

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

**Seventy-third Session
February 8, 2005**

The joint meeting of the Senate Committee on Taxation and the Assembly Committee on Growth and Infrastructure was called to order by Chair Mike McGinness at 2:00 p.m. on Tuesday, February 8, 2005, in Room 4100 of the Legislative Building, Carson City, Nevada. The meeting was videoconferenced to the Grant Sawyer State Office Building, Room 4401, 555 East Washington Avenue, Las Vegas, Nevada. [Exhibit A](#) is the Agenda. [Exhibit B](#) is the Attendance Roster. All exhibits are available and on file at the Research Library of the Legislative Counsel Bureau.

SENATE COMMITTEE MEMBERS PRESENT:

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

ASSEMBLY COMMITTEE MEMBERS PRESENT:

Mr. Richard D. Perkins, Chair
Ms. Chris Giunchigliani, Vice Chair
Ms. Francis Allen
Mr. Bernie Anderson
Mr. Tom Grady
Mr. Lynn C. Hettrick
Mrs. Marilyn Kirkpatrick
Ms. Sheila Leslie
Mr. Harry Mortenson
Mr. David R. Parks
Ms. Peggy Pierce
Mr. Scott Sibley
Ms. Valerie E. Weber

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GUEST LEGISLATORS PRESENT:

Senator Mark E. Amodei, Capital Senatorial District

STAFF MEMBERS PRESENT:

Brenda J. Erdoes, Legislative Counsel
Chris Janzen, Deputy Fiscal Analyst
Tanya Morrison, Committee Secretary
Mavis Scarff, Committee Manager
Susan E. Scholley, Committee Policy Analyst
Carol M. Stonefield, Committee Policy Analyst
Ardyss Johns, Committee Secretary

OTHERS PRESENT:

Charles Chinnock, Executive Director, Department of Taxation
Dave Dawley, Assessor's Office, Carson City
William (Jeff) Johnson, Assessor, Humboldt County
Robert McGowan, Assessor, Washoe County
Doug Sonnemann, Assessor, Douglas County
Mark Schofield, Assessor, Clark County
J. David Fraser, Executive Director, Nevada League of Cities and Municipalities
Andrew List, Executive Director, Nevada Association of Counties
Marvin A. Leavitt, Urban Consortium

CHAIR MCGINNESS:

We are going to have a lot of information from organizations and individuals, and may ask some of them to come back to individual committees to provide further detail. We would like to start out with a kind of generic, more global discussion on the property tax or, "how the car works before you start teaching us to drive." We need to talk about the mechanics for our procedures. Hopefully, by the end of the third meeting we can demystify some of the property tax information and debunk some misunderstandings while providing a lot of information. Staff will provide, on the Web site, information from everybody from the Nevada Taxpayers Association to Hobbs, Ong & Associates, Inc. and the assessors. If anyone who provides information can do so electronically, it would help us get it on the Web site for everyone's

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perusal. If you provide a 20-page document having to be scanned in, it will take longer. We will be videoconferencing all of these meetings. Today we will have the first of three background hearings. We will then hear public testimony. We want to have a thorough understanding, and we want to hear from those people who may be affected.

ASSEMBLYMAN PERKINS:

This is the most significant crisis looming in Nevada, and we are taking extraordinary steps in having these joint hearings. We pledge to spend whatever time is necessary to find the resolutions we need to end this crisis, and do what is right for the people of the State of Nevada. We do not want to curb public testimony, but we also want to get the needed information.

BRENDA J. ERDOES (Legislative Counsel):

I will go through what I consider the one major obstacle you may have in carrying out some of these tax plans. Section 1 of Article 10 of the *Constitution of the State of Nevada* contains the "uniform and equal" clause. This clause has been in our Constitution since 1864, when we first had a Constitution. It is the first sentence in that section and says the Legislature has to provide for a uniform and equal rate of assessment and taxation. What is not in there, and might be somewhat confusing, is this section only applies to property taxes. Real and personal property taxes and ad valorem tax are pursuant to case law, but everything else is stated in that section.

The main issues will be treating commercial and residential property with the same assessment standards and the same rate of taxation. Some exceptions have been passed through the years, such as those for agricultural and open-space property, but basically, this applies to all the property at which you will be looking in the proposed tax caps or other means you will be considering. Some of you might remember an exception to this, passed in 2002. It said you can treat property differently if the Legislature chooses to provide for abatement, or an exemption, of a part of the assessed valuation for a single-family residence occupied by its owners, to the extent necessary to avoid severe economic hardship to the owner. That is something on which there is no case law, so it will be an interesting exception to explore.

I have also provided you with a copy of S.J.R. No. 11 of the 70th Session, which was the measure proposing the abatement language, as well as a copy of

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the ballot question ([Exhibit C](#)), so you can see what the people read when they voted on that particular question. I will be here to answer questions as you go through these proposals and will be happy to work with you on how section 1 of article 10 will apply.

ASSEMBLYMAN PERKINS:

As this Committee works through the various proposals, 14 or 15 to date, have you had an opportunity to look through many of those suggestions in order to give us some idea whether or not any of those would, on the face, satisfy the uniform and equal clause?

MS. ERDOES:

We do have some concerns about some of the proposals, but to be honest with you, most of this is going to kick in based on the absolute details which I do not have enough of yet to analyze these. There are some with which we have problems just on their face, such as those that treat commercial property differently than residential property, but as a whole, it is really going to be in the details.

