MINUTES OF THE
JOINT MEETING OF THE ASSEMBLY COMMITTEE ON GROWTH AND INFRASTRUCTURE
AND THE
SENATE COMMITTEE ON TAXATION

Seventy-Third Session
February 10, 2005

The Joint Assembly Committee on Growth and Infrastructure and the Senate Committee on Taxation was called to order at 1:56 p.m., on Thursday, February 10, 2005. Chairman Richard Perkins presided in Room 4100 of the Legislative Building, Carson City, Nevada, and, via simultaneous videoconference, in Room 4401 of the Grant Sawyer State Office Building, Las Vegas, Nevada. Exhibit A is the Agenda. All exhibits are available and on file at the Research Library of the Legislative Counsel Bureau.

ASSEMBLY COMMITTEE MEMBERS PRESENT:

Mr. Richard Perkins, Chairman
Ms. Chris Giunchigliani, Vice Chairwoman
Ms. Francis Allen
Mr. Bernie Anderson
Mr. Tom Grady
Mr. Lynn Hettrick
Mrs. Marilyn Kirkpatrick
Ms. Sheila Leslie
Mr. Harry Mortenson
Mr. David Parks
Ms. Peggy Pierce
Mr. Scott Sibley

SENATE COMMITTEE MEMBERS PRESENT:

Senator Mike McGinness, Chairman
Senator Sandra Tiffany, Vice Chairwoman
Senator Terry Care
Senator Bob Coffin
Senator John Lee
Senator Dean A. Rhoads
Senator Randolph J. Townsend

COMMITTEE MEMBERS ABSENT:

Ms. Valerie Weber (excused)

GUEST LEGISLATORS PRESENT:

None

STAFF MEMBERS PRESENT:

Brenda Erdoes, Legislative Counsel
Susan Scholley, Committee Policy Analyst
Russell Guindon, Deputy Fiscal Analyst
James Cassimus, Committee Attaché

OTHERS PRESENT:

Kenny Guinn, Governor, State of Nevada
Marvin Leavitt, Chairman, Committee on Local Government Finance, Las Vegas, Nevada
Carole Vilardo, Executive Director, Nevada Taxpayers Association
Guy Hobbs, Managing Partner, Hobbs, Ong, and Associates, Las Vegas, Nevada
Jeremy Aguero, Analyst, Applied Analysis, Las Vegas, Nevada

Chairman Perkins:
[Roll called.] Welcome to the second of our joint meetings during which we will try the best we can, with the help of those testifying, to determine what our challenges are, and thereby come to a workable, equitable solution to the property tax crisis for all Nevadans.

I think from what all the members heard during the last meeting on Tuesday, we have a difficult and very treacherous road ahead. I appreciate the comments by our legal counsel, Brenda Erdoes, the overview of Nevada's property tax system given by Mr. [Chuck] Chinnock, and the local view of the problem given by various assessors, NACO [Nevada Association of Counties], and the Nevada League of Cities.

The questions posed by the members of both Committees also showed the thought and time the members are devoting to this issue and are helpful in leading us ahead. Senator Coffin's innovative plan to pass a constitutional amendment through the Legislature, with an extra session after sine die, certainly showed that the members are searching hard for solutions. [Laughter.] My thanks to everyone who was with us on Tuesday.

[Chairman Perkins, continued.] Today should prove as informative as our last meeting. We will begin today with Guy Hobbs of Hobbs, Ong, and Associates, and Jeremy Aguero with Applied Analysis. I am sure all the Committee members, and probably many members of the public, have read the White Paper [Property Tax Relief Analysis: White Paper] that has become an important guide to finding a solution. We look forward to this overview and the 14 proposals in the White Paper. Hopefully, we will be able to go a little further and highlight those solutions that are the most workable and equitable, and those that can be implemented to affect this year's tax bills so that we can narrow the debate.

We also welcome back Marvin Leavitt, Chair of the Committee on Local Government Finance. We appreciated your surprise appearance on Tuesday—probably because of a few things I had to say—and hope you can further explain the way property tax funds local government and perhaps give your opinion on some of the proposals that have been laid out by those before you.

We'll end today with Carole Vilardo, the Executive Director of the Nevada Taxpayers Association, who will augment the public's input, adding to what we've been hearing from our constituents. We would also welcome any comments Ms. Vilardo has about possible solutions.

Thank you all for being here. We'd ask once again that, to the extent possible, we can defer public comment to the special joint meetings that will be held both on February 17, here in Carson City, and on February 18 in Las Vegas at the Grant Sawyer Building.

Guy Hobbs, Managing Partner, Hobbs, Ong and Associates:
[Introduced himself.] I know that you received a lot of background material at your meeting on Tuesday. I have a PowerPoint presentation (Exhibit B) which briefly covers some of the causes of the problem, as well as providing some information about the nature of the problem, preceding a discussion about what potential alternative solutions.

Chairman Perkins:
It would be helpful for us for you to start at the beginning and help us grasp this overall challenge before we move into the other issues.

Guy Hobbs:
The discussion that I'm going to take you through today will talk about some of the background considerations that have led us to have these discussions. These are structural considerations relating to how property tax in Nevada works, because having an understanding of how the formulas work also leads to a better understanding of how some the alternative solutions might also work. An overview of some of the proposals with some discussion, hopefully, will allow us to focus in on those that have more potential to meet all the objectives that are set forth.

Clearly, the reason that we're here is that property values have increased at an unprecedented rate, particularly in the southern part of the state. We've had those occurrences in other parts of the state as well, and have had some of those occurrences in other parts of the state for some amount of time.

There is no one single cause that we can put our finger on, but rather a perfect storm of things that have hit the southern Nevada economy and elsewhere in Nevada. These include extremely low interest rates, which makes it affordable for more people to buy a little bit higher than what they might have otherwise purchased; comparatively low supply for a period of time, which always has the impact of creating an upward push on price; and also, a very significant influx of out-of-state money into Nevada by way of speculative investment. Recent statistics would tend to indicate that about twice the normal amount of out-of-state investment was coming into Nevada during that period, about 18 months or so ago, which also helped to drive prices up.

Most of us that have looked at the problem and have discussed the problem believe it to be an aberration, not something we would expect to continue to be with us year after year. In other words, we would not expect to see 20 to 30 percent increases in value year after year after year. In fact, what we expect to see is a peaking of those values and then a settling of those values before it takes off on a normal growth rate over time again. Clearly, this issue has come to us as a concern on the part the taxpayer. There is no question about it, and those concerns are extremely warranted.

The other side of the coin is that there are public-sector concerns in this as well. I served as a chief financial officer for a major unit of government in this state for about a dozen years. There is no way, in any one of those years, that I would have budgeted more than 8 to 9 percent overall growth in assessed valuation, including the new construction that we were anticipating. I certainly would never have budgeted something in the realm of what is being contemplated because of the increases that we're aware are going to hit in 2005 and 2006.

[Guy Hobbs, continued.] Clearly, there needs to be a balancing of providing an appropriate amount of relief to the taxpayers, which is very warranted, and providing sufficient revenue to allow for traditional or historical levels of funding of basic services to continue. That's probably an oversimplification of the challenge, but there definitely is an equilibrium between those two that we need to arrive at before the ends of these discussions. It is clear, too, property tax is a source of revenue that everyone has a stake in. Obviously, those that pay it have a clear stake in it, but the stake on the public side is not limited to local governments.

So clearly, education, both the operating side and the capital side of education in most counties is the dominant piece of property tax of the overall combined property tax rate, and the interplay between education funding and the State's budgeting requirements cannot be understated. Probably about 40 percent of the overall property tax leveled in Clark County is leveled on behalf of support of education operations and debt. The remaining are portions that are some variable that can be adjusted within the parameters of statutes that have passed by prior legislatures or are fixed in nature, in that they are set specifically in statute or otherwise voted on by the electorate at one time or another.

The next couple of slides simply go to make the point about the spike in values. The first one that you see shows housing price appreciation over time, on a statewide basis, with a clear spike occurring in 2004. The next slide focuses on the Las Vegas MSA [Metropolitan Statistics Area], mostly Clark County. You see a similar type of spike, actually a slightly larger percentage increase than you would on the statewide basis, but also recognizing the statewide values are clearly influenced by the size of Clark County's overall portion of the market.

The next slide is set to be illustrative. The blue bar on the far right shows what property tax collections would be in terms of overall dollars, those being billions of dollars. On the left side, the blue bar representing the amount, there was no mitigation. You can see it is beyond the normal slope of growth that we've had in past years. The next slide looks at the same statistic on a percentage basis. You can clearly see once again that, without some form of mitigation, the percentage increase in property tax collections would clearly be out of line with past performance.

[Guy Hobbs, continued.] The next two slides (Exhibit B), you probably heard a bit about this from the League of Cities and the Nevada Association of Counties, the reliance that local governments throughout the state have on property tax can be described in two ways. The first would be as a percentage of the overall budget, and you can see in Clark's case, it is 32 percent of their overall general fund budget, Washoe County's is about 55 percent of their overall budget. It's clearly a dominant part of the overall funding for basic local services. I have to footnote that by saying most of them are mandated in some form or fashion for those local governments to provide.

The second type of reliance has to do with the reliability of this particular revenue source beyond its percentage makeup of the total budget. It simply is one of the most reliable revenue sources, year after year, that any local government has for planning purposes and budgeting purposes. It is clearly the reliability of this revenue source that speaks to why it is used as security on most bonded indebtedness issued by local governments and the state government, because it is so terribly reliant. I offered, by way of contrast, the cities have maybe, individually, a slightly lesser reliance upon this revenue source than the counties do, but nonetheless, it is a significant part of the overall operating budgets of many of the cities throughout the state.

In the next slide (Exhibit B), and in the White Paper, I spend a considerable amount of time with this, and I probably got more comments as to how interesting this part of the White Paper was than any other part, but it's where we go through the algebra of how we compute a tax bill under Nevada's system. This is somewhat of an abbreviated version. The taxable value is the function of the land value added to the replacement value of improvements, which are depreciated each year at a rate of 1.5 percent. It's really the land value component of this overall equation, as the overall taxable value, that—for lack of a better term—is the culprit in what we are now dealing with.

Replacement value from year to year is driven more by the cost to rebuild an improvement, if the improvement needed to be rebuilt, than it is the reflection of market influences. Improvements are more driven by inflationary factors and commodity factors than anything else and never really reflect the market value of the improvement itself, except in the first year that is put onto the tax roll. It's clearly the land value that has spiked and driven up the overall taxable land value. It would make some sense to focus in on the land value as a potential solution here, since it is the centerpiece of the problem we are now facing.

As I'm sure you all know, we take taxable value and multiply it by 35 percent in Nevada, to come up with assessed value. We divide assessed value by 100 and multiply it by the tax rate to determine the overall bill. Any of those variables or constants that exist in that equation can obviously be modified or adjusted. That would have the effect of modifying or adjusting the output on the right side of the equal sign. Some, however, make less sense than others to focus your attention on, because they would be too complex an adjustment to make or simply would not be a sensible type of adjustment to make. Hopefully, we'll get into that a bit.

[Guy Hobbs, continued.] Speaking to the various proposals in putting together this Paper, the 14 proposals as they are listed could probably be clustered down to a smaller number, and I'll go through that with you, because several are quite similar in their mathematical orientation of the approach. But one thing is fairly common to all of them. This struck us as we were talking about anything from credits to exemptions to exclusions to restraints to caps, whatever the term might be. There is a common element to all of them, in that they will produce a certain amount of revenue for local government and a certain amount of relief for the taxpayer. Both of those factors we considered to be the key benchmarks in measuring the worth or the effectiveness of any of the proposals. Trying to say it another way, we could look at a number of options. What if we tried deducting this from this statistic or adding this to that statistic? We could run those kinds of numbers for you. But the measure of whether or not it would work at the end of the day would likely be your view of how it affected the overall revenue growth and how much relief it ultimately provided.

