MINUTES OF THE
MEETING OF THE
JOINT SENATE AND ASSEMBLY
COMMITTEES ON TAXATION

SIXTY-FIRST SESSION
NEVADA STATE LEGISLATURE
APRIL 8, 1981

The Joint Senate and Assembly Committees on Taxation were called to order by Chairman Keith Ashworth, at 1:25 p.m., Monday, April 6, 1981, in Room 131, Legislative Building, Carson City, Nevada.

COMMITTEE MEMBERS PRESENT:

Senator Keith Ashworth, Chairman
Senator Norman D. Glaser, Vice Chairman
Senator Don Ashworth
Senator Virgil M. Getto
Senator James N. Kosinski
Senator William J. Raggio
Assemblyman Paul May, Chairman
Assemblyman Louis W. Bergevin
Assemblyman Patty D. Cafferata
Assemblyman Robert G. Craddock
Assemblyman John Marvel
Assemblyman Robert E. Price
Assemblyman Robert F. Rusk
Assemblyman Jan Stewart
Assemblyman Peggy Westall

COMMITTEE MEMBERS ABSENT:

Senator Floyd R. Lamb
Assemblyman Steven A. Coulter
Assemblyman Bill D. Brady

STAFF MEMBERS PRESENT:

Ed Shorr, Deputy Fiscal Analyst
Dan Miles, Deputy Fiscal Analyst

Chairman Keith Ashworth stated that this hearing was to take testimony from the seventeen school districts in the state relative to SB 69, SB 411 and AB 369. He stated that he felt it was the intent of both committees to make sure that the education process and the educational needs in the State of Nevada are taken care of. He continued by stating that some tax relief must be given to the people of the state, as they have mandated. Schools are one of the largest users of ad valorem and sales tax. It is the number one priority in the State of Nevada to see that the education process in this state is properly funded. The committees have tried to address tax reform with these three bills and swing towards sales tax for a larger portion of support. He added that if the package does any violence to any of the districts, now is the time to come forward and explain what the problems are. Senator Ashworth stated that it is the intent of both committees to try to finish up SB 69 and AB 369 and cross the two bills from the Assembly to Senate and the Senate to Assembly early next week. This will give the committees a little time to work on SB 411, which is a major bill that puts the spending limits and caps on local government.

With that opening statement, Chairman Ashworth called upon Mr. Ted Sanders, State Superintendent of Schools. Mr. Sanders stated that Doug Severs, Director of Fiscal Services of the Department of Education, would walk the committee through their projections of what it would cost the public schools in the state across the biennium and what some of the decisions being contemplated presently as well as the Governor's recommendation would do to these projections.

Mr. Sever stated he would give a brief background on how they built their request and the impact of the three bills and then show the shortfalls and alternatives that the committee has in terms of funding these shortfalls.

Mr. Sever began by stating that there were only two major items outside the 1.5% sales tax increase that they are concerned with in the bill and these can be found in SB 411; one is the ending fund balance and the other is the audit requirements. He added that since the revisions recently made they are happy with the new language and can live with it very easily.

To better illustrate his presentation, Mr. Sever used a group of slides. These slides have been reproduced and are found attached to these minutes as Exhibits A to D.

Beginning with Exhibit A, Mr. Sever explained that this slide was their projection of school expenditures for FY 81. He stated that when they built their request, they did so back in the months of May, June, and July before Question 6 was defeated. This slide demonstrates the percentage of increases that were the result of the gathering of data and items. It amounts to 14.9% increase the first year and 12.2% the second year. This can be expressed either in terms of dollars or expenditures per student. He pointed out that this was pretty much the effect of the cap that was imposed during the last legislative session.

The next slide, Exhibit B, shows the makeup of the school districts finances and to illustrate that schools are really a people oriented type business. He added that when they talk school finances they are talking mainly about salaries. Debt service is not included.

Exhibit B was developed with Question 6 in mind and demonstrates what they feel they could justify as being reasonable and deals with salaries. They predicated their request on granting a 10% salary increase on the total school budgets for all school teachers in the first year and 8% the second year.

