MINUTES OF THE
SENATE COMMITTEE ON REVENUE AND ECONOMIC DEVELOPMENT

Eighty-second Session
February 9, 2023

The Senate Committee on Revenue and Economic Development was called to order by Chair Dina Neal at 1:05 p.m. on Thursday, February 9, 2023, in Room 2149 of the Legislative Building, Carson City, Nevada. The meeting was videoconferenced to Room 4412 of the Grant Sawyer State Office Building, 555 East Washington Avenue, Las Vegas, Nevada. Exhibit A is the Agenda. Exhibit B is the Attendance Roster. All exhibits are available and on file in the Research Library of the Legislative Counsel Bureau.

COMMITTEE MEMBERS PRESENT:

Senator Dina Neal, Chair
Senator Fabian Doñate, Vice Chair
Senator Pat Spearman
Senator Heidi Seevers Gansert
Senator Carrie A. Buck

STAFF MEMBERS PRESENT:

Michael Nakamoto, Chief Principal Deputy Fiscal Analyst
Christian Thauer, Deputy Fiscal Analyst
Janet Stokes, Committee Secretary

OTHERS PRESENT:

Shellie Hughes, Executive Director, Nevada Department of Taxation
Jennifer Roebuck, Deputy Director, Compliance Division, Nevada Department of Taxation
Yvonne Nevarez-Goodson, Chief Deputy Director, Nevada Department of Taxation
Jeff Mitchell, Deputy Director, Excise Tax and Local Government Services Division, Nevada Department of Taxation
Marvin Leavitt, Chair, Committee on Local Government Finance

CHAIR NEAL:
We have two presentations today—the Nevada Department of Taxation will provide an overview of its work, and the second presentation will be from the Committee on Local Government Finance. Our first presenter is the Nevada Department of Taxation.

SHELLIE HUGHES (Executive Director, Nevada Department of Taxation):
With me are Yvonne Nevarez-Goodson, Jennifer Roebuck and Jeff Mitchell to present an overview of the Department (Exhibit C) and the tax types we administer.

We will begin with a brief agency overview, give information regarding fiscal year (FY) 2021-2022 tax revenue and distributions, go through major general fund tax types and conclude with a discussion on remaining tax types.

Slide 3 is an overview of Department operations. We perform a variety of functions to include administering 21 different tax types and 3 fees, appraising property, establishing guidelines for local governments and ensuring compliance with those guidelines, reviewing local government budgets and certifying annual populations.

Additionally, the Department is one of the main revenue-collecting agencies in the State, collecting over 70 percent of the total unrestricted General Fund revenue. In addition to the State General Fund, the Department also distributes revenue to other sources, including the State Education Fund and local governments. For FY 2021-2022, we collected and distributed over $9.5 billion in State and local government revenue. This is an increase of over $1.6 billion from FY 2020-2021.

The Department’s mission, Slide 4, is to provide fair, efficient and effective administration of our tax programs, and our philosophy is to provide consistent, impartial and courteous service and treatment to our taxpayers. Our mission and philosophy drive the work we do. The Department continually strives to fulfill these objectives.

At the beginning of the last Legislative Session, the Department's executive team developed a strategic plan which included Department goals listed on Slide 5. Our strategic plan is available on our website. In our strategic plan are goals with specific action steps, measurements and benefits. In summary, Goal 1 is to provide uniformity and increase accessibility for our taxpayers on tax laws, policies and procedures. Goal 2 is to provide education and communication to our taxpayers. Goal 3 is to provide timely, relevant and accurate reporting. Goal 4 is to attract and retain an engaged, empowered workforce. Goal 5 is to create a modern digital workplace. Goal 6 is to reduce IT backlog and increase efficiency.

Listed on Slide 6 are members of the Department of Taxation Executive Team—a few of whom are here today.

The Department of Taxation is comprised of six divisions and serves as staff to five boards and commissions, Slide 7. We have 413 positions within these 6 divisions. The Nevada Tax Commission is the head of the Department and one of the boards and commissions staffed by the Department. The Nevada Tax Commission meets multiple times a year to hear appeals, review and hold public hearings on regulations, and pursue other such actions necessary for the operation of the Department of Taxation.

You will hear from Marvin Leavitt regarding the Committee on Local Government Finance, another committee staffed by the Department. Slide 8 provides Department contact information for each of our three offices.

Slide 9 demonstrates how much revenue was received in FY 2021-2022 from each tax type we administer. From this chart, of the $9.5 billion in revenue collected during FY 2021-2022, sales and use tax collections made up $6.6 billion or 69.4 percent of the $9.5 billion collected. This slide also demonstrates our distributions for FY 2021-2022. The State General Fund receives 40 percent or approximately $3.9 billion; local governments, 33.5 percent or approximately $3.2 billion; and the State Education Fund, 24.6 percent or approximately $2.3 billion.

Slide 10 provides the gross revenues received from each tax type we administer both in FY 2020-2021 and FY 2021-2022. We had an increase of approximately $1.6 billion from FY 2020-2021 to FY 2021-2022, which represents a 20.49 percent increase from one fiscal year to the next.

Slide 11 itemizes the total Departmental distributions in FY 2021-2022. The first column provides the amount of revenue distributed to the State General Fund for each tax type. The second column reveals the amount of revenue distributed to the State Education Fund from each tax type. The third column represents the amount of revenue distributed to local governments from each tax type. The fourth column represents revenue distributed to other accounts from each tax type. For example, annually we distribute $150,000 from revenue received from the Live Entertainment Tax to the Nevada Arts Council. These other distributions are provided for in statute and we will discuss them later in this presentation. The fifth column represents revenue distributed to the State debt service fund from each tax type. The sixth column represents the total amount of revenue distributed from each tax type.

