

MINUTES OF THE  
MEETING OF THE SENATE COMMITTEE  
ON TAXATION

SIXTY-FIRST SESSION  
NEVADA STATE LEGISLATURE  
February 17, 1981

The Senate Committee on Taxation was called to order by Chairman Keith Ashworth, at 2:10 p.m., Tuesday, February 17, 1981, in Room 213 of the 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

COMMITTEE MEMBER ABSENT:

Senator Floyd R. Lamb

STAFF MEMBERS PRESENT:

Ed Shorr, Deputy Fiscal Analyst  
Colleen Crum, Committee Secretary

The chairman explained there was no formal agenda for this meeting. No bills or testimony would be taken. The purpose of the meeting was to study the background information on taxes developed by a special task force. Mr. Ray Knisley, Mr. Marvin Leavitt, Mr. David Henry and Mr. Jim Lien were the principal members of the task force. He asked for a report from these members.

Mr. Ray Knisley explained the background of the project. The purpose of the group was to provide data for the legislature to use as a base for a tax program. The electorate has demanded a substantial rollback in the ad valorem taxes. The task force was instructed to study possible replacement revenue sources to offset this rollback.

Mr. Henry presented the "Comprehensive Tax Package--Joint Committees Concept". (See Exhibit A.)

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Senator Kosinski asked why the task force recommended that the ad valorem tax not be capped with regard to schools. Mr. Henry explained a balancing act must be accomplished between the state budget and the local budget. Balancing would be achieved through the distributive school fund.

The chairman stated that the school districts are double capped. They are capped on the school distributive fund as well as their expenditures. This gives the schools the ability to get at least 50 cents from the ad valorem tax.

Senator Kosinski asked why the task force decided to recommend the increase of the City-County Relief Tax and the Local School Support Tax rather than the State Sales Tax. The chairman replied that voter approval is required before the State Sales Tax can be increased. Senator Raggio stated it would be impossible to propose a budget and then wait for funding of that budget until the voters approved an increased sales tax.

Mr. Henry explained it was apparent very early in the task force's studies that a substantial ad valorem relief could not be granted to the ad valorem taxpayers, specifically the homeowner, unless revenue replacement was devised, particularly for local governments. It was also learned that there would be a problem in balancing the State School Distributive Fund. Whatever techniques used to reduce the ad valorem rate would create revenue replacement problems.

Senator Getto asked how much of a decrease in the tax burden property tax owners would realize by increasing the sales tax 1.5 cent. Mr. Henry stated every penny sales tax is worth between \$62 million and \$81 million, depending upon the calculations or projections used.

Mr. Henry stated the Tax Department studied different methods for cutting back taxes. The department discovered a cleanup of assessment practices or a reduction in assessment would not accomplish a significant tax reduction to property owners.

Senator Don Ashworth noted the problem of Washoe County's assessments lagging several years behind schedule and asked

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what will be done to bring up assessments to a proper plane in the entire state. The chairman stated a factoring system will be considered to bring all assessments of properties up to date.

Senator Kosinski noted page three, item two should read "would go" rather than "now going".

Senator Don Ashworth asked the cost of certified public audits, proposed on page 9. Mr. Knisley replied that Senator Lamb had requested a bill which will contain an appropriation of \$1.7 million for audits. The chairman noted entities are collectively spending this amount at the present time.

Mr. Lien presented an "Outline of Research Data" to show the type of data which will be supplied to the committee. (See Exhibit B.)

The handling of net proceeds of mines was discussed. Mr. Knisley said the net proceeds of mines must not be altered. Counsel rulings indicate nothing can be changed in the net proceeds of mines. Mines must be taxed at the same rate as other ad valorem properties in the area are taxed. Federal statutes prohibit changing the tax structure for railroads as well.

