

TAXTOPICS

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GOVERNOR ADDRESSES MEMBERSHIP

On March 15, 2000, the Association's 78 annual membership meeting program was held in conjunction with a luncheon at Mandalay Bay Resort in Las Vegas. The luncheon, featuring Governor Guinn as the keynote speaker was attended by 240 members, legislators and guests

Following the Award Presentation NTA Chairman of the Board introduced Governor Guinn. The Governor's reviewed his tenure as Governor, the progress being made in the review of State government and his concerns regarding the two tax initiatives. The complete text of his remarks is reprinted for the benefit of our members who were not present.

The Statement of GOVERNOR KENNY C. GUINN

I have been your Governor for a little more than a year. But I've been a citizen of Nevada for 35 years, and in that time I've been asked to help my community and my state in many different ways. From rallying support for bond measures to build schools; to putting more police on the streets; to building fire stations, libraries, and justices facilities; to returning a university to financial health, it has been my pleasure to help, and to have been a small part in helping our communities and our neighborhoods become better places to live, work, and raise our children. And when called upon by past governors, I have served as the chair or co-chair of five major impact studies which helped set the course of action for our entire state on issues like transportation, tax policy, state reorganization, and budget balancing.

I haven't known all the answers, but I've been successful and able to find a reasonable solution when I was able to bring those with differing viewpoints to the same table and forge a path we could walk down together. I have always tried to build consensus, allow people to participate and be heard, and endeavor to find common ground. As a community leader, as a university president or now as your Governor I have always believed that true leadership begins with the ability to build consensus. And building consensus is my purpose today.

During my first State of the State Address, I told you about the overwhelming impact of Nevada's growth on our budget process. I promised change, and new ideas based on common sense to protect our quality of life. I also promised the most comprehensive review of state

government in Nevada's history. I am happy to say I am keeping that promise. We are totally reforming the way we look at and prepare the state budget. Accordingly, I have instructed my cabinet and all department heads that I expect their budget requests for each year of the next biennium to include not one dollar more than has already been budgeted for this coming fiscal year. They will have to pay for new programs through increased efficiency and savings from existing budgets. As a business man, I know that we must tighten our belts another notch to face an uncertain financial future from a position of strength.

As many of you know our Fundamental Review is also well under way, and we are in the midst of determining which services state government should or should not be providing; how effectively the state is providing the appropriate services; and how wisely the taxpayers' dollars are being spent. We are looking at all budgets, all the programs, and all the services - to determine whether they are services the state needs to provide given our many changes. The Fundamental review Steering Committee will begin voting on recommendations next week and this review will continue into the fall.

In May, we will undertake another important endeavor. I am calling a statewide Fiscal Forum which will bring together our state's best analysts, budget experts, and industry leaders to provide a more accurate picture of our state's needs and resources for all Nevadans to consider.

But Nevadans didn't elect me to dictate to them what

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the solutions should be. Instead, it is my role to bring all affected parties together, find our common ground and present clear options to our citizens. After explaining these options and listening to the people, I will make my recommendations to the people’s representatives in the Legislature, and we will make the choice together. No special interest groups, no backroom maneuvering, just open debate and a sense of togetherness. In other words, good government.

In my short time as your Governor, we have had to make some tough choices. We’ve trimmed \$251 million out of the budget. We’re reduced the number of state employees by more than a thousand. We’ve privatized the industrial insurance system and continued the hiring freeze. I say “we” because no one person and no one group can do it alone. We worked closely with members of the Senate and the Assembly, Republicans and Democrats, liberals and conservatives, citizens, and elected officials. We sat down at the same table and found that common ground, that consensus.

Together, we have begun the important task of deciding what our priorities are, and what all Nevadans demand as essential services from state government. But now we face a problem. We face an onslaught of individual efforts that would decide independently what Nevada’s priorities should be and how we will pay for them.

This approach says “this is my group, these are our needs, and we will pursue them alone.” It pits us against each other and tears at the very fabric of our state. It is shortsighted, it is misguided, and in the long run it is doomed to fail.