ASSEMBLYMAN PERKINS:

Are you aware of any application of the economic hardship clause?

MS. ERDOES:

No. You looked at a bill or two last Session, but nothing was passed.

ASSEMBLYMAN PERKINS:

We have had no definition of "economic hardship."

MS. ERDOES:

That is correct.

CHAIR MCGINNESS:

If a Legislator asks you for a bill that is unconstitutional, is it your duty to explain to him or her that it is unconstitutional?

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MS. ERDOES:

Yes, and in addition, the Legislator would be told at the time of drafting, if he or she wishes to proceed with the bill draft we believe is unconstitutional, a letter would be sent informing leadership if the bill is introduced.

SENATOR CARE:

In light of the requirement as to uniformity and equality, what is the authority allowing the Legislature to grant certain exemptions which, on the face, would seem to run counter to that? I have in mind, for example, certain statutory veterans' exemptions. Maybe all veterans are treated equally, but there are certain other citizens who cannot take advantage of that provision. Obviously, there is something allowing us to do something by statute that conforms to this requirement and yet seems not necessarily, on its face, to be uniform or equal.

MS. ERDOES:

Those exemptions have been upheld under subsection 8 of this provision, which says, "The legislature may exempt, by law, property used for municipal, educational, literary, scientific or other charitable purposes, or to encourage the conservation of energy or the substitution of other sources for fossil sources of energy." The exemption for veterans, for example, would come under this subsection.

SENATOR COFFIN:

My question is about the process for taking issues to the ballot. We know we have to pass two legislative sessions and then go to the ballot if we wish to amend the Constitution. If we finally arrive at some ideas we feel would work by the end of this Session, and we pass it, could we then adjourn sine die, go into a special session, pass it again, and then take it to the ballot?

MS. ERDOES:

That is an issue we have not researched fully. I think it was proposed before with one of the mining provisions, and we thought it might be possible, but there is no definitive case law at this point. I would want to look and update that opinion and see if maybe it has happened in another state.

ASSEMBLYMAN MORTENSON:

When the Legal Division of the Legislative Counsel Bureau says something is unconstitutional, it is an opinion. In the constitutional amendment committee,

we have had many lawyers come to us and say something is their opinion, but it is only an opinion until the courts decide whether or not they are correct. I am sure that 99.9 percent of the time you are going to be correct, but there are many lawyers in the past who have argued with your positions.

MS. ERDOES:

The standard we use is, if there is a case on point, either applying in Nevada, or is of the same federal district court, we will then tell you we absolutely believe something to be unconstitutional.

CHARLES CHINNOCK (Executive Director, Department of Taxation):

I will read my prepared testimony ([Exhibit D](#), original is on file in the Research Library). It includes copies of slides I will show in my PowerPoint presentation. I have also handed out a booklet *Nevada Property Tax: Elements and Application*, from which we made this slide presentation ([Exhibit E](#), original is on file in the Research Library). Later this week, you will be receiving a copy of our annual report from the Department of Taxation with the latest statistics for all the different taxes.

SENATOR CARE:

Under the present structure, would a true decline in market value of a home eventually lead to a decline in its tax liability? We saw the appreciation in home values in Clark County in 2003 and most of 2004. There has been some discussion about the possible readjustment of "bubble breaking." I do not think it will happen, but, if left alone, and the market itself adjusted prices down, would tax liability necessarily follow downward as well?

MR. CHINNOCK:

Taxable value is based upon replacement cost less 1.5-percent depreciation per year. If there was a decline in market value for the newer improvements, you would have the potential of seeing a need to reduce it because it did not have much appreciation applied. Additionally, the land must be valued at market value according to the use to which it is put, so there is a potential for the market value of the land to go down as well. Therefore, if a reset in the market resulted in a downward adjustment, especially for the newer properties, you would see a reduction in the improvement and most likely in the land. For the older properties, you could see a reduction in the land value only, but not in the improvement value.

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SENATOR LEE:

Referring to your "Nevada Home Sales 2003" slide, I understood every category except "Median Quality Class." Can you explain to me the meaning of "median quality class?"

MR. CHINNOCK:

We use the *Residential Cost Handbook* by Marshall & Swift which grades the quality of a residence, and the higher the number, the higher the quality of the residence. A three is considered an average-quality home, which would be your typical tract-style home. A larger tract-style home would be an even higher quality. Very high-quality homes are graded at fives and sixes.

ASSEMBLYWOMAN GIUNCHIGLIANI:

To clarify, when you went into the 1981 tax shift, was it \$1.36 reduction?

MR. CHINNOCK:

Yes, and it came about by a buy down of 70 cents, 30 cents, 11 cents in the Medicaid levy and 25 cents in the State property tax rate.

ASSEMBLYWOMAN GIUNCHIGLIANI:

The school and indigent funds were removed, but have slowly been added back in?

MR. CHINNOCK:

The basic supplemental city/county relief tax, and the local school support tax have all increased since 1981.

ASSEMBLYWOMAN GIUNCHIGLIANI:

That is what has pushed some up to the cap. There were times when interim committees looked at pulling those back out of counting in the \$3.64 cap. It was the intent of the 1981 legislation to not have it counted in the cap, which might be some possible relief for some of the smaller areas. You said it must not exceed full cash value. In Clark County in the last couple of years, there have been sellers listing their homes and then buyers actually bidding higher than the asking price. They were selling for higher than their cash values. When you get around to taxing those, does that have anything to do with how much they pay?