In our way of thinking, it might make some sense to have a substantial amount of dialogue around the issue of an objective rate of revenue growth and an objective level of relief to be provided, because just about any other mathematical solution can be fashioned if those particular objective values are most clearly understood. Again, inherent in what I just said to you, the solution at the end of the day has to balance both sides of the equation, those being the taxpayer's side as well as the local government's side. The taxpayer has, certainly, an interest in both sides of those, because on one hand, they pay, and on the other hand, there is an expectation of delivery of good quality services and reliable services over time. It is also our belief, whenever we look at any potential changes to a major area of taxation in the state, that we pay attention to elements of good tax policy.

On the next slide (Exhibit B), you will see some of those that appear from time to time when we have these types of discussions. I won't go through all of them in great detail, as I'm sure in the weeks to come, we'll be revisiting some of these. Clearly, any solution that comes forward has to fit within Nevada's constitutional framework. Particularly, if we are talking about a near-term solution, adjustments to the *Constitution* are not available to us in the facilitation of a near-term solution.

[Guy Hobbs, continued.] The solution should be implemented in a fairly short amount of time and be done with a fair amount of ease, in order to be put in place in time to have the 2005 and 2006 tax bills printed and mailed and stay current with the schedule of payments that are required to be made by the taxpayers, so as not to adversely affect cash flow for the various governmental units.

Administrative feasibility: We're talking about the need to have whatever solution is put into place be as easily administered at the very small county level as well as the more sophisticated larger county level, ease of compliance for the taxpayer, the revenue at the end of the day should be predictable and stable, and there is a sense of predictability and stability for the taxpayer.

Revenue sufficiency: You are certainly going to hear from local governments about concerns with regards to revenue sufficiency.

Equity transparency and economic neutrality: It's not our desire to have any tax policy in place which causes the taxpayer, the consumer, to make economic choices based on the system of taxation that's in place.

Flexibility to respond to changing conditions: Frankly, that's what we are doing right now, responding to changing condition. It's our belief that, in the coming months or few years, we are going to see different market dynamics than those we've seen in the recent past, and our ability to adjust to those over time will be very important. We can do that much more readily under a statutory rather than constitutional approach. Ultimately, the solution can be looked at as fiscally responsible by those who look at us from the outside, including the credit markets and the rating agencies who take quite seriously our discussion within the area of property tax, since it is the primary source of security for much of our outstanding debt.

I don't know if you happen to have our White Paper in front of you. If you do, that might be an easy way to go through the next part of the discussion. Again, there were 14 mentioned.

Assemblyman Anderson:
In the third slide, where you had the housing price appreciation for the Las Vegas metropolitan area, we saw the normal roller-coaster affect of economics that we would anticipate, and then this huge spike, which you pointed out to be a possible aberration. What would lead us not to believe that this is similar to the up-and-down spikes of the 1982 through 1984 cycle of housing prices? In other words, will we see that kind of 6-month, or maybe 2-year, slide?

Guy Hobbs:
We've given that question a great deal of thought ourselves. There's nothing to say that we wouldn't see, whether it be in the next quarter or the quarter after that, beyond what you see on this particular trend line, something that begins to look a little bit like what you see in the early 1980s. We simply don't know that yet.

We believe that we hit a peak, in terms of perceived market value of the properties. We know that there is a substantially higher amount of supply on the markets which we think will settle those prices below what perceived peaks were. We do believe that we will, at minimum, see a flattening of that slope that you see at the far right. Now to the extent that it will vibrate a little bit like it did in the early 1980s is going to be a function of both interest rates, which we can only begin to speculate about over the long-term, and relative supply and demand over time. We know that we are going to have some semblance of job growth because of some of the opening of the newer properties on the Strip. That might create an additional influx and create some additional demand. How supply and demand match up has probably a substantial amount to do with how much vibration we see in that.

Jeremy Aguero, Applied Analysis:
I agree a hundred percent with what Guy said. The reality is that there are a number of factors that go into this particular equation. I don't think anyone can tell you, with any level of precision, exactly what's going to happen next.

Assemblyman Anderson:
That was what my basic economic view had been, that part of this would be anticipation that there would be a decline. How rapidly the roller coaster begins to run down, and how quickly we approach that is always a mystery. I know to economists it's a continuing mystery, and so it wouldn't be, but we are trying

to set a policy here for a long period of time. If it's the roller coaster that we're afraid of, it's the roller-coaster ride that we are already on.

[Assemblyman Anderson, continued.] The next one deals with the property tax share, which I believe is page 5, with the fifth slide in your presentation, where you are comparing Clark and Washoe County. I am looking at a black and gray version of your materials, although I can see on the television monitor that it is in blue and green. I presume that the dark color, the 32 percent of the money for property tax for Clark County is what comes [in], and in Washoe County, 55 percent of their revenue is property tax-based?

Guy Hobbs:
That would be correct.

Assemblyman Anderson:
If that is the case, then what we would do would have a more dramatic effect upon Washoe County than it would on Clark County, where they're less dependent upon property tax revenue than a county such as mine. Would that be a fair statement to make?

Guy Hobbs:
Assemblyman Anderson, I would say it probably has less to do with the pie chart that you're looking at. The purpose of this pie chart was to demonstrate that there is a substantial reliance on the part of our major counties on this revenue source. Again, I described it as twofold, both as in percentage terms and because of the stability and predictability of that revenue source. You tend to rely on those that are predictable and stable more than those that are volatile. Whether or not there would be a greater impact on Washoe County would be more of a function of the relative increase in property valuation in Washoe County versus other parts of the state. In other words, I'm trying to think of a simple way to explain it.

If you were looking at some kind of capping mechanism on growth and valuation and, let's say, it was along the lines of that which has been discussed previously at 6 percent, to the extent that Clark County's valuation grew substantially more that 6 percent and Washoe's grew perhaps closer to 6 percent, Clark would be more affected, even though, it would appear that Washoe has a greater stake in property tax.

Assemblyman Anderson:
In part that would be true, because the people in the future are the ones who will be affected by the rate we are going to set. Whereas the existing property—unless there is a rollback effect in the valuation instruction we take up—those are the people who are going to receive the greatest benefits. In other words, older properties will not have the great reward as compared to those who have newer homes.

Guy Hobbs:
Clearly, up in the Washoe County-Reno area, there is a greater degree of concern and has been for some time, because the housing stock is, on average, older than the stock in southern Nevada, so depreciation has been more of an issue. But in this particular case, it will have more to do with the overall growth in valuation in Washoe versus Clark as to which one would be affected more by a restraining mechanism on the property tax. To the extent that one has grown more than the other, when you put a restraining mechanism in place, the one that grew more, in terms of value, would be more affected.

Chairman Perkins:
Before I move to Mr. Hettrick's question, let me indicate to the Committee that the White Paper that Mr. Hobbs has been talking about is in the binder [Property Tax Reference Material and Handout, 2005 Legislative Session] that was given to the Committee the day before yesterday. Let me also thank Mr. Hobbs for braving his health issues to be with us today. He's battling pneumonia. We appreciate your efforts. Let me also recognize that the Governor has joined us for our discussions this afternoon. Welcome here, Governor. Your input is always valuable to us; we welcome you as well.

Assemblyman Hettrick:
Mr. Hobbs, going back to the chart that Mr. Anderson had referred to, because I do think that is an interesting chart. The chart, as I understand it, reflects the price of housing in the Las Vegas metropolitan area, but it doesn't reflect the change in assessed valuation over that same period of time. So I'm wondering if you would indicate to us what you would estimate the curve would look like if we charted, on this same graph, assessed value. I don't believe assessed value, in terms of property taxing, would have dropped. As you see the precipitous drops here and followed the curve of pricing, I think assessed value would have been much smoother and would have probably been midline. Then when we got

into the 1990s, probably at the top of the curve, and now following up the end in 2004. Would you agree with that?

Guy Hobbs:
I would generally tend to agree. In fact, if you look at the bar chart that follows, it's somewhat a reflection of the point. Tax rates over time, within the state, have been relatively stable within counties. I say "relatively" because there are always exceptions to that. Certainly, they have been. And if you look at the bar chart, there is a smoother growth line, if you were to connect the tops of the bars, than that which you see occurring on the blue bar. That might be a surrogate for that, but I would ask Mr. Aguero if he has another comment about how the assessed value might smooth out the volatility that you see in the housing price grid.

Jeremy Aguero:
I would agree a hundred percent with what Guy just alluded to. Mr. Hettrick, I think you are absolutely right. That curve would be smoother, significantly so over time. However, the shift might be up or down, and may not have the same degree of magnitude. The trend line itself would look relatively similar over that period of time.

Assemblyman Hettrick:
I appreciate that, but just one quick follow-up. The bar graph does exactly delineate what both of you have said, that it is relatively smooth. The only difference is the bar graph doesn't go back to the 1980s, where we saw, on the previous chart, the fluctuations in pricing. My point was that assessed value does not follow home pricing trends. It's very flat. I think Mr. Hobbs made that point very early on that, indeed, why government likes property tax, because it's stable, and when the housing market fluctuates up and down, the property tax does not. The very problem here is that property tax has been on a continuous rise, as we see in the chart. For years, it would vary and it would never go down. I bet if we went back and charted this back to the 1980s, there was never a time when it went down. What we are seeing is massive increases that now have to be accounted for, and I think that's exactly what you've said. I just want to point out that the pricing does not necessarily follow the assessed value or the property tax bill that the citizens of this state are receiving.

Guy Hobbs:
We would be very happy to go back in time to help illustrate that point and include more years of data. Clearly, assessed valuation is set once a year. Housing prices mark to market as often as they need to, in accordance with market changes. There would be some distinction they would look graphically.

Chairman Perkins:
To the extent that prior trends would be helpful to us to make forward looking decisions, we would appreciate that data as well. Thank you, Mr. Hobbs.

Guy Hobbs:
I certainly would be very happy to do that.

Assemblyman Anderson:
The sense is the assessed valuation is a lagging indicator. Depending upon how quickly or how often they do assessed valuation within a particular area of the other parts of communities in any other counties other than Clark County, that could lag somewhere from 2 to 5 years, or at least a year behind the actual housing growth market. That adds to the dilemma from trying to get a realistic picture for your process consideration, since it is a statewide issue that we're looking at, and not just a Clark County issue.

Guy Hobbs:
It certainly is an additional feature. Those counties that have, in the past, only reassessed a portion of the overall property within the county are going to be further behind than those that do full reappraisal annually. I think your point is very well taken.

At this point, we're going to talk about some of the 14 methods of mitigation that we identified. I want to explain how we collected these 14. I have a feeling that it's probably gone up to 25 and back down to 8 and moved around a little bit. These are each different ideas and proposed solutions that we became aware of, either through direct contact with someone or someone calling to ask what if this particular approach were taken. At the time of the writing of the White Paper, the incentive was to try to collect as many different thoughts on this as we were aware of and put them in one place for consideration.

With that, some of them are very similar in mathematical approach. I think it might make things a bit simpler if we cluster them in discussion. For example, proposal 1 in the White Paper is that which speaks to the 6 percent cap on the growth in valuation of property that was on the roll in the prior year. That was one of the first ones that was discussed.