So today I’m calling on Senator Joe Neal and the Nevada State Education Association to abandon their initiative petition drives. Instead, I invite them to join me at the table and find economic solutions for the good of all of us - not just for today, tomorrow, next week and next year but for the long-term good of our state.

Let me be very clear - I am not questioning the motives of those who are behind these initiative petitions. But the effects of those efforts pit our major industry against taxpayers and the business community against educators. It is divisive, it is destructive, and it will tear apart our state. As your Governor, I cannot, and I will not stand idly by and watch this happen. Today, I am prepared to travel to every corner of our state and

Continued next column

work against these efforts, while working towards a unified vision that focuses on the economic well being of this state long after I have left office.

And when I stand before the state legislature and the people of Nevada who elected me to deliver my second State of the State Address in January of 2001, I will present a financial picture and economic plan that will extend beyond the next biennium and provide a sound platform for the economic future of our state. It will be a plan forged by consensus and created out of a process that is inclusive, not divisive. There is room at the table for the gaming industry, the business community, educators and taxpayer advocates like you here today. It will have to be a big table, but believe me, there’s room.

Beginning with the Fundamental Review and the Fiscal Forum and continuing through the building of what I promise will be the most inclusive, participatory and open state budgeting process in our 135 years of statehood, I will turn to the people of Nevada for their vision. The future economic health of our state depends on our ability to build consensus from their collective vision. As your Governor I will work with Nevada’s citizens to make the tough choices to do what’s right and what’s best for our state. But I can’t do it without your help. And in the end, the victory will not be mine. It will be ours. All of ours. I ask you to get involved, to prepare yourself to play an important role in the future of the new Nevada, as we prepare for life in the new millennium.

BOARD ELECTION RESULTS

Board members re-elected for a three-year term: Barry Becker, Becker Realty; Robert Campbell, The Campbell Company; Randall Capurro, Layne & Associates; Donald Clark, Donald Clark Associates; Wayne Horiuchi, Union Pacific Railroad; Michael Maffie, Southwest Gas; Charles McCrea, Jr., Mikhon Gaming Corporation; James Murphy, Grant Thornton and David Turner - Turner, Loy & Co., LLC.

Newly elected to the Board: Alan Stipe, Sunrise Hospital and Tim Treichel, Georgia Pacific Corp.

Elected at the Board Meeting, held the morning of March 15, as Officers for 2000 were:

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|---------------------|---------------|
| Fred D. Gibson, Jr. | Chairman |
| Ann Macfarlane | Vice Chairman |
| Tito Tiberti | Vice Chairman |
| T.J. Day | Secy./Treas. |

CASHMAN GOOD GOVERNMENT AWARD PRESENTED

and the winner is . . .

The Mine Safety and Training Section of the Department of Industrial Relations

The Mine Safety and Training Section of the Department of Industrial Relations was the recipient of the third annual Cashman Good Government Award presented at the annual lunch meeting in Las Vegas. Accepting the Award on behalf of the employees of the Section was Skip Flanagan.

Kicking off the luncheon program, Jim Cashman, Jr., Chairman of the Awards Selection Committee introduced each of the five finalists for the award. The Award which established as a means of recognizing those state and local government employees who demonstrate by their actions their concerns for spending taxpayer dollars wisely and efficiently. It is named after the Cashman family, who for over 75 years have been recognized throughout the State for their civic and community involvement.

The finalists presented (in alphabetical order) were: the Elko City Development Team, the Fallon/Churchill Volunteer Fire Department, Gale Fraser, General manager of the Clark County Flood control District, the State Mine Safety and Training Section of the Department of Industrial Relations and the Victim Offender Reconciliation Program of Clark County Social Services. Following is a summary of the winner's and finalists' achievements.

MINE SAFETY AND TRAINING SECTION

Recognizing the need for a direct approach the Section developed a professional safety training program for mine supervisors. Most of the aspects of the training program were formulated, written and compiled on personal time, outside of the workplace. It was developed to focus on prevention of accidents rather than using enforcement authority and easily serves as a model for other safety programs.

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ELKO CITY DEVELOPMENT TEAM

Members of the City's staff created the team to encourage dialogue between the development community, city department heads and the residents. The opening of the lines of communication has led to finding solutions to problems and created streamlined processes that have saved both time and money by developers and individuals building homes.