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MR. CHINNOCK:

I would say no, because they are paying higher than the market value indicated. However, after a period of time, if enough people start to pay that higher price, then it does begin to set the market.

ASSEMBLYWOMAN GIUNCHIGLIANI:

I am not sure I understand "centrally assessed property." I am trying to figure out why Lyon, Esmeralda, Humboldt and some of the other counties had the higher percentage. Is it due to mining?

MR. CHINNOCK:

It is because there is a relatively lower amount of private-ownership land, versus a great amount of interstate, intercounty property. If you were to take a look at a county like Esmeralda, there are some major airline routes flying over both north and south and east and west, so you will have many airlines having a tax attributed to Esmeralda County. As an example, I will select the railroads, which are apportioned and allocated based upon rail miles. Wherever you see a railroad, you will also see a distribution of railroad value. Because of this apportionment formula, you will see a greater amount of value for centrally assessed properties in some of our outlying counties.

ASSEMBLYWOMAN GIUNCHIGLIANI:

With a parcel of land, zoning comes into play as well, correct?

MR. CHINNOCK:

It does have an impact on how the parceling is created, but the primary factor for parceling, beyond ownership, is for the purposes of assessment. It is not unusual to see a hotel/casino under which you might have several different ownerships. Even with several parcels of ownership, you might still show it as one parcel, or it can be shown as separate parcels, depending upon how it has been arranged.

ASSEMBLYWOMAN GIUNCHIGLIANI:

Are you saying someone could escape paying taxes, or escape paying their fair rates of taxes, depending on how it was shown?

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MR. CHINNOCK:

My intent was not to imply taxes would be avoided. For the convenience of assessment, it is how the parceling systems were created.

ASSEMBLYWOMAN GIUNCHIGLIANI:

That may be something to consider when we look at the whole public-lands fiasco down in Southern Nevada to see if the way things were listed, or eventually zoned, or eventually sold for certain price values, may have had an effect on what was actually collected at some point.

MR. CHINNOCK:

My intent of bringing it up was not to say there was a problem. It was only to indicate that the reasons for parcel maps were different.

ASSEMBLYWOMAN GIUNCHIGLIANI:

Finally, regarding high-rises, is there any different valuation done on those types of properties, or is it something we should be reviewing as well?

MR. CHINNOCK:

Based upon what I am aware of, there is an assessment for the improvement and an assessment attributed to land by the assessors of high-rises. The same tax laws apply with respect to taxable value.

ASSEMBLYWOMAN GIUNCHIGLIANI:

You have some that are blended retail and then residential at the same time?

MR. CHINNOCK:

Yes, they are able to account for that.

VICE CHAIR TIFFANY:

I have a question related to Article 10 of the *Constitution of the State of Nevada*. The very first statement reads, ... "provide by law for a uniform and equal rate of assessment and taxation" A constituent suggested taxing anything valued at \$500,000 or less at the Consumer Price Index (CPI), and everything over \$500,000 at the traditional rate. Would something like that be possible? It would give the residential owners a break, but the larger properties would not get as much of a break. Could it be done under the "uniform and equal" clause?

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MR. CHINNOCK:

It is the details that count, and my first question would be, what is a property? Is it a ranch with several hundred parcels and many thousands of acres? I mean, what do we apply it to?

VICE CHAIR TIFFANY:

I am not going to break it down to a farm or anything else; just say the first \$500,000 is set at CPI, but anything over is set at today's rate. Would it meet the criteria for uniform and equal?

MR. CHINNOCK:

I do not know.

VICE CHAIR TIFFANY:

I keep hearing "you can't hurt the school districts," but I understand the school districts get funded per-pupil, and even though part of the funding comes from property tax, they are still given a State guarantee. What would it impact, or would it be the reversion we usually see?

MR. CHINNOCK:

I do not know.

CHAIR MCGINNESS:

Vice Chair Tiffany, the school districts, who will be here on Monday, would probably be in a better position to answer your question.

ASSEMBLYMAN ANDERSON:

Assemblywoman Giunchigliani's question relative to central assessment intrigued me and I want to make sure I understand. You talked about utility lines, railroads, tracks running across Lincoln County and airplanes flying over Nye County. Does this mean we actively look to have planes fly over the State to generate tax revenue?

MR. CHINNOCK:

They do need nexus within the State of Nevada, so they also have to be doing business in the State. They would have to be landing here.

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ASSEMBLYMAN ANDERSON:

We are not picking up any revenue from the transcontinental flights going over the State, but we do pick up revenue from the railroad tracks and the utility lines across the State?

MR. CHINNOCK:

We have 350 companies we value, who are interstate/intercounty companies having nexus in Nevada.

ASSEMBLYMAN MORTENSON:

I would like to revisit Senator Care's question about the "bubble." Could the bubble burst? I can understand land values fluctuating, depending on whether or not there is a great demand, but improvements, such as the house, are based on replacement value. Inflation increases the replacement value every year by a few percent, at least, so how can you get a reduction in the value of the house itself?

MR. CHINNOCK:

If you had a relatively new house, 2 or 3 years old, it would only have 2- to 3-percent depreciation applied against the replacement cost. Then, if the market decreased, say 20 percent overall, theoretically, you would probably see a 20-percent reduction in what would have been the improvement value on the market, as well as a 20-percent reduction in the land value. It would therefore end up probably being less than the replacement cost, less depreciation.

