MINUTES OF THE DECEMBER 18, 2015
PUBLIC SCHOOLS OVERCROWDING &
REPAIR NEEDS COMMITTEE MEETING

1. Opening Items

1.01 Call to Order

The meeting of the Public Schools Overcrowding & Repair Needs Committee was called to order at 9:02 a.m. at the Washoe County Complex, 1001 East Ninth Street, Caucus Room, Reno, Nevada.

1.02 Roll Call & Introductions

Chairman Shaun Carey and Committee Members Commissioner Marsha Berkbigler, Bridget Burckhard, Mike Cate, Dana Galvin, Mike Kazmierski, Greg Peek, Kevin Sigstad, and Len Stevens were present. Committee Member Josh Hicks was not present at the time of roll call. Committee Members Assemblywoman Teresa Benitez-Thompson, Anthony Carano, Todd Koch, Dylan Shaver, and Senator Debbie Smith were absent from the meeting.

Chairman Carey introduced Carole Vilardo of the Nevada Taxpayer's Association who would be providing additional information to the Committee of the possible impacts of changes to the tax systems.

1.03 Public Comment

There was no public comment at this time.

2. Items for Discussion and Possible Action

2.01 Approval of the minutes of the October 23, 2015 meeting of the Public Schools Overcrowding & Repair Needs Committee

It was moved by Mr. Sigstad and seconded by Commissioner Berkbigler that **the Public Schools Overcrowding & Repair Needs Committee approves the minutes of the October 23, 2015 Meeting.** The result of the vote was Unanimous. Final Resolution: Motion Carries.

Committee Member Josh Hicks arrived at the meeting at 9:05 a.m.

2.02 Approval of the minutes of the November 6, 2015 meeting of the Public Schools Overcrowding & Repair Needs Committee

It was moved by Commissioner Berkbigler and seconded by Mr. Sigstad that **the Public Schools Overcrowding & Repair Needs Committee approves the minutes of the November 6, 2015 Meeting.** The result of the vote was Unanimous. Final Resolution: Motion Carries.

Chairman Carey indicated agenda items 2.03 and 2.04 would be combined to allow the presentation and discussion regarding both items to be heard at the same time.

2.03 Introduction, presentation and discussion of the impact of incremental changes in tax rates for property tax, sales tax, real property transfer tax, transient lodging tax and government services tax

2.04 Discussion about the adequacy and historical evolution of school construction funding in Nevada

Lindsay Anderson, Director of Government Affairs, Washoe County School District, explained Ms. Vilardo was providing the information at the request of the Committee. The Committee was interested in learning more about the effects of increases to the five revenue sources the Committee was authorized to consider for a potential ballot question. The Nevada Taxpayer's Association had been a part of tax discussions in Nevada for decades and Ms. Vilardo had in-depth knowledge of the history of many of the taxes.

Carole Vilardo, President, Nevada Taxpayer's Association, provided the Committee with a comparison of the five taxes the Committee was authorized to consider altering. The majority of changes to the tax system in Nevada had come since 1981 because of specific circumstances and reasons. A history of property taxes in Nevada was provided. Property taxes were limited by the Nevada Constitution to $5.00 per $100 of assessed value. Any changes to the property tax system would require an amendment to the Constitution. A hybrid system for property tax is used in Nevada, which was also referred to as taxable value. The hybrid system was developed because of a tax shift to sales tax. Nevada was the only state to currently use the hybrid system, which included the depreciation of property after the established value was determined. Prior to the tax shift, the Nevada Legislature reduced the statutory rate to $3.64 per $100 of value. Some counties allowed for a $3.66 rate because of a voter approved measure on natural resources and land swaps. Property taxes were capped at 35% per $100 of assessed value. The distribution of the property tax was reviewed. School were provided $0.75 from the property tax rate for operating expenses during the 1983 Legislative Session, as well as any funds received from General Obligation Bonds, which were backed by property taxes.

Ms. Vilardo explained the history of sales tax in Nevada. The original 2% sales tax was implemented in 1955 to increase funding for schools. It was important to note that except for the tax shift in 1981, increases in taxes by the Legislature were generally meant to increase funding for education. The arguments against the 1955 sales tax were almost exactly the same as the arguments currently being made against the Commerce Tax. Parents developed a committee, Save Our Schools (SOS), in an effort to get a referendum on the ballot supporting the tax. Referendum petitions only applied to existing statutes and were worded in such a way that if you wanted to repeal the statute you would have to vote "no." Then in 1967, the Legislature decided the State needed the revenue from the sales tax so the local school support tax was created as a secondary component to the sales tax based on personal property, i.e. vehicle registration. The distribution of sales tax was reviewed.

