

FINANCIAL IMPACT OF THE STATEWIDE STATUTORY INITIATIVE PETITION – IDENTIFIER: S-02-2020

FINANCIAL IMPACT - YES

The Statewide Statutory Initiative Petition (Initiative) proposes to amend various sections of Chapter 374 of the *Nevada Revised Statutes*, which contains provisions governing the Local School Support Tax (LSST) portion of the statewide combined minimum sales and use tax rate, to increase the total tax rate of the LSST by 1.5 percent, from 2.6 percent to 4.1 percent.

FINANCIAL IMPACT OF THE INITIATIVE

Pursuant to Article 19, Section 2 of the Nevada Constitution, an initiative proposing to amend the Nevada Revised Statutes must be enacted or rejected by the Legislature within the first 40 days of the next regular session, which will begin on February 1, 2021. If the Legislature and Governor approve the Initiative, the provisions become effective on July 1, 2021, and may be amended during the next following legislative session.

If the Initiative is not approved, it will be submitted to the voters at the November 2022 General Election. If it is approved by the voters at that election, the Initiative becomes law upon the canvass of the votes, which would occur on the fourth Tuesday of November (November 22, 2022) per NRS 293.395, with an effective date of January 1, 2023, and may not be amended by the Legislature for a period of three years.

Table 1 below illustrates the components of the statewide combined minimum sales tax rate that is required to be imposed in each county under current law:

TABLE 1	
Components of the Statewide Combined Minimum Sales Tax Rate Required to be Imposed in Each County	
Rate	Description
2.00%	State 2% General Fund Rate. The proceeds from this tax rate are deposited in the State General Fund.
2.60%	Local School Support Tax Rate (LSST). The proceeds from this tax rate, less a 0.75% collection commission that is deposited in the State General Fund, are transferred to school districts and the State Distributive School Account for the support of K-12 education. Effective July 1, 2021, the proceeds of this tax, net of the collection commission, are to be deposited in the State Education Fund for the support of K-12 education. The 2.60% LSST sales and use tax rate is made up of two component rates (2.25% imposed pursuant to NRS 374.110 and 374.190, and 0.35% imposed pursuant to NRS 374.111 and 374.191).
0.50%	Basic City-County Relief Tax Rate (BCCRT). The proceeds from this tax rate, less a 1.75% collection commission that is deposited in the State General Fund, are allocated among counties, cities, and other local governments through the Consolidated Tax (CTX) distribution formula.
1.75%	Supplemental City-County Relief Tax Rate (SCCRT). The proceeds from this tax rate, less a 1.75% collection commission that is deposited in the State General Fund, are allocated among counties, cities, and other local governments through the CTX distribution formula.
6.85%	Total Statewide Combined Minimum Sales and Use Tax Rate

Note: Does not include any local optional sales tax rates that may also be imposed under NRS or special local acts.

Additionally, counties are authorized under various statutes, or via other special or local acts approved by the Legislature, to impose additional sales and use tax rates within that county. The proceeds from these optional county rates, less a 1.75 percent collection commission that is deposited in the State General Fund, are transmitted to the county imposing the tax and are used for the specific purpose for which the rate is being imposed. Currently, 13 of Nevada's 17 counties impose one or more local option sales and use tax rates.

Table 2 below illustrates the total sales and use tax rate, including the statewide combined minimum rate and any applicable local option tax rates, for each county under current law as of January 1, 2020, and with the 1.5 percent LSST tax rate increase under the provisions of the Initiative:

TABLE 2
Sales Tax Rates by County - Under Current Law, Effective as of January 1, 2020, and Under the Initiative Petition

County	Under Current Law			Under the Initiative Petition's 1.5% Increase in the LSST which Increases the Statewide Combined Minimum Rate from 6.85% to 8.35%		
	Total Rate	Statewide Combined Minimum Rate	County Combined Rate from Imposed Local Option Rates	Total Rate	Statewide Combined Minimum Rate	County Combined Rate from Imposed Local Option Rates
Carson City	7.600%	6.85%	0.750%	9.100%	8.35%	0.750%
Churchill	7.600%	6.85%	0.750%	9.100%	8.35%	0.750%
Clark	8.375%	6.85%	1.525%	9.875%	8.35%	1.525%
Douglas	7.100%	6.85%	0.250%	8.600%	8.35%	0.250%
Elko	7.100%	6.85%	0.250%	8.600%	8.35%	0.250%
Esmeralda	6.850%	6.85%		8.350%	8.35%	
Eureka	6.850%	6.85%		8.350%	8.35%	
Humboldt	6.850%	6.85%		8.350%	8.35%	
Lander	7.100%	6.85%	0.250%	8.600%	8.35%	0.250%
Lincoln	7.100%	6.85%	0.250%	8.600%	8.35%	0.250%
Lyon	7.100%	6.85%	0.250%	8.600%	8.35%	0.250%
Mineral	6.850%	6.85%		8.350%	8.35%	
Nye	7.600%	6.85%	0.750%	9.100%	8.35%	0.750%
Pershing	7.100%	6.85%	0.250%	8.600%	8.35%	0.250%
Storey	7.600%	6.85%	0.750%	9.100%	8.35%	0.750%
Washoe	8.265%	6.85%	1.415%	9.765%	8.35%	1.415%
White Pine	7.725%	6.85%	0.875%	9.225%	8.35%	0.875%

The provisions of the Initiative will increase revenue dedicated to the State Education Fund for the support of K-12 education under Senate Bill 543 from the 2019 Legislative Session and to the State General Fund from the 0.75 percent collection commission beginning in Fiscal Year 2022, if approved by the Legislature and Governor during the 2021 Legislative Session, or beginning in the last half of Fiscal Year 2023, if the Legislature and Governor do not approve the Initiative, but it is approved by the voters at the November 2022 General Election.