ASSEMBLYMAN MORTENSON:

The improvement cost is the cost of building the house. How can you have a reduction in the cost of building the house if the house was already built?

MR. CHINNOCK:

The statute requires us to value at replacement cost new, less statutory depreciation at 1.5 percent per year. If you have a 2-year-old house worth \$100,000 new, you would apply 3-percent depreciation, making it now worth \$97,000. If the economy in that particular town declined, and reduced the market value by 20 percent, suddenly you have a property worth only \$80,000, yet, you have an improvement worth \$97,000 plus land value. You would end up having obsolescence and a need to reduce the improvement value further to make up for it.

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ASSEMBLYMAN MORTENSON:

In the past year, \$44 million was taken out of the taxes collected, due to economic obsolescence from big businesses, and yet, probably not a single home got economic obsolescence.

MR. CHINNOCK:

Anytime taxable value exceeds market value, you have an issue of obsolescence, which is why oftentimes individuals go to the county and State boards of equalization. The market value of industrial or commercial property is determined considering its income capability. In making a determination of its income capability, and arriving at a value, you can oftentimes see a lower value as a result of market conditions and therefore justifying obsolescence in some cases.

ASSEMBLYMAN MORTENSON:

If nobody applies for an obsolescence reduction, do you give it automatically if there is a downturn?

MR. CHINNOCK:

The issue of not exceeding full cash value is an obligation not just for boards of equalization. It is an obligation for anyone who is making a taxable value determination.

ASSEMBLYMAN MORTENSON:

You did not answer my question. Have you ever, across-the-board, given obsolescence?

MR. CHINNOCK:

Yes.

ASSEMBLYMAN PERKINS:

You said it may be difficult to consider property tax relief on a per-parcel basis. Can you offer a suggestion on how it can be done in some other fashion?

MR. CHINNOCK:

I did not have an alternative solution. I just brought up the issue of how parceling was created with respect to the assessors' offices.

ASSEMBLYMAN PERKINS:

You talked earlier about the impact of depreciation in an example in White Pine County. Once the home has sold for a higher value, does it reset the taxable value?

MR. CHINNOCK:

No, it does not. Taxable value is taxable value no matter who owns the property and no matter how many times it is sold. It is based upon the age of the property and the full cash value of the land on which it sits.

Assemblyman Perkins:

If I buy a 50-year-old home, does the depreciation already figured in move on to the next owner?

MR. CHINNOCK:

If you buy a 50-year-old home, the improvement must be valued at replacement cost new, less 75 percent depreciation against the replacement cost new.

ASSEMBLYMAN PERKINS:

Given our current situation, can local governments reduce their levies without legislative action?

MR. CHINNOCK:

Yes, I believe they can.

DAVE DAWLEY (Assessor's Office, Carson City):

I have given you a copy of a letter I received from James P. Ithurralde, Eureka County Assessor ([Exhibit F](#)), who was unable to be here today, as well as one from Gloria A. Hughes, Mineral County Assessor ([Exhibit G](#)). You also have a handout from me ([Exhibit H](#)).

Carson City is one of the five counties truly involved in the increase in property taxes. Our assessed valuation for many properties went up anywhere from 40 to 45 percent this year alone. Many properties will increase by the same amount next year. Due to the fire here in Carson City in July, we chose to stay at the same assessed value because we could not do the study necessary to

determine what effect the fire had on the assessed values. It turned out it had absolutely no effect, so those property values are going to have a huge increase next year.

Clark County is the only county in the State of Nevada currently reappraising their property on an annual basis. Washoe County is in the process of re-costing all of their improvements, but they have not gotten to the point where they are comfortable revaluing other land. The other 15 counties in Nevada are currently working with a program called ADS from Advanced Data Systems, Incorporated, which gives us the ability to recost all of our improvements on a yearly basis. We have been modifying this program for about five to six years, so not all of the parcels are ready to be re-costed on an annual basis. Most counties are still looking at anywhere from two to three years out.

One big thing affecting property taxes is the land value. In Carson City alone, in 1999-2000, the typical 8,000-square-foot mobile home lot was valued at anywhere from \$30,000 to \$35,000. In 2003-2004, those same lots were selling for about \$65,000 to \$70,000. The same is true for one-acre parcels, which were selling in the \$60,000 to \$65,000 range and are now selling for between \$125,000 and \$150,000.

I believe this was because interest rates were so low and the mortgage companies actually made it attractive for people to buy properties. They were able to give them adjustable rate mortgages in order to get them into the higher priced homes, which drove the prices up. It also has to do with speculation. People come in and buy property, then set the value high, and people actually buy it at the high price.

The main thing the Nevada Assessors Association would like for you to be aware of is the fact that Nevada is so diversified. There are 5 counties growing rapidly, while there are 15 other counties staying at the same level, or depreciating in value. For instance, Eureka County, because of its two mines, will actually be losing \$70 million in assessed valuation next year. Therefore, if you apply some kind of cap, we ask you to consider those outlying counties. We ask that you give them some relief in order for them to be able to recapture all of the values they have lost.

WILLIAM (JEFF) JOHNSON (Assessor, Humboldt County):

I am speaking to you from one of those counties having lost valuation over the last several years. We went from a total assessed value of over \$639 million for the 1999-2000 tax year to just over \$473 million for the 2003-2004 tax year, losing a little over \$166 million in a four-year time frame. Most of it was due to mining situations in which there were layoffs resulting in people leaving town. Because of the population loss, we ended up with property sitting vacant, causing the taxable value to exceed the market value. We, therefore, spent a great deal of time reducing properties with obsolescence.