Ms. Vilardo told the Committee about the transient lodging tax, more commonly referred to as the room tax. The room tax rate varied in each county to the extent that some counties would remove the tax for someone who stayed in the county 30 or more days, with other counties utilizing a 90 day timeframe. The distribution of room tax rates were provided. Initially 3/8% of the rate was intended to go to the State for the promotion of tourism and 5/8% was to go to the counties for the Fair and Recreation Board or Convention and Visitors Authority. During the 1999 Nevada Legislature, Clark County School District was having a similar problem with capital funding to that of the Washoe County School District. The hotels agreed to "give up" their portion of the room tax rate for the promotion of tourism, even though it was never their portion but went to the Convention and Visitors Authority. Currently, in 16 counties, the 5/8% went to the Fair and Recreation Board/Convention and Visitors Authority and in one (1) county, Clark County, the 5/8% went to the Clark County School District for capital projects and school construction.

Ms. Vilardo explained the supplemental governmental services tax, which was originally known as the motor vehicle privilege tax. The governmental services tax was implemented in 1991 and was a supplemental tax that could not exceed 1% for each $1.00 of valuation added to the original motor vehicle privilege tax. Thus the more expensive the vehicle, the greater the tax. The tax used to be paid as part of the property taxes because it was based on personal property so the amount taxed was greater when it was under property taxes. The Committee had the ability to look at the tax because it had been phased out. The real property transfer tax was explained to the Committee. The State's rate was implemented during the 2003 Legislative Session to take advantage of the increased property sales because the State was seeking additional revenue. The revenue source was not considered stable because it was dependent on the housing market. The total amount of the tax was $1.95 per $500 of assessed value. The State received $1.30 per $500 of value for the General Fund and $0.10 per $500 of value went to the Low Income Housing Fund. The remainder of the tax went to the county where the tax was collected as part of the Consolidated Tax (C-Tax). Clark County School District received an additional amount from the tax because they were able to convince the 1997 Legislature that an increase of $0.60 per $500 of value was needed for school construction and facilities.

Ms. Vilardo concluded the presentation by mentioning the basic pros and cons for each tax were included in the materials provided. There were additional pros and cons to each tax because there was really no such thing as a “good” tax and there was no such thing as a “fair” tax. No matter the amount of justification proposed for a tax increase, there would always be people upset. The most successful initiatives were those that were able to provide the lowest increases possible and spread the increases across the broadest base. The key was to not impact the spending decisions of those paying the tax.

Mr. Sigstad requested clarification on the transient lodging/room tax rate for Clark County. Ms. Vilardo reiterated that the Clark County School District received 5/8% of the 1% of what was collected from the revenue for the Fair and Recreation Board for the counties. The rate depended on where the hotel was located and was the tax charged to the price of a room. If a room was “comped” there was no tax charged.

Mr. Hicks asked if the taxes could be ranked based on their stability and bonding capacity. Ms. Vilardo stated that property taxes were the most stable for bonding purposes. The reason was because any bonding done based on property tax carried the pledge of the full faith and credit of the entity doing the bonding, based on the assessed value of the property. Property taxes also received lower interest rates on bonds than pure revenue bonds. The next most stable tax had proven to be sales tax, which was why a number of states were interested in moving away from income taxes. Regressivity was always a concern with sales tax because in Nevada, the one regressive item taxed with sales tax was clothing because food and rent/mortgages were not taxed. The third most stable was the government services tax primarily because there were generally enough new cars purchased, or people did not get rid of their cars so still had to pay the tax, to be considered stable. Finally, the room tax and real property transfer tax would be considered the least stable in terms of revenue for bonding purposes and would be better for Pay as You Go projects. It was important to note that Nevada had economic slow-downs about every 7-10 years, so the revenue would not always materialize as desired. However, even if the current economy in Northern Nevada leveled off and remained at what it was currently, the region was in better shape than in previous years so some of the taxes would balance each other out.

Mr. Sigstad wondered if the Committee was interested in increasing the sale tax rate by 1/2% and the surrounding counties remained lower, would consumers of big ticket items be driven to other counties. Ms. Vilardo mentioned that a higher sales tax would tend to drive larger purchases to the surrounding counties. However, if the Committee considered a lower rate of increase, such as 1/8%, then that might not be enough to move consumers.