[Guy Hobbs, continued.] Number 2 talks about the use of another fixed percentage, the Consumer Price Index [CPI], whichever was to be less. Number 3 talks about anywhere between zero and 6, and even above 6 percent, given the fact that all of those would be subject to discussion. So 1, 2, and 3 are really one approach with different values being applied to them.

I suppose number 4, in a way, belongs in that same list because, at least on a temporary basis, a freeze would be an application of a zero factor in the equation, as far as growth is concerned. Those first four really involve setting what the permissible level of growth in assessed valuation for previously existing property would be, from year to year, either on a very temporary or more extended basis.

I do think that the use of a restraint, particularly focused upon the land value, is something worth a substantial amount of additional discussion. Again, it’s land value that’s the culprit. It’s likely land value that needs to be the idea to be constrained in the future. What that level of growth should be, I’m certain you are going to hear a substantial amount of testimony on it, and I’ll just simply offer my own thoughts on it, having spent some time with this.

I believe one of the primary considerations should be the historic level of growth in valuation that school districts, local governments, and the state have been customarily been receiving in past years. That may sound very simplistic, but it’s that level of expected growth from year to year that budgets are predicated upon and that the planning is premised upon—things beyond the traditional historic level in growth. Arguments could be made why that shouldn’t be allowed to accrue to local government, and certainly, amounts less than that can be argued to create some economic hardship for local government. If it remained the traditional and historic level of growth, thinking about it from the taxpayer’s perspective, it would be what—prior to this particular set of circumstances that led us to the discussion—taxpayers in the past have come to expect in terms of change within our tax bill from year to year. There seem to be some pretty strong arguments for trying to focus in on something that’s customary, traditional, and historic as a beginning point for discussion on where that percentage for approaches 1 through 4 should likely be initially fashioned.

Looking down to the fifth and sixth solutions, they're rather similar. One I would describe as an exclusion, and one I would describe as an exemption. Number 5 would be that which I would describe as an exemption, where you take a certain amount of the taxable value of the property and consider exempting it from taxation. Number 6, you take a certain portion of valuation, and instead of exempting it from taxation, you give it a different treatment than the balance. In other words, you would take, as number 6 attempts to suggest, a hypothetical value of $500,000. Up to $500,000, you might apply one factor to it. That could be something like the CPI or some other fixed percentage. The amounts above $500,000 would be treated differently than that, probably at a larger level of growth or the growth that has actually occurred.

[Guy Hobbs, continued.] We are somewhat concerned about this one. Although we were intrigued initially, we have not been able to make some of the mechanical concerns work on this one. With the exemption approach, we feel that could possibly more likely be worked out. The main concern with an exemption, aside from the production of revenue, from a local government standpoint, would be the ability to apply an exemption on a county to county basis. But we believe, if we were able to have some discussion with legal counsel, we may be able to suggest some ways to create a differentiation in the application of an exemption between some of the counties.

Number 7 is a statistical technique that is oftentimes used to smooth aberrations in trend lines. We refer to it as a "smoothing technique" or a "moving average", where you take, for example, 3 years of actual data or 5 years of actual data, and you average them. Each year, you would add the new year's value, drop the oldest value, recompute the average, and use the averages over time to represent a smooth growth. It does tend to smooth out aberrations. One of the things about a smoothing technique that needs to be understood is that it does carry the full value of the statistics forward as it smoothes them out. So one of the things that could be considered if people are intrigued with the notion of a smoothing technique is somehow factoring or discounting the smoothing technique, so not the full liability is being carried forward on a statistical basis.

To relate number 7 to numbers 1, 2, 3, and 4, it's possible then—and we would certainly be happy to look at it—that one could use some smoothing technique as a basis for determination of a value that can be used for near-term growth and valuation. We're not positive about that, but we think that might be worth at least a look.

Number 8, circuit breakers or targeted relief mechanisms. I would couple this one with number 9, because I think they work fairly well together. I am not the best one to explain the legal ramifications, but you do have the ability to determine whether or not a severe economic hardship exists within the area of property tax. If one exists, one might use circuit breakers as a way of eliminating or mitigating the severe economic hardship for those who are feeling the severe economic hardship. Circuit breaker would provide relief to certain taxpayers who meet certain means tests. Or by use of severe economic hardship, one could certainly broaden to an entire class of taxpayers.

[Guy Hobbs, continued.] Number 10 is an approach that has been suggested that would have Nevada emulate something along the lines of California's Proposition 13 [from the June 6, 1978, general election]. For one, that is nothing that can offer you any sort of near-term relief because of the constitutional issues associated with it. It's one of those things from a standpoint of impact on public finance that should be given heavy consideration, because not all of the experiences with those kinds of restraint mechanisms, from a fiscal standpoint, have been necessarily good. While the tax shift in 1981 in Nevada may have met the initial objective of reducing, we find that over time there are a lot of unforeseen and, frankly, undesirable consequences that can result from the application of these types of measures, and we would certainly urge a substantial amount of caution in considering this type of mechanism. Frankly, from a standpoint of near-term availability to solve the problem, it's simply not one that can offer you any near-term solution. I don't think there is any way for you to do it from a statutory standpoint because of the constitutional implications.

Number 11, reduction of tax rates. I believe you had a fair amount of discussion on this particular point on Tuesday. This, to a lot of people, seemed to be the simplest thing to do, from an algebraic standpoint. Valuation goes up, lower the tax rates, and you can maintain some sort of equilibrium. From simply an algebraic standpoint, that's very true.

However, when you get into the area of tax rates, there are a lot of complexities that aren't necessarily apparent on the surface. As I am sure you were reminded, several components of the overlapping tax rate are set in statute, at fixed amounts, and were done so for very specific reasons. Some of the other components were set into place by a vote of the people and are not necessarily adjustable because of that. Some are variable. The single biggest stake in the property tax rate arena is vested with the school districts. One of the issues here is if you were not to adjust all the various rates proportionally, those that were adjusted less proportionally would be benefiting from a windfall, so to speak, while those that were adjusted more proportionally would be bearing more of the burden of the adjustment in rates.

[Guy Hobbs, continued.] There are a couple other things it brings to mind. You have a $5 per $100 assessed valuation constitutional cap on property taxes. You have a $3.64 statutory cap on property taxes. If tax rates were to be substantially reduced, even on a proportional basis, one would need to rethink the worth of those caps at those particular levels. From a local government standpoint, it might help in some of the rural areas, because it would create some room between the $3.64 cap and the rates that were to be set into place.

And that segues to yet another concern on our part. Adjustment in a rate in Clark County, let's say, of $0.20 per $100 of assessed valuation is not the same as a $0.20 reduction in a tax rate in, say, Mineral County, where valuation, in fact, may be declining year after year. The adjustment to the tax rate would provide taxpayer relief to somebody whose bill is already going down anyway and exacerbate a problem in some of the rural counties with the overall revenue that's being produced to fund basic services, which is already a problem.

The last three, numbers 12, 13, and 14, were ideas that were brought to our attention. They haven't been developed to any great extent. These involve using offsets, essentially, within our tax system providing, for example, a credit on property tax for taxes paid in other areas, such as government services tax or using a standard deduction against a property tax bill for other taxes paid. In thinking about these, even though they were intriguing at the beginning, our concern was that it tended to bring another element for complexity into the discussion by tying in another source of tax that may not have the same problems associated with it that the property tax may. And by doing that, it also seemed to take the focus off the fix in the area of the assessment, which is where we believe the focus should be placed.

Mr. Chairman, if I had to sum it up at this point, as far as those potential areas of remedy, that probably deserves the greatest focus in the coming days and weeks, given that we have very limited analytical resources available, I would suggest that the combined areas—1, 2, 3, and 4—be viewed as one item, and that we produce for you something that will show the relative effects of the various levels of percentage increase between zero and whatever upper ceiling you might like to see. I believe we can readily do that.

I would also suggest that we spend some time on 5 and 6, looking at either exclusions or exemptions as a way of achieving the same result at the end of the day. Either would modify the land value, one by placing a restraint on it and the other by making a deduction from it or an exclusion from it, and potentially achieve the same mathematical outcome by the end of the day. I would think that those two broad areas, perhaps along with the severe economic hardship application, are probably the three areas. I would suggest to you where to concentrate your resources.

[Guy Hobbs, continued.] One note about severe economic hardship: even it may only have limited application in the eventual solution. One of the things we need to do is have very comprehensive findings as to the degree of the conditions surrounding the severe economic hardship. Even to the extent that it is remotely possible that you would want to use severe economic hardship as part of an overall solution, we would strongly suggest that we begin working on the explanation of what underlies the severe economic hardship—the findings, if you will, that you would have to adopt to enact a severe economic hardship.

With that, Mr. Chairman, I would also like to offer that we are certainly available to assist your very capable staff and Legislative Counsel Bureau [LCB] Fiscal Division and make ourselves available to provide whatever support we can, and are very pleased and willing to begin work on those areas that we have suggested to you today.

Chairman Perkins:
Thank you, Mr. Hobbs, for your presentation. And thank you for your generous offer as well to work with our staff. I would, on behalf of the Committees, very much appreciate your doing that. I think you already have a full grasp of the time urgency that faces us. Is there any utility in using a smoothing technique or rolling average, as suggested in number 7, in conjunction with any of the other suggestions you have already made?

Guy Hobbs:
Without knowing what the actual analysis is going to produce, but perhaps it's one of the things we should look at as way of producing a value to be inserted into the mechanism described under 1, 2, 3, and 4, where we'd be using a particular type of restraint mechanism that could arise from a look at moving average.

Chairman Perkins:
As always, your comprehensive information has left us with no questions at this point. You indicated in items 1 through 14, those that you think are more doable than others. Are there any of them that, given the complexity of their implementation, would not work for our situation right now, given the time urgency that we have to accomplish something at least for our short-term solution?

Guy Hobbs:
Mr. Chairman, I do have some concerns, and I think we'd like to finish evaluating it just in case there is something we've overlooked. As far as doing an exclusion, which is best described by number 6, we do have our doubts and concerns about some of the mechanics associated with that. So I would probably describe that one as less probable. We will take a look at it and let you know, in fact, if we can identify a way to make it work.

Number 10, which is a conversion to a Proposition 13-style, is out of the question in the near-term because of the constitutional concerns. It's one of those things, I think, that needs to be looked at from the standpoint of relative worth that it brings to the overall fiscal system. It may have some near-term effects as far as reducing property taxes, but it also has long-term implications that have not necessarily always been positive for California. I think we would need to be cognizant of the upside and the downside of doing such a thing.

Numbers 12, 13, and 14. Unless directed by you all, I'm not sure that those are good fits at this time, because they tend to move the problem from the area of property tax assessment and the levying of taxes and integrating it with other forms of taxes. That simply complicates and obfuscates the application of the solution.

Chairman Perkins:
You mentioned earlier that 11, given the way property tax rates are built by various separate entities, is not an option for us either.

Guy Hobbs:
Yes, we have a pretty strong feeling about that. I went over a number of reasons, and they are also enumerated and described elsewhere in this particular White Paper. We think that going to the tax rate side would be a fairly misplaced way of trying to deal with the problem.

Senator Care:
Guy, how will you know or when will you know, whether the spike on the land values is an aberration? The reason I ask: These two Committees are going to be absorbed with all manner of projections coming from the experts, just as we were two years ago. We had figures from the task force, the economic forum, our own staff. My explanation for the large surplus, if you will, that we have seen enter the State coffers is simply that we did not foresee the recovery that we have seen in Las Vegas. Would you talk a little about whether it is or is not an aberration, and how you're going to know that? I realize that forecasting is a dicey subject, but tell what you'll be looking for.