Slide 12 is a list of some of the major legislation passed from the 2021 Session that impacted the Department. Senate Bill No. 389 of the 81st Session established provisions governing the licensing and operation of peer-to-peer car sharing and requires charging certain fees when passenger cars are used in the peer-to-peer car sharing program. The peer-to-peer car sharing program business connects vehicle owners with vehicle drivers to share vehicles in exchange for money. The State fee for all shared vehicles is 10 percent; for any shared vehicle in Clark or Washoe County, there is an additional 2 percent fee. These fees are Governmental Services Taxes paid by short-term rental companies.

Assembly Bill No. 495 of the 81st Session provided for the imposition, administration and payment of excise tax on the Nevada gross revenue of business entities engaged in the business of extracting gold or silver in Nevada. All business entities engaged in the business of extracting gold or silver or both in Nevada—and whose Nevada gross revenue exceeds $20 million during the taxable year—must file a Gold and Silver Excise Tax return unless otherwise exempted. Beginning July 1, 2023, payments made pursuant to the gold and silver mining tax will be deposited into the State Education Fund.

Senate Bill No. 440 of the 81st Session, which amended NRS 372.7281 and related statutes, provided an exemption for Nevada sales tax on sales of tangible personal property to certain Nevada National Guard members and their qualifying dependents. The period of tax exemption is on the day Nevada Day is observed and the Saturday and Sunday immediately following. Members of the National Guard are required to apply for a letter of exemption with the Department 30 days before the date of Nevada Day observance. If eligible, the Department will issue a letter of exemption.

This bill requires that the National Guard member or qualified dependent make a retail purchase during the sales tax holiday and provide that letter of exemption to the vendor. The vendor is then authorized to sell goods to the member or qualified dependent without imposing sales tax on the sale. The vendor is required to retain a copy of the letter of exemption for audit purposes. After this bill was enacted, it was determined to violate the Streamlined Sales and Use Tax Agreement. A member of Streamlined Sales Governing Board, Nevada was sanctioned for violating the Agreement. We have worked closely with the Governing Board to remedy the situation, and the Department is bringing Senate Bill (S.B.) 50 this Legislative Session to correct that violation.

SENATE BILL 50: Revises provisions governing the sales tax holiday for certain members of the Nevada National Guard and certain relatives of such members. (BDR 32-253)

Slide 13 gives background on the Streamlined Sales and Use Tax Agreement (SSUTA), developed over the course of several years through the joint effort of over 40 states participating in the Streamlined Sales and Use Tax Project. Nevada became a full member of the Streamlined Sales Tax Governing Board on April 1, 2008. The SSUTA website indicates the purpose is to simplify and modernize the administration of sales and use tax laws of member states to facilitate multistate tax administration and reduce the burden of compliance.

The Agreement minimizes costs and administrative burdens on retailers that collect sales tax, particularly retailers operating in multiple states. It encourages remote sellers over the Internet and by mail order to collect tax on the sales to customers living in the streamline member states. It levels the playing field so local brick-and-mortar stores and remote sellers operate under the same rules. The Agreement ensures all retailers can conduct their business in a fair and level competitive environment. Although SSUTA does not override state laws, states must comply with the requirements contained in SSUTA to be a member state. The Agreement applies to state and local sales and use tax collected by retailers. *Nevada Revised Statutes* (NRS) 360B contains provisions for the implementation of SSUTA. Nevada is allowed up to four delegates to the Agreement, and Chair Neal is one of those delegates. Today, 23 states are full members of SSUTA.

JENNIFER ROEBUCK (Deputy Director, Compliance Division, Nevada Department of Taxation):

Major tax types that impact our General Fund and other funds start with sales and use taxes, Slide 15, which comprise the largest revenue category in our State. Sales and use taxes were enacted in Nevada in 1955 at a rate of 2 percent, and the rate is still 2 percent. In FY 2021-2022, the Department distributed $1.6 billion to the General Fund. The sales tax rates customers see are higher because today's tax rates encompass other components. Sales tax is imposed on retailers for the privilege of selling property at retail. The sales tax rate is based on the county in which a sale occurs and is applied to the gross receipts from retail sales. Use tax is the counterpart of sales tax. Both tax rates are equivalent and county-based. Use taxes are imposed on the property purchase from a retailer where sales tax is not paid. As an example, consider a purchase delivered to a customer in Nevada from a non-Nevada retailer. If the customer did not pay Nevada sales tax, then the customer pays the State directly, and this is use tax.

Slide 16 gives an overview for Nevada's base tax rate of 6.85 percent. It is made up of the 2 percent sales tax which goes to the State General Fund, the 2.6 percent Local School Support Tax, the 0.5 percent Basic City-County Relief Tax and the 1.75 percent Supplemental City-County Relief Tax.

The last component that makes up the sales tax rate is the local option tax. Most counties have additional components in their sales tax rates for a variety of initiatives. Slide 17 includes those components and when the rate was imposed. Washoe County had the highest sales tax rate in the State, but Clark County's January 1, 2020, rate increase put it back in the lead.

The sales tax map, Slide 18, is a visual representation of our State and the various county sales tax rates. Next, are the components that distribute to all Nevada counties. The Local School Support Tax (LSST) is 2.6 percent, Slide 19. The tax was distributed to the State Distributive School Account until July 1, 2021, when S.B. No. 543 of the 80th Session required the distributions go to the State Education Fund. One distinguishing feature of this tax is the distribution to the school district where the reporting business is located. If a reporting business is located out of state, the Local School Support Tax distributes to the State Education Fund. In FY 2020-2021, the school districts received a total of $1.7 billion, and in FY 2021-2022, the distribution exceeded $2 billion from the Local School Support Tax.

