

**MINUTES OF THE MEETING  
OF THE  
ASSEMBLY COMMITTEE ON GROWTH AND INFRASTRUCTURE**

**Seventy-Third Session  
February 24, 2005**

The Committee on Growth and Infrastructure was called to order at 1:40 p.m., on Thursday, February 24, 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.

**COMMITTEE MEMBERS PRESENT:**

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

**COMMITTEE MEMBERS ABSENT:**

Mr. Lynn Hettrick (excused)

**GUEST LEGISLATORS PRESENT:**

None

**STAFF MEMBERS PRESENT:**

Brenda Erdoes, Legislative Counsel  
Susan Scholley, Committee Policy Analyst

Russell Guindon, Deputy Fiscal Analyst  
Keith Norberg, Deputy Fiscal Analyst  
Gregory Sharry, Committee Attaché

**OTHERS PRESENT:**

Jim Nadeau, Government Affairs Director, Nevada Association of Realtors  
Mark Stark, Broker/Owner, Prudential Americana Group Realtors  
Stephen Haley, Member, Reno/Sparks Association of Realtors  
Irene Porter, Executive Director, Nevada Homebuilders Association  
Dennis Smith, President, Homebuilders Research  
Dave Dawley, City Assessor, Carson City, Nevada  
Doug Sonnemann, County Assessor, Douglas County, Nevada

**Chairman Perkins:**

[Meeting called to order. Roll called.] The first item on our agenda is a presentation regarding an overview of the Nevada real estate market and the trends therein.

**Jim Nadeau, Government Affairs Director, Nevada Association of Realtors:**

[Introduced himself.] We have Mark Stark, who is a broker in southern Nevada, and Steve Haley, who is a broker in northern Nevada. We would like to start with Mr. Stark in southern Nevada.

**Chairman Perkins:**

For the Committee's benefit, the reason we are going through this exercise is so that we can begin to deal with some sort of property tax relief as soon as possible. Dealing with that type of relief is, in my opinion, like treating a symptom and not the cause, the cause being the home values and property values that are rapidly changing in our state. Hopefully, we will get a good handle on it from these two gentlemen.

**Mark Stark, Broker/Owner, Prudential Americana Group Realtors:**

[Introduced himself.] I would like to thank everyone for the opportunity to speak today. My goal is to help create a better understanding of what is going on in the real estate industry in southern Nevada.

As everyone knows, we have a robust real estate market, but in the last 18 months there have been dramatic changes to our marketplace. One of the messages that I truly want to send today is a caution to our future decisions. They cannot be made within a vacuum, due to the fact that real estate is a moving target, and there are so many areas that can be sensitive in affecting

the real estate market. In the last 18 months we have had some dramatic spikes in real estate value, and it is really something that was abnormal in comparison to what has happened in the past. I have been in this market since 1981, when you saw slow and gradual appreciation, which really is healthy for the long-term marketplace. When you have dramatic spikes in appreciation, it brings to the table so many other concerns and questions. How did we get there? Why did we have such a dramatic spike in appreciation?

[Mark Stark, continued.] There was not any specific new growth in southern Nevada that created that spike. We have been growing at a consistent rate. You saw a large jump in the investment market. A lot of investors have come to this marketplace to take advantage of that spike in equities and that caused a variety of issues in those 18 months. There were lines up to 300 people and more to purchase new homes. There were auctions in the sale of real estate, sealed bids on land, things that we had never dealt with prior to that. The item that needs to be taken into account is that as soon as the investor pool left, the faucet was turned off. The market no longer exists in this market after the appreciation level spikes. In fact, there is, without a doubt, availability in new homes. The resale inventory spiked from as low as 2,000 homes available to upward to 13,000 homes available in the marketplace. It has come down somewhat from there to around the 9,000 mark; however, that is a huge comparative difference to not having the inventory to sell—not to mention the aspects of the pricing now. One of the reasons why the investor market left is because no one expects to have that dramatic appreciation in the new price levels. It is a median price of \$300,000.

Just to give you some insight as to what has happened over the last 18 months, that is what happened. I do expect slower appreciation, and I also expect that it will not be uniform. What I mean by that is you are going to have to look closely at the product, the price range, and the location. It is not going to be as simple to say that everything in Las Vegas goes up. It is going to be a specific type of product and price. In our business, there is what is known as the "expired listing." These are listings, listed by a real estate organization, that end up not selling and coming back onto the market with a potential new broker. That was nonexistent 18 months ago, and today the listings that hit the expired market are flourishing. There is product that is not selling. The biggest reason for that, aside from marketing aspects, is a price. People are still living with the idea that they can continue raising the price to what they feel it can sell at, or comparatively raising the price to that of their neighbor's property. With that investor pool not there, the buyer frenzy is gone as well.

