

FINANCIAL IMPACT OF THE BUILDING AN ARENA FOR A STRONGER FUTURE INITIATIVE

FINANCIAL IMPACT – CANNOT BE DETERMINED

OVERVIEW

The Building an Arena for a Stronger Future Initiative (Initiative) proposes to amend Chapter 244A of the *Nevada Revised Statutes* to authorize the creation of a district in a county whose population is 800,000 or more, for the purpose of constructing and maintaining an arena suitable for certain professional sports teams. The Initiative requires the governing body of that county to adopt an ordinance imposing a sales and use tax at a rate of 0.9 percent within the boundaries of the Arena District, for the purpose of funding the costs to construct, improve, equip, operate, or maintain the arena to be located within this district.

FINANCIAL IMPACT OF THE INITIATIVE

The provisions of the Initiative requiring the board of county commissioners of any county whose population is 800,000 or more to adopt an ordinance imposing a 0.9 percent sales tax within the Arena District will generate tax revenue dedicated for the purpose of constructing, operating, and maintaining the arena within the district, beginning no later than the first calendar quarter that occurs 120 days following the enactment of the ordinance required under the provisions of the Initiative. However, the Initiative does not specify the exact boundaries of the district, nor is it known the number and types of retail establishments to be located within the district, the type of sporting or other entertainment events that will be held at the arena, or amount of taxable sales that may be generated from events held within the arena. Thus, the amount of tax revenue that would be generated for the benefit of the Arena District cannot be determined with any reasonable degree of certainty.

The Initiative requires the State Controller to transfer 1.75 percent of the proceeds collected as a result of the imposition of the Arena District's sales and use tax rate to the State General Fund, as compensation to the State for the cost of administering and distributing the tax. Enactment of the provisions of the Initiative would increase tax revenue for the State General Fund; however, because the amount of tax revenue that may be generated as a result of the sales and use tax rate cannot be estimated at this time, the amount of the 1.75 percent collection commission that would be transferred to the State General Fund also cannot be estimated. Thus, the additional revenue effect upon state government cannot be determined with any degree of certainty.

Under current law, the Nevada Department of Taxation is required to collect all state and local sales taxes and administer all laws and regulations relating to sales and use taxes in the state. Based on information received from the Department, there are currently no sales and use tax rates imposed in geographical areas smaller than the county level (e.g. within part of a county or within only a certain city or town). Enactment of the provisions of the Initiative will require one-time costs related to the modification to the Department's Unified Tax System, changes to the lockbox system currently used to collect sales and use taxes, training of Department staff, and notification of taxpayers. Whether the provisions of the Initiative become effective by legislative action during the 2011 Session or by a vote of the people at the November 2012 General Election, the changes and modifications by the Department in order to implement and administer the provisions of the Initiative would be required in a period of six months or less, depending upon when the ordinance imposing the sales and use tax rate in the Arena District became effective.

In order to make the changes and modifications to their current system, the Department of Taxation has indicated that it will be required to enter into a contract with an outside vendor to enact the provisions of the Initiative within the specified time provided. The Department estimates that the total one-time costs to implement the provisions of the Initiative, including the costs associated with selecting and paying the outside vendor, would be approximately \$331,000.

The Department of Taxation also noted that enactment of the provisions of the Initiative would increase ongoing processing costs related to the administration of the sales and use tax, due to the increase in the amount of data that would need to be processed and captured by the Department. Because the Initiative does not specify the specific boundaries of the Arena District, the Department cannot determine the number of taxpayers that may be subject to the new sales tax or the effect upon ongoing operating costs at this time. Thus, the effect upon state government related to ongoing administration of the provisions of the Initiative cannot be determined with any reasonable degree of certainty.

Prepared by the Fiscal Analysis Division of the Legislative Counsel Bureau – September 1, 2010