Mr. Sever continued by stating that the main concern they have with the three bills being discussed is that their request is built around expenditures of $329,400,000. The Governor's recommendation and all that is included in it with 2¢ sales tax, would give them a total revenue of $319,000,000. The Governor in his request planned on factoring up and to increase basic support to schools by 8.9% the first year and 10.1% the second. What has taken place since the Governor's request is to take that recommendation and add an additional 2¢ sales tax. With that additional sales tax above the Governor's request they have a shortfall of $10.3 million from their projected expenditures. In addition to that shortfall is the assessed valuation reduction found in SB 69. (Exhibit C)

Mr. Bergevin pointed out that commercial property is not going to be factored back. Commercial property will all be factored to 1980 level. Actually there should be a net increase of assessed valuations this year over last.

Mr. Sever commented that he has been working with the Tax Commission in establishing the assessed valuation of $8.8 billion. He stated that he felt that this was the figure everyone was presently using as part of SB 69. The additional reduction would get them further away from their projected needs and would cause them to have a shortfall of $17.4 million the first year. In 1982-83, the shortfall would be even more.

The assessed valuation tacked on to this shortfall would make the shortfall $22.8 million the second. Mr. Sever stated that they are using the figures of the Tax Commission for assessed valuation and are working with $10.2 billion reduced to $8.8 billion. According to various people who work with this type of thing, this is probably a very good figure for the first year; however they have been unable to get any reliable data out of the Tax Commission in terms of what factoring does in the second year and that same reduction.

Mr. Bergevin quickly pointed out that there would be no factoring in the second year. Everyone will have been brought to what is felt to be an equalized level as of January 1, 1980. As of January 1, 1982 everybody will be on an equal basis.

Mr. Sever continued that they are using a figure in the second year of 15%. This is a figure received by Mr. Sever from the Department of Taxation as a statewide figure but in the school business and in the Department of Education they have to worry about equalizing dollars with each school district. He stated that they would hope in the next few days to get something on that assessed valuation for the second year that they can rely on to be accurate. Their main concern is total funding but when they get into the business of looking at each school district and the impact of the school district they must have something that is more reliable for the second year.

The second item that they are concerned about is when the additional sales tax is imposed. This can make a big difference to the schools

Mr. Sever continued that currently this year they have missed a period of April through March for deducting the local school support tax from the guarantee. The next slide illustrated the Nevada Plan. What the state actually pays out is the result of deducting the 1¢ local school support tax and this leaves the state responsibility, in this case $4.6 million.

In the local school support tax calculation they use the period of when the sales took place, of April through March. Now April has gone and it is too late to impose it now and if May becomes the effective date then they are looking at one month on 1¢ and then the remaining 11 months at the higher level. This can impact the schools also. If it becomes effective on July 1, three months will have gone by at 1¢ and this further impacts the schools.

Mr. Sever stated that there were several alternatives for funding that shortfall. If the 1¢ local school support tax is increased then the guarantee is automatically raised. The alternatives that the legislature has in funding this shortfall could be done in several ways. First, if the 1¢ local school support tax was increased and leave the state responsibility alone this would of course increase the guarantee. The second one would be to increase the levy of ad valorem. If this was increased from 50¢ to 60¢ or some other figure it would result in more money available for the schools. Another way to increase the funding is to increase the state responsibility. Mr. Sever stated that these three ways were basically the avenues to fund the shortfalls. (Exhibit D)

Senator Kosinski inquired if they increased the local school support tax how would that increase the guarantee. Mr. Sever stated that if you increase the local school support tax and decreased the amount the state pays out there would be no increase but if just one or the other were increased it would increase the total support.

Ted Sanders stated that whenever the local school support tax is increased, it gives them the flexibility of doing one of two things. Either increase the basic support per pupil or reduce the amount of general appropriation that has to be put into the Distributive School Fund.

Mr. Sever continued by citing the example found in Exhibit D where the local school support tax would be increased another .25. Their estimatations of LSST for next year at 1¢ level is $67,053,756. He stated that this is just an option that state has that includes the accrual by the state of the month of April, 1981. If the state were to pick up that one month as a onetime shot situation they stand to gain $3.3, just by allowing school districts to calculate 13 months into this year instead of 12, the state can gain $3.3 million.