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FALLON/CHURCHILL VOLUNTEER FIRE DEPARTMENT

Working on their own time, the volunteers and a retired firefighter took the initiative to bring their units up to the most stringent levels to achieve the highest Insurance Service Office (ISO) ratings possible. In obtaining this classification, the fire insurance savings to Churchill and Fallon residents and business is \$1.4 to \$2.4 million per year. Additionally the partnership between the city of Fallon and Churchill County has allowed expenses to be shared providing additional savings of taxpayer dollars.

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GALE FRASER, II, P.E., GENERAL MANAGER Clark County Regional Flood Control District

The leadership and guidance for the implementation of the Flood Control Master Plan have been invaluable to the timely and cost-effective completion of projects. By expeditiously discharging the master plan the benefit to the public has been \$2.21 for every \$1.00 of public money spent (per independent audit.)

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VICTIM OFFENDER RECONCILIATION PROGRAM Clark County Social Services

This program practices restorative justice by having juvenile perpetrators recognize the injustice they have caused; agree to compensate the victim; and assure the victim of future safety. Tax dollars are saved by using volunteers for mediation thereby eliminating the expensive proceedings of juvenile court.

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“THE OTHER SIDE OF THE INITIATIVES”

Culminating the luncheon program was a panel discussion, “The Other Side of the Initiatives.” The “Other Side” being the opposition response to the September 1999 Breakfast Forum, during which proponents Senator Joe Neal and Ken Lange, executive director of the Nevada State Education Association presented the reasons for their proposed initiatives.

Mike Sloan, Chairman of the Board of the Nevada Resort Association led off the discussion by explaining the industry’s opposition to Senator Neal’s initiative to increase the gross gaming tax. He was followed by Robert Forbuss, Chairman of the Las Vegas Chamber of Commerce, who spoke to why the business community was opposed to the imposition of a business income tax. The presentations were followed by a lively question and answer session moderated by Jon Ralston, well-known political reporter

Because of the importance of the subjects to the members of the Association, the statement by Mr. Sloan and the notes of Mr. Forbuss are reprinted here.

REMARKS OF MIKE SLOAN Chairman of the Board Nevada Resort Association

Before I get into the details of my remarks, I want to commend the Governor for a thoughtful and well reasoned presentation. As we prepare to enter the 21st century, the future of our state will depend in large part on the creation of a stable tax structure, one that is carefully, thoughtfully and fairly designed. Such a structure will require input from all segments of our state, business and labor leaders, individual citizens as well as elected leaders. The initiative tax petition process does not lend itself to the development of such a system.

Further, Governor, we in gaming are prepared and committed to responding to your call for a broad-based and cooperative effort, which under your leadership, can lead to a true assessment of Nevada’s needs and long term approach to facing the challenges of our growing state. I’m certain Governor Guinn will be including the Nevada Taxpayers Association among those who will play a key role in that process. The Nevada Taxpayers Association has served for 78 years as the guardian of our tax dollars.

On that note, on behalf of the entire gaming industry, let me express my gratitude to your Chairman Fred Gibson and the Board of Directors of the Nevada Taxpayers’ Association for their swift and strong opposition to a destructive tax initiative which would raise the gross gaming revenue tax by 80%. I will have more to say about the Neal Initiative in a few moments, but first let me turn to an important study that was just released yesterday. I believe it contents are of great interest to this group, and indeed all Nevadans.

Arthur Andersen and the Center for Business and

Economic Development at UNLV have examined both the impact of Nevada’s significant population growth in recent years on the state’s tax structure and the changing role Nevada’s gaming industry plays in our rapidly diversifying economy.

Briefly, let me state some of the findings of the study.

