 20% of the people were reassessed each year, they did not comprise a strong enough group to force change. The property tax payer has finally gotten the attention of the legislators.

Mr. Craddock referring to the ending fund balance, said that since there was an expenditure cap, the earlier reduction of the tax base would have had the effect of eliminating the ending fund balance. The only difference apparent to him was the interest on the ending fund balance

Mr. Pine said that on particular funds where there was a higher ending fund balance, those funds experienced a larger reduction of rate than those that were not impacted as severely by SB 204.

Chairman May adjourned the meeting at 4:30 P.M.

Respectfully submitted,

Marjorie Robertson

(Committee Minutes) Marjorie Robertson

ASSEMBLY

AGENDA FOR COMMITTEE ON.....Taxation.....

Date Mon. Mar. 16, 1981 Time 3:00 pm Room 240

Bills or Resolutions
to be considered

Subject

Counsel
requested*

ALL MEETINGS OF THE ASSEMBLY TAXATION COMMITTEE
WILL BEGIN PROMPTLY AT 3:00 PM. PLEASE ARRANGE
YOUR SCHEDULES ACCORDINGLY.

Review and analysis of S.B. 204 of the 60th Session
and recommendations for presentation.
(Assemblymen Price and Bergevin)

Presentation to Assembly Taxation
by Clark County
(Patrick Pine, Assistant Comptroller)

March 16, 1981

Comments Re: SB 204 (1979)

There are several key points with respect to SB 204 which are particularly pertinent:

1) It has been alleged that SB 204 has not been effective in reducing taxes. It is Clark County's position that SB 204 has been much more effective than it has been given credit with and that SB 204 is unfairly blamed for failure to solve a problem that it was never intended to address. The first and foremost problem identified by the Interim Committee on Taxation was the modification of the appraisal and assessment system. We believe the Interim Committee was correct - but that SB 204 is not to blame for problems in this area. It is also our belief that the public is upset with the appraisal and assessment system rather than the particular aspects of SB 204.

2) One basis for making the assertion that SB 204 has not forced tax reduction is a quick review of cities and counties tax rates for 1979-80 and 1980-81.

Exhibit I 334

However, as the attached exhibit reveals, the tax rates for the urban towns in Clark County have been reduced more than 20 cents per \$100 since SB 204 became effective. It is important to note that more than one-fourth, and perhaps one-third, of the state's population resides in the area where these rate reductions have appeared. Furthermore, the Clark County tax rate was reduced six cents per \$100 in 1979-80 and then increased by six cents per \$100 in 1980-81 after approval of a jail bond issue by the voters. This is simply to point out that a quick reading of tax rates for cities and counties alone will not suffice to draw the conclusion that SB 204 has failed to provide "sufficient tax relief" to many of the state's residents.

3) The issue of enterprise funds has been raised with respect to SB 204. However, as was discussed by the Assembly Taxation Committee with respect to AB 135, a change in the treatment of enterprise funds for the calculation of spending caps has not, and will not, serve to place Clark County at its spending cap. Therefore, it is erroneous to believe that the enterprise fund issue would impact tax rates. (The previous testimony of Clark County has, however, indicated a willingness to negotiate slight modifications to SB 204 with respect to enterprise funds to abate some differences of opinion).

4) There is a direct connection between the effects of SB 204 and fund balances. One year's ending fund balance becomes the next year's opening fund balance. Therefore, if you have a "large" ending fund balance which becomes a "large" opening fund balance and you also have a fund which is at its spending cap, there will be less need for other resources and a resulting positive impact on the ad valorem rate. In fact, in the case of the town funds with tax rate reductions over more than 20 cents cited earlier, that is precisely what happened. Those towns, which had relatively "large" opening fund balances for 1979-80, and which were also relatively near their spending caps, saw rate reductions occur. (Although the Board of County Commissioners in Clark County should be given credit for approving reductions in excess of those mandated by SB 204). Therefore, if ending fund balances are restricted, so are opening fund balances for the ensuing year, and there is less potential to reduce ad valorem rates under SB 204.

5) There are certain technical areas in SB 204 which might be in need of slight revision, such as the population formulas, the CPI formulas, the trigger mechanism, and the definition of "mandated" programs. Most of these areas were discussed by the Interim Committee and solutions can be readily found.

SUMMARY

The impact of SB 204 relates to the rate of taxation and not to the valuation of property. Therefore, SB 204 should not be blamed for problems in appraisal and assessment. Finally, we believe SB 204 has had a positive impact on the property taxpayer. If a solution to the appraisal and assessment issue were to be found and SB 204, with slight modifications, were retained, it is possible that most major public objections to the property tax would be eliminated. At the present time, a combined revision of assessments and SB 204 appears infinitely more capable of accomplishment without undue risk than more highly complex alternatives.

338

COMPARISON OF AD VALOREM TAX RATES
IN CLARK COUNTY'S URBAN AND RURAL TOWNS
VERSUS INCORPORATED CITIES

	<u>1980-81 TAX RATE</u>	<u>CHANGE IN RATE SINCE 1978-79</u>	<u>PERCENTAGE CHANGE IN RATE SINCE 1978-79</u>
<u>URBAN TOWNS</u>			
(Sunrise Manor, East Las Vegas, Paradise, Winchester)	\$1.1209	\$ (.2154)	(16.12)%
<u>RURAL TOWNS</u>			
a) Bunkerville, Mesquite, Searchlight	1.2413	(.1000)	(7.46)%
b) Logandale, Overton	.8907	(.1000)	(10.09)%
<u>INCORPORATED CITIES</u>			
Boulder City	1.2672	.0702	+5.96%
Henderson	1.3327	-0-	0.00%
Las Vegas	1.4143	.0021	+0.01%
North Las Vegas	1.4143	.0021	+0.01%