Senator Raggio inquired what the difference was between the Governor's recommendations and the Department's request. Mr. Sever stated that Governor in making his recommendation predicated his request on a staff reduction of 10% and then allowing 14% salary increase for the first year. The Department's request is predicated on 10% but keeping all programs at current level and staff. In the second year the Governor's request is 10% with no cut backs. The Department's is 8% for salaries in the second year.

Senator Kosinski inquired what the impact of that 10% cut in staff be on the student-teacher ratio. Ted Sanders stated with the Governor's recommended cut back it would increase the average class load by 1.6 pupils or something like that. Mr. Sanders stated that he did not have the exact figure at this time but that he would get for the committee. Mr. Sever continued by stating that it would mean another two children in every class room. This would raise the average classroom size from 22 to 24 on a statewide calculation.

Senator Raggio continued by asking if the Department's request included no new positions. Mr. Sever stated that their request is predicated on maintaining current staff levels. It would include any staff increases by the opening of a new school or a gain in enrollment. It also includes descreases made by some districts because of reduction in enrollment.

Mrs. Westall inquired if when they were speaking of average class size was that really the average enrollment because they would have to figure in special ed. She asked if they had any figures of what really normal size class would be. Mr. Sanders replied that this would differ from district to district. The Governor's request is predicated on a 10% reduction on all staff and it is difficult to reduce the numbers of bus drivers and other support staff that exists in the school by that 10%. Also they have to recognize that when a teaching force is reduced they are generally reducing the younger teachers with less experience who are lower on the salary schedule so actually to generate that dollar amount, they have to reduce more than the 10%. By combining these two items the class size is actually driven up more than what the Governor's request would indicate. He finished by stating that they could not give the committee an exact number because it would depend on how local school board trustees deal with this particular predicament.

Mrs. Westall asked if some of the larger districts could furnish her with a guesstimate of what they would have in a normal class situation.

Mr. Sanders stated that when Clark County appeared before Senate Finance they had figures to show that additional kind of impact.

Senator Getto inquired if the 10% reduction was a 10% dollar figure and not a 10% staff figure. Mr. Sever stated that the 10% reduction was predicated on total salaries which includes all staff within the district.

Mr. Sever stated that in summary they feel that the Governor's recommendation would greatly impact them in terms of what it would do to class size and what it does to the overall educational program in the State of Nevada.

The final slide offered an alternative. If the state were to pick up 13 months in this years apportionments to the schools that they would gain $3.3 million as a onetime shot. Then if they used the period May through April instead of April through March their projection of LSST for a 1¢ would be $67 million the first year and $73 million the second for just 1¢. So if they were to use the sales tax as method of funding that shortfall it would take another .25 the first year it would give them another $16.7 million and in the second year another $18.3 million. This would still leave them about $4.5 million short. This is one alternative only.

Mr. Bergevin inquired if all this was predicated on the factor that the legislature fund their whole request. Mr. Sever stated that that was correct. Mr. Bergevin continued asking if they had made any contingency plans if the program was not fully funded. Mr. Sanders stated that they gave serious consideration to those kinds of matters as they were contemplating the passage of Question 6 and each of the 17 districts will have to deal with that problem consistant with their local conditions.

Claude Perkins, Superintendent of Clark County Schools, stated that the presentation from the State Department of Education was pretty accurate and that the 17 counties concur with the information provided. He stated that he felt they had come a long way in a couple of months but that they are still not out of the woods. He reminded the committees that over that past biennium school districts in the state have received less funds then they have received in the past ten years. He stated he felt they have been involved in biting the bullet when no one else has been. He added that the request that the 17 county superintendents are making to the legislature was based upon a conservative approach in trying to secure the necessary money that is needed to operative the schools for the next two years.

