DISCLAIMER

Electronic versions of the exhibits in these minutes may not be complete.

This information is supplied as an informational service only and should not be relied upon as an official record.

Original exhibits are on file at the Legislative Counsel Bureau Research Library in Carson City.

Contact the Library at (775) 684-6827 or library@lcb.state.nv.us.

SB 308

Reallocation of Future Advalorem Revenue

Testimony of Senator Bill Raggio before Senate Taxation Committee
April 1, 2003

In considering the measure we need to review the history of how our present tax structure was created.

In 1979 the Legislature, by statute, reduced the cap on property tax rate from $5.00 (the Constitutional limit) to a maximium of $3.64 and the state property tax levy was eliminated. Up until this time the State utilized a 25 cent rate for its operation.

In 1981, the years of the "Tax Shift", a decision was made that the state should rely primarily on gaming tax and sales tax for its general fund revenues. These two taxes at that time were experiencing a steady and predictable growth.

It should be noted that the tax on real property was capped at $3.64 and additional caps were imposed (e.g., a 41/2% inflation limit plus new growth) in response to concerns here and in California that real property value were skyrocketing and taxes were increasing at a high rate. Proposition 13, led by Howard Jarvis, had been approved by California voters and a similar ballot question here was defeated, largely as a result of the actions to reduce taxes on the part of the Nevada Legislature.

The intent in 1981 was also that the primary revenue source of local governments would shift from real property tax to sales tax.

We must also remember that the original State Sales Tax was enacted and approved by a referendum vote in 1955 and has been 2% since its inception. However, since that time other components were added and dedicated primarily for local governments and schools.

1967 ~ Local School Support tax
(LSST ~ 1%)

1969 ~ Basic City County Relief Tax
(BCCRT ~1/2%)

1981 ~ Supplemental City County Relief Tax
(SCCRT ~ 1 3/4 %)

(These combined CCRTS were to "Make up" revenue lost by property tax rollback.

And counties were given rights to impose additional for tourism and mass transit)

Another event occurred in 1979, which impacted revenues from sales tax when food was eliminated.

It was assumed that that State and local governments would realize adequate revenues from these sources that growth would produce sufficient new revenues to fund the increasing needs of a growing state.

No one could have foreseen at that time the phenomenal growth that would occur over the next two decades. Certainly no one would have envisioned the fantastic growth in assessed valuation of the State, especially in our two urban areas and particularly in Southern Nevada.

For the last 6 to 8 years we have watched this phenomena and have seen the requests for state funding grow by leaps and bounds. Not double or triple but ten fold and more in the area of Mental Health, corrections, K~12 education, higher-ed and in all the areas of welfare, Medicaid, TANF, etc. The State's general fund requirements grew from several hundred million dollars to nearly 4 Billion dollars in that period of time. The cost of social problems and needs far exceeded the percentage of growth in population and any reasonable inflation factor.

It has become increasingly apparent that the states revenues were not growing sufficiently to meet these needs for at least the past 8 years, we have not had sufficient revenues to address embarrassing wait- lists for vital social sources while at the same time ranking near last in almost every category in the amount and level of support we were providing to those in need.

For the past 8 years at least we have not had sufficient revenues to provide even a minimum cost of living increase to state workers. These salaries have lagged behind local governments and today there is a differential of between 10 and 32 % below similar salaries in our major counties and cities. As a result we have witnessed a migration of state employees to local government employees (for example: law enforcement and welfare).

To make matters even worse, after September 11, 2001, the states revenues fell dramatically. Gaming and sales tax collections plummeted and to exacerbate the situation further, at the same time the states needs ballooned ~ unemployment quadrupled, welfare costs stretched to unforeseen heights, and case loads grew in all categories.

During this same period, the growth brought tens of thousands of new students into the K ~ 12 system; and the state, as guarentor under the Nevada Plan, was faced with increasing financial requirements.

It has become obvious that the growth of this state is reflected more accurately in the assessed value, and not in sales or gaming tax, which are cyclical in nature and mirror any economic downturn.

For these reasons, I suggest that we consider a revision of the manner in which future revenue from property taxes is distributed.

SB 308 us designed to do just that. It is not a solution to all of the States needs. It is not a single tax plan but rather a component which should be included in any final revenue plan which is enacted this session.

This bill would not take any existing revenue away from local governments. It establishes a base line as of June 30, 2003 for assessed value. (At the present time, the total assessed value of the State is approximately $61 Billion)

Between March 15 and June 30 of the following years we calculated the increase in assessed value for each of the local governments.

And in calculating this increase we adjust that amount by the CPI to allow for inflation.

We then calculate the revenue by applying the tax rate to the increase, but we exclude that portion attributed to:

Net proceeds of Miners

Any tax rate levied for existing bonds or long term contracts

And the tax rate levied for support of public schools (.75)

Once this amount of new revenue is determined, the state would receive one-half and the remaining one-half would be distributed to the local government.

Let me again stress: (1) This takes no existing **advalorem** revenue from local government. (2) This is the only suggested revenue that is <u>not</u> a tax increase. It reallocates a small portion of an existing tax.

For almost all of our smaller counties, there would be little impact since inflation is provided for and growth is small or non-existent.

For Clark and Washoe Counties, they would still realize substantial revenues from their one-half share, albeit not as great as taking money away fro the cities and counties and balancing th4e needs of the State on the back of local governments. This has been a kneejerk reaction on the part of local government who were puncturing holes in the proposal even before they know the elements of such a plan.

Statements have been forthcoming fro the army of lobbyists representing local government (I guess I should note the State can't afford to hire any~~and it would be severely critizied if it did).

On the other hand the only group not represented by lobbyists are the people. And they deserve that we at least look to see if existing taxes are being properly utilized before we raise any new ones.

Several of the major local governments are saying they have serious financial problems and may have to trim budgets. I do not want to fault them, but I find some of it hard to believe.

Article from the Las Vegas Review Journal: Proposal to give county employees a 7% pay raise over the next four years. This is in addition to a 4% annual merit raise.

The proposed with Nevada Service Employees Union: county employees will receive nearly 7% raise each year until June 2006~~ and it is retroactive to July 1, 2002.

And in the Washoe County it was recently reported that significant increases could be funded without an increase in the tax rate.

The Argument is this is due to "collective bargaining". And the counties hands are tied! That's just the point. These decisions are based on the "ability" to pay"

Several charts have been prepared which illustrate how this would work; (show and explain charts)

It can readily be seen that the results are not as drastic as the local governments would have you believe, but the state would begin to share in the benefits that flow from new growth as well as inheriting all the problems that it creats.