Mr. Knisley stated certain segments of the taxpaying public, such as mines and ranchers, would receive a windfall from the tax reform. The ad valorem tax payer will still pay for public buildings. He will also be paying an increased sales tax rate for services. The difference is that the services will be split among three segments of the population--the ad valorem payer, tourist, and people who pay only sales tax. He stated several constitutional amendments have been drafted which would permit an additional tax on the proceeds of mines as well as upon all public service entities.

The chairman stated he requested a bill which proposes to eliminate some of the tax exemptions presently allowed for the net proceeds of mines. He stated he also has asked the

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Legislative Counsel Bureau to supply the committee a schedule of every revenue producing fee paid to the State of Nevada.

Senator Getto suggested mandating utilities to pass on its windfall to Nevada customers, rather than out-of-state customers as well.

Senator Kosinski asked for definitions of patented and unpatented mining claims. Mr. Knisley explained a mining claim is not patented until the necessary assessment work is completed and proof is received from the United States. The patent is considered a proof of ownership. The unpatented mine is a mine operating on federal property which has not gone through the process of establishing ownership.

Senator Raggio noted that the constitution appeared to allow taxation of the proceeds of unpatented mines as well as the net proceeds of patented mines. He questioned the distinction between net proceeds and proceeds. Mr. Knisley stated court cases have held that careless language was used in distinguishing between proceeds and net proceeds, and net proceeds are excluded.

Senator Don Ashworth asked why it is illegal to change the net proceeds of mines tax. Mr. Knisley explained the net proceeds of mines is an exception in the constitution. The legislature may vary the accounting used in establishing net proceeds, but it may not levy any other tax. The chairman said this ties into the separate classification of property and several bills have been proposed to deal with this situation.

The chairman stated another bill would explore the feasibility of allowing residential property owners to be classified similar to veterans, widows, senior citizens, and homesteaders. This would result in a rebate for the residential property owner. Mr. Knisley said the task force explored the rebate possibility. However, the rollback of the ad valorem tax would result in a very low tax to the homeowner, making the rebate so small that the task force decided not to include it in its proposals. The task force also considered the possibility of establishing

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categories of taxpayers for the purpose of putting all public service entities into one group and taxing them at the same rate. Legal counsel advised against this proposal.

Senator Raggio asked if the capping of expenditures implemented last session had been effective. Mr. Henry explained the difference between capping revenues and capping expenditures. Revenues are defined primarily in terms of dollars. Expenditures can be defined by any definition created by the local entity involved. Capping expenditures can be circumvented by redefining expenditures. The most effective method would be for the legislature to put a cap on the revenue and, at the same time, develop guidelines or rules for ending balances.

The chairman stated he served on the interim committee which studied the effects of capping expenditures. The committee learned entities used innovative accounting methods to create higher ending balances and a considerable amount of revenue was placed in other categories which were not capped. He supported the capping of revenue.

Senator Raggio suggested capping both revenue and expenditures. The chairman stated this is accomplished by capping the ending balances.

Mr. Henry stated the legislature ought to permit substantial priority setting prerogatives to the local governing boards. Senator Raggio felt the legislature should have some control over how local entities utilize funds.

The chairman explained that local entities must submit a budget to the Tax Commission. The proposed independent audits would help to uncover cases where the local entities are not following the budget and appropriate action could be taken.

Mr. Leavitt stated there were so many capping proposals that if they all were enacted, it would create a nightmare for those preparing and administering local budgets.

Senator Glaser said the message he received from the four counties he represents was that they want a greater flexibility in

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determining their economy. They don't want to be dependent on the state for handouts and they don't want to be over regulated.

Mr. Knisley stated he felt the people who warned Senator Glaser were undoubtedly locally elected officials and not the taxpayer who had been abused by these officials.

The chairman stated tax reforms will generate more revenue for some counties and a shortfall of revenues for other counties. The legislature must make sure the counties which experience shortfalls are kept whole.

Mr. Leavitt said the task force anticipated several uses for the information which was developed. The task force information can be used as a proposal or for a combination of various plans. The task force is willing to compile additional data as other alternatives are explored by the committee. Also, the task force is willing to apply plans to already existing data to see its potential effects.