It was around 1999 when we first started putting obsolescence on some commercial properties in the downtown Winnemucca area. It has grown to over a couple thousand parcels in the last few years. Last year, we were able to remove most, but we still have a couple of areas. One is McDermitt, which is an area in the far northern part of Humboldt County, bordering Oregon. Obsolescence remains there because you cannot build a house for less than you can buy one. Most sale prices are around \$40,000 for a home with a basement and a garage, so we still have obsolescence on those properties. We also have some properties approximately 5 miles north of Winnemucca along Highway 95 North, having obsolescence. This is because the typical replacement cost new, minus the depreciation, is exceeding the market value. Our concern in Humboldt County is the opportunity we may lose to recapture that at some point.

I did some quick analyses yesterday trying to discern what would happen if we actually got a 6-percent cap on all of the properties. We would regain some one year, and a little more the next year. I calculated a gain of around \$10 million. The problem with this whole scenario, though, is you are applying the 6-percent cap increase every year to every individual property. You know that is not going to happen because you have all those mining and other properties overvalued already. You have to subtract that value, which means you would not end up with anywhere near \$10 million. What the amount would be, I have no idea.

It is interesting how fast things change. For the last three years, there has been a committee looking at doing away with depreciation altogether because there was a decline in values in so many counties. Now, here we are today discussing trying to find a way to cap it. As Mr. Dawley pointed out, we are such a diverse State, it does make it very difficult for you in trying to figure out a way to balance all these diversities in the different counties.

ASSEMBLYMAN HETTRICK:

Early on, I had some discussion with Doug Sonnemann, the Assessor for Douglas County. I agreed we need a way to allow for recapture on growth, where we have seen reduction in value for whatever reason. I think it can be done, but at the same time, I do not think this is ever going to be a perfect science, just as it is not a perfect science, right now. The very figures you just gave us tell us you lost \$166 million in assessed value over the last decade, and you survive, and go on and live within your means. You have to, because you have no choice. The \$10 million we might not let you have, assuming we end up at a 6-percent cap, might have been wiped out anyway by other properties going down, and you would still have had to live with the revenue you receive. There is simply no way we, as a Legislature, are going to provide a law foreseeing every single possibility, and adjust for it appropriately. Somebody will tell us they are going to lose their home if the taxes keep going up the way they are. This is a catch-22 for us. Something has to be done to smooth out these spikes, and everybody is going to pay something in the end.

The State can say the same thing you are. "If we cap, we are going to reduce revenues to schools," yet at the same time, we are obligated to fund the schools. We are going to look at a whole lot of scenarios here with upsides and downsides, but I do not believe there is any way we can go out of this Legislative Session without capping in some manner.

ASSEMBLYMAN MORTENSON:

I agree with Assemblyman Hettrick, but perhaps there could be a provision in whatever law we finally come up with, saying, "If property has been reduced by economic obsolescence, that property can be recaptured and be exempt from a cap." It seems to me that would be considered uniform. If someone is eligible for the economic recapture, it would mean they are in good shape anyway. Perhaps legal could look into the possibility of putting a recapture clause in there for economic obsolescence that would not be capped.

SENATOR LEE:

Did you say you do not appraise every year?

MR. DAWLEY:

Yes, but we are in the process, and are about two to three years out for reappraising on an annual cycle.

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SENATOR LEE:
How often do you appraise now?

MR. DAWLEY:
We reappraise at least once every five years. We have eight different parts of Carson City we visit once every five years. We look at the land values every single year though, and if there is a huge increase like there has been in this last year, we will, at that point, add the factor to the parcel. This year's factors where anywhere from 40 percent to 45 percent.

SENATOR LEE:
Just for the 20 percent you will appraise this year, or overall?

MR. DAWLEY:
It would be overall. We look at all sales, so those parcels in the reappraisal group are being reappraised. The factors are being applied to everyone who is not being reappraised.

SENATOR LEE:
Do you use the *Residential Cost Handbook*?

MR. DAWLEY:
Yes, it is required by the Nevada Tax Commission.

ROBERT MCGOWAN (Assessor, Washoe County):
Capping it would make the assessor's job a little easier as far as people getting angry about what we do. However, I think whatever you do, you need first of all to hold down, as best you can, any unintended consequences. I know you will hear a lot of things over the next 120 days and hopefully, if you are going to do something effective this year, a lot sooner than the end of the 120 days. If it is not one of the proposals before you, then what will it be? The reason we are all here is to try to find the best answer.

Another issue important to all of us, especially those who have to apply the law, is to give us sufficient time to put into place whatever you do put into effect. If it is to be effective this year, then, of course, that March date becomes a very important date for us. If it is the homeowners to whom you want to get the relief, it will be driven by whether or not it is constitutional.

Otherwise, it will be a flat, across-the-board relief for everybody. Then, of course, the homeowner will see less of a reduction, because it would be spread out. Our main concerns are for you give to us the time to put into place whatever you decide upon, and the other is to watch for those unintended consequences, because there will be a lot of them.