The Basic City-County Relief Tax (BCCRT) is 0.5 percent, Slide 20. In-State sales are distributed to the counties of the sales or deliveries. Out-of-state sales are based upon the population ratio through the Consolidated Tax Distribution (CTX) to the local governments. The Consolidated Tax Distribution combines tax revenues including the Supplemental City-County Relief Tax and several excise taxes. In FY 2020-2021, the BCCRT transferred to the CTX account was $330 million; FY 2021-2022, $391 million.

Slide 21 is the Supplemental City-County Relief Tax (SCCRT), of 1.75 percent. The collected revenue is distributed through CTX by way of a formula. Some counties receive a guaranteed distribution; the balance is allocated to the rest of the counties based on the formula. In FY 2021-2022, the total SCCRT distributed to local governments was $1.37 billion, which was up from the $1.16 billion in FY 2020-2021.

Slide 22 details the local option sales and use tax rates above the 6.85 percent. Counties have the option to increase their sales and use tax rates for specific purposes by ordinance. For example, above the 6.85 percent tax rate, Carson City has four additional tax components to fund public roads, open space, V&T Railroad Bonds and infrastructure. The combined components make up the 7.6 percent sales and use tax rate in Carson City.

A Sales Tax Anticipated Revenue (STAR) bond, Slide 23, is a way for local governments to finance special projects. These special projects must be located within Tourism Improvement Districts that generate unique rules for the distribution of the sales and use taxes. There are four STAR bond districts—one in Washoe County and three in Clark County.

A Tourism Improvement District has specific boundaries created by an ordinance for an area where development is to take place. *Nevada Revised Statutes* 271A.120, states once a municipality has adopted an ordinance to create the Tourism Improvement District, it may issue special obligation bonds to finance projects for the benefit of the district. The bonds are secured by a pledge of up to 75 percent of the sales tax revenues generated within the district for a maximum of 20 years. The Department of Taxation remits the pledged taxes back to the municipality that adopted the ordinance. The municipality uses the funds to make payments on its bonds and to pay other expenses related to the district. At the end of each fiscal year, the municipality must return the unspent money to the Department. The money is then distributed to the county and the local governments through the normal distribution routes.

Modified Business Tax (MBT) is imposed each quarter on the gross wages reported by businesses, Slide 24. The category of business drives the tax rate and includes general businesses, financial institutions and entities subject to the Net Proceeds of Minerals Tax (NPOMT). The general business tax rate of 1.378 percent is imposed on the reported gross wages, less a deduction for qualified health benefits paid by the employer, and above a $50,000 threshold per calendar quarter. The rate for financial institutions and entities subject to NPOMT is 1.853 percent on gross wages with a deduction for qualified health benefits paid by the employer. The MBT total distribution in FY 2021-2022 was $756 million, which is up from the $591 million in FY 2020-2021. This tax is distributed to the State General Fund.

Modified Business Tax was enacted in 2003, and the tax rate deductions and credits have evolved due to various amendments through 2021, Slide 25. In September 2022, the MBT rate reduction determination was completed per NRS 360.203, which resulted in a rate reduction effective July 1, 2023. Future rate reduction of calculations will not be necessary as the rates have reached the bottom per NRS 360.203.

In April 2021, due to litigation, the tax rate was reduced from 1.475 percent to 1.378 percent retroactively. The court ruling required the Department to issue refunds with interest to taxpayers for overpayments during FY 2019-2020 and FY 2020-2021.

Commerce tax was enacted in the 2015 Legislative Session, Slides 26 and 27. This tax is imposed on each entity engaged in business in the State whose gross revenue exceeds $4 million. The tax rate is based upon the industry primarily engaged in by the business. In FY 2021-2022, the Department distributed $282 million to the State General Fund. Businesses are allowed a credit against their MBT for up to 50 percent of the commerce tax amount they paid the previous fiscal year. In FY 2020-2021, businesses claimed $43 million Modified Business Tax credits against the commerce tax due; in FY 2021-2022, they claimed $47.8 million. Of all businesses with gross revenue required to file a return by 2019 in Nevada, 594,605 commerce tax accounts were open.

Senate Bill No. 497 of the 80th Session eliminated the filing requirement for those with less than $4 million in gross revenue. Since then, the number of open accounts is less than half of that in 2019 with 14,404 returns filed in 2022.

YVONNE NEVAREZ-GOODSON (Chief Deputy Director, Nevada Department of Taxation):

Slide 28 is an overview of the Insurance Premium Tax. This tax is imposed at a rate of 3.5 percent on insurers which transact business in Nevada, excepting risk retention groups with a rate of 2 percent. The tax is assessed upon the net direct premiums and net direct considerations written. The premium tax is due March 15 each year on the premiums written in the prior calendar year. Insurers who are required to pay a tax of at least $2,000 in the preceding calendar year must pay quarterly tax payments based upon the actual net direct premiums and net direct considerations written for the current reporting quarter. The Department distributed approximately $496,130,000 to the State General Fund in FY 2021-2022, which represents an increase in gross revenue of 5.16 percent over FY 2020-2021.

The next tax type is our Live Entertainment Tax (LET) for nongaming purposes, Slide 29. Two agencies collect Live Entertainment Tax in the State. The Nevada Gaming Control Board collects LET at gaming establishments, and the Department of Taxation collects the Live Entertainment Tax for events or activities at facilities other than gaming establishments from owners and operators where live entertainment is provided or who collect the receipts. The tax rate is 9 percent of the admission charge to a facility that provides live entertainment in a venue or a facility with an occupancy rate of 200 people or more, and 9 percent applies for live entertainment by escort services. The tax does not apply to amounts paid for food refreshments or merchandise unless those purchases are required to enter the facility for the live entertainment.