- The gaming industry employs 21 percent of Nevada’s workforce. Yet the industry pays over half of the state’s taxes.
- On a per capita basis this equates to \$2,657 in state taxes paid by the gaming industry per employee; all other industries pay \$601 on a per employee basis, or less than one quarter of the amount paid by gaming. This does not include retirees.
- In the fiscal year ending June 1999, the Nevada gaming industry paid in excess of \$630 million in taxes and license, including:
 - *This \$638 million figure does not include sales, property and business activity taxes.
- Of the \$638 million collected directly from gaming, \$582 million was allocated to the State General Fund and \$56 million went to dedicated funds to support schools and counties.
- All gaming taxes, other than the entertainment tax, are paid by the licensee, and the bulk of taxes are assessed on gross revenues without any deductions - regardless of profitability, and regardless of ability to pay - with no ability to raise the price of our principal product – “the bet”. A \$5 bet is always a \$5 bet and the law of probabilities govern our revenues.

We also know that the gaming industry contributes to local governments through a variety of taxes, including

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property taxes, local gaming taxes and room taxes. In fact, six out of ten of Nevada’s largest property taxpayers are gaming companies.

- The industry has contributed \$118 million in room taxes to Clark County for transportation needs, roads and buses since the passage of Question 10 in 1990.
- According to the Clark County School District, the gaming industry has generated more than \$35 million since 1997 when it volunteered room tax revenue to meet the school construction needs of our local community. Going forward room taxes will provide hundreds of millions of dollars for schools in Clark County.
- The industry also contributes tens of thousands through the LVCVA for parks and recreational programs in Clark County.

But let me set aside all the statistics for a moment. The overriding message of the Arthur Andersen and UNLV study is this:

Compared to most states, Nevada’s tax structure is uniquely perhaps “dangerously” – dependant on gaming and sales tax revenue. Because of the tax structure, the State of Nevada hasn’t had to require other businesses to bear a commensurate portion of the overall tax burden. The luxury of such a system is obvious, and the system worked well indeed when Nevada was a small state and had little to no competition for America’s gaming dollars - two decades ago.

On average, the other 49 states are more like California and Arizona, which finance 40 percent of state expenditures through state income taxes. Indeed, every other state with legalized gaming has a state personal or business income tax - or both - which far surpass gaming taxes as those states’ principal sources of revenue.

Not surprisingly, the Arthur Andersen report reveals that Nevada’s tax structure continues to be one of the least burdensome on the average citizen in the nation.

The reasons:

- Residents pay very low per capita taxes. The comparative tax burden for a family of four with an income of \$75,000 ranks Las Vegas 49th out of 51 metropolitan areas in the United States.
- Property taxes here are lower than most states. Las Vegas’ property tax is ranked 32nd out of 51

metropolitan areas.

- Tourists pay a significant portion of the sales tax. Nevada’s sales tax rate is comparable to that of the states around us. Nevada’s total sales tax revenue for 1998 was approximately \$1.8 billion– of which 35 percent is paid by the gaming industry, its employees and customers, thereby reducing the tax burden of the average Nevada resident. Nevada’s sales tax also allows residents to avoid paying taxes on prescription medicine, medical devices and food purchases.
- Because of our success as a leading tourism and gaming destination, individuals and other businesses are required to share little of the state’s tax burden. They pay no personal income tax and no corporate income tax - the two taxes that are other states’ principal sources of tax revenue.

Now let me outline a couple of factors not included in the Arthur Andersen study that are critical in understanding the dangers of the Neal Tax Initiative.

On Tuesday, March 7, the state of California - through referendum - passed a sweeping authorization of Native American tribal gaming. A state that represents 35 percent of our visitors, right across our borders in what is our largest market, is now potentially going to become our biggest competitor - with Nevada-style casinos being built in Sacramento, Palm Springs, San Diego and elsewhere.

A recent Bear Stearns report indicates that revenues in Reno/Sparks will decline by as much as 22 percent, as much as 23 percent in downtown Las Vegas, and over 15 percent in Laughlin as a result of competition from tribal gaming.

Over the last several months, and probably over the next several years, we will be battling in Congress on the issue of sports betting, and on a national gaming tax.

Since I am in a room full of business people, this next statistic will have special meaning. Approximately \$18 billion in assets have been invested by the gaming industry - incredibly, approximately \$4 billion in the last three years. Revenues total \$14 billion, with a net income of less than \$1 billion.

Return on investment for some publicly traded gaming companies is on the decline. In order to differentiate our product from the competition in other gaming venues, we have to spend more and more, earning less and less. Other businesses - which do not shoulder a

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tax burden akin to ours in Nevada - yield much higher rates of return on their investments.