DOUG SONNEMANN (Assessor, Douglas County):

I have passed out a three-page sheet ([Exhibit I](#)), which gives you a feel of what is going on in Douglas County and some of the responses we have gotten from the constituency. It will give you data on some representative properties. We too, have factored this year. Factors went anywhere from no factor in some small areas, to generally from 10 to 60 percent, such as the lakefront property in the first example, which becomes a pretty substantial hit. Douglas County, being one of the scenic areas of Nevada, has become quite the desirable place to live, resulting in many substantial increases. A December issue of *U.S. News & World Report* showed Douglas County as one of the top ten spots for a second-home market.

The third page gives you a feel for the Carson Valley area and what has happened, on an average basis, in respect to lot sales and house sales over the last several years. Hopefully, this will give you a feel of what happens in one of the growing counties.

ASSEMBLYMAN ANDERSON:

The availability of land in Douglas County, held by the federal government versus that in private ownership and thus open to taxing, is relatively high as compared to Nye, Lincoln or even Clark Counties. What percentage is held in private ownership in Douglas County?

MR. SONNEMANN:

I am not sure of the percentage, but you are correct. There is a lot of trust ground held by the federal government in Douglas County, such as the Bureau of Land Management (BLM) and the U.S. Department of Agriculture Forest Service, but there is also a lot of private ground in the more desirable building areas. Based on the resources available, there is probably enough private ground to sustain growth, particularly the water capacity.

ASSEMBLYMAN ANDERSON:

Regarding the availability of land in the real estate market, is the real estate market value of property a factor that can be weighed in some quantitative fashion?

MR. SONNEMANN:

The extreme scarcity of land is something we have struggled with, particularly in the Lake Tahoe basin. It is a concern for us in our valuation process, because we do not want to be setting valuations on a scarcity issue only. We try to incorporate it into our valuation so as not to overinflate the taxable value of land. This is true particularly at the lake, but it is also becoming an issue within other portions of Douglas County.

ASSEMBLYMAN ANDERSON:

There are a couple of nuances I am concerned about relative to the aesthetic values of living in Douglas County, and I am sure you, as a representative of the county, would not want to diminish it in any fashion. At the same time, that adds to the qualitative value of the land at Lake Tahoe, such as The Ridge Tahoe, Glenbrook or Zephyr Cove.

MR. SONNEMANN:

You bring up a good point. It has become an issue in Douglas County, where you, as a body, have previously approved the agricultural exemption. This has been an exceptional benefit to Douglas County. I know there has been concern from some of the counties that agriculture does not pay for itself, that it actually enhances the taxable values you get. On the other side of the coin, Douglas County itself has amenity. It is a very nice place to live, and due to the taxing structure, agriculture has helped to enhance that attribute.

ASSEMBLYMAN GRADY:

I am looking, on the last page of your handout, at land values in the last five years. What is the cause of the minus 21 percent in 2001, up 45 percent the next year, evening out to 0.0 percent in 2003 and then up 110 percent in 2004. Why the big fluctuation?

MR. SONNEMANN:

I do not know the reason for the downward fluctuation in 2001. Generally, as you can see, there has been an upward trend. Around the same time, the

dot-com burst occurred, and the tragedy of September 11, 2001 happened, which slowed down the market and is possibly reflected there.

SENATOR COFFIN:

What kind of smoothing formulas have you contemplated in considering the many different things you can do? The old income-averaging formula of the Internal Revenue Service helped. It was complicated, but it did help on those high-income years. It brought equity to a person who had an extraordinary income, and here you have an extraordinary situation. Can you smooth? Have you thought about it, and is it tougher for some counties than others?

MR. DAWLEY:

It is workable. We have talked to our ADS department and they pretty much know about all of the proposals out there. They have said almost all of them are workable, so yes, we can do it. This year, as it stands right now, Carson City's assessed valuation is \$1.7 billion. If you were to do the smoothing technique, it would drop the total assessed valuation for Carson City to \$1.32 billion.

MR. MCGOWAN:

In some areas of Washoe County, there have been horrendous jumps. Even if you smooth those out, it does not eliminate the horrendous jumps. I do not think it would satisfy the question in that particular area. If you do not get 40 percent this year, but get 20 percent over the next two, or however many years you want to spread it out, plus whatever else happens, I am not sure it gets us where we want to be or where the taxpayer wants to be.

This idea was brought up in a meeting of the assessors group, and I am sure it could be done. Mark Schofield, the Assessor in Clark County, knew there were going to be tremendous jumps, and knew either the people were going to be upset enough to do something about it through a petition setting, or the Legislature would have to react. The feeling was if the Legislature reacts to this, the outcome would be a lot less egregious to the services supplied by local people, so we went forward. Mr. Schofield, actually, was the one who took it to his county commissioners. In discussions we had at other meetings, questions were brought up regarding the various shortcomings. It was there the question arose, "If we don't do this, then what? What is a better idea?" That is where we are today. We are trying to find the best solution, but we have not yet reached a solution upon which we all agree.

MR. DAWLEY:

In reference to a question asked by Assemblywoman Giunchigliani, the escalating, or the bidding wars happening on property, do affect land values. Ultimately, we would like to be able to base the land values on vacant comparable properties. Sometimes it is not possible, and so we do what is called an abstraction method of appraising the land, where we actually take the current market replacement cost of the structure and add in depreciation. By subtracting that from the total sales price, you should be able to get the value of the land.