Dr. Perkins continued by stating they hope they don't have to experience what they have had to experience the past two years. They received a 6.3% overall increase this year. No other entity in this state received a 6.3% increase for operation. Therefore the request that they are proposing to the legislature is one where it is really needed. The problem they are confronted with now in excess of $40 million over the biennium as compared with the Governor's where they were $40 million short the first year shows that they have come quite a ways. He added that they were pleased that consideration is being given to uncapping the 50¢ of the property tax. He cited the situation where Clark County lost $7 million because of this cap. Adding to the sales tax as a source of revenue which is a deduct from the state obligation to local school district also pleases them.

But Dr. Perkins continued, they are still short in those areas of development. Some of the other things that concern them at the local level is that they are in the process of hard nose negotiations with employee groups. So when they talk about what the request is predicated on, that is all a negotiable situation. When looking at the Distributive School Fund, the State of Nevada has an equalized formula where rural counties that do not have assessed value equal to Washoe or Douglas, additional support is provided for those counties. The overall percentage increase as reflected in the previous material would not reflect the overall increase in Clark County. The percentage increase is based upon a number of factors that are built into the Distributive School Fund. Some counties will receive a lot more than other counties because of this equal education opportunity that the state provides, regardless of the ability of the local entity to pay. The figures shown previously demonstrated that 86% of their budget is associated with salary items. Because of the problems that they faced over this biennium where 5 school districts almost when bankrupt because of the caps that were placed on them, they are spending a lot more money now in salary categories and less monies in contingency reserve then they have ever had before. Dr. Perkins stated that they are in a critical state in terms of their source of revenues and the amount of revenues that they should have. He added that there have been some rumors among their employees that based on what state employees are going to receive that they have to make sure that they take care of the interests of their employees at the local level. They are looking very carefully at what is happening statewide in terms of salary increases and the things they have to do at the local level to provide an equitable pay.

Dr. Perkins concluded by stating that in Clark County it cost them to increase class size by one student, $1,656,000. In order for them to give a 1% pay raise it cost $1,300,000. In order for them move their present staff and to take up what they call roll up costs, the 1500 new students they expect at the same time they take care of professional growth it takes about a 6% increase just to break even. In Clark County their class size runs an average of 27 students at the secondary level and about 28.5 at the elementary level.

As there was no other testimony from those present, Senator Kosinski asked if Mr. Sanders could explain what happened to the 30¢ ad valorem that the state was paying under SB 204 of the previous session.

Mr. Sever stated as part of the tax reform of last session the relief granted to citizens was to shift the 30¢ which used to be part of the 80¢ into the guarantee and have the state pay the bill on that particular levy. This used to be levied locally. Currently this is done and they do pay 30¢ of assessed valuation into the guarantee. In this particular tax structure and in the Governor's recommendation, the 30¢ is no longer a consideration. The 30¢ is not part of either the local levy or the Governor's recommendation in terms of funding. The Governor's recommendation only includes basic support. This particular requirement has been removed from the funding. Mr. Sever stated that he does have some figures in that they expect to pay into the 30¢ assessed valuation in the guarantee this year $13.8 million. When they formulated their request they felt obligated to come forth to the legislature a request as structured under SB 204 because that was the terms in existence when they formulated their request. They have asked for additional 30¢ when they built their request but this has been aborted because of the major tax revisions being contemplated. The 30¢ is really no longer a consideration in either AB 369 or the Governor's proposal.

Senator Kosinski continued that as part of the tax reform bill of the 1979 the state picked up 30¢ through general fund of the ad valorem obligation and under the proposal this year the Governor was not agreeing to that obligation but was putting it back on the local taxpayers only this time through property tax.

Mr. Sever stated that it really was a little more complicated then that. In SB 204 there were provisions to fund the 3 mil and that was to take place in 79-80. They did just this and paid out 3 mils of assessed valuation through the guarantee. In SB 204 there was a trigger clause that said if the state did not have enough money to keep funding that 3 mil it would be reduced and the local levy increased. What happened was that the state revenues did not come up to the level expected to maintain the 3 mils or 30¢ level and so the State Board of Examiners in analyzing the revenue figures reduced that 30¢ down to 20¢ and shifted the 10¢ back to the local levy. This raised the local levy from a maximum of $3.64 to $3.74 in that tax shift. The figure of $13.8 million was the reduction of 20¢ in this year.