The funding is distributed to the General Fund except for $150,000 of annual distributions to the Nevada Arts Council. This tax is due upon the sale of a live entertainment ticket. During the pandemic, the State experienced a significant decline in FY 2020-2021. However, this tax is far exceeding revenues experienced before the pandemic. The Department received nearly $40 million in FY 2021-2022. Prepandemic revenue for LET received approximated $19,160,000 in FY 2019-2020 and $25.8 million in FY 2018-2019. The most recent change to the Live Entertainment Tax was an amendment in Senate Bill

No. 367 of the 81st Session to exempt live entertainment provided by or for the benefit of a governmental entity.

JEFF MITCHELL (Deputy Director, Excise Tax and Local Government Division, Nevada Department of Taxation):
On Slide 30, the Real Property Transfer Tax (RPTT) was enacted in 1967. Tax attributable to the RPTT was $253.6 million in FY 2021-2022, an increase over the $191 million distributed in FY 2020-2021 or 32.7 percent. The rate varies—it is $1.95 on each $500 in value for the transfer of real property, except in Churchill and Washoe Counties, where the rate is $2.05, and Clark County where the rate is $2.55. This revenue is collected by the county recorders and remitted to the Department on a form prescribed by the Nevada Tax Commission. Distribution is $1.30 to the State General Fund, $.55 to the counties through the CTX and $.10 to the Account for Affordable Housing. Churchill and Washoe Counties distribute an additional 10 cents for the Local Government Tax Act, and Clark County distributes an additional 60 cents to the school district. Slide 31 shows a breakdown of where the tax is collected. Clark County accounts for 75 percent of this tax.

The Net Proceeds of Minerals Tax, Slide 32, is calculated on mining operations gross yield minus certain allowable deductions that equates to the net proceeds. It is timed, and the tax rate is not to exceed 5 percent. The Department determines the tax on the net proceeds of minerals pursuant to NRS 362. Producers report annually the growth yield of each separate extractive operation as well as expenses related to the extraction, processing, transportation and marketing of the mineral. Royalty recipients also report to the Department but only on the amount of gross royalties received.

The minimum tax rate is 2 percent or the combined property tax rate where the property is located. The maximum tax rate of 5 percent is applied to net proceeds over $4 million annually and to all royalties. Taxpayers are required to estimate current year taxes, and the Department certifies and builds the NPOMT due each year on April 20, with final payment due by May 10. Approximately 103 net proceed operators report to the Department of Taxation, as well as 388 royalty recipients.

Slide 33 shows the tax rate table. The tax rate for net proceeds of minerals can be quite complicated on a sliding scale determined by the net-to-gross ratio, except for properties that exceed $4 million, taxed at 5 percent.

Slide 34 shows which minerals generate net proceeds with the majority, 89.41 percent, coming from gold and silver. The distribution of the Net Proceeds of Minerals Tax total for FY 2021-2022 was $174 million. Whereas the General Fund received approximately $71 million, local governments received approximately $96.5 million, and $6.4 million was distributed to the State Debt Services Fund. Due to Senate Bill No. 3 of the 31st Special Session concerning net proceeds on minerals, taxpayers prepay the General Fund portion of that tax rate.

Slide 36 details cigarettes and other tobacco products tax enacted in 1947. The tax rate is 90 mills per cigarette, and other tobacco products are 30 percent of manufacturers wholesale price. The distribution is 5 mills per cigarette to eligible local governments through the Consolidated Tax Distribution and 85 mills per cigarette to the State General Fund, less the administrative fee determined by legislative appropriation that funds the enforcement efforts of the Department. Other tobacco products tax is distributed to the State General Fund.

Assembly Bill No. 535 of the 80th Session revised the wholesale cigarette dealer licensing fee and established licensing fees for cigarette manufacturers, wholesale dealers of other tobacco products and tobacco retailers. Fees set the cigarette manufacturer license at $1,000; wholesaler dealer cigarette license, $650; wholesale dealers of other tobacco products, $650; and tobacco retailer’s license, $50.

Senate Bill No. 263 of the 80th Session added vapor products and alternative nicotine products to the definition of other tobacco products, including electronic cigarettes, cigars, cigarillos, pipes, hookahs, vape pens, similar products and their components. Effective January 1, 2020, taxes collected for other tobacco products rose from FY 2020-2021 by $3.4 million, a 10.57 percent increase. Tax collected for cigarettes of $162 million in FY 2020-2021 and fell to $153.5 million in FY 2021-2022, a decrease of 5.55 percent.

Slide 38 details the liquor tax, fines and fees. This tax was originally enacted in 1935 as a stamp tax. Slide 39 itemizes liquor tax rates at $3.60 per gallon over 22 percent alcohol content by volume. Over 14 percent to 22 percent alcohol content by volume is taxed at a $1.30 per gallon. Alcohol content of 0.5 percent to 14 percent is 70 cents per gallon, and beer is 16 cents per gallon.

Total taxes, fines and fees for FY 2021-2022 were $56.5 million, with $50,390,000 distributed to the State General Fund, $4.6 million to local governments and $1,470,000 to the Tax on Liquor Program Account for victims of domestic violence and community juvenile justice programs.

MS. NEVAREZ-GOODSON:
On Slide 40, we have our retail cannabis tax. In FY 2017-2018, the Department started collecting an excise tax on the retail sale of cannabis or cannabis products by a retail cannabis store for adult use of cannabis in Nevada at a rate of 10 percent of the sales price. As of FY 2021-2022, the revenue has been distributed to the State Education Fund. Prior to FY 2018-2019, the retail cannabis revenue was distributed to the Account to Stabilize the Operation of the State Government, also known as the Rainy Day Fund. On July 1, 2019, the revenue was distributed to the State Distributive School Account. In FY 2021-2022, the Department collected approximately $89,310,000, which represented a 3.6 percent decrease in collections from FY 2020-2021 of $92,140,000. However, this is an increase over FY 2019-2020 when the Department collected $60,410,000.