Guy Hobbs:
The reason why I believe it to be an aberration is that type of trend line that you see on that chart simply can't continue at that level of growth. If that were to continue at that level of growth, all of us would be priced out of our homes. We would have a substantial amount of equity that we could not sell to anybody over a long period of time. We believe, because of the convergence of supply and interest rates and infusion of out-of-state money, that explains a lot of the very severe slope that we have seen.

The fact that some of those have turned around a little, those that put some money in 18 months ago, are now dumping the properties back on the market to take profits and move to other markets. Interest rates have risen very slightly. There is substantially more supply, 3 to 4 times more supply, on the market today. So there is enough reason to believe that there are forces there that would reverse. That may be a little strong, because reverse tends to suggest we would see a line going down sharply, but at least flatten the type of slope that we're seeing. It is our belief that is already happening in the market. But unfortunately, I don't believe, given the time frame you all have to deal with this, that we are going to have that much more empirical data, maybe one more quarter beyond that which we have right now.

Senator Coffin:
I hope Guy is talking to people who are out there in the streets, the realtors and investors. I don't know if you're tapping into that pool, Guy. We obviously need to have them appear before us because we haven't had them yet. We've had economists and people who have relied on economic models. I would like to see what we can do to get some folks who are in this building, lobbying, to get us

the best information they have about what really is happening. What do you think, Guy? Who have been the most reliable people out there? And who are the investors we can talk to? If you know the names, maybe we can find them some other way. Who are the folks we can use to rely upon more than economic models?

Guy Hobbs:
Senator Coffin, we try to talk to people who work within the market to get a sense. That's one of the reasons we have the sense of the supply being substantially greater than it was 18 months ago, when much of this started on the slope that it did. I would definitely encourage bringing many of those types forward. We would be happy to interact with them as much as possible, because we, as well, want to better understand the causal factors underlying this. In large part, those same factors can cure part of it—not all of it, but certainly part of it—if we understand them better. So I think from a supply standpoint, what kind of prices are being realized in the marketplace, the duration of time a property stays on the market today compared to 18 months ago—those would all be good things for us to know, and give us a better understanding. As far as how the out-of-state investors are viewing this market today versus how they viewed it 18 months ago, it is only speculation on my part that, from a buy-low, sell-high standpoint, the market looks substantially different at that point than it does today to a lot of the out-of-state money. But we will try to find a way of tapping in to people who know, who advise, those types of investors and see if our assumptions are true.

Senator Coffin:
On Tuesday Mr. [Mark] Schofield testified from Las Vegas and said that he had seen a leveling off of valuations. He had not seen a decline, which worries me because I have always been of the opinion that a lot of these land values, particularly on the outside and the south and the northwest, were undervalued. If it's true, and the speculators came in, bought and sold at the right time, because that was the right value, and if Schofield is right and they haven't been dropping, then they won't. That is where we are going to be. We need to know that too, because you're betting aberration, and that makes you think one way. If in fact, Las Vegas land was underpriced, which I think it was, and may have found its correct level, then we have two different scenarios to work from.

Guy Hobbs:
I absolutely agree with that, and I think there are two types of prices that we're talking about. One is kind of a ghost price and the other one is that which is actually realized when a property sells. It's going to be higher than it was some time back, and those are actual values that we can look at.

However—and I referred to it earlier and I may be making up terms as I go along—there is the perceived peak in values where, six or so months ago, people were putting properties on the market for $50,000, $75,000 more than they may realize when they actually sell it, even though when they sell, it may be at a substantial gain on what they purchased. That difference, I think, has become a larger difference between what the perceived value was at the time of placing it on the market and the actual value that was realized upon sale. We're trying to track both of those spikes at the same time.

Only one can be done empirically. The other one has to be done inferentially through discussions with people who have listed and sold homes, realtors, and others. Just 18 months ago, you would see the list price of a home realized within a matter of days, perhaps even sight unseen by an out-of-state investor. You are not seeing exactly the same thing happen today. You are seeing a longer duration on the market and you're seeing a backing down from the asking price to the actual sale price.

Chairman Perkins:
Thank you, Senator Coffin. Further questions from the Committee? Thank you, Mr. Hobbs, very much for your presentation and your offer to work with our staff. We appreciate that.

Let me indicate to anyone who may be listening, or to those in the audience, the White Paper and the slide show we just saw today are available on the LCB website under the Assembly Growth and Infrastructure Committee and the Senate Taxation Committee web pages, for those who wish to access those.

Marvin Leavitt, Chairman, Committee on Local Government Finance, Las Vegas:
[Introduced himself.] There are some comments that I would like to make regarding the process. Then I would like to go through an illustration that I have devised. Guy and I have made the comment between ourselves many times that it's dangerous to prepare a spreadsheet where you have the results on the right-hand column, because you immediately look to what the results are and don't look at the logic behind whatever you're doing to arrive at that column. I

would like to talk about the logic and what some of these different plans have as their basis and the effect on different types of taxpayers from doing some of the things that we've talked about.

[Marvin Leavitt, continued.] As a prelude to that, I have a couple of recommendations I would like to make to you. When we make changes, particularly to the assessed valuation side of the equation, we not only affect the property tax system but we can have fairly drastic effects on other things that we do that have as their basis-assessed valuation.

Let me give you an example. One of the components of determining how much consolidated tax each local government gets is the growth in assessed value. If we were to change by a capping mechanism how that assessed valuation is computed, we have not only changed the property tax system, we have changed the amount of money that local government gets from the consolidated tax. It is, in other words, an unintended consequence, and it is one that I don't think that we want to do. When we change assessed valuation, we also change the debt limit for the state, the debt limit for local governments, and the distribution of Motor Vehicle Fuel Tax and a number of things that tie back into assessed value.

I would recommend that right now we could begin the process. I suppose Brenda [Erdoes] and her Legal Division could start looking through the statutes to make a comprehensive determination on which things we use assessed valuation for, other than the direct levy of property taxes.

On a committee several years ago, they did a study of that, and I have a volume at home that's several inches thick that addresses that very point. I would make a recommendation to you that we can begin, right now, this process. So when we finally make a determination as to what kind of bill you want, then that whole tie-in provisions to eliminate some of these other problems, we can have pretty well taken care of.

I have handed out to each of you a paper (Exhibit C) that says "Property Taxes—Various Alternatives" on it. What I have done on this paper is that I have taken three theoretical properties, whose value I have just made up. I tried to put value at the low, medium, and high, and even got a piece of commercial property there. One is a house. The first I have labeled "House A," the next one "House B," the next one "Commercial Building," and then "Totals."

I've gone through the process of implementing these different proposals we have before us to see what the effects would be when we have these various properties growing at various rates and different considerations. As you can see, I've got an assessed valuation in year 1 of $75,000, $150,000 and $600,000 for those 3 structures that I have listed here, which would produce property taxes of—based on a rate of $3 [per$1,000]—$2,250, $4,500, and $18,000. Then I've upped the taxable value. The first piece of property, in year 2, is not growing in value at all. The second one is growing in value by 50 percent, the commercial building by 20 percent. You can see the property taxes that would be levied there as a result.

[Marvin Leavitt, continued.] Just to get a feel for what the obligation would be to a property owner, I said, "What would the change in his monthly payment be if you owned a house that was worth $430,000, and your tax bill went up 50 percent?" You're paying $187 per month in additional money to pay those property taxes. That gives you a feel for a fairly good home, but that would be, under that situation, with the 50 percent increase in property taxes.

In the item here, I have now assumed that we have implemented this 6 percent growth idea, and I have it limited at 6 percent. Of course, the $75,000 property is not growing in value, it is still at $75,000, and the 6 percent growth is having no effect. The next home, however, is now limited in assessed valuation to $159,000, where it would otherwise be $225,000. The commercial building is $636,000 instead of $720,000.

You noticed that the house that is not growing in value is being taxed based on 100 percent of its value. The person who lives in that house is paying on the full rate of its value. The person whose home is going up in value really substantially is paying on only 70 percent of its value. We've done something here. We've eliminated some tax for the person, but we have now caused a switch in the relationship. So we have transferred a bigger percent of the total obligation of paying property—of the total bill—to the person whose home is not growing in value, as opposed to the person whose home is growing in value. In fact, they're paying at 70 percent.

What we have done is removed this relationship. From the beginning when we started levying property taxes, throughout the entire history of the state, there has been a relationship between properties developed which relates to value. Even the system we have right now, which you will recognize, has depreciation as a component of it. There is still a relationship to value. I think it is important that we note this as a consideration. When we leave that system and we start to place artificial limits on how fast properties can grow, we are changing relationships. We not only change the amount coming to a government, we change the relationships between our taxpayers. We are putting a larger percent of the burden on those whose property is less valuable or not living in hot areas, and we are probably making the property tax actually more regressive by what we are doing through this process. That's not to say that it's not a good thing, but I think it's one of the things we need to aware of. A consequence of what we are doing is we are changing that relationship.

[Marvin Leavitt, continued.] I know for some of that scheme, the property tax for House A is still $2,250, for House B, it has gone down from $6,750 to $4,770, and then down also for the commercial building. You notice that the actual growth in revenue—under this circumstance, for the local government—on these existing houses is 5.45 percent. I discussed with you on Tuesday the fact that when you put a cap on a certain percent on the growth of assessed valuation of property, that does not mean that the local government is going to get revenue in that amount. Unless everybody grows greater than 6 percent, the local government revenue or the school revenue or the State revenue—whoever it is—will always be less than the rate of the capping mechanism. In some rural counties, it might be zero still. We're talking about the maximum. I think we make a mistake sometimes in thinking that this does not have application in rural counties, and I think we make that mistake because we can look at the rural county and say, in total, they've got to be planning assessed value. Let's just think of the components that make that up.

You could have a portion of the county whose assessed valuation is declining, but you could have an area within the county that is growing fairly rapidly. You know that has a hot area, and you can think of some even in counties that are not growing in total, but you have an individual area of the county where the assessed valuation of existing properties might actually be increasing more than 6 percent. So when you put a 6 percent cap, remember it applies not to the total revenue of the government; it applies to each individual property. So you could be essentially reducing the revenue from what it otherwise would be—even in rural counties—where you have an actual declining assessed valuation and have individual properties within that county that are growing. It is important to make that distinction and recognize that is one of the consequences.

The advantage I see of a proposal like this, from a political standpoint, is that you can say truthfully to a taxpayer, your property tax will not grow this next year more than whatever the percent that you determine. I think that with any of the other proposals, each one of them having merit in and of themselves, you cannot say that. In looking at this one, I would say there are some good things about it and some bad things about it.

The good thing about it is that we have a guarantee for the taxpayer. Unless we have some aberration that causes the rate to go up, such as a new bond issue, you can make a promise to them that whatever you determine, their own bill will not go up more than that percentage. At the same time, we have done something, changed the mix. So we have essentially transferred more of the burden to lower-income people through doing that, even though it could be that they will actually pay less taxes than they otherwise would. But they are still paying a greater percentage of the total tax than they otherwise would.

[Marvin Leavitt, continued.] I now have put on this sheet the effect of doing it down to 3 percent instead of the 6 percent. If you just follow down, you can see the taxes on the first home stays the same, then reductions on the other two. Revenue to local government has the biggest jump, going from 5.45 percent down to 2.73 percent. If you compare that with taxes of what they otherwise would have been, there's a 31 percent reduction in taxes on House B, which is a fairly substantial adjustment.