One of the questions that I always hear is if I anticipate the market to go soft? I do not. I feel that we are going to have a solid real estate market, but one of the concerns that everyone involved in real estate has is interest rates. That is something that has to be taken into account. We do not see that the interest rates are going down. The concern is how much higher will they go. Every time the rates have moved one-quarter percent, you shut out 2,500 purchasers from the marketplace. Now, with the average sales prices where they are today, the number could be much higher. The real estate market is very sensitive to what interest rates do in the future.

The other aspect that needs to be taken into account is what is happening in the condominium market. You see a huge amount of proposed condominiums, many currently hitting the market place, which is going to throw a lot of inventory in this market. With the cost of construction and land, we will not find them in the affordable price range. They will be in the higher price range of today. Some other future projects will try to hit the lower price point, but it is putting a lot of inventory into the market, which will create a lot of competition.

That is a quick overview of what is happening in the marketplace. Again, I see the market being strong going into the future, but it is impossible to say, in a uniform manner, that everything is going to do well. That is why the decisions that are made must take into account that it affects so many segments of the marketplace in different ways. It is tough because there are a lot of aspects to it.

**Chairman Perkins:**

Over the last 18 months, is there any way to estimate what the percentage of investor-type purchases were?

**Mark Stark:**

The stats from our organization are about 35 percent. About 35 percent of local or out-of-state investors are purchasing for the sole reason of an additional property other than their personal residence. That has substantially dropped due to the change in the marketplace. In the last 18 months, it was very aggressive in the investor-type market.

**Chairman Perkins:**

After the investor market relaxed, has there been some sort of a correction to the spikes we have been seeing? Obviously it is going to be robust for some time, but has there been any sort of correction in that regard?

**Mark Stark:**

The correction is that we do not see the growth in the average sales price. We are ranging at right about \$300,000 in our organization, and I have not seen any change to that on a month-to-month basis. There are two spikes that will change that. One is the increase of high-rise, hotel-like condos, but that is really an anomaly. We try to look at that separate from the single-family residence. Then you do not have enough affordable housing. We will talk about how we need more affordable housing, but everything we do to affect that negatively makes it harder and harder to bring affordable housing into the marketplace. Without those two segments, you might see the average sales price increase, but again, it is increasing for a different reason. The increase is because there is not a lower median price to keep the median price under that \$300,000 mark. We are not seeing dramatic increases in appreciation.

**Stephen Haley, Member, Reno/Sparks Association of Realtors:**

[Introduced himself.] A lot of the things that Mr. Stark said do hold true in Reno. One of the things I would like to touch on is the shrinkage of the availability of land which makes the chances of real estate value decreasing very remote. Our values have increased over the last 18 months to the tune of about 34 percent marketwide, but I believe that is restricted to homes under \$600,000. The upper-end market has not increased anywhere near that figure. If you put a home under \$500,000 on the market, you would have anywhere from 3 to 11 bids on that house. Almost everything was going for above asking price.

In regard to the cautious decision that Mr. Stark was referring to, I think the interest rates are vital. It has been my experience that every quarter the interest rates rise, it will take about 10 percent of the buyers out of a particular price range. We no longer have what is called affordable housing in Reno. Probably the lowest price for a single-family home that you can find in Reno and Sparks will be about \$280,000. Once again, because of that rarity, you are seeing an increasingly competitive situation on those homes. The mortgage lenders that I deal with are all predicting that the rates are going to go up. The short-term vehicles, the five-and seven-year ARMs [adjustable rate mortgages], have already started going up. The fixed-rate mortgages are still staying steady, but with the Fed [U. S. Federal Reserve] increasing rates, it is inevitable that they will go up by the end of the year. Anyone can then guess what is going to happen to the market. We are ensured by one thing, and that is if the Bay Area prices stay where they are, we will stay relatively strong. If you see a decline in their values or a decline in their activity, there could be an impact. Usually you will see a three- to six-month rebound period before we will feel the consequences.

Over the last 20 years, I have counseled my clients at about a 4 percent appreciation per year. We had one spike from 1999 to 2000 where some things went up about 18 percent in a very specified area of Reno; the rest of Reno held constant at about 6 percent that period. Another concern is that a lot of the people buying homes over the last two years have been using creative vehicles like no money down, low interest rates, interest only, ARMs that start low that will accelerate. I think that within two years you will be seeing a higher foreclosure incidence, which will also impact the homes that are on the market at that time. They will be sitting there with an even higher inventory than just through normal resale. I also feel that the market will stay strong through the next two years, but if interest rates do go up, I have a feeling we will see the values stabilize and maybe plateau.

**Chairman Perkins:**

Have you gentlemen been following some of our discussion, and the various vehicles we have talked about that provide property tax relief for the citizens of the state?

**Mark Stark:**

Yes.

**Chairman Perkins:**

There have been talks about base exemptions, percentage caps, freezes, rolling averages, and just a whole number of things. As you think it may affect the homeowner, are there any of these that seem to be problematic?