In addition to the retail cannabis tax, the Department also collects a wholesale cannabis tax, Slide 41, which is an excise tax at a rate of 15 percent of the fair market value of cannabis or cannabis products at wholesale. This includes both medical and adult-use cannabis. The tax is imposed solely on the cultivation facility and levied only on the first transfer or sale of the cannabis. In FY 2021-2022 the Department collected $63,020,000, a 3.995 percent decrease from FY 2020-2021. Notably, the Department collected $44,770,000 in FY 2019-2020, a 1.3 percent increase over FY 2018-2019.

Since July 1, 2020, the wholesale cannabis tax revenue has been distributed to the Cannabis Compliance Board (CCB) to fund: operational expenses, which include CCB administrative costs imposed for applications, licensing agent cards, time and effort, billing and civil penalties; local governments; and any remaining revenue to the State Distributive School Account, Slide 42. The medical marijuana tax effective on April 1, 2014, has now been replaced with this excise tax on the wholesale cannabis tax structure.

Slide 43 covers the Gold and Silver Excise Tax (GSET) implemented in 2021. The enactment of Assembly Bill No. 495 of the 81st Session in NRS 363D imposes an excise tax on businesses engaged in extracting gold, silver or both in Nevada with a gross annual revenue exceeding $20 million. This tax rate is 0.75 percent of the taxable revenue up to $150 million in gross revenue and 1.1 percent of all gross revenue over $150 million. The GSET applies to each calendar year, and these taxes are reported on April 1 for the immediate preceding year. In FY 2021-2022, the Department collected approximately $36,920,000 from the GSET for the first taxable year in 2021.

Lodging taxes, Slide 44, are imposed on the gross receipts from the rental of transient lodging. These taxes are remitted to local governments and certain percentages are distributed to the Department of Taxation toward the Fund for the Promotion of Tourism and the State Education Fund. County Boards of Commissioners are responsible for the imposition and collection of the lodging tax, while the Department of Taxation records and transfers the revenue to the appropriate budget accounts. Three rates are imposed for distribution to the State. The first is a 1 percent rate of the gross receipts in a county with a population less than 700,000. The second is a rate of 2 percent of the gross receipts in a county with a population of 700,000 or more. The third is an additional tax of 3 percent of the gross receipts in a county whose population is 300,000 or greater.

Counties that have a population of 700,000 or more pay 0.375 percent to the State Treasurer toward the Fund for the Promotion of Tourism, Slide 45. The remaining 0.625 percent is distributed to the county treasurer for the county school district on capital projects. In counties whose population is less than 700,000, Slide 45, 0.375 percent is distributed to the State Treasurer toward the Fund for the Promotion of Tourism. The remaining 0.625 percent must be deposited with the county fair and recreation board or, if no such board exists, the board of county commissioners for use in tourism in that county. The additional 3 percent tax in counties whose populations are greater than 300,000 is remitted to the State Education Fund.

Slide 46 describes two car-associated fees the Department administers. State law imposes a fee of 10 percent on a short-term lease of passenger vehicles. Two counties also impose an additional fee. Washoe County imposes a fee of 2 percent on the lease charge with 0.25 percent of that amount distributed to the Department of Taxation for its collection. Clark County imposes a fee of 2 percent of that lease amount with 0.10 percent of the amount given to the Department.

The revenue from these fees is distributed to the State General Fund and to Washoe and Clark Counties. As mentioned earlier, 2021 brought forth a governmental services fee for a car sharing program in Senate Bill No. 389 of the 81st Session.

Slide 47 gives an overview of our transportation connection tax, created in 2015 to impose an excise tax on the connection of a passenger in Nevada by a transportation network company, common motor carrier of passengers or taxicab at a rate of 3 percent of the total fare charged on the transportation.

This tax may apply under four circumstances. The first is for a transportation network company. A 3 percent tax is imposed on the use of a digital network or software application service to connect a passenger to a driver on a total fare charged on the transportation services. The second is for the autonomous vehicle network companies. This is a 3 percent tax of the total charge for transportation services through use of a dispatch center, software application or other digital means to connect a passenger to a fully autonomous vehicle transportation service. The third is the common motor carriers of passengers, Slide 47. This 3 percent tax rate is on the total fare for transportation services on the connection whether by dispatch or other means made by the common motor carrier to a person or operator willing to transport the passenger. The fourth is for taxicabs. We also have the 3 percent of the total fare charge for transportation on the connection whether by dispatch or other means by a passenger to the taxicab willing to transport the passenger. This tax is due and payable monthly. The first $5 million of each biennium is distributed to the Highway Fund with the remaining distributed to the State General Fund.

MR. MITCHELL:
Slide 48 speaks to the Bank Excise Tax. This tax is imposed on each bank at the rate of $1,750 for each branch office over one, maintained by the bank in any county in the State. It was originally enacted during the 2003 Session of the State Legislature and was effective January 1, 2004.

The tire fee, in NRS 444A, Slide 49, is imposed on the retail sale of a new tire at the rate of $1 per tire. It was originally enacted during the 1991 Legislative Session and amended in 1993 per Senate Bill No. 97 of the 67th Session and Assembly Bill No. 386 of the 67th Session.

The exhibition facility fee in NRS 360.787 is $5,000 if paid annually or quarterly to the formula on Slide 50. Distribution is to the State General Fund.

The last slides address two different areas within the Department of Taxation. Commonly referred to as centrally assessed property, Slide 51, the Department of Taxation is responsible for the valuation, assessment, collection and distribution of property taxes related to the property of an interstate or intercounty nature. This includes properties such as airlines, railroads and power companies—any property that crosses State or county lines. These funds are distributed according to the local property tax rates, the State Debt Service Fund, the Renewable Energy Account and a small portion to the General Fund.

The local assessment oversight section within the Department oversees and monitors the quality of assessments performed by county assessors, Slide 52. Staff appraisers do performance audits of different valuations done by county assessors and determine a ratio which is presented to the Tax Commission that monitors the quality of those assessments to ensure equity among all the counties. The Department publishes these assessments on its website for review.