Now, let's go on to the next one (Exhibit C), which is a control by rate. It is interesting. If we control by rate, I show here a rate reduction of from $3 to $2.50, which is a fairly substantial rate reduction, if you can think of who shares in that rate. You will notice the percentage is exactly the same, 16.67 percent, across the board for each type of taxpayer, over what the taxes would otherwise have been.

But if you look at the next one (Exhibit C), the percents change from the previous year's taxes. You notice that the person whose house is not going up in value at all now has a 16.67 percent reduction in value from the previous, and that's through the rate. The person whose house went up 50 percent is still getting a 25 percent increase in taxes. This is what I was talking about before. If we do it by the rate, other than one of these other mechanisms, it is almost impossible to guarantee anyone what's going to happen here on individual taxes.

The total change is 3 percent from the earlier year. We have, essentially, a 3 percent increase, but we still have the one property having a 25 percent increase in taxes, while the person whose assessed valuation did not go up at all is getting an almost 17 percent decrease in their bill. As you can see, it is an exact switch from the other one. In this case we have a change in the mix, but it's the lower end that's getting the larger benefit, and the one whose valuation is going up is getting a smaller portion of the total benefit. You can see it is actually a reverse situation.

In the next example (Exhibit C), I've assumed we have an exemption of $25,000, and I assumed the rate would stay the same, but we have an exemption of the first $25,000 for each parcel. Since the exemption is in a dollar amount, you notice that the tax is a reduction of $750 for each property owner. But the one with the low-priced home represents a 33 percent reduction in his tax, while the person that owns the commercial building, which has the most value, only represents a 3.47 percent reduction in their tax. You can see what the effect is: we have given everyone the same amount of reduction, but we have channeled that relief to the residential taxpayers who have, in general, much lower bills than the commercial ones.

[Marvin Leavitt, continued.] This proposal has an interesting effect on local government, because it is directly proportional to the average assessed valuation of each parcel. Those local governments that are mostly residential communities would experience a much larger detrimental effect than those who have a lot of business property within their community. We would expect, say, in southern Nevada, that Boulder City, who does not have a huge commercial base, would probably have the largest effect on a proposal like this, as opposed to, say, Henderson or Las Vegas. North Las Vegas, which also does not have a huge commercial base, will probably have the second-largest percentage effect of a proposal like this, because they are getting most of it from residential property, which obviously has lower value than commercial property. What's interesting, and I think it's important to look at not only the final effect of these but also to try to look at the logic behind that. Coming back to this percentage of actual value used in determining property taxes, we have a situation almost the reverse of what we had before, where the House A is only paying property taxes based on 66 percent of their value, House B is paying taxes on 90 percent of their value, and the commercial building is paying taxes on 97 percent of their value. You can see the relationship.

In the next one (Exhibit C), I've taken this extreme economic hardship and I've simply said that we made a determination that if anyone has an increase in taxes greater than this 6 percent, the responsibility of paying that bill creates an extreme economic hardship. I have done that since we know that extreme economic hardship applies to owner-occupied residences. In this particular case, the commercial building does not get any benefit. For House B, it's essentially the same as applying the 6 percent cap. Almost any of these proposals could be worked on the economic hardship. You wouldn't have to do it by the percentage. You could do it by flat reduction. There are numerous ways you could approach that, as far as the extreme economic hardship.

In the last example, I have changed the taxable value in the relationship from 35 percent to 30 percent. You can see the effects there. That has the greatest benefit to the home that is not growing. The problem of doing that is we would probably finish off the rural counties when we change that relationship. That would have the same effect on them as on Clark or Washoe, where they have such big problems right now, on a property tax base. We just lowered it again for them. I would say that would be a very difficult one to implement just because of that factor.

[Marvin Leavitt, continued.] I think I need to stress that it is possible to combine some of these. In other words, when you come up with a final plan, you don't have to take simply the 6 percent cap and say that stands alone. That could be combined with something else. With the 6 percent cap, the biggest benefit goes to the most expensive homes. With the rate, the biggest benefit goes to the least expensive homes. If you moderate both of those, and combine them, you have reached an average someplace. I'm not suggesting that, but I think that it's possible you could do that. That would be another alternative to what we've been talking about, and I think it's another alternative that is available to you.

You have a huge job. I think we have the situation where it has to be uniform and equal. We have the Clark County situation, where it's so rapidly growing. We have medium growth in some of these other counties and a reduction in some of the rural counties, and to combine all of those within that "uniform and equal" requirement is difficult. I think that one good thing about the offer Guy [Hobbs] made [to provide more details], we are in a position where we can actually see the numbers on some of these proposals and start to get a feel for what that actually does to both the local government side and the taxpayer side.

I personally feel that if we left on a permanent basis the idea that we tax people on the relative value of their property. I think we would be making a big mistake if that is the final, permanent solution. Over time, I should be able to, if I have a piece of property and it's worth $100,000, pay half the tax of someone whose property is worth $200,000. In the short-term, I think, we would have to leave that. It's going to be difficult to come back to it, but I think there are ways in the long-term, and I suggested one a little earlier today. That's a possibility, and I think there are others.

For instance, you could not do it for this next year, but you could perhaps do it for the future sometime where the value of land is based on the value of the improvement on the land, and you do not assess land and determine value separately. You can base it on the size of the lot, but say you have a house that you determined has a replacement cost of $200,000 and it sits on a half-acre lot. You can say the utility of owning the land underneath the house simply provides something for your house to sit on. It's not as if it's of great value to you other than that, so long as you own the home.

[Marvin Leavitt, continued.] So you have a relationship between the value of the improvement and the value of the land. I know assessors might have a heart attack with me suggesting something like this. I think it might work, and the idea would be that, if we had that right now, we would not be having these big spikes in land values, because the value of the improvements has not gone up. The value of the improvements is based on replacement cost. It's a land spike that is killing us now, and if there were a relationship developed there, I don't think we would have the problem. That's a thought for the future.

Chairman Perkins:
Marvin, if we weren't assessing land, what would happen to all the vacant property in the state?

Marvin Leavitt:
I think that vacant property would still have to be assessed at market, the same as we do it now. I think, for business land, where it would almost be impossible to establish that relationship, it would have to be done based on market too. It would probably require a constitutional amendment to effectively do it. I would think, for residential land, that might be a way to go to solve the problem on a permanent basis and give us a much better chance of coming back to pure value relationships between residences.

Chairman Perkins:
I appreciate your thoughts about us being careful about not changing those relationships. I think that it's important as we look at our state as a whole. I guess the concern that we all have, what brings us here today, and a reason that this is such a challenging effort, is that we have a "uniform and equal" clause in our *Nevada Constitution*. And yet, things aren't uniform and equal throughout our state. So with all those variables, it does create a huge challenge for this Legislature, and we appreciate your efforts in helping us get there. If we were to take any of the local governments in southern Nevada and just look at the rate, how much of those rates could this Legislature effectively address? Aren't some of them voter imposed and outside of the jurisdiction of this Legislature?

Marvin Leavitt:
We have variance between the various local governments. If we just look at the rate in southern Nevada—I have a sheet from the Red Book [Nevada Department of Taxation, Fiscal 2004-2005, Property Tax Rates for Nevada Local Governments] in front of me—let's take the City of Henderson. It has a total rate of $2.94; $0.17 of that is for the state, $1.30 of that is the combined school rate. We have $0.09, which is the combined special district rate. I assume that's probably library district mainly that's involved in that. We have $0.66 cents which is the county rate, and $0.71 for the City of Henderson, which is their combined rate. But a substantial part of that combined rate is a $0.25 override. For instance, for Henderson, we're talking about $0.71 being the maximum, but we've got this voter override which, I think, is at least $0.30 for Henderson.

Chairman Perkins:
I think the 1988 portion of it was about $0.18, but there may have been more than one.

Marvin Leavitt:
You can see that whether it's $0.18 or $0.38. If you take the $0.70 and subtract the $0.20, that's $0.50, which is 1/6 of the total rate. We're not really affecting a large portion of the rate to do something there. To do really very much by the rate, it almost has to have the entire rate considered.

It's interesting if you look at the total property tax that's going to be collected in this current year. Throughout the state, it is $2.173 billion actually. Of that, $876 million goes to the schools and $118.4 million goes to the State, so that's just about $1 billion. We're talking about $1 billion out of $2.173 billion. Then we have the counties next in line with $573 million, and the cities with $266 million. If you combine the cities and the counties together, they come close to about what the schools are. The practical matter of it is, when you do anything to affect revenue on assessed valuation or do it throughout the entire rate, half of that affects budgets you have control over.

Chairman Perkins:
I guess my question is, if we took the $2.94 that you just referred from Henderson, this Legislature doesn't have the authority to roll that entire $2.94 back 25 percent.

Marvin Leavitt:
No.

Chairman Perkins:
Because of the voter overrides and the components of that.

Marvin Leavitt:
You've got debt—for instance, this $1.30 school rate, $0.75 of that is operating, and the remainder is for debt approved by the voters. Obviously, not even the Legislature itself is limited. You can't do anything really with the debt side of it. Yes, Henderson has a total of $0.53 that are voter-approved out of the $0.70.

Chairman Perkins:
We heard from Mr. Hobbs and Mr. Aguero about the various pressures, aside from us finding a property tax relief solution here. The various pressures that are driving the cost of housing up: speculation, shortage of land and the inventory available, developable land, and that sort of thing.

One of the things that came to mind for me earlier, specifically, was that I was somewhat curious in the various BLM [Bureau of Land Management] auctions. I think that BLM is kind of a culprit as well with the way they trickle out developable land a little bit at a time and affect the supply and demand of that particular commodity. There was an auction in west Henderson not very long ago, and in the original auction, there was nobody who bid on that 1,900-plus acres at the $250 million price. My understanding was that there were some challenges with making that a "pencil lot", if you were a developer, given the current building codes and restrictions and that sort of thing. There was apparently some discussion between developers and local governments about how to go about doing that.

Has there been some activity by local governments as well that has created some of this upward pressure on prices that is, in effect, causing some of the property tax crisis that we have today?

Marvin Leavitt:
There could well be, but I am in an area now where you are not looking at an expert. Probably the best way I can answer that question is I don't know for myself.

Assemblyman Anderson:
One of the questions—the postulates—you have put in front of us, and Mr. Hobbs did also, deals with replacement cost. I just heard the Chairman mention the variables that are in the nature of this element. I want to make sure I am drawing the right conclusion from your use of the term "replacement cost." The cost of construction, per square-foot basis, has gone up rather dramatically here in the state of Nevada, for a wide variety of factors: the availability of cement and steel in the current market relative to China and the world production, and where we all fit in that.

If we tied ourselves in some possible way to the replacement cost of new construction, we're not insulating ourselves entirely from the inflationary factors that are volatile in the marketplace, I like to think of the $3,000 brick home my parents built in the 1920s, as compared to the $4,000 first new car I bought in the 1960s, and my father going crazy. Clearly, you can't make those kind of comparisons, yet I know we have people in our communities who couldn't build that house today, because the construction materials are not available—wood and cement and all the rest.

How is that going to get us to where we want to be? Because many of the people that we're concerned about, constituently, are those people who are in older neighborhoods where they are going to be for the rest of their lives, on a fixed income, and they're not turning their back on the need for services. But, at the same time, they are not, in their opinion, getting the benefit of the huge cost of growth in newer home subdivisions and the volatile peak that we saw, demonstrated in this earlier example. So, does replacement cost really give tax relief?