**Mark Stark:**

I have read over some of the proposals and the only advice I can give on this is that most of them I have concerns with. This is because they are fixed and the market is not fixed. The market can change so quickly that anything put in place without an ability to adjust up or down immediately is always going to be a concern. I would say that the best advice I can give is that anything that is put in place needs to be flexible on the lower end of the scale. You need to leave dollars on the table to allow for adjustments. The 5-year rolling account—something that took into account the lower and higher values today—tends to have the mindset of something that I feel would be best for the marketplace. A fixed agenda would concern me the most.

**Stephen Haley:**

Of the vehicles I have looked at, the 5-year rolling and/or the 6 percent are the most viable solutions. I concur that the market does change and over 20 years you can count on a 4 to 5 percent return in the Reno market. We have seen spikes, but have never seen a decline. We are also getting to a point where the

values might see a decline, which we have not seen in 20 years. If you are going to tie the revenue stream to values like that, then we might also see a decline in revenue, if the values go down.

**Assemblywoman Pierce:**

On the subject of creative financing, I have also heard that the federal budget deficits will start to get people in trouble. Do you think that will be true?

**Mark Stark:**

I think that is a very good point that you make. Even Wall Street, and the feedback we get back, is getting very sensitive to how many interest-only loans that are out there. You have seen a lot more of this financing that gives the people the opportunity to purchase more than they can actually afford today, because they are planning on the concept of future appreciation. All of these things can affect the market later, so the creative financing is a key point. As that tends to go away, and the interest rates continue to increase, and the secondary money market gets concerned, the financing will start to tighten up. If that financing tightens up, there will be a whole other issue in the marketplace. So, it is absolutely something that needs to be looked at very closely.

**Stephen Haley:**

It is on the horizon, and if we do not make some plans to deal or be aware with it, we would be making a big mistake.

**Chairman Perkins:**

Hopefully, we will find some sort of solution quickly. I cannot imagine that whatever property tax relief we find for our citizens will be helpful to your industry. If they can afford their taxes, they will probably be able to afford that home and be a purchaser instead of a spectator. Whatever we do in the Legislature may have unintended consequences and that is certainly not our intention, but we need to be smart on how we move forward with this issue.

**Irene Porter, Executive Director, Nevada Homebuilders Association:**

[Introduced herself.] I have with me, Mr. Dennis Smith from Homebuilders Research in Las Vegas. Mr. Smith is a member of our Board of Directors and is also known as the guru of residential housing numbers in southern Nevada. I am going to hold up his book on the Las Vegas Annual New Housing Report for 2004. I thought he might be able to give you the kind of statistical information that you are looking for. We thank you for the invitation. We received the call on Tuesday and have not had a chance to make adequate copies of all of this material, so we will send it FedEx after the meeting when we get the copies made.

[Irene Porter, continued.] I would like to start addressing the new housing market. We have been asked many times about the anomaly that we have seen over the past couple of years. We feel that this increase is truly an anomaly. There was a convergence of several factors that we believe created the situation we have seen over the past two years. These factors include many of the things that the previous speakers have identified as well: interest rates, previously undervalued homes, supply and demand, investment buyers, land shortage. We had a lot of land shortages here in southern Nevada, which has contributed to the extraordinary prices in vacant land. I think that is witnessed by some of the BLM [Bureau of Land Management] land auctions over the past couple of years. I can say that the last land auction does not make it look like the land price is starting to level off. Also, things that we would see in the new housing market like fees, taxes, exactions, and lengthy processing time, we had a study of that done in 2002 and that is currently being updated for us by Hobbs, Ong & Associates. Our preliminary assessment is that within the costs to produce a home, the fees, taxes, et cetera, are about 25 percent of the cost now. I would like to hand this over to Mr. Smith and I can come back and answer any other questions you may have. I will let Mr. Smith give you some of the information of the market.

**Dennis Smith, President, Homebuilders Research:**

[Introduced himself.] I just have a couple of things I would like to add to the comments of our previous speakers. I think that we will see a large increase in the number of actual closings in southern Nevada. If you look carefully at the numbers and compare them to the previous numbers we have been tracking over the past 20 years, you will find that the typical housing market numbers are actually decreasing.

The reason we are going to see the large increase of new home closings at the end of 2005 is strictly because of the new segment of the apartment conversion marketplace. We could have anywhere from 6,000 to 7,000 closings of these apartment conversions during 2005. We could see an additional 7,000 in 2006. You have to be careful how you read those numbers. Again, the typical market that we have dealt with over the years is actually going to see a decrease in those closings in 2005 and 2006. If we project out the number of building permits for this year, I think you will see a decrease in the number of building permits in southern Nevada. It could be as much as 2,000 by the end of 2005. Just to share the numbers, at the end of 2004 there were 32,879 new home permits pulled in the North Las Vegas, Henderson, Clark County, and Las Vegas entities. I think at the end of 2005, those numbers will decrease to 30,000. Then again, as I was just saying, that is 30,000 new permits, but we may see the closing figures at the end of the year



around 34,000 or higher depending on how many of those apartment conversions enter the marketplace. Most apartment conversions in the marketplace today do not have to pull new permits. I just wanted to make it understood that the numbers may be misleading when looking at the gross standpoint.