SENATOR SPEARMAN:
You mentioned the Net Proceeds of Minerals Tax. Is lithium taxed as a mineral?

MR. MITCHELL:
Yes, lithium is considered a mineral and subject to the NPOMT.

SENATOR SPEARMAN:
Would they have to comport with the same prepayment?

MR. MITCHELL: Yes.

SENATOR SPEARMAN:
You mentioned a difference in tax on beer and whiskey. Why is that different?

MR. MITCHELL:
Liquor is taxed according to its alcohol content, so the rate structure varies depending on alcohol content.

CHAIR NEAL:
Regarding Slides 15 and 16, it looks as though we are relying heavily on sales tax. However, is our sales tax regressive? We do exempt many items, and I believe consumer activity is driving that number. It is not that our rate is excessively high, but there is a large amount of activity here. When we talk about economics, I want the Department of Taxation to demystify sales tax, so people can understand how it all works. Yes, revenue is being generated but not due to a high tax.

MS. HUGHES:
Yes, you are correct. I often recall how taxable sales went down during the pandemic. However, with the passage of the marketplace facilitators and the decision *South Dakota v. Wayfair, Inc.*, 138 S. Ct. 2080 (2018), we did see an increase with online sales. In FY 2019-2020, marketplace facilitators reported tax of $108 million; in FY 2020-2021, $203 million; and in FY 2021-2022, $231 million. During the pandemic, Nevada benefitted from having that law in place. When brick-and-mortar sales closed, we were not able to collect that revenue.

CHAIR NEAL:
People miss the correlation to consumer activity, and there is an economic relationship relating to the status of sales tax. When we had consumers locked in their homes during the pandemic, they were spending online. They were going to spend one way or another. People were not going to work, and many people retired. We had people who had time and money to spend on home improvement projects and more. We saw the benefit of that relationship, but I have heard people question why we are relying heavily on sales tax as our General Fund revenue. We are not pushing people to spend. However, people are spending, and we are benefiting from consumer activity. It does not mean we are overtaxing citizens in the State.

My other question is in regard to Slide 21—Consolidated Tax Distribution and Supplemental City-County Relief Tax. The guaranteed counties have changed. Who is in and who is out now?

MS. HUGHES:
I will have to get back to you with that information. Two guaranteed counties came off last fiscal year, but I do not have the names of the counties still on the guarantee.

CHAIR NEAL:
Please review the definition of a "guaranteed county" versus a "nonguaranteed county." It is appropriate for the Committee to understand the terminology.

MS. HUGHES:
Several guaranteed counties receive the same amount of revenue from the CTX formula, even if they do not make that amount from their sales tax revenue. Sometimes, they make more, but they receive the guaranteed amount. A nonguaranteed county receives the amount generated through its county.

MICHAEL NAKAMOTO (Chief Principal Deputy Fiscal Analyst):
To answer the question about guaranteed counties, there are six—Esmeralda, Lander, Lincoln, Mineral, Pershing and White Pine—in guaranteed status.

CHAIR NEAL:
It is important to know because one of the drivers was the increase in sales tax, which took them out of guaranteed status because economic activity increased. The question important to the Committee is if there is a decrease in their sales tax, is there a reversion?

MR. MITCHELL:
Yes, the guaranteed status for these counties was enacted, especially with volatile sales in counties. That situation occurs more frequently in rural counties heavily reliant on mines, where they may spend more one year and not in another year. Once a county goes off guaranteed status, it cannot return to guaranteed status. It may exceed what the true portion of sales tax would be in one year or be down in a different year, but with guaranteed status, the county can plan on it year after year. If a county anticipates it will continue to exceed the sales tax amount, the decision is with the county to make the request to the Nevada Tax Commission. Once removed, there is no reversion to guaranteed status.

CHAIR NEAL:
Given Slide 27, there is a bill to raise the gross revenue amount to $6 million. How many taxpayers will be relieved from filing if it goes from $4 million to $6 million?

MS. HUGHES:
Madam Chair, if I could refer to your fiscal team, they have been working with our economist on these numbers.

CHAIR NEAL:
I will come back to that question, Mr. Nakamoto. I have another question on Slide 30. On the Real Property Transfer Tax, the breakdown is $1.30 to the State General Fund, $.55 to Consolidated Tax and $.10 to the Account for Affordable Housing. Since your office is the collector and distributor of these funds, how much does the 10 cents generate for this Account?

MR. MITCHELL:
Fiscal staff is looking for the number. Most of these distributions are from a county recorder's office straight to the State Treasury. We are a pass-through for some of the revenue.

MR. NAKAMOTO:
In FY 2021-2022, the amount generated from the $.10 for the Account for Affordable Housing was just over $13.8 million.

CHAIR NEAL:
That $13.8 million is Statewide? Okay.

SENATOR SEEVERS GANSERT:
I do not know if you have this answer or if we need to talk to the Housing Division. Are those funds bonded?

MR. MITCHELL:
I do not know the answer to your question, but I can research it.

CHAIR NEAL:
That is a good question because 10 cents is low. I want to go to Slide 37 regarding other tobacco products (OTP). The revenue chart has $32 million for OTP. Is vape included in the total, or is vape a separate number?

MS. HUGHES:
Vape is in the OTP numbers. We do not have a way to separate it on our returns.

CHAIR NEAL:
My next question is on the retail cannabis and the wholesale cannabis tax, Slides 40 and 41. Both tax revenues on the chart were minus 3 percent. There was a recent change to put some of it in the General Fund and give the Cannabis Compliance Board a portion for its administrative fee. Is that minus 3 percent an indicator of the redistribution to the Education Fund, or is it because economic activity slowed in FY 2021-2022?

MS. HUGHES:
It is the latter, because economic activity slowed down.