An estimate of approximately \$1.733 billion for the LSST, based on the current 2.6 percent rate, was used in the legislatively approved budget during the 2019 Legislative Session as the amount that will be distributed to school districts and the State Distributive School Account (DSA) in Fiscal Year 2021. Additionally, the 0.75 percent collection commission from the current 2.6 percent rate is estimated to generate approximately \$13.2 million for the State General Fund in Fiscal Year 2021. If the provisions of the Initiative were in effect during Fiscal Year 2021, a 1.5 percent increase in the LSST tax rate would result in approximately \$999.6 million in estimated additional revenue for school districts and the DSA and approximately \$7.6 million for the State General Fund through the 0.75 percent collection commission.

The revenue estimates for Fiscal Year 2021, both under current law and the Initiative, incorporate projections made by the Fiscal Analysis Division for the effects of Assembly Bill 445 from the 2019 Legislative Session which requires the collection of sales and use taxes from sales made by marketplace facilitators on behalf of retailers effective October 1, 2019.

The following provisions existing in current law, when applicable, may affect the total revenue generated from the 1.5 percent increase in the LSST tax rate that are required to be distributed to the State Education Fund and the State General Fund through the 0.75 percent collection commission:

- Pursuant to NRS 271A.070, the governing body of any municipality may pledge up to 75 percent of the proceeds from the LSST rates imposed pursuant to NRS 374.110 and NRS 374.190 that is generated within a tourism improvement district (TID), if the ordinance setting the boundaries of the TID was adopted on or before July 1, 2013. If the Initiative is approved, up to 75 percent of the revenue generated from the additional 1.5 percent LSST tax rate increase will be allocated to the TID with the remaining portion of the revenue deposited in the State Education Fund. With no change in current law, up to 75 percent of the proceeds from the 1.5 percent LSST tax rate increase specified in the Initiative would be allocated to the TID, with the remaining proceeds distributed to the State Education Fund. Thus, the full amount of the revenue from the additional 1.5 percent rate in the five existing TIDs for which these provisions currently apply will not be distributed to the State Education Fund until the expiration date for the pledge of this revenue that has been established for each TID.

The additional 0.35 percent LSST rate specified in NRS 374.111 and NRS 374.191 is not included in the revenue that may be pledged in a TID and is not affected by these provisions in NRS 271A.070.

- Pursuant to NRS 271.650, the governing body of a municipality in a county whose population is less than 700,000 (all counties except for Clark) may pledge up to 75 percent of the proceeds from the LSST rates imposed pursuant to NRS 374.110 and NRS 374.190 that is generated within a district created for the support of economic development and tourism (district). If the Initiative is approved, up to 75 percent of the revenue generated from the additional 1.5 percent LSST tax rate increase will be allocated to the district with the remaining portion of the revenue deposited in the State Education Fund. With no change in current law, up to 75 percent of the proceeds from the 1.5 percent LSST tax rate increase specified in the Initiative would be allocated to the districts, with the remaining proceeds distributed to the State Education Fund. Thus, the full amount of the revenue from the additional 1.5 percent

rate in any district for which these provisions currently apply will not be distributed to the State Education Fund until the expiration date for the pledge of this revenue that has been established for each district. Currently, there are no districts in place for which this issue would apply.

The additional 0.35 percent LSST rate specified in NRS 374.111 and NRS 374.191 is not included in the revenue that may be pledged in a district and is not affected by these provisions in NRS 271.650.

- Pursuant to NRS 701A.370, persons who locate facilities for the generation of renewable energy or the generation of process heat from solar renewable energy in Nevada may apply to the Governor's Office of Energy to receive partial abatements of sales taxes for a period of 20 fiscal years immediately following the approval date of the application. These provisions require the person receiving the abatement to pay a total sales and use tax rate of 2.6 percent (a rate equivalent to the current LSST tax rate), with the remainder of the sales and use tax rate above the 2.6 percent (up to the total sales and use tax rate in the county where the facility is located) abated.

Under NRS 701A.385, the proceeds generated from this 2.6 percent rate are required to be handled in the same manner as the proceeds from the LSST taxes imposed pursuant to NRS 374.110 and 374.190, including the 0.75 percent collection commission distributed to the State General Fund. The provisions of the Initiative, with no changes in current law, will maintain the requirement that the person receiving the abatement will continue to pay a sales and use tax rate of 2.6 percent and not a rate equivalent to the LSST tax rate of 4.1 percent. Thus, the imposition of the additional LSST rate results in increasing the amount of abatements received by a renewable energy project by an additional 1.5 percent and does not increase the amount of tax proceeds to be distributed as LSST to the State Education Fund or the 0.75 percent collection commission distributed to the State General Fund.

Although the Fiscal Analysis Division can determine that the provisions of the Initiative will impact the amount of the revenue from the additional 1.5 percent LSST tax rate distributed to the State Education Fund and the State General Fund from the factors described above when applicable, the Fiscal Analysis Division cannot estimate the revenue impact that may occur with any reasonable degree of certainty.

The Department of Taxation has indicated that enactment of the LSST tax rate increase in the Initiative would require the Department to incur programming costs to update the tax rates and distributions for all 17 counties in their computer systems. The Department has indicated that the required programming changes would result in an approximate one-time cost of \$71,000.