Marvin Leavitt:
I think there are two portions of an answer to that question. First of all, the actual way to value improvements is replacement cost less depreciation. So we have someone in one of these older neighborhoods. A good share of the homes are 50 years old or older, and they are now being taxed based on 25 percent of the replacement cost, which, no matter how much replacement goes up, is still a fairly low tax bill for those in these older neighborhoods.

The second part—we've had problems with the value of construction over the years. Normally, construction material prices don't vary so much between Nevada and someplace else. It's national inflation that's causing that. Quite often, when we have national inflation, we have a rise in income that accompanies it. Here, for instance, from this huge run-up in prices of land, we've had a run-up in land with no increase in income at all. So you immediately have the huge burden for the house, with no increase in your income, and the only thing different is you just have to make a bigger house payment. You're right, the replacement cost does not completely eliminate the problem, but I think if you had a choice between the two, it becomes a more stable component than the price of land, which can, as we've seen, double in the space of a few months.

Senator Lee:
Marvin, I'm going to your piece of paper, so this is where I'm gathering my information. We have had a lot of economic refugees come to our valley. People who couldn't make a living where they were living saw a boom, came to Las Vegas, bought homes, and started to build a new life in our area. For what I see here, services haven't grown, or nothing new has been added to their neighborhood, but the property taxes have gone way up. In one of your bullet points here, you say if extreme economic hardship provision was used, is that concerning that if we had a flood down in Clark County, the Governor would declare that a disaster area? If we have counties that are having this extreme economic hardship provision, could we just work, maybe, on particular counties with problems rather than affecting everyone in the state at this time?

Marvin Leavitt:
That's probably a question for Brenda, but it seems to me, you probably need some time to define, if you want to use that provision, what an "extreme economic hardship" is. I would think it would relate more to the individual than it would the condition existing in a particular community at a particular moment. I obviously should defer to Legislative Counsel on that point.

Brenda Erdoes, Legislative Counsel:
I would just echo Marvin's comments. The problem is the "uniform and equal" clause, even with the economic hardship exemption. I think you would still have to grant the exemption equally, in other words, to people across the state. But I would put the caveat in there that if there is truly a factual basis to differentiate between one county and another, I wouldn't rule out being able to draw that distinction for the courts and use it. I'm just not sure that we're aware of it right now.

Senator Lee:
That seems to be the predicament when we have certain people losing ground and other people gaining ground too fast. The extreme economic hardship provision is available, possibly, and I think I'll look to see how that works.

Chairman Perkins:
Brenda, I would assume that extreme economic hardship refers to the taxpayer, not the county or local government.

Brenda Erdoes:
Yes, it does. And the *Constitution* is very clear about that.

Assemblyman Hettrick:
Marvin, you talked a little about the inequities of one house was being taxed at 100 percent and another at some lower percent. Just about any provision that you applied clearly generated—I think that's exactly what you were trying to demonstrate—that it had an effect differently on all of those things, and every one of them creates an inequity. I don't think we could ever get rid of the inequities per se because I don't think it's a perfect system, and I don't think it could be made to be a perfect system.

We have counties that reassess once every 5 years. Doug Sonnemann [County Assessor, Douglas County], sitting back there in my county, is assessing Douglas County once every 5 years. Johnson Lane happens to be the area I'm getting multitudes of email saying, "Why is my house going up? My neighbor, who lives right outside the district, the same house on the same land, and his isn't going up at all or is going up very little by comparison." We have the problem with new homes in an older area, because the area around it doesn't have anything that drives the value up, just not in terms of plain inflation in land.

[Assemblyman Hettrick, continued.] A guy builds a new home in an older area. He drives his price relative to the market. Where the value of his home is, he gets an inequity. You can never fix that. I don't care what you do about it. You have the same problem with several of the people. I know Doug's got them and I've got them. People who live in older homes in the Johnson Lane area have now had homes valued at 5 and 10 times what they spent for their home being built around them, because it is a desirable place to live that allows horses and the like. Their values are being driven up. You're never going to stop that inequity. I'm concerned that if we condition anything we do on trying to establish equity, it's a much longer-term solution than we have time to do here. I think we should go that way.

I see your proposal to, perhaps, tie this to the value of the improvement having a great deal of merit, not calling the land equal to the improvement, in terms of value. Maybe, use the improvement to cap the value, because you still might have land that's worth relatively nothing. It certainly would work well in the rural areas, where you have large ranches that struggle to make a living because the economy is not great. If you only tax on the value of the improvements, it would be relatively low for the large amount of land. I can see some positives for that. I think it probably works in some residential areas with relatively small lots. I see it may not work in every situation. Again, that's my very point. I don't think we can ever kill all the inequities. So I think we're going to have to move forward somehow with something that provides relief, and really do a long-term study to come up with something that's a better long-term solution. You're welcome to comment if you like. I just wanted to point out that I don't think we can fix the inequity issue.

Marvin Leavitt:
I think anything you do right now is going to be a mathematical solution—something you can do without reassessing. Obviously, the assessors do not have time, even if you authorized them, to go back and reassess any properties. We have to take where we are right now and apply some mathematical solution to it. We multiply by 1.06, or we do something with the rate, that can be done mathematically. There is no way, I'm certain, you can go back in and try to redo assessments or bring everyone up today. I thought that the idea of reassessing all property in one year, every year, is a really good idea.

Chairman Perkins:
That's a good point. My suggestion was, we have to find an immediate short-term solution, we have to find a long-term solution, then we have to find out, hopefully, some way to keep property values from going through the roof, which is the overriding problem that's driving this. But I do think that whatever we do, though there's no way to find perfect equity, we have to find the most equity possible in whatever solution we have.

Assemblywoman Giunchigliani:
What we're finding out through these hearings is that we do not have uniformity now. We don't need to compound that. But there is a problem, and there is an inequity if you have one county doing the assessments every year and the rest of the state not. We have problems with some counties that don't even check for improvements, so they're not even assessing on that.

Number one, it's a loss of income. But, again, it is an inequity and you risk transporting or exporting property tax dollars from one county to subsidize other counties, because they aren't assessing correctly. We just have to be careful that we don't compound that. We have a non-uniform system going right now that we need to fix. So if it's not every year, then it should be every two years. But everybody complies with it or whatever it may need to be, so that we're properly capturing what's out there. So, you don't fingerpoint from one neighbor to the next about why was my house assessed and their house wasn't. I just hope we don't lose sight of that fact as we try to deal with this.

Marvin Leavitt:
I think the law essentially says they'll reassess no less often than once every 5 years. Then they go about doing their assessment. Of course, we've had more problems in the rural counties. Another thing is that there is an attempt made to factor in those off years, when the assessment is not done. So you try to maintain as close as you can to current value by a factoring mechanism, but in practice, we've all found that the year of the assessment is when you get the big jump.

Chairman Perkins:
Further questions from the Committee? Thank you, Mr. Leavitt. As always, your information is very, very helpful. As Ms. Vilardo comes forward and provides her information, our staff has asked her to describe exactly what Proposition 13

in California is and did. We'll have a better understanding, because I think that's a term that floats around out there that not everybody has a full grasp of.

Carole Vilardo, Executive Director, Nevada Taxpayers Association:
I'll discuss Proposition 13 first. Anything that you did like that becomes constitutional change. It had, really, 6 major elements to it. The first element was that you would rollback the value to a set period in time. In the case of California, if memory serves, the rollback was 3 years from when it was approved by the voters. That's the first element. So you are rebasing the value upon which you will increase your taxes. The second element is that you are allowed to increase that value by up to 2 percent each year. The third element is the fact your taxes cannot increase greater than 1 percent over your prior year's taxes. The fourth element is that, when the house is sold, it goes back to market value, full cash value.

The two other odd elements within Prop 13—and, I believe actually, one was modified after the adoption of 13—is the fact that, if you are senior citizen, the California Legislature may provide a mechanism whereby you can transfer the value of a house that you may have owned that you're selling, to a new house. I have to believe that was making the assumption that I had a large house while my family was growing. Now they've grown, I'm down-sizing, but I had this 20 or 30 years of only getting 2 percent a year on increase in my value, and I want to transfer that to a new property.

The actual mechanics of the way that works is in their statute, because I did call my counterpart about 6 months ago to find out about it, is the fact that the county has to agree to the transfer. That's the fifth element. The sixth element, which is another one that is very interesting, says that the tax on the transfer of property will not increase, and there is some interpretation on that, if we were to do something like that. What makes it interesting to show you the difference of states and how, if there were a perfect system, we would all use it, it shows how different these are.

California uses real property transfer tax as a local tax option. It is not mandatory across the state. There is not a state rate involved. An individual locality can enact a real property transfer tax. The idea there was because you were protecting property in values, not to have an entity now enact a tax and wreak havoc or undo the intent of 13. What makes it interesting is, if you put that provision in Nevada law, real property transfer tax is a statutorily mandated tax for which there are statutory expenditures. It is not a discretionary tax. So you have a totally different application of a provision. But those are the 6 major elements. If anybody would like more detail, I do have a lot more detail on the way it was written.

[Carole Vilardo, continued.] If I may come forward on Prop 13, again, referring back to a Cal Tax [California Taxpayers Association] document. A research analyst who used to be with them did an analysis, and I will make this available to anybody who wants it. I have an electronic link. After the twenty-fifth anniversary had come, what were the effects of Prop 13? Obviously, people like it. There was no question about that. However, in looking at the mix of revenue and now what was funding government, fees were, in the aggregate, a larger portion of government funds than sales tax and property tax, and sales tax was obviously much higher than the property tax.

Once you removed the expenditure limitation—a companion piece that had been enacted—you had two things happen. You had, literally, unfettered increases where anybody could find a way, where they had the authority, to increase an assessment of fee, change some mechanics. I'm sorry; I forgot a very important provision of Prop 13. It requires a two-thirds vote for approval of any property tax increases.

By the way, there is even a difference there. When I spoke to my counterpart on that and was comparing some issues that were being raised here with that, he made an interesting comment, because we were discussing election cycles and when you go to approve bonds and overrides. He said, "I think I might be willing to trade my two-thirds for no special elections, when only 14 percent of the voters show up and you wind up with less than 5 or 6 percent." We started talking about another states' conditions to solve those problems with low voter turnout on special elections. That's what I mean about evaluating, and I apologize for missing that point.

Going back to what has happened—problems in California, the elimination of the expenditure cap. The expenditure cap in California was very much like the one we have in statute currently. In my opinion, it does not work for some very provable reasons and probably could work with some adjustments. But once you eliminated that, you began the advent of ballot box budgeting in California. For some reason, while you would not think that they would necessarily be allied, they were allied. It was people not being able to get approval by two-thirds for certain tax issues for expenditures of money that were now circulating initiative petitions, creating an expenditure to satisfy a need, real or perceived, on a constituency, and marrying a tax revenue to it.

As a result, when Larry McCarthy of Cal Tax spoke to our annual meeting—some of you may have heard him last year at the luncheon in Las Vegas—Larry cautioned on that for an interesting reason that I think you will appreciate as policymakers and elected officials. California Legislature has control over 19 percent of its budget—period. The rest of it is constitutionally mandated spending. His comment, in some of the remarks he was making, is if we continue to go that way, you really have to wonder why you have a legislature, because the restrictions are so tight on these, because you are looking at a changing constitution. Even though theirs is a shorter time period, you get locked into some very serious unintended consequences.