[Dennis Smith, continued.] I can share with you a couple of stats on the affordability issue. In the year 2000, there were 14,900 new homes that were sold and priced under \$200,000. That amounted to a market share of 73 percent of the total new home marketplace. If we look at 2004, we compare the same numbers. We have a total of 5,613 new homes sold and priced under \$200,000. That amounted to a market share of 19 percent. We saw the market share of new homes that were priced under \$200,000 since the year 2000 decrease from 73 percent to 19 percent.

Another thing that I would like to add to the remarks of the previous speakers is in regard to the investors that were within the marketplace. It is impossible to determine the percentage of sales attributed to investors for a few reasons. First, when people hear the word "investor" they think of a couple or group coming from California and buying some houses and putting them up for rent. When the prices started to jump in Las Vegas, that term investor began to apply to a lot of mom-and-pop homeowners in Vegas. A lot of people used their lines of credit to get equity out of their house, go out and buy a second house, and try to get the long-term capital gain effect, or they could flip it immediately and take advantage of the prices. It is really impossible to determine how many there are. We did an exercise where we looked at all of the buyer names by taking the recorded deeds and comparing them to the assessor's records. You would be amazed to see how many names appeared two, three, or four times at different addresses. Is that the definition of an investor? That being said, I think it is safe to say that the percentage could be at least 25 to 30 percent. I know, for a fact, in some of the new home subdivisions that we had early in the year, that the percentage was well over 50 percent being sold to investors.

I would also like to add that one of the reasons that the investors left the new home segment was because the builders shut them off. Early in the year, there were many home builders that stopped selling to investors. They were finding that if they found a buyer who was an investor, they would keep their earnest money and cancel them. It was not just the issue of economics that was causing the investors to leave, it was that the builders were forcing them out of the market. What do I see? I do not see this type of runaway hyperinflation in our lifetime because there is no way we can absorb any sort of price increases of 50 percent or more. At the end of the 2004 year, if we compare the median price from 2003 to 2004, it was about a 37 to 38 percent increase. You will

see that number continue to decrease and start to level off as we get farther into 2005 because the second half of 2004 is distinctly different from the first part of 2004.

[Dennis Smith, continued.] It is almost like 2004 has two separate marketplaces. The second half of the year saw the resale segment prices level off and recede in some instances. I think you will see that continue for at least another six months. I do not see any sort of resale price increase because of the large amount of inventory that is still there. I think the inventory level will remain fairly consistent, because we are going to see some of those investors start to put those houses for sale in the marketplace. The supply issue is going to keep those prices steady in the resale segment.

From the builder's standpoint, the year-to-year increases we have anticipated this year are going to be under 10 percent in most cases. I know very few homebuilders that anticipate their prices going up more than 7 or 8 percent this year. That is in spite of the many cost increases for building the products and the land issue. We all know that the price of land is still going up and I do not see any reason for that to change either. What happened the first six months of 2003 is not going to happen again. The dynamics are still in place in southern Nevada to have a strong housing market that will be reflected in terms of what we saw in 2002 and 2003. 2003 was an excellent year in Las Vegas; we closed 25,000 homes and that is a lot of new homes for the size of the market. This year, we are just under 30,000 at 29,400, so you will see a strong marketplace, but it will be relative to what we saw in 2003 and not 2004. I think we can answer any questions that you have.

**Chairman Perkins:**

What are the market forces that are driving the costs of land up so quickly?

**Dennis Smith:**

It is very simple and goes back to supply. I call it Economics 101. It is strictly a supply and demand issue. The number of acres that we have in the valley is limited because of the BLM [Bureau of Land Management] disposal boundary. We know how many acres are there. We know how many acres have been developed. We know how many acres are yet to be developed. If we see that we are absorbing between 5,000 and 7,000 acres per year in new homes and apartments. If you look at the number of acres being sold at the BLM auctions—I think the highest number that I can recall is about 2,300—there is no way that the supply is improving. We are not replacing the number of acres that are being developed.

**Chairman Perkins:**

How many acres are still available within the disposal boundary?

**Dennis Smith:**

If you start with the total number of acres and begin taking out development, you get down to a number of roughly 60,000. When you get to 60,000, you enter some subjective factors, such as parcels tied up by master plan developers or acres that are priced too high and not sellable. When you get to that point, an argument could be made that you could get into 32,000 to 35,000 acres. Then, you go to the BLM, and the BLM will say they can release millions of acres. They can, but it is not up to them, it is up to the entities. The entities have to decide how much land there will be to develop. If we say there are 35,000 acres and we are absorbing between 5,000 and 7,000, there is a limited number of years for those acres to be developed.