Senator Kosinski continued stating that by amending the provisions of SB 204 the state was relieved of that obligation of $13.8 million on total assessed valuation and that was an increase in general fund dollars available for other programs. He said that understood that there was an additional 3/10 of a cent added onto the local school support tax which would go to relieve the general fund of additional obligations through the Distributive School Fund. What total would that be inquired Senator Kosinski. Mr. Sever stated that in the Governor's recommendations it would amount to $80.1 million. The Senator stated that that would be an additional $20 million (3/10) available to the general fund. Mr. Sever stated that the Governor felt that they didn't have the money to keep funding that 30¢ and so that two ways to reduce the state requirement is to increase the local school support tax.

Senator Kosinski stated that he would like to determine what the impact of all this was. He inquired how much additional relief of the burden on the state general fund would the .2 of 1% amount to. Mr. Sever stated that it would 14 or a total of $59 million tax increase.

Mr. Bergevin stated that this would depend on how it is handled. The basic support could be increased or it could be just rolled into the present formula it would reduce the state's obligation.

Senator Kosinski stated that looking at the existing proposals it effectively would increase revenue in that State General Fund of approximately $60 million.

Mr. Sever stated that the effect of increasing the local school support tax and keeping the state support at the same level would increase the total amount available.

Mr. Bergevin stated that in the current fiscal year the state of Nevada appropriated $163,377,000. The Governor is proposing for 1981-82, $148,812,000 which is a reduction in the amount available as the state's responsibility for the Distributive School Fund.

Senator Kosinski continued that then the burden would be shifted from the state to the local level and those the local taxpayer.

Senator Ashworth stated that what they found during the interim on the Interim Tax Commitee was that shift two years ago under SB 204 was from 60% local support and 40% state to 60% state and 40% local support and that created a problem. Now they are in a process with these proposals to shift it back to the original with more local support through the ad valorem and the local school support tax.

Senator Kosinski stated that it still appeared to him to be a $59 million tax increase.

Mr. Bergevin stated that there has been a tax increase at the local level. He stated that he would like to point out that with the tax package of last session with the Distributive School Fund the state picked up the mandatory 70¢ and it had been the intent of the Assembly Taxation Committee that that 70¢ responsibility grow as assessed value grew. This however was not the tact that the Budget Office took. They took their idea that just so much money would be put into the Distributive School Fund and the 70¢ for all intents and purposes was wiped out. This in effect took the growth factor away from the schools.

Senator Keith Ashworth stated that there was a shift from the state but they are all taxpayers dollars whether they come into state fund or directly into the Distributive School Fund. The shift has been into the local school support tax and less in the ad valorem total overall.

Mr. Sanders stated that in response to Senator Kosinski's original question of what has happened to the 30¢; that in the Governor's recommendation it completely disappeared in reality and it took another approach. It did not go anywhere, it merely disappeared. Also the point being made by Senator Kosinski previously is correct in that when the local school support tax is increased in any amount you do not automatically increase the basic pupil support. If the schools are going to benefit affirmative action must be taken to up the basic pupil support at the same time. Otherwise the schools won't derive the benefit, the benefit will be derived elsewhere into the general fund.

Senator Kosinski stated that the $25 million did not disappear; it would appear in some other fund to be used elsewhere in some other program and then the local taxpayers are going to have to pay more sales tax to make up for what the Governor is taking out of one pot and putting into another pot to save general funds. Senator Kosinski remarked that to him that was a tax increase.

Mr. Sever stated that they must also take into consideration that in the Governor's request he also drastically reduced property tax and so the overall tax impact would be less.

Chairman Keith Ashworth stated if there was no further testimony or questions the committee would stand adjourned.

Respectfully submitted,

Sandee Gagnier

Sandee Gagnier
Assembly Attache

AGENDA

JOINT SENATE AND ASSEMBLY
COMMITTEE MEETING

Committee on Taxation, Room 131.

Day Wednesday, Date April 8, Time 1:00 p.m..