Mr. Sigstad asked if Ms. Vilardo had knowledge of what portion of the revenue collected from sales taxes was from big ticket items, such as cars. Ms. Vilardo indicated she did not have the information available, but it could be looked up on the Nevada Department of Taxation's website. Generally, the largest amounts collected in Clark and Washoe Counties were from restaurants and vehicles. Increases to sales tax would usually have less of an effect on restaurants because restaurants were considered discretionary spending.

Mr. Sigstad remarked that it appeared certain sections of downtown Reno appeared to have the highest room tax rates in Nevada. Ms. Vilardo remarked that the information was not correct. In some areas in Nevada, the room tax rates were as high as 16%, but most were around 13%. The room tax rate had become a favorite revenue source for local governments because they were allowed to increase the rate under Nevada Revised Statutes. Most tourists would not consider the room tax rate when booking a room, especially during large events where the occupancy rates were over 90%.

Mr. Sigstad wondered if groups that booked blocks of rooms were sensitive to an increase in the room tax rate. Ms. Vilardo suggested it depended on how the rooms were reserved. Blocks of rooms could either be booked directly from the hotel or through a third party, such as a travel agency. Her experience had been that conventions or large groups would look first at the total amenities and total price before considering the tax rate. Additionally, people would come to an area to visit relatives and there would be many new people coming to the region looking for jobs. All that being said, it was also important to not "soak" tourists because the room tax rate could have a large impact on some of the lower priced hotels and the Committee members would not want economic decisions of tourists made because the room tax rate was too high.

Chairman Carey asked if Nevada was unique in having education funded by both the state government and local taxes. Ms. Vilardo indicated Nevada was not unique.

Chairman Carey mentioned that the reason for the Committee was because there was about an $800 million gap in funding for the Washoe County School District in terms of capital needs. He wondered if the reason for the gap was because of a "structural" problem based on the state and local tax codes or if the gap was because there was a critical problem that had to be addressed. Ms. Vilardo felt that the current issue was due to a combination of both, though slightly more structural. When the sales tax was initially put in place in 1955, Nevada was a manufacturing and mercantile society so the tax was placed on tangible goods. The 1987 Legislature commissioned a Price-Waterhouse Institute study to review the taxes in Nevada and provide recommendations to the 1989 Legislature because of a 1985 economic census that showed over 50% of Nevada's economy was based on services, not goods, and services were not subject to the sales tax. The current economy was also continuing to change with more items “purchased” through downloading from the internet that would have previously been taxed, such as books and music. She was surprised that Nevada continued to increase the amount of revenue collected from sales tax because of the changes to the economy and purchasing habits of consumers.

Mr. Sigstad asked if there had been any studies on the amount of revenue the State lost due to not collecting sales tax on internet sales generated out of state. Ms. Vilardo mentioned generic studies had been done which interpolate information from the federal income tax forms of businesses. The problem was the exact amount of the loss was difficult to determine. The 2013 Legislature did pass a “Click Through Nexus” that allowed for sales tax on internet purchases, but only if there was a physical presence in the State for the business. She felt the amount the State would be able to collect would be about $20 million because most of the larger stores in the country had a presence in Nevada, such as Walmart, Macy’s, and Target, so sales tax was already being paid on those internet purchases already.

Mr. Cate wondered if it would be best for the Committee to pick a 3-4 of the taxes to increase initially, with the caveat that some of the revenue from certain taxes would be used for Pay as You Go projects and other revenue would be for bonding purposes, then allow some of the increases to sunset. Ms. Vilardo remarked that the idea might help with the passage of a ballot question. It would be more important to look at what the money would be used for and how projects could be paid for, whether Pay as You Go or bonding. If a specific tax increase were to be used for a specific project then sunsetting the increase would be an option. Future costs would also have to be considered so there would be funding available for repairs. The Committee would also have to be able to show the voters the District would be responsible with their dollars.

Mr. Sigstad asked why the Clark County School District was not in the same position financially as the Washoe County School District if the main reason behind the gap was due to structural problems. Ms. Vilardo stated that Clark County was looking for an additional $4 billion for capital projects and construction needs. The previous bond measure failed so they would probably be putting another question on the next General Election ballot. Part of the challenge with school funding on ballots was that people usually wanted to know how much of the money would be going directly into the classrooms to teach the children. She recommended that the Committee not look at future projections of the amount of revenue the taxes could bring in, but instead look at the amounts brought in over the past 5 years. Additionally, the Clark County School District had access to additional tax revenue not available to Washoe County.