**Assemblywoman Kirkpatrick:**

Out of the 7,000 acres that were developed in the last year, how many of those were master-planned communities?

**Dennis Smith:**

I will have to get that number for you. I do not have that number in front of me.

**Assemblywoman Kirkpatrick:**

My other question is out of the 30,000 permits that were issued last year when you did conversions from the apartments to the condominiums, how does that change your multifamily numbers? Did you lose multifamily numbers and gain residence because you do have to go through some type of permit process to do that?

**Dennis Smith:**

In the multifamily, yes. But in the apartment conversions, if they were permitted as condominiums when they were originally in construction, they do not have to go in and get a new permit. If they have to be re-mapped, then they need a new permit. If they were mapped as apartments, they will need a permit. Most of the apartment conversions that we have had up to this point are the ones that have not had to go through the new permitting process. They were the most attractive from the investor standpoint. They could buy the apartment complexes, refurbish them, and sell them immediately, instead of going through a six-month permit process.

To answer your question on numbers: If we look at 2004, there were 666 units that were apartment conversions. This year, that number will build to about 6,000.

**Assemblywoman Kirkpatrick:**

The family units had the least amount of increase, so I am trying to determine if the numbers are actually reflected in the people who own these condominiums now, as opposed to a higher density project.

**Dennis Smith:**

The number of multifamily units, if we want to talk in terms of the market share for 2004, without the apartment conversions, the market share was about 13 percent of multifamily condominiums and townhomes. If we add to that number the apartment conversions this year, the market share is going to jump into the 21 to 24 percent, for the overall multifamily segment.

**Assemblyman Mortenson:**

I keep hearing "the anomaly is not going to happen again" arguments, but I am still worried. We heard from Mr. Schofield a few days ago that the Marshall and Swift Replacement value is going to cause up to a 13 percent increase in property taxes in the coming year. If you add that to about 7 or 8 percent for appreciation and another 4 percent for the land, we are at 25 percent again. Even if this is an anomaly and tax increases are not going to be as sizeable, I feel that we need to have some sort of control so that when the next anomaly happens we will be aware.

**Chairman Perkins:**

I do not know if there is a response you can craft for that. I will leave it up to you.

**Dennis Smith:**

The 13 percent is just the improvement value of the property. The bottom line on these price increases that we saw and what we anticipate goes back to the supply issue. We had no supply in early 2004. As you heard, there was roughly 2,000 homes listed. That supply is going to remain consistent around 9,000 or more during this year. The new home supply is now much better than it was in early 2004. We are getting back to a more normal marketplace. I am not disagreeing that something needs to be done with the property taxes, I am trying to show you that we do not think we will have another year like that of 2004. I have been through a few ups and downs in markets in other areas, and it again goes back to the supply and demand issue.

**Irene Porter, Executive Director, Nevada Homebuilders Association:**

Thank you, Mr. Chairman. Again, thank you for inviting us today. I did have one comment that, as the Homebuilders Association, we would like to make. We certainly do not envy the situation you are in. You have a very difficult task

ahead of you as you wrestle with the property tax issue. I can say that we have all heard about the issue of obtainable and affordable housing. In addition to my being at the Homebuilders Association since 1977, I spent 14 years prior to that in local government. I can tell you that whatever we do with the property tax—limited, capped, or whatever the Committee deems appropriate—we have to be reminded of what has happened in California and other places. Local government will provide services and find methods to regain that money. We are hoping the Committee will take into consideration that something be done to help ensure that it does not shift into added fees and exactions in the housing market which would further exasperate the cost of housing. We must find a way to moderate it all together. We thank you for what you are doing here.

**Chairman Perkins:**

Thank you to the Southern Nevada Homebuilders Association and the Nevada Association of Realtors for helping educate this Committee. We appreciate it.

The next portion of our agenda is a presentation regarding the overview of the determination of taxable value for property tax purposes. We had a discussion last week in Las Vegas and there were questions raised as to how we determine what the taxable value is relative to the market value. Is that done in a uniform fashion in all 17 counties? Do we all use the same determinations? I think it is important for the Committee to have that understanding.

**Dave Dawley, City Assessor, Carson City, Nevada:**

If I could, I would like to answer Mr. Mortenson's question and give you an idea of what is happening with this 13 percent improvement factor ([Exhibit B](#) and [Exhibit C](#)). We currently work in a 3-year cycle. We are currently in the 2004/2005 year where personal property tax is still open. We are adding new construction to the 2005/2006 year, and we just opened up a 2006/2007 year to begin reappraisal. The problem with the improvement factor and the reason why it is growing so rapidly this year is because for the 2005/2006 years, we used the costs of October 2003. These are 15-month old costs already. The costs are just catching up with what is happening in the current market. Our normal factors are anywhere from 1 to 3 percent. That is a normal factor, so a 13 percent is absolutely an anomaly.