The dynamics of the gaming economy have changed dramatically, and while I believe we still do it best - we still have the strength to persevere - now is not the time to change the rules of the game.

It is against this backdrop that Joe Neal asks for an 80 percent increase in gaming taxes:

- Ignoring the realities of what gaming pays today;
- Ignoring the undisputed facts of an unbalanced taxation system; and
- Ignoring the very real competitive threats this industry faces.

Like most tax proposals, the devil is in the details of Senator Neal’s plan. It earmarks monies in a way that would undermine existing state programs and the prerogatives of our duly elected officials, and it exacerbates the problems of our current tax structure. It further taxes a single industry, without reference to ability to pay, or to profitability. It taxes revenue not profit.

According to the Nevada Gaming Abstract, the 36 largest casinos in the \$12 to \$36 million range already lose as much as \$35 million as a group on a pre-federal income tax basis. In other words, they have no profit. They are living on cash flow. Joe Neal’s 80 percent tax increase will create a corresponding \$80 million shortfall among this group.

And yet, Senator Neal asks for just such an increase. He offers only two reasons as to why:

First, that the gaming industry in Nevada has not paid more taxes since 1987.

In fact, in the words of Shannon Bybee from the UNLV International Gaming Institute: “The growth in the gaming industry in Nevada has enabled gaming revenues to grow forty-eight percent since 1989 without an increase in the tax rate”.

Mr. Bybee continues: “It is folly to assume that an increase in the tax rate will just produce more revenue. Efforts to maintain or restore profit margins may cause businesses to cut back on expenses that produce revenue.”

Senator Neal’s second claim: If gaming companies can pay much higher tax rates in other states, they can pay

more here in Nevada. It’s a good question and there’s a good answer.

Again, let me turn to Shannon Bybee’s remarks.

“The impact of tax rates cannot be viewed in isolation. Taxes must be viewed in the context of all of the costs of doing business in a particular jurisdiction. Casinos in different gaming markets have different cost structures resulting from government regulations, proximity to customers, competition and other local factors. It is the total cost of doing business - including taxes - that ultimately determines the profitability produced by that business.”

Casino operations in Nevada, with its lower tax rate, experience lower profit margins than casino operations in most high tax rate states. Consistently, the highest profit margins are in states with the highest taxes, like Illinois, Indiana and Michigan. The reason for this is that those states with high tax rates also limit competition through limiting the number of gaming licenses available. And it is significantly less costly to operate in those states.

Higher tax rates in those states are offset by lower entry and operation costs that are not available in Nevada’s competitive environment. River boats and non-resort casinos are relatively cheap to build and operate. Casino operators are, therefore, willing to pay higher taxes in other states because profit margins are usually higher than in Nevada and less capital investment is required to produce those profits. Increasing gaming taxes in Nevada will, obviously, reduce the profit margins further and make Nevada less competitive.

The next table reveals a direct inverse relationship between tax rates and gaming revenue, gaming taxes, and jobs. States with the lowest tax rates have the highest gaming revenue, highest gaming tax revenues and most jobs.

Therein lie the great fallacies of Joe Neal’s initiative. The bottom line is that this petition is destructive and reckless.

Again, let me thank the Nevada Taxpayers Association for your help and recognition of the grave damage that this ill-conceived and punitive tax will have on our state. I am confident the citizens of Nevada will reject the Neal Initiative.

Next week, Nevada will quietly mark the anniversary of the legalization of gaming. On March 20, 1931,

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Governor Balzar signed the legislation that would set Nevada on a course toward prosperity - a course designed to steer the state out of the throes of the Great Depression. It was literally a gamble. And it worked - perhaps better than anyone dreamed.

As we have learned in the Arthur Andersen report, and as all of us in this room know, gaming and tourism set Nevada apart. They made us what we are, and they allow us to dream about what we might be.

How much more productive would we be if - instead of spending the next year fighting a reckless tax proposal aimed at the industry that made our success possible - we spent gaming’s 70th year finding common solutions to our state’s needs?

Governor, we are committed to working with you to find the long term answers to our state’s economic future.