[Carole Vilardo, continued.] That has led to part of California's problems. Is it all of it? No, but, it has led to a big part of California's problems. It has led to a number of people coming to Nevada—not Prop 13, but the other issues—and their rising values when you sell a house, buy a new house, and move to Nevada. I believe that's one of the reasons when I get calls saying we should have a Prop 13. Many of them are California residents, because they know it. They are familiar with it, and the question I usually don't get answered is: "If that's what you liked, why ultimately did you move here?" It is a serious question.

I don't mean it to be funny, but the reality is that's when you start hearing about some of the other things: poor service levels or where service is provided where they don't think it should be. I would be happy to get you any additional information, speak to you individually, on some of the things that I've learned in looking at some of the Cal Tax stuff and talking to my counterpart and the researchers.

Assemblyman Anderson:
The question of pay-to-play really intrigues me. Pay for service has become a big issue here in the state. While I appreciate your analysis that we may be superfluous, if we're only going to dealing with 19 percent of the budget, I guess that is predicated on the belief that the Legislature only exists to tax, take money away from people, and to spend. I guess those of us in policy committees have a different view of the overall place.

The point of my question really is, however, if we're talking about pay for services, I know that we've increased fees to utilize court services, for funny mechanisms for different elements of the court system. We've increased fees at local government and county government levels for using different county and local services, copying machines and other kinds of things. Has your organization done a comparison how the local government fees compare, since folks from our neighbor to the west come here and bring with them their particular point of view? They're not surprised when we ask them to pay for these things? This has become a new funding mechanism that we've been utilizing out here in Nevada for some time. Are those revenue sources really going to be available to the local government, if we were to do this, because, we've been capping those already? Have you done a comparison of how we do that?

Carole Vilardo:
There is a state-by-state comparison, not broken out by local governments, that I have. It is about 6 years old, if memory serves. There is a whole other issue on fees, and many of the fees that were put into place in California have been defined, actually, as taxes, but they're called "fees," and they were defined that way to get around their two-thirds vote requirement, because they were established so that the money goes into a general fund, not to support a specific service. When I was referring to their legislature having very limited control on the budget, the reason, with all the initiatives that they've had, they have actually pegged dollar amounts for levels of spending to a very specific budgetary function. And because it's constitutional, you don't have the discretion to say that something else needs it more this year than that one. That was the reference. I can make that available to you.

Assemblyman Anderson:
If it's 6 years, and if I don't move beyond that, I know that we here in Nevada would never dream of utilizing the device of calling something a "fee", when in reality, it was tax. I'm sure we wouldn't. I'm sure it would never occur to the Secretary of State to do anything in there for that.

Carole Vilardo:
You obviously have a lot of decisions to make. It's obvious that you've decided that you want to provide relief for this year, which is one of the issues that needs to be looked at. So, to that end, I'm going to just really highlight, and I'm going to be very, very presumptuous.

On the idea that you want to get a bill together, I want you to have a bill because I want to be able to look at what it does and what it says, and feel that it works. I'm sure the assessors would like to do that, as well as treasurers, et cetera. I would like to give a little bit of a checklist and some things that I think you can start getting together for the drafting of parameters, at least, as to what you want in this bill.

[Carole Vilardo, continued.] The first thing you've already decided, I believe, is you want to be able to provide relief this July with the tax bills that go out. In doing that, and the time frame that you have, you've already set up some mechanical procedures that you'll have to follow, relative to the time of the bill and the time of putting this through, because it really does need to be the end of March. When I first started speaking to groups about this last September, I was talking about it possibly being done by the end of February. It's just because it's nice to have a company you're contracting with tell you that they'll have this program written for you in two or three months.

However, there are always potential glitches, delays, and you want to be able to do a run through on the program to make sure that what you wanted done is actually what appears on a tax bill. I think you know your outside date there. I think you know that what you're doing is going to be statutory, so you set up those conditions. You have the basis, and Guy went over 14 areas and discussed and grouped them into categories. I basically did the same thing.

I'll be further echoing what Guy and Marvin said. I think you have decided that anything that you apply, a reduction or restraint, is going to be based on value. It appears to me that you can't place it on revenue or rate, and that's from the looking I've done, and looking at the Red Book.

You have a copy of "Tax Topics". If you take a look somewhere around page 6, we did a comparison of what the revenue is that's being generated. I want to give you a caveat that total revenue which appears in the Red Book, for any of you that look at it, also contains bond issues. There are times where bonds issued retire. You see a revenue reduction—it may be because of that. You need additional information. As an overall comparison, that will give you some useful information. Because of that, I think you are looking at valuation, and now that you know that, as Marvin was talking about, how do you want to handle the valuation? How are you going to do the application? Again, it strikes me listening to the testimony from the experts and listening to your comments, that you've zeroed in on two areas.

You zeroed in on some restraint mechanism as to how much value can increase. Whether you call it a cap, a ceiling, a "not to exceed", et cetera, that's over here, and you've heard about the shortcomings to it. Now you have that, and in having that, on the other side, you've heard about taking an amount of money and applying it against the value to cause a reduction in value. Either one of these mechanisms and the ultimate value that is derived is what the tax rate will be applied to.

[Carole Vilardo, continued.] You've got, potentially, two bills that you might be looking at within these areas, so where do you wind up going from here? If you can use the smoothing technique, and Guy and Marvin and Jeremy—and I see Mike Alastuey over here—think they can come up with a definition of a ratio, maybe that's exactly what you plug in for the restraint on value. Maybe it's 6 percent, 5.34 percent, or whatever it is. It gives you a starting point. It may not even be the one you want to use. Marvin gave you examples of $25,000 and $50,000. Obviously, I assume those are on taxable value. We're going to have to be very careful in the words we're going to use to make sure we're not creating this unintended consequence.

Where do we come from there? If you've got these parameters in some very general language, it might be much easier—and Brenda Erdoes can either disagree with me now or get me out in the hallway—is to be able to present something to your legal counsel and say, "Here are the two things we have." Maybe you decide—and it's a decision to be made—you want to use severe economic hardship. Severe economic hardship will require a finding of fact. The things that I been able to come up with that might create that finding of fact, or to say if I have a home, following what the provisions are, and my value on my property has increased greater than X amount of dollars, and you might even want to go back, over the past 5 years, the statewide increase for utility rates have been X, and insurance has been X; that all relates to this property, I declare that we've created a severe economic hardship. That may work.

Brenda might come back and say we can't find a defensible finding. Anyone who attended the UNLV [University of Nevada, Las Vegas] panel discussion heard Professor Steve Johnson, who teaches taxes at the Boyd Law School. He was asked about using severe economic hardship. He said you can use it but you had better have a very solid finding, because if it were challenged and went to court, you have to be able to show how you made the determination of this hardship.

Let's assume you can do it. You then need to take a look at your other constitutional provisions, and there are actually three short word phrases that would have to be looked at in concert with severe economic hardship. We know that it's "uniform and equal," you have to decide that was into play. You also have a provision in that same paragraph that speaks to a "just valuation." You need to know that works. So it comes back and says it works on those two parameters that you've set up. Then you can start looking at different mechanisms. By mechanisms, I mean percentages or rates. Then you will have a better idea of government impact by anything that you do. It is obviously going to be totally different than if you have to an across-the-board solution.

[Carole Vilardo, continued.] If you find out you cannot use severe economic hardship, you have to go across the board to meet the "uniform and equal." Then you know that and you can start looking at the details how the relief will be provided. A whole other group of people can be wrapping their arms around the technical language that you need. I personally believe that you have started that process with these two meetings from the discussion. Now it's to get enough of the parameters that you all do agree to, to get the legal opinion.

There is some work that is being done, as is evidenced by Guy's indication, things that Marvin's looked at, even things that we have looked at, although not as much on numbers as trying to balance taxpayer relief with local government needs. Sometimes local government, in our opinion, thinks it needs more than what it's being given. Other times, the local government has been depressed in value or revenue being received, because of tax rates being constrained. It's having a problem trying to provide basic level services. That is as much a concern to us as anything else. This has to be a balancing act. Taxpayers pay taxes and they want a basic level of services. You need to be sure that you are providing government with the sufficient revenue to provide those services.

There are a number of these things that we could look at, even if we had to initially look at "across-the-board" as the first consideration, because it might be easier to start building the basis of what your ultimate legislation will look like. It is extremely important to have some language at a point in time and not the last date of March. Even if you said you could go into the first of April, it is out in the public for at least 10 days to 2 weeks. Then you would have people like realtors, commercial appraisers, and fee appraisers versus the assessors, all trying to make sure about what we know about property tax, and the mechanics of getting bills out. We could be getting those areas and letting you know. Hopefully, it would save us some unintended consequences.

Listening, particularly today, reminded me of sitting through the hearings in 1979 and 1981. You have no idea how parallel some of the discussions are about equality and what we do and if you can create a perfect system. I think I've said that every time I've testified on a major tax change, or a new tax, if there was one that was perfect, we would all use it the same way. I don't know of any tax and anything you do, no matter what Legal says to you that may not be constitutionally challenged. You just want to be as sure as you can that what you've done is defensible and withstand the challenge.

Are we going to have unintended consequences? You had better believe it. Look at the unintended consequences from last year when you couldn't review, and this year I believe we will be able to review. The whole session of 1981 was taken up with three bills that were put in place at varying times. The unintended consequences were identified over the years. I know many of you who were here during the 1980s, know that it took us until 1991 to clean up the last of the identified problems. Every session we were cleaning up a new unintended consequence. Part of that was due to the fact that everything that was structured was also structured by longhand. Every change was done in these huge books by hand. Everybody worked around the clock on this. We are more fortunate, I think you have more volunteers for outside help. I don't know how your staff even does what it does during the normal legislative session without tackling something like this and any other issues. Any of us would be willing to help.

[Carole Vilardo, continued.] I think you've set the parameters. If you could establish them—if both the committees are comfortable—we could start getting some direction to Brenda and getting some information back. You could probably start looking at what the language is you need and be ready to plug in the numbers, whether they be dollar amounts or percentages.

I really thank you for allowing me to be that presumptuous to tell you what I think you can do in a relatively short time. If there is any specific request for information, you can let me know now if they are committee-wide, or speak to me individually.

Assemblyman Anderson:
I'm concerned about the issue that Ms. Vilardo raised relative to fees, local governmental services. I would like, if it would be possible that somebody in the Fiscal Division take a look at that and get me some.

I'm concerned about the comparison that Ms. Vilardo made that, in California, they had moved to many of the local governmental entities increasing fees for different kind of services, while I noticed that we have increased fees over the last several sessions on various services that we provide, like jails and making people pay for different kinds of court program services and the funding mechanisms.

I am quite curious as to what kind of programs that local government has tapped into in California that we haven't already tapped into, in order to point some of the concerns of local government to come forward with that. I know Ms. Vilardo has indicated that she had a site that was six years old and I know we've moved ahead on that. Maybe we already have that, and if we do, I would like to see something about that. I have heard the concerns of many of the local governments and county governments about what the potential impact would be in terms of their delivery of programs. I don't know what the solution is for education, which is near and dear to my personal heart.

Chairman Perkins:
I know what you're saying, Mr. Anderson. It was pointed out that, when California underwent the Proposition 13 conversion, there was a shift to a number of fees—more reliance on fees by local governments—to make up for the lost revenue. You want to see if, in Nevada, we've already gone down that road, and if there is any opportunity for government to do that.

Assemblyman Anderson:
Relative to the question, I know that if you are going to be in the school band, you have to pay for the uniform. If you're going to take an advanced science class, you have to pay the lab fee, and you have to pay for all these other additional things. So many of the school programs have already moved away from what were once provided, but now you pay for. I believe that's similarly true at the local governmental level for different kinds of services that are provided, that the counties are picking up revenues from already, and if there is something else we can point them to. I would be curious to see that.