[Dave Dawley, continued.] Sixteen of the 17 counties are currently on a 4 to 5 year reappraisal cycle. The only county that is not is Clark County. For instance in Carson City, we reappraise 20 percent of Carson City in one given year. We still look at the cost, the replacement cost, the cost to build that structure, and we get those determinations from builders. We do surveys of builders; the Department of Taxation does surveys of builders. We look at the

cost changes of the Marshall and Swift. Then we get together with the Department of Taxation to determine an improvement factor. We also look at the sales of vacant land or sales of structures and use the abstraction method to come up with the value of land. We look to see what the land values are doing. If there is a huge disparity between one year and the next, we will add a factor to that so that every 4 to 5 years, when we are actually out there reappraising, it is not a huge increase. That is what that factor is for.

Most counties are working and trying to get to an annual reappraisal cycle; unfortunately, it is taking time. Since we only do 20 percent of the county in a given year, we have to go through the entire county to get all of the parcels ready. Most of the factors that are being added to the land are a factor of 1, to where there will be no increase in a lot of the rural counties. There is actually no change of value in the land. Looking at the sales for the parcels, if there is no change, then they will receive a factor of 1, which means there is no change in value of the land. In the 12 years that I have been at the assessor's office, I have never seen any negative factors of the land because it has always gone up. It is just recently that it has jumped so dramatically.

The improvement factor two or three years ago for some strange reason had a negative improvement factor where the improvement factor was a 0.099 percent. Then you add to that the 1.5 percent depreciation which makes it a negative factor. Thus, the improvements actually went down. That is the only time I have seen it go down and again, I am not sure why it did because all of the current market indicators suggested that the replacement cost was higher.

**Chairman Perkins:**

Was that adjustment statewide or is it specific to certain counties?

**Dave Dawley:**

The improvement factor, although studied on a regional basis, is a statewide factor. For the 2005/2006 year, the statewide improvement factor is 2 percent. So, you give it the 1.5 percent depreciation that it is entitled to by law and the actual total increase is 0.5 percent. Again, for the 13 percent improvement factor that they are proposing for the 2005/2006 year, they have looked at all of the counties and there is a statewide factor of 13 percent.

**Assemblyman Anderson:**

I thought I was doing pretty good on this for a second there, but then you lost me. The improvement factor is not done regionally but rather becomes a state factor. This means that if I were living in a county which took up over 50 percent of new home sales and also had a improved land value, and improved costs construction value, commensurate with that particular area, as compared to the rest of the state, it would become the controlling factor of a statewide factor rather than the regional occupation of a particular county.

**Dave Dawley:**

When you consider any new construction that is added to the roll, it is going to be added using the current cost, those will not be factored up at all. We would look at the current cost. What does it cost to build the structure? We would look at that and they look at it on a regional basis, but the state has decided that they want to do a statewide factor and that was approved through the Nevada Tax Commission.

**Assemblyman Anderson:**

Let me be a little more basic. If Clark County has those factors that take up, because of the anomaly of the construction industry in Clark County as a percentage of the number of dwelling units being built on the statewide basis, they would become a factor greater than 50 percent of the new construction market.

**Dave Dawley:**

I do not believe that Clark County is included in this because Clark County recosts annually. They are not included in this study. It is only the 16 counties.

**Assemblyman Anderson:**

So it is 15 counties and the municipality. When you are talking about the state factor, are you only talking about those 16 entities, the 15 counties and the 1 municipality?

**Dave Dawley:**

Yes, sir.

**Assemblyman Anderson:**

Then you factor Clark County on a completely different basis so that it does not factor over, and you do not have the 800-pound gorilla effect that could potentially happen.

**Dave Dawley:**

Clark County recosts annually. There is no factor that is ever applied to anything in Clark County. It is all recosted on an annual basis. Then the lands are revalued on that basis.

**Assemblyman Anderson:**

If we move then to an annual system, would we have to factor those counties and municipality out if we moved to that system?

**Dave Dawley:**

If you were to do an annual reappraisal, you would not have to deal with the factoring at all. The problem is that there are certain counties that only have two people appraising, in the entire county. Making her reappraise her entire county in one year would almost be physically impossible.

**Assemblyman Grady:**

I think you did just answer it with your last comment. One of two things will happen, if we force all of the counties to a yearly appraisal. Either they will sit at their desk and work the figures without physical appraisals, or we are going to have numbers that, in five years, will be worse than what we have right now.

**Dave Dawley:**

I agree with you. The problem, when you have a limited supply of staff, is that you cannot get out to the parcel and tend to make more errors. You tend to tax on things that are not particularly there, unless you actually see them on an annual cycle. I agree with you.

**Assemblywoman Giunchigliani:**

Without building departments, how do you get any improvements?



**Dave Dawley:**

It is a physical reappraisal. It is when you physically go to the parcel and you are surprised to see a house there. That is when you measure it and put it on the tax roll.