Robert Forbuss, Chairman of the Board of the Las Vegas Chamber of Commerce followed with his presentation of opposition to the teachers’ union tax initiative. As Mr. Forbuss’ remarks were not scripted, the following is extracted from his notes and slides.

REMARKS BY ROBERT FORBUSS Chairman of the Board Las Vegas Chamber of Commerce

WHAT IS THE ISSUE?

- This is simply a union issue.
- The union is frustrated because they’ve gone to the legislature the past couple of sessions asking for a salary increase, and they haven’t received it.
- The petition process is their way of getting the money they think they deserve.
- This is the first step to Californiacating our State. This is exactly what happened to California, when a major power company didn’t get their way. It was the people who were left out of the process, because the company spent millions to sell their message. Now, Californians vote on every issue.
- Major decisions should be left up to our elected officials who work closely with the issues.
- This is also unprecedented and risky. It opens the door for any other industry to be pegged for a new tax. Nevada has never tried to assign one tax to pay for one service. It’s a slippery slope, and takes the control

from the decision makers, and places it into the hands of the union.

- Any tax by initiative petition is a bad idea.
- It is not up to the teachers union to tell the elected officials and voters what Nevada’s needs are and how they should be funded.
- By placing a tax of gross revenues over a specific cap it prevents employers from wanting to generate additional profits over that cap.
- A tax on business gross profits is an unstable base and cannot be forecasted.
- This tax would destroy Nevada’s efforts to diversify the economy. The number one benefit to businesses considering moving to the State, is that there is no personal or corporate income tax.
- The mere discussion of a business income tax causes a chilling effect nationally.
- Somer Hollingsworth with the Nevada Development Authority can attest to the fact that several businesses have located in other surrounding states due to the discussions of the union’s proposed tax.

WHAT REALLY IS THE NEED?

- There is nothing right now, showing what Nevada’s needs are.
- Originally when the union made its announcement about the proposed tax, it was about needing higher teacher salaries. Since that message hasn’t stomached well with the public, the union has now altered its message over the past few months now claiming it’s about general education needs.
- Throwing more money at the current system isn’t the solution. If education needs more money, they need to be accountable for that money. Throwing money at our educational needs isn’t going to make the quality any better.
- Don’t get sidetracked that this issue isn’t about teachers’ salaries. The union has already stated that they won’t take this money out of the collective bargaining pool.

HOW DO OUR TEACHERS COMPARE?

- According to the Nevada Education Association’s figures, Nevada is ranked 21st in the nation for highest

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salaries (average of \$38,883). This does not take into effect the level of state contributions for retirement funds or that Nevada teachers have more take home pay, since there is no personal income tax.

- When compared regionally, Nevada teachers are the highest paid, except for California.
- The Clark County School District web - site has this quote, which supports our philosophy that teachers have a comparable salary package. A “wise shopper” must consider the great benefits and lack of a personal income tax.

STATE CONTRIBUTIONS TO RETIREMENT

- There are only five states where the employer contributes solely to teacher retirement benefits. Out of those five states, Nevada contributes the highest 18.75%.
- The next highest contributing state is Florida at 15%.

TEACHERS SHOULD BE PAID WELL

- The product of Nevada’s education system is the next generation of employees.
- The business community contributes significantly to other educational programs such as; adopt a school, mentoring, job shadowing, etc.

- We believe that teachers’ performance should be rewarded for performance.

- The union wants to reward teachers who are excellent and those who are incompetent with across-the-board salary increases.

THE ESTIMATED TOTAL COST OF PUBLIC EDUCATION

- In Nevada it is \$1.5 billion and growing.
- Compared nationally, Nevada ranked in the mid-column, showing an average expenditure between \$5,000 and \$5,500.
- In Clark county the average per-pupil expenditure was \$4,745 for the 1999 school year.
- Most of the rural areas have higher per-pupil expenditures because some rural schools are more expensive to operate.

IS THROWING DOLLARS AT THE SYSTEM THE SOLUTION?

- No!
- This isn’t about teachers.
- We need to work together as a community to make the best decisions for Nevada.
- This proposed tax is a bad idea, and should not be supported. It avoids real reform and accountability.