CHAIR NEAL:
Numerous articles during and after COVID-19 regard cannabis not generating the amount of revenue people believe it should was because of high taxation. Companies are claiming taxation is reducing the revenue generation they receive as a business, and there may be a need for reformation on this new industry. In Colorado, a group called Medicine Man said its revenue was a billion before, and now revenue numbers have been reduced to $1 million or so. The business claims cannabis tax is the cause of this situation. It is not in Nevada, but some of our retailers make the same argument. Have you heard industry members discuss the tax rate is driving them out of business?

MS. HUGHES:
We have spoken with several industry members, more on the wholesale tax rate rather than the retail tax rate. They want to pursue some change with the rate. California did away with the wholesale rate altogether. I am not sure if this is beneficial for Nevada, but I have heard rumblings from the industry in that regard.

SENATOR BUCK:
When was the CTX formula last calculated? Has it ever been recalculated? What is the process for recalculation?

MS. HUGHES:
I do not have that information in front of me, but I will get it for you.

CHAIR NEAL:
Mr. Nakamoto, do you have the answer to my earlier question?

MR. NAKAMOTO:
The Fiscal Analysis Division has been working with the Department of Taxation staff to get an estimate of the effect of the proposed change to the commerce tax by the Governor. We are working with FY 2021-2022 taxpayer data. Had the change been effective in FY 2021-2022, the information we got from the Department of Taxation indicated approximately 7,900 taxpayers filed a commerce tax return and paid the commerce tax in FY 2021-2022. There would have been a reduction of approximately 1,600 taxpayers. Close to 23 percent of the taxpayer base would have their commerce tax liability eliminated completely; however, every one of those taxpayers would have had their liability reduced, based on that additional $2 million.

CHAIR NEAL:
That is helpful information. We capture commerce tax by revenue, not by the number of employees. Applicable entities are making $6 million; however, there are several exemptions and pass-throughs on the money.

SENATOR SPEARMAN:
Regarding commerce tax, under *Nevada Administrative Code* (NAC), people can move from one category to another to reduce the tax. Have you seen much of that?

MS. HUGHES:
When the commerce tax first was implemented, we did see people asking to change between NAC codes. That has dwindled, but we still get applications asking to change from one NAC code to the next.

CHAIR NEAL:
On Slide 50, the exhibition facility fee, do you remember the bill last Legislative Session that came down to whether legislative intent included conventions? Is this the fee that excluded trade shows and conventions happening on The Strip? Is that why we see the reduction in this number?

MS. HUGHES:
You are correct. The bill we saw last Session was exempting those that participate or organize trade shows for commerce tax purposes. They became exempt business entities and no longer had to pay the commerce tax. This exhibition facility fee is separate from that.

CHAIR NEAL:
The fee has not generated much and is currently only $36,000. I wonder which trade shows were removed and what conventions still participate. Last Session, we recognized the need to provide relief to bring back the trade show business. I am curious what the overlay was with the facility fee.

I look to determine the result after we pass certain legislation. What is the effect on the revenue stream—did revenue increase or decrease? Revenue drives much of what goes on in the State. We can make a policy change which may decrease activity; however, it may also be a driver for another economic-related use. When we see these breakouts, sometimes we need to determine the associated economic activity, and conversation. What is the purpose? What is the economic goal? How does it change a business? Why is a business being asked to pay a tax? The State is responsible for paying for services. We must determine how it is managed to maintain a balance.

When we consider economic terms, it will help as we move through Session and see the bills. Consider the business on the other end of it. What is the effect of the policy on the business? Why are we moving that policy? Another question could be, is there a need to make an adjustment for revenue needs? Is there a change in the economic behavior where we need to capture a new consumer to help stabilize what the State may need. The future says if we do not capture this new consumer behavior, we are going to lose money.

We are moving on to the second presentation of the Committee on Local Government Finance (CLGF), presented by Chair Marvin Leavitt.

MARVIN LEAVITT (Chair, Committee on Local Government Finance):
My overview of the Committee on Local Government Finance (Exhibit D) covers responsibilities, membership and interface with the Department of Taxation. I will discuss our role when governments are in financial trouble, as well as review their revenues.

Slide 2 shows the Committee on Local Government Finance creation under NRS 354.105. Originally called the Local Government Advisory Committee, its responsibilities increased and the name changed.

The Department of Taxation by way of its Local Government Services staffs the Committee that meets not less than twice per year, normally four times a year.

The member appointments on Slide 3 are: three each from the Nevada League of Cities, Nevada Association of Counties and Nevada Association of School Boards; and two from the Nevada State Board of Accountancy.

Slide 4 lists the members who have a total of over 100 years of service on the Committee and represent both large and small governments.

Slide 5 relates what the Department of Taxation does with local governments by overseeing progress; reviewing budgets and audits; ensuring reports are accurate and comply with NRS; and alerting CLGF when it has problems with entities, whether related to their financial condition, compliance laws or regulations, or problems with internal controls as they relate to the local government. The Department frequently schedules appearances of these local governments before the Committee.

Slide 6 identifies CLGF responsibility for relating to policy decisions and fiscal administration under NRS 350 and 354, as well as advising the Department of Taxation on matters of local government fiscal administration.

The Committee approves regulations as they relate to local governments for implementation under NRS 354.570 through 354.626, Slide 7. Our regulations are limited. We recently enacted a regulation relating to fund balance and the ability of employee groups to comply.

Slide 8 lists the major revenue sources for local governments: ad valorem taxes; Consolidated Tax Distribution: Basic City-County Relief Tax, Supplemental City-County Relief Tax, Government Services Tax, Real Property Transfer Tax, liquor and cigarette taxes; licenses and permits; intergovernmental revenue; and charges for services.