S. B. No. 69--Revises factors which may be used in determining full cash value of real property for taxation.

S. B. No. 411--Makes substantial revisions in law relating to governmental finance.

A. B. No. 369--Increases rate of local school support tax and city-county relief tax and provides for adjustment of certain property valuations.

Testimony will be taken from all 17 school districts within the state.

OFFICE OF THE SUPERINTENDENT OF PUBLIC INSTRUCTION
Capitol Complex
Carson City, Nevada 89710

TED SANDERS
Superintendent

MEMORANDUM

April 9, 1981

TO: Members of the Senate and Assembly Joint Tax Committee

FROM: Ted Sanders, Superintendent of Public Instruction

Ted

SUBJECT: Testimony Regarding Impact on Schools (SB 69, AB 369, SB 411)

As requested, I have attached copies of the transparencies used in the Department of Education testimony presented at the hearing on April 8, 1981.

For your quick reference, we have attached an information sheet indicating alternatives for your consideration in providing the necessary funding of schools and the estimates used by the Department in compiling the data. Included on the sheet is the statewide cost to local school districts to provide a 1% increase to their employees for each year of the biennium.

If we can be of further assistance, please do not hesitate to call me.

TS/DS/mb

attachment

LOCAL SCHOOL DISTRICT EXPENDITURES
(PROJECTED NEEDS - STATEWIDE)

Fiscal Year	Statewide Projections	Amount of Increase	Percent of Increase
1980-81	$286,400,000		
1981-82	$329,000,000	$42,600,000	14.9%
1982-83	$369,200,000	$40,200,000	12.2%

EXPRESSED PER STUDENT

1980-81	$1,964	6.3%
1981-82	$2,221	13.1%
1982-83	$2,454	10.5%

EXHIBIT B

LOCAL SCHOOL DISTRICT BUDGETS (CATEGORIZED)

Fiscal Year	Salaries		Accounts Payable & Other		Total
1980-81	$230,100,000 (80.3%)	+	$56,300,000 (19.7%)	=	$286,400,000 (100.0%)
1981-82	$265,500,000 (80.7%)	+	$63,500,000 (19.3%)	=	$329,000,000 (100.0%)
1982-83	$298,700,000 (80.9%)	+	$70,500,000 (19.1%)	=	$369,200,000 (100.0%)

IMPACT OF GOVERNOR'S RECOMMENDATION

FY 1980-81 EXPENDITURE		FY 1981-82
$286,400,000	Request	$329,484,118
	Gov. Recom. w/add'l 2/10¢ Sales	319,144,459
	Shortfall	$ 10,339,659
	Add: A/V Reduction	7,143,990
	Shortfall	$(17,483,649)
		FY 1982-83
	Request	$369,755,398
	Gov. Recom. w/add'l 2/10¢ Sales	355,131,532
	Shortfall	$ 14,623,866
	Add: A/V Reduction	8,215,590
	Shortfall	$(22,839,456)

EXHIBIT D

State of Nevada
Department of Education
Fiscal Services Branch

INFORMATION SHEET

Alternatives to funding the shortfall between the request for local school districts as proposed by the State Board of Education and the Governor's recommendation with an additional 2/10¢ of sales tax (1.5¢ total) and a reduction to the increases to assessed valuations from factoring:

1. Increase the sales tax available to local school districts above 1.5¢.

2. Increase the amount of ad valorem levy on assessed valuation above 50¢.

3. Increase the appropriation to the Distributive School Fund.

4. Any combination of the above.

Estimates used in making projections:

Assessed Valuation

1981-82	$ 8,800,000,000 @ 1¢	yields	$ 880,000
1982-83	$10,120,000,000 @ 1¢	yields	$1,012,000

Local School Support Tax

1980-81	1¢ yields $60,151,341	
1981-82	1¢ yields $66,751,127	$67,053,756*
1982-83	1¢ yields $72,840,251	$73,227,679*

*Note: With State accruing April, 1981, during Fiscal Year 1980-81 and changing reporting period from April to March (12 months) to May to April (12 months) for Fiscal Year 1981-82.

Costs to local school districts of providing a 1% salary increase to their employees for each year of the biennium:

1981-82	$2,388,029
1982-83	$2,756,187