Senator Glaser asked that his remarks be entered into the record: "Ray Knisley has put together a talented team that has probably shortened this session immensely. Everyone involved in the task force is thanked for their efforts."

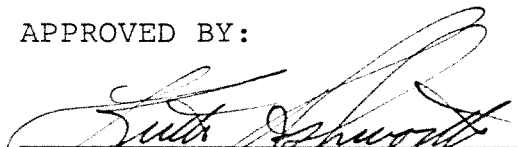
There being no further business, the meeting adjourned at 3:33 p.m.

Respectfully submitted by:



Colleen Crum, Committee Secretary

APPROVED BY:

  
Senator Keith Ashworth, Chairman

DATE: Feb 24, 1981

2/17/81

EXHIBIT A

COMPREHENSIVE TAX PACKAGE - JOINT COMMITTEES

CONCEPT

Conceptually fiscal budgets in all local governments will be structured as follows:

- (a) debt service is an ad valorem responsibility;
- (b) operation and maintenance are a sales tax responsibility and
- (c) capital project reserves, and related construction costs are ad valorem responsibilities above debt service with either voter approval or Interim Finance Committee authorization within some kind of legislative constraint on amount.

Conceptually, in local entities where maximum operation and maintenance plus existing debt cannot be supported by the basic revenues above, then such entities should have access to balance their respective budgets outside of the above constraints by an additional tax levy.

Part One

A. Property Tax Revisions

The revenue side of the budget structure of local governments would be modified as follows:

1. Retirement of existing G.O. bonds and existing short term debt plus any future voter approved debt or Tax Commission approved (emergency loan) short term debt would be covered by ad valorem tax levies.

2. Schools to receive in addition to paragraph 1 a flat 50 cent ad valorem tax levy to be used for any purpose and without a lid.

3. General improvement districts and other special districts serving a specific geographic area may be supported in whole or in part by ad valorem tax levies. This is subject to calculations.

4. It is projected that sales tax (CCRT and LSST) will support the balance of revenue requirements for operations and maintenance for counties, cities, towns, fire districts and library districts. The final list of entities receiving sales tax is subject to calculations.

5. The aggregate tax rate for each county cannot be ascertained until the ad valorem has been factored up to January 1980 according to this concept statement.

B. Sales Tax Revisions in Amount

Legislation will mandate imposition by counties an increase of CCRT and will increase the LSST for schools as follows:



	<u>Existing</u>	<u>Revised Rates Effective</u> <u>4-1-81</u>
CCRT	.5%	2.5%
LSST	1%	1.5%
State Sales	2%	2% (no change)
	<hr/>	<hr/>
Total	3.5%	6%

C. Sales Tax Distributions

Conceptually sales tax increases (CCRT and LSST) are necessary to reduce across-the-board ad valorem requirements at several levels of government.

1. The additional .5% direct to schools from LSST is envisioned as reducing the requirements for statewide school district funding from State sources in the State School Distributive Fund.

2. The additional 2% sales tax ~~now going~~ <sup>would go</sup> to all cities and some counties is envisioned as supplementing and balancing budgets caused by ad valorem tax rate reductions for counties, cities, towns, fire districts and library districts. The final list of entities receiving sales tax is subject to calculations.

3. Additionally, the concept here must include provisions for

(a) state level accrued fund excess to balance school budgets where the new reduced ad valorem and the new increased sales tax from the State School Distributive Fund are insufficient;

(b) recognition of authenticated "retail trade zones for metropolitan areas" and the degree that export of revenues from one region of the State to another is acceptable and justified.

4. The concept here requires a balancing feature of all revenue sources for local governments including an appeal procedure to State and the Interim Finance Committee where specific entites do not fit the conceptual definition outlined here. Also the accumulation of a contingency fund at State level should be considered for emergency circumstances of all local governments.