Here is some history behind a few of these taxes. The State had a surplus in the late 1970s, and the 1979 Legislative Session reduced property taxes—decreasing the dollars schools received—and made up that difference through the State budget. During the 1980 election, Nevada voters approved a question like California's Proposition 13.

The Legislature acted on a proposal by the Governor during the 1981 Session for a substantial reduction in property taxes throughout the State that particularly affected local governments. That difference created an increase in the Basic City-County Relief Tax.

The Department had talked about that 0.5 percent BCCRT in effect since the 1960s. The Supplemental City-County Relief Tax enacted in the 1981 Session at the rate of 1.75 percent directly caused a substantial decrease in property taxes related to the SCCRT.

An issue arose with each county having a different relationship between the amount of incoming sales taxes and property taxes. Some smaller counties had good assessed value but a small number of sales. Guaranteed counties came about when the bill developed and helped level the playing field when they lost property taxes due to the significant reduction. This came out of the GST on motor vehicles and CTX that now makes up the largest component of local government revenues.

Slide 9 illustrates relative size of each one of these taxes to overall revenue with the Supplemental City-County Relief Tax the largest and the Basic City-County Relief Tax next. These two comprise a substantial portion of the Consolidated Tax revenue. The CTX distribution is adjusted every year as it relates to county growth in two factors—one, population of each individual entity and two, change in the growth and assessed value of the entity. The Basic City-County Relief Tax relates to tax collections within a county, and the SCCRT is distributed by the formula.

Slide 10 explains when the Committee may recommend local governments be placed on fiscal watch. Three things exist among local governments related to fiscal watch and severe financial emergency. Years ago, we had problems with the White Pine County School District when the District was unable to meet payroll. This happened during a Legislative Session, and a bill was written and referred to as severe financial emergency.

Other entities not in severe financial emergency had situations requiring they be placed on fiscal watch. Additionally, local governments with problems not to the point of a fiscal watch or severe financial emergency came before the Committee on Local Government Finance as recommended by the Department of Taxation.

Typical problems may stem from late audit report submissions, an audit report with an overexpenditure of a function, an internal control within an entity or no reconciled bank accounts on a county level relating to distribution of taxes. The Committee on Local Government Finance then questions how the local government will fix those problems before the next audit.

When the situation gets severe enough, a local government can be placed on fiscal watch wherein it comes before the Committee at every meeting and CLGF provides guidance. A local government that does not respond can be placed on severe financial emergency.

The normal process for a local government to go on fiscal watch starts when the Department of Taxation brings the situation to the attention of the CLGF. If the Committee agrees the situation is severe enough, it recommends the fiscal watch action to the Executive Director of the Department.

A number of years ago, we were in a recession. Most local governments had substantially cut back on expenditures and maintained significant fund balances. However, CLGF saw a rapidly deteriorating financial condition in North Las Vegas that had increased expenditures, so it was placed on fiscal watch. The Committee outlined what North Las Vegas needed to do and told it that noncompliance would result in a recommendation of severe financial emergency.

Slide 11 describes severe financial emergency. When the Committee on Local Government Finance recommends to the Nevada Tax Commission that a local government be placed on severe financial emergency, the Department of Taxation assumes management of the local government, particularly related to all financial matters. The Department oversees and approves everything from payroll to all expenditures. In the case of North Las Vegas, the city responded favorably to what was requested, and its financial condition improved. North Las Vegas came before the Committee for a detailed review of its financial condition, was eventually taken off severe financial emergency and returned to good financial health after several years. Nye County, among others, has overcome its financial problems and returned to financial health.

Slide 12 lists local government conditions that can determine placement on severe financial emergency or fiscal watch and the need to act immediately.

Slide 13 asks, "How does CLGF see the current financial conditions of local governments?" Right now, the financial condition of local governments is good. Your Committee is aware of the State revenue condition. The local government finances follow similar revenue paths as the State. Sales tax is the largest revenue for the State, as well as local government. One difference between local government and the State is the State receives a substantial amount of gross gaming revenue, which is not a major source of revenue for local government.

State revenue estimates come on May 1, 2023, from the Economic Forum but are not official until the Forum meets in December of the following fiscal year. Whereas the local government has an annual budget, the State does its budget every two years.

CHAIR NEAL:
Thank you. With 47 years of local government finance, you are institutionally ingrained in the information. We need to have your commentary and history recorded not just in this Committee but so people can go to the University of Nevada, Las Vegas, pull down that video, watch and listen to everything you have to offer in terms of history, knowledge and information. How does the assessed value for a city happen on the local government level?

We receive an annual report from the assessor as to the total assessed valuation. At one time, property tax was the major source of revenue for local government. It was reduced in 1979 and then substantially again in 1981 with that imposition of the Basic City-County Relief Tax at the rate of 1.75 percent. Rapid growth and assessed valuation led up to the Great Recession in 2008. Thereafter, particularly in the large counties, a rapid decrease in assessed value occurred and property taxes went down as a result. Since then, limitations have been placed on growth with 3 percent on residential and 8 percent on business property, so property taxes have never recovered to previous levels. Consequently, they become a much smaller portion of local government budgets. One mainly sees it through the schools and extra funding required by the State because of that. Previously the major source of revenue for local governments, property taxes are still an important part but do not grow like the other taxes we have.

CHAIR NEAL:
This meeting is adjourned at 2:51 p.m.

RESPECTFULLY SUBMITTED:

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Janet Stokes,
Committee Secretary

APPROVED BY:

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Senator Dina Neal, Chair

DATE:_______________________________________

EXHIBIT SUMMARY				
Bill	**Exhibit Letter**	**Begins on Page**	**Witness / Entity**	**Description**
	A	1		Agenda
	B	1		Attendance Roster
	C	2	Shellie Hughes / Department of Taxation	Overview Presentation
	D	21	Marvin Leavitt / Committee on Local Government Finance	Overview Presentation