**Assemblywoman Giunchigliani:**

Right, but improvements are also remodeling. It is not just a new house that shows up on a parcel. So if there is no building department and, therefore, no permit, how do you determine what changes have been made?

**Dave Dawley:**

The appraisers will take the file out to the parcel and they will look to see if there have been any new additions. Even though we have a building department, they may have been added without a building permit. We look to see if we can see anything without physically going into the parcel.

**Assemblywoman Giunchigliani:**

It is like a garage or an attachment of some sort. Are improvements defined as only things you can see structurally outside of the parcel? Remodeling on the inside is not included?

**Dave Dawley:**

Unless there is a building permit that has been issued for a new bathroom or something to that extent, we would not know about it.

**Assemblywoman Giunchigliani:**

But there is an improvement, and therefore, there are taxes you are not taxing on improvements. What is the status on creating building departments in the rurals?

**Dave Dawley:**

I cannot answer that for you.

**Assemblywoman Giunchigliani:**

I am not trying to make an additional layer, but I do not want to have Clark County's money potentially exported to rurals, if we are not even collecting what we should be collecting, because there is an inherent flaw in the structure. I think that is something that we need to take a look at. You may not know, but has Douglas County instituted its business license yet?

**Doug Sonnemann, County Assessor, Douglas County, Nevada:**

We do not have a business license, but we do have a fictitious firm filing. It is fairly similar. Our office gets everyone from the clerk-treasurer's office and tracks those down so that we do tax the personal property of those.

**Assemblywoman Giunchigliani:**

Does that mean you do not collect business license taxes? So the state does not receive any revenue for those businesses that are doing business in Douglas County?

**Doug Sonnemann:**

I am not sure what the coordination is between the State and Douglas County. I know that when you go into Douglas County to file a fictitious firm name, they do give a packet and say the State has requirements for the business licenses, the fees, and that they need to contact the State with the appropriate contact information. This gives the State the appropriate information so that they can pay the proper fees. To my knowledge, we do not follow up on that. To further follow up on Ms. Giunchigliani's comment, the counties do try to go out to the various parts of the county and pick up new construction. I know in Nye County, particularly Pahrump with all their building, on an annual basis would go up and down the street to see if they noticed anything that could possibly be added to the tax roll that would be new construction. Each county does make as much effort as they can with the resources they have.

**Assemblywoman Giunchigliani:**

I appreciate that, but again that is part of the problem. They are not collecting revenue for something that they possibly could. It adds to the lack of uniformity, even though we are charged with the *Constitution* to have the "uniform and equal." There are glitches in the whole "uniform and equal" which make us vulnerable now.

**Doug Sonnemann:**

What I have passed out is a pamphlet that we have passed out in our office to give a basic knowledge of what taxable value, assessed value, how we do improvements, and how we do land ([Exhibit D](#)). It also gives a little bit on personal property which is really not an issue that you are interested in dealing with at this point, but it does give you some background.

If I may follow up on a couple comments that were made. Mr. Mortenson mentioned correctly that he foresaw future increases. Like Mr. Dawley had indicated, we are about one to two years behind in our valuation because of the way the system is set up. When the Builders Association is talking about increasing values in 2004, with us being somewhat behind the time curve, you

can see the increase occurring through 2006/2007 because of the timeframe we use.

Information has been mentioned about the 16 counties and municipality doing factors and Clark County not doing them. Clark County does reappraise each year which takes into account the current costs. What the factors have done is try to mitigate, as much as possible, so that the other 16 counties are on a similar basis so that if Clark County is going up 13 percent, Douglas County would go up similarly. They have done regional factors in the past. My thought is that it is easier to deal with a statewide factor. I have areas at Lake Tahoe and in the [Carson] Valley that have two different factors; sometimes those can be different from each other. Sometimes people get a little concerned when they see that they got one certain factor when someone else got another factor. On the other side, one of the problems that occurred a couple years ago was that the factor in Elko County, with the mining problems they had, went up more than the factor at Lake Tahoe. Generally, it is a very good system, but you end up with some frustrations from time to time as the factors are implemented.

**Chairman Perkins:**

Thank you. Questions from the Committee? Is everyone now clear how we value our parcels and improvements? I am not sure if you caught the testimony on Friday, but I feel that there is some confusion on how taxable value does not always equal market value. I believe what you are telling us is that because of you working on two year old improvement values and various factors, the taxable just does not catch up to the snapshot of today's market value. Is that an accurate statement?