Assemblywoman Giunchigliani:
Along those lines, I have a pay-to-play concept in Clark County, and now we have an impact fee limited amount. I don't know if that exists in other locales. So it's fairly restricted. It doesn't go to schools or anything like that at least in Clark County. I've always tried to add that up. Is that something or would someone call that or consider that a minimal pay-to-play? I don't know, policy-wise.

My residents in older neighborhoods have always supported impact fees, so there is some equalization.

Carole Vilardo:
California has used some fees as taxes. That was the frame of reference there. We probably tax user services very similarly. California taxed user services, not with the use-to-benefit relationship totally, but to get additional money for a general fund.

If I may make a comment on the proposals? If you look at—the 6 percent is the one I've been able to look at the most—putting that restraint on an increase in value, if you have even hit 6 percent, you are in a growth community. The thing that happens, and this parallels what we had in that 1977, 1978, 1979, and 1980 period, is we had, at that time, huge inflation which just created huge increases in valuation. At the same time that you had the huge increase in inflation then, we are now having market forces at work that have created, whether it's for one year or two years or whatever, this spike that happens in areas of growth. In those areas of growth, what else happens, because of the way all revenue stream works, is our sales tax goes high, double-digit. If you go back and take a look through that period, I can remember one of those years in the late 1970s where the increase was just over 20 percent, and whoever thought we'd have this level of increase this year, but they go hand in hand.

You want to balance the needs of revenue for local government, but in those growth areas, all new growth is outside any of this restraint cap. An amount of dollars that you would put against value to reduce the value will go on land, unless you are using the severe economic hardship, but it will wind up not including whatever this new value is because it hasn't been on the roll before. That would be a function of making sure your bill is written that way. That's why I say it's important to see this minutia—the details that bore everybody to death.

In the same growth areas, because they tend to be the exporting counties, not the importing counties, you've got those increases in sales tax. You have what you're looking at for the schools increasing the same way. What you're doing, in effect, in the growth areas—and I can tell there's going to be a couple exceptions to this in nonurban communities that have experienced growth—for the most part, is you're minimizing or reducing a windfall. You're not putting them into a negative revenue position. You are not going to do that, for the most part. I know, because I've looked at the numbers and we've worked them out. As I say, they have detail; you can start doing and providing more information to see what works and what doesn't.

If, in those counties, you look at how we've shown valuation and aggregate amount, you have Marvin's example. That's going to be the oddball one. We have some counties that have not been able to hit anywhere near 6 percent—doesn't apply, so it doesn't hit them at all. They are going to be exactly where they were without this.

Assemblywoman Giunchigliani:
So you're calling a growth community, for lack of a better term, as...

Carole Vilardo:
I'm trying to distinguish between growth and nongrowth.

Assemblywoman Giunchigliani:
Okay, because I immediately went to my own district for example. It's land-locked; it's downtown. Senator Coffin and I share part of that district. I don't know, possibly went up 10 percent. We have no new housing. It's all improvement because the area has come back, rebuilt, remodeled, and new assessment has come in. They're still impacted, just as not as negatively as what you're talking about. But there still is an impact.

Carole Vilardo:
Yes.

Assemblywoman Giunchigliani:
You're also talking about the larger blip that is more urban based, too. You have areas of Elko and other parts of the state that have had some growth. There is probably some correlation with the sales tax collection and the property tax increase as well. I think that's what you're saying. I don't know if that's the whole point, but that's what drove our surplus right now.

Carole Vilardo:
You may not need to, in talking and going back to Mr. Anderson's issue of fees and making up the revenue. Depending on how you structure what you're doing, and I think you have the parameters for it, you need to start dotting some i's and crossing t's just so you can get the legal determinations on it. Where the greatest impact would be on one proposal, from what I have seen, is going to be in an area where the growth went above 6 percent. I believe it was Mr. Hettrick's bill I looked at two sessions ago, and there is a legislative

preamble in that bill on property tax relief—I'm making the assumption that it was done by Fiscal staff—that talked about the average so-many-year increase in valuation statewide being 5.8 percent. You're looking at 6 percent. If that was on existing property and you're looking at 6 percent, you are in a pretty good ballpark. Anything over that is going to be new.

[Carole Vilardo, continued.] If your legislation is correctly worded, whatever the final mechanism is, you're going to be addressing a number of issues. I can tell you some. You have to make a determination on going into the property tax statutes. If you're across-the-board, you're going to have to reference into centrally assessed properties. You don't have to do that if you're on severe economic hardship. You're going to have to make a distinction, so that there are no unintended consequences from interpretation about your personal property, which is done totally differently. There are a lot of little things like this that some of us would start looking at now. I think you fit two areas. Is there a perfect solution? No, not with time constraints. There may be a perfect solution for long-range. That's something you could be addressing in another month or two.

Chairman Perkins:
I think it's important that you addressed two separate issues here. One is growth in value, and the other is growth in population. Growth in population may be above and beyond growth in value, but it also creates that population that is then a burden on the delivery of services.

Carole Vilardo:
There may be a way to analyze that very quickly and that is with the distribution formula on the consolidated tax. Where there's excess, and Marvin knows this better than I do, you tend to have it in a growth. The excess distribution is from assessed value on population. You can see if there's any relationship, could you not?

Assemblyman Anderson:
My supposition is that the counties, who have been desperately looking for additional revenue streams for some time, looked across the mountain and saw the creative methodologies that were being used by our western neighbor and have already channeled those flow streams into their revenue sources. If we move with property tax cap questions in place, we do not allow them the opportunity to discover those channels that they have already opened. Their

caps are going to be draconian in terms of where the economic impact is. It is a supposition that I have based upon your statement. I need the verification of whether my idea is correct or not, because that's where my mind is now. If it's in the wrong place, then I need verification that that's not true.

Assemblyman Hettrick:
I understand Mr. Anderson's concern. I think we have to remember here that new growth, in the cap proposed by Mr. Schofield, is outside the cap. It comes in at value. New growth takes care of itself. Those properties that would be driving the very things that you mentioned, would actually be coming at value, and therefore, providing tax at value and then be subject to a cap, assuming there is one.

I have to go back in response to Mr. Anderson's point just made. Assuming we're at a 6 percent plus new growth, I go back to my comment of yesterday. Does government have to grow faster than 6 percent cap plus new growth?

I don't believe the average worker in this state is getting a 6 percent increase in their paycheck every month or every year. I don't see why we have to allow for that. I understand your concern, that if they do need some revenue, some governments may, indeed, need revenue, because I think Mr. Leavitt made the point yesterday, and I think he made it again today, that you can describe scenarios where counties that are not growing at 6 percent across the board are actually getting some growth or revenue or benefit out of the growth area that would be impacted by a cap. They might, indeed, need to look or want to look, for some other source. Then, I think your point is valid. If they've already used all those sources, if every fee that they can possibly charge has been charged, then they may have a problem.

I think that was my point before about inequity. I don't think we are ever going to design this to make it perfect. There are going to be some hardships, and maybe what we have to look at is some kind of reserve fund that we have to look at to try to help someone, while we see the impact, I don't know. I just want to make those points: first, that growth would pay for itself because it would be on the roll 100 percent; second, how fast do we have to let government grow? I think that's the issue here.

Chairman Perkins:
I think restraining government growth is going to be a topic of this conversation until we get this done. It's going to be an important conversation. The other concern that I have is much like the entire formula in Colorado and their TABOR [Colorado Taxpayers Bill of Rights, Article X, Section 20, of the *Colorado Constitution*] laws. But after 9/11 [September 11, 2001], they had a significant downturn in their economy and were limited getting back to even where they were as a base. Whatever we do and whatever fashion, we've got to have some safety valve to allow us if there is a correction. We haven't seen a downturn in our property values in a couple of decades; perhaps, we'll never even have one. If we ever did, we're going to need to have some sort of safety valve.

Senator Coffin:
I was hoping that we would have more discussion on economic hardship from Carole, because that was what was billed. I know it is an elusive topic and too hard to really make the center of an exposition. It's worthy of further study if we can get more out of it.

I'm glad Carole's talked as much about Prop 13 as anything, because inside 13, on the six or seven segments of it that she talked about, there was one that is a stroke of genius. As much as I dislike it, and it's proven to be ineffective in terms of cutting taxes ultimately, the idea of deferring tax on a fully-appreciated value for a person until they sold the home is a stroke of genius to me. That brings in the security that people right now don't have. They're fearful. They're panicked, because they think that 30 percent or 40 percent increase this year is going to happen again and again and again. I don't think that it is. I think they're plateaued, and probably at realistic price. But that is a stroke of genius. It is a psychological boost for people, and I think they could have passed Prop 13 if they just did that and had California continue on a lot better than they did.

I haven't decided to present a bill, just because there are so many of them. I have some ideas with that in mind. Carole, you have talked about smoothing, I think the idea is good, because I agree with it. I wish we'd do more brainstorming. The numbers are really tired right now. I know next week we have three meetings total. It's good if we could do some brainstorming. A lot of our members have been quiet. I don't know what they're thinking. I'm just trying to throw my thoughts out. I don't care if I get embarrassed. I'm more along the lines of making sure that people hear an idea, whether it's absurd or outrageous. I have some ideas I'll bring up next week.

I was hoping we would get some street folks here though, meaning some realtors that can testify, some folks who work those markets. Let's get people who work the Sun City area, because it's a regional thing with realtors. They get comfortable with a certain area…

Chairman Perkins:
I expect that we'll have a great deal of that discussion with those folks next week. We had earlier some discussion, as well, with Brenda about economic hardship. I think she's giving a great deal of thought as to how that might be applied in a number of creative ideas in this Legislature. Please bring them forward and we'll see if we can't, at least, filter them through our legal counsel to see if it's going to stand constitutional muster. We have to have a lot of detail put to any proposal before she can offer any real sense of an opinion on constitutionality.

Assemblyman Mortenson:
I think the most significant thing I heard here today is from Carole Vilardo, and I just want to reiterate what I think she said and maybe she can nod if that is essentially what she said. Through the years, exempting the last couple of years, the growth in the cost of properties or the appraisal of properties has been around in the 5 percent area.

Carole Vilardo:
It was 5.8 percent in Nevada.

Assemblyman Mortenson:
So any cap that was placed that would be 5.8 percent or higher would certainly not, invariably, be a large consequence to communities, local governments. If a cap of that nature was put on, it would only be limiting windfall revenue. Those were Carole's words. That to me is a very significant statement for today.

Chairman Perkins:
Further comments, questions, or requests? Let me thank Mr. Hobbs and Mr. Aguero. Mr. Leavitt, thank you for your presentation, and Ms. Vilardo as well.

Our next joint committee hearing is next Tuesday. We look forward to hearing even more information on property taxes. We're adjourned [at 4:38 P.M.].

RESPECTFULLY SUBMITTED:

James S Cassimus
Committee Attaché

APPROVED BY:

Assemblyman Richard Perkins, Chairman

DATE:

Senator Mike McGinness, Chairman

DATE:

EXHIBITS

Committee Name: Joint Meeting of Assembly Committee on Growth and infrastructure and Senate Committee on Taxation

Date: February 10, 2005 **Time of Meeting: 1:55pm**

Bill #	Exhibit ID	Witness	Dept.	Description
	A			Agenda
	B	Guy Hobbs (Power Point presentation from Las Vegas)	Analyst	Property Tax Issues Preliminary Overview & Analysis
	C	Marvin Leavitt	Citizen	Property Taxes – Various Alternatives (handout)