ASSEMBLYWOMAN GIUNCHIGLIANI:

What impact does what we possibly are going to contemplate have on redevelopment areas in Carson City, Washoe, Clark and Douglas counties? You already have properties off the rolls, frozen at the year they do the purchase. What is the long-term impact on local governments, and what are we not collecting?

MR. MCGOWAN:

We will have a presentation for the finance folks to address how those kinds of things will affect the bonding and loans. Those are some of the unintended consequences to which I referred.

MR. SONNEMANN:

From what I have heard contemplated, anything new would be outside the cap. Since most redevelopment would be new, it would be outside the cap and not create that kind of a problem.

ASSEMBLYMAN HETTRICK:

Are you saying that, outside the cap, the first year of valuation would come into the system under some proposals that have been made?

MR. SONNEMANN:

Yes, that would be correct.

MARK SCHOFIELD (Assessor, Clark County):

Mr. Chinnoek was very eloquent in articulating the assessment methodologies currently deployed in the State of Nevada, as well as some of the history behind why we are where we are today. Additionally, I would echo the remarks of my

colleagues, and I would like to address one minor inconsistency. I believe there is some confusion as it relates to the 6-percent cap when it comes to dealing with obsolescence. However, I will deal with it at a later date with my colleagues.

The county experiencing the most tremendous, most dramatic increase in property values, not only on the market side but also the taxable side, is Clark County. The data we started seeing in March of 2004 was absolutely alarming. Those figures I was seeing, and the alarming appreciations, were being created predominately because of the escalation in the price of land values created by the two economic theories of scarcity, and supply and demand.

Approximately 90 percent of the property in Clark County is owned by federal, State or local government, so only about 10 percent is in private ownership. Initially, we said single family homes were going to increase somewhere between 20 and 50 percent. When it came to vacant land holdings, we were seeing increases in taxable value going anywhere from 100 to 300 percent, which we were seeing across-the-board with commercial property. For example, the land comprising the Las Vegas Strip, between Sahara Avenue going south to Russell Road, increased on average, 76 percent. The improvements increased as well.

We knew there was a revolution brewing up in Incline Village. We watched it unfold the previous year. We knew how passionate the citizens were there because of experience here in Las Vegas. Many of you who were in the Legislature in 1995 may recall what we went through in a little community in Summerlin called Sun City. It was one small segment of the population, and in those days, we were reappraising one-fifth of the county every year. When they received an average 26-percent increase in their values, they were going to start a petition. After they educated themselves by going through the board process, and realized the laws had to be followed, for the most part, it died down.

Now, in 2004-2005, we have just seen the initial spike in taxable values this year and are still getting phone calls from people who received their tax bills in July, 2004. Those increases are not nearly as much as they are going to see on the bills for 2005-2006, which are sent out the second week of July, 2005. In searching for a solution to this problem, we drew on our experience in Sun City where we went into the community and educated the public about what was

going to happen, how we place value on property and what Nevada law requires. We felt this was the right thing to do, rather than to force them to come to us, and it mitigated a great deal of the damage.

This was going to affect all of Clark County with the exception of some areas in the older urban cores, where some properties have not increased by more than 6 percent. On the average, the range would be anywhere from 20 to 50 percent. In fact, some homes have increased 87 percent. We knew if we were going to sound the alarm, we had to also follow through with a potential solution. We looked at all kinds of variations of what we could do to mitigate these huge increases because, I can assure you, based upon the evidence I have seen, if we did not do something proactively, it would be done for us by the public. The first variation with which we started was tax rates, but we could not achieve the level of relief the public would accept by reducing tax rates because there is not enough flexibility in the rates. As an example, if a home increased by 50 percent in value, and you wanted to mirror the same impact the 6 percent would have, you would have to actually reduce the property tax rate by 87 cents. In essence, you could wipe out two different local governments' operating rates in Clark County by reducing the rate at that level. Therefore, you can see it is virtually impossible to get to the level of relief I think the people are anticipating by doing anything with the tax rates.

MR. SCHOFIELD:

We then looked at assessed valuations. We could get assessed valuation low enough where it would mitigate some, but not all, of the damage, but the problem is, all of the assessors are concerned about each other's counties. We are one cohesive unit who all work together and ensure we follow the laws in an identical fashion. We work with the Department of Taxation, and we watch out for one another. Our biggest concern was how it was going to economically affect the 12 counties not affected by this tremendous appreciation. We could not tamper with the assessed-value ratio.

The next possible solution was to apply an exemption to property. To make it work constitutionally, you would have to apply it to all classes of property. What amount would you have to use to get to the level of relief the people are expecting from you as policy makers? We looked first at \$100,000 per property. What immediately dawned on us was it would wipe out the rural

counties, so we dropped that idea, even though it would have been the easiest one to implement.

Where did the 6 percent come in? The 6 percent is embedded in statutes governing local government finance. I am referring to *Nevada Revised Statutes* 354.5981. We felt 6 percent was going to create an equilibrium that would, for the most part, hold everyone harmless. It would mitigate this huge property tax increase while, at the same time, allowing local governments some moderate growth whereby they would not have to reduce services, or lay off workers within the government. We rolled out the proposal in June and said, from the beginning, it is just a suggestion. It is designed to ignite debate on the subject.