**Doug Sonnemann:**

You are absolutely right. Tahoe is a very tough market to deal with. You have the TRPA [Tahoe Regional Planning Association] restrictions. I have heard figures anywhere from \$50,000 as the value of a permit on a simple lot. I talked to a builder who built a house on the Skyline subdivision. They had a little bit of a slope, and in talking to the builder, she said she felt the value of that was worth \$100,000. Some of those that are now affected by the view ordinance whereby TRPA has a requirement that if you are looking at it from the Lake, it must meet certain requirements. I have heard a quote as high as \$350,000 for consulting fees on that. When I, or my office, go out and do the valuations out at Lake Tahoe, we are coming out with a value that is typically lower than the market value, because there are a lot of factors to build at Tahoe that are not seen nationwide. When you are looking into environmentally sensitive areas, you get a lot of atypical costs. Some of the concerns that the Incline folks have is that there are a lot of costs that are hard to determine, hard

to differentiate, and hard to place. Like you said, we are always behind on our valuation and the intent of Marshall and Swift was that you did not want to be at 100 percent. You wanted there to be some cushion in that value. Speaking as an assessor, I like having that cushion. I do not want to be at 100 percent. I think it is beneficial to you and to us.

**Chairman Perkins:**

Any other questions? Thank you. Lastly on our Agenda ([Exhibit A](#)), we have an overview of what "severe economic hardship" in Article 10, Section 1, of the *Nevada Constitution* actually means. We will ask our legal counsel to educate us.

**Brenda Erdoes, Legislative Counsel:**

[Introduced herself.] I can tell you quite a bit about "severe economic hardship" as it is used in the *Constitution*. I do not know if I can tell you exactly what it means or how the courts will construe it, but I will certainly give you some information about it. Basically, this is at the end of the "uniform and equal" clause of the *Nevada Constitution*, Article 10. "The Legislature may provide, by law, for an abatement of the tax upon or an exemption of part of the assessed value of a single-family residence occupied by the owner, to the extent necessary to avoid severe economic hardship for the owner of the residence."

Basically, if you note that it provides for an abatement or an exemption, it leaves you with some leeway with what you want to do with it. I would also point out that it is only for single-family owner-occupied residences.

What does that mean? We usually look at legislative history, but it is too new to be construed by our courts. I can tell you the basics of case law are that this Legislature is allowed a wide leeway as to the court upholding any reasonable construction. Frankly, I suspect that cases on this clause will turn on the particular case that is brought for the court to challenge if it is challenged. I think the best thing I can tell you is that there is not anything in other states that looked to be very helpful in terms of any similar provisions that had already been construed. This started in 1991 with S.J.R. 13 of the 66th Legislative Session which was not enacted, but S.J.R. 11 of the 70th Legislative Session from the 1999 Session, which is the one that added this provision to the *Constitution*, is exactly the same wording except for the last three words, which are "to the owner of the residence." That is the only difference between the two resolutions.

I think we can use the history from both of those provisions, but the bottom line is that this is fairly open for interpretation. I will tell you that the ballot question—the arguments for and against a condensation from the 2002 ballot book—said that the Legislature would enact laws to finding the kinds of economic hardships that would make a homeowner eligible for such an abatement or exemption by setting forth a permissible amount in duration of the abatement or exemption. Even then, they were warning the voters that you would be setting the rules for any type of abatement or exemption that was put through.

The only other thing I would note for you is that in the arguments for passage, it said in some cases it is caused by unemployment or extraordinary medical expenses. In other cases, homeowners have occupied the same home for many years and, during that time, the value of the home has greatly increased. You can see that they have set the stage for you to interpret this broadly. Beyond that, I do not have anything else for you today unless you have questions.

**Chairman Perkins:**

I guess there is not a lot of guidance as to what the intent of the definition “severe economic hardship” is. It is up to the common sense of this Legislature to figure that out.

**Brenda Erdoes:**

That is absolutely right, and I would just emphasize that any reasonable interpretation of these words should be upheld by the court.

**Assemblywoman Kirkpatrick:**

Currently, how does anybody use that definition to apply for some type of exemption?

**Brenda Erdoes:**

Currently, there is no use of this exemption to date, because the Legislature has not enacted enabling legislation.

**Assemblywoman Kirkpatrick:**

The 2,000 people we have heard in southern and northern Nevada that we have heard asking for relief, do you know what their facts are to give them relief?

**Brenda Erdoes:**

The assessor can probably answer that question better, but my understanding is that it is based on statute that you can appeal as to your tax bill. One of which is that your full cash value exceed your market value, and I think this is what many commercial properties are appealing on, because the market value may be

based on the use of the property and how successful the business is at that time.

**Chairman Perkins:**

Further questions from the Committee? Thank you. Are there previous matters that came before the Committee that need to be addressed? Anybody in the audience have anything for the Committee before we adjourn? [Meeting adjourned at 2:54 p.m.].

RESPECTFULLY SUBMITTED:

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Gregory Sharry  
Committee Attaché

APPROVED BY:

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Assemblyman Richard Perkins, Chairman

DATE: \_\_\_\_\_

## EXHIBITS

**Committee Name:** Growth and Infrastructure

**Date:** Feb 24, 2005      **Time of Meeting:** 1:30 pm

[illegible]