Mr. Peek explained the Committee had previously agreed that there was a financial need for the Washoe County School District related to capital projects. He wondered which of the five different taxes would be the most palatable to the voters. Ms. Vilardo remarked that the transient lodging/room tax was the most palatable to voters because they were not the people paying the tax. It would also be important to realize that the amount of sales tax paid by tourists was approximately 30% and the amount paid by business was approximately 35%, though the exact amounts would have to be confirmed. The next most palatable would be the real property transfer tax because not everyone would purchase a house. She recommended the real property transfer tax revenue be used for Pay as You Go projects because if the housing market crashed again there would be no income.

Mr. Peek asked if Ms. Vilardo felt the funding formula used by the State to fund capital projects for school districts was broken. Ms. Vilardo believed the formula was broken and had provided recommendations to change it to the Legislature over the years. The problem was that there were winners and losers to every formula change. She provided the Committee with information on a Government Accountability Office (GAO) report from 10 years ago ranking the states in terms of state support for school construction. Michigan topped the list because the state would sell the bonds for the school districts to get the best rate. The school district was responsible for paying the bond, but the state could extend or minimize the payments made by the school districts.

Mr. Stevens wondered if presenting the need of the District would be relevant when campaigning began for the ballot question. Ms. Vilardo stated the need was relevant and had to be demonstrated to voters. It would also be important to show to voters what had been done with previous revenue because if it could be shown that the projects the District said would be done were done, and completed sooner than anticipated, the voters would be more likely to approve additional funding. If the voters did not trust an entity, they would not be willing to provide additional money.

2.05 Introduction and overview of a proposed formula to define the issue of overcrowding & repair needs as drafted by Vice Chair Dylan Shaver

Chairman Carey indicated that he would like to defer the agenda item until a future meeting to allow Mr. Shaver to be present for the discussion. He asked the Committee if they required any additional information related to the item. For example, he was interested in seeing different terms of bonds to see if the amount of time to pay the money back made a difference or having the amount in the draft Strategic Blueprint included in the formula.

Mr. Peek expressed concern with the Committee utilizing the amount provided by the District in the draft Strategic Blueprint. He felt the Committee had been tasked with determining the need for the District and the Board of Trustees came up with their own figure. It could be difficult to come up with a figure that was higher than what was proposed by the Board because it could undermine the campaign efforts.

Commission Berkbigler clarified that the amount included in the draft Strategic Blueprint included the amount previously presented to the Committee for on-going repairs and maintenance. Pete Etchart, Chief Operations Officer, Washoe County School District, stated that the amount did include the $20 million in annual repairs.

2.06 Presentation and discussion regarding the demonstration of the impact of property tax caps and the recession on school construction funding in the Washoe County School District

Mike Kazmierski, President/CEO, Economic Development Authority of Western Nevada (EDAWN), explained that a communication piece would need to be developed to show that the problem for the Washoe County School District related to capital funding was not solely due to Tesla coming to the area. The current lack of funding for capital projects was more due to nothing occurring over the past 10 years in terms of increased capital funding. He presented information that showed the cumulative shortfall because of the cap on property taxes and the recession. The shortfall caused by the cap and the recession mirrored the current need for the District. The anticipated growth was only exasperating the problem, not causing the problem.

2.07 Requests for future agenda items

Mr. Hicks requested the Committee begin a discussion on the community and media outreach that would be required for a potential ballot question. He would also like to have a discussion on if the Committee could place restrictions on potential revenue within the ballot measure.

Mr. Kamierski believed that the Committee needed to start looking hard at the options available to them with the intent of providing a clearer focus on which of the taxes the Committee would be interested in changing.

3. Closing Items

3.01 Announcement of Next Meeting

The next meeting of the Public Schools Overcrowding and Repair Needs Committee would be held on January 8, 2016 at 9:00 a.m. at the Washoe County Complex.

3.02 Public Comment

Carol Vilardo announced she would be retiring in March 2016. She introduced Anna

Thornley, who would become president of the Nevada Taxpayer's Association. Ms. Thornley would be based in Northern Nevada

3.03 Adjourn Meeting

There being no further business to come before the members of the committee, Chairman Carey declared the meeting adjourned at 10:58 a.m.

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Shaun Carey, Chair