Let us get all of the proposals out on the table and have other people come forward with their ideas and see if we can come up with a mixture that may be an even better approach. So far, to my knowledge, we have 14 proposals which appeared in the Hobbs, Ong & Associates, Inc., white paper, as well as some additional proposals coming forward. Each proposal has merit, but there is a delicate balance you need to achieve in order to do two things. First, you need to ensure the public is satisfied with the relief it receives, because if you were to reduce the tax rate by 20 cents and have it absorbed through all the entities enjoying ad valorem revenue through that tax rate, after sine die, you would still find individuals out on the streets with an initiative petition. What is so alarming about that to me, my colleagues and many people who follow this issue, is that the initiative petition must obtain the necessary signatures to be placed on the ballot within 45 days. I have been assured by people, not only in Clark County, but in the northern part of the State as well, who, after listening to what we had to say about the cap, felt it was a more reasonable approach. No one wants to hurt government. Government is a creature of the people, and we exist to serve the people, but they felt the 6 percent was something with which they could live. I was told just three weeks ago, whatever the Legislature decided, if it did not achieve the same level of relief a cap would achieve, then they would go ahead and jump on the initiative petition band wagon.

The assessors consciously elected not to put this in their omnibus bill because they felt all of you needed to wrap your arms around one potential solution or another. I realize it is a complicated issue, but I think the answer is before you to work together in looking at these proposals and select a few providing the most viability. I am sure you will have ample time, and I must reiterate, it is

imperative the solution at which you arrive, whether it be temporary, permanent or something you want to sunset, if we are going to give the relief to the taxpayers this upcoming fiscal year, we need to know by March. The other thing is local governments need to have some idea of what the plan will be so they can start crafting their budgets.

ASSEMBLYMAN PARKS:

Several of my constituents have told me they have seen commercial parcels decreasing in value in both the improvements and the land. They want to know why this is occurring in light of the fact residential development is greatly increasing in value. One of the parcels is on East Flamingo Road, east of Maryland Parkway.

MR. MCGOWAN:

I cannot answer without having the data before me. I can tell you with income-producing parcels, oftentimes the law requires taxable value not to exceed full cash value. What they will often do is bring us their income and we stabilize it over a period of three years. The best way to arrive at a market value for an income-producing property is by using the income approach. It may suggest that our value is excessive and we have to reduce it. There could be other extenuating circumstances involved, and without having done the research on it, it is a little difficult for me to give you a solid answer. If you could call and give me more specifics, I will look into it and give you the answer.

ASSEMBLYMAN PARKS:

I will provide you with the information. The concern expressed to me was from someone whose land values doubled in price even though they were not far from a commercial property that had a reduction in the land value.

ASSEMBLYMAN PERKINS:

If I have an older home, 50, 60, 70 or 80 years old, and I make a major improvement to that home, gut the entire inside and add a major wing, how then do we deal with the depreciation? Does the depreciation start over? How does that work?

MR. MCGOWAN:

We could do it one of two ways. You can average out the new addition and come up with an average age over the whole piece. If you are talking about a total remodel, the law says if someone does something to increase the value of the house by 10 percent of the total value, then you can adjust the age of the house. There are measures in the law to address such a situation. In truth, unless it is a fairly significant one, and in areas not having building departments, the assessor might not even be aware of it. If you add a room, you can just take the room aside and do it with only one year's depreciation and the original structure getting 80 percent. You could, as an alternative, adjust the average age and just do one number.

ASSEMBLYMAN PERKINS:

Earlier, Mr. Chinnock expressed some concern about tax relief on a per-parcel basis. Is there a concern by the assessors that somebody could break up a larger parcel into smaller parcels and get relief on each parcel?

MR. DAWLEY:

In most of the urban counties, the building department or the planning department has to approve parceling, whether you want to subdivide them or not. It would not really have anything to do with us as far as whether or not we would give approval. It would depend upon the county codes or county ordinances.

MR. SCHOFIELD:

I cannot think of a way, doing it parcel by parcel, a taxpayer could manipulate it to his or her advantage. For example, if you had a parcel of land to be subdivided, using the 6-percent proposal as a benchmark, each parcel would be revalued and the revalue would be re-based at its current value, which would actually penalize the owner of the property.

ASSEMBLYMAN PERKINS:

I appreciate that. However, if we were using some other property tax relief mechanism, such as an exemption on the base value of the property, and then you broke the property into smaller pieces, you would get multiple facets of the exemption.

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MR. SCHOFIELD:
That could definitely be abused.

ASSEMBLYMAN PERKINS:
There has been a discussion of a March deadline, which is a pretty big month. Do we have some sense of a drop-dead deadline we need to accomplish in order for you to get out the necessary notices?

MR. DAWLEY:
I do not know if there is a drop-dead deadline. It all depends on the technicality of whatever you choose to do. Again, 15 of the 17 counties use this ADS program, so it would be however long they take to develop the program, and then get it installed so we can work out all the technicalities. There really is no drop-dead date.

MR. MCGOWAN:
A problem might exist for those counties not on an annual appraisal cycle. If you were to use the value of 2003 or 2004, the ones we just did would be up at a certain number, and the ones we did four years ago are going to be different numbers, so you are going to have a different starting point for everybody. I do not know how fair it would be to people whose homes were appraised currently. They would certainly not get as much of a benefit as people whose homes were appraised three or four years ago.

ASSEMBLYMAN PERKINS:
Are you telling me we do not really have a specific date? We will just have to stay in communication as we move toward a solution.

MR. MCGOWAN:
It depends on what your ruling is and what your law is going to be.

CHAIR MCGINNESS:
The more complicated the solution, the more time you need to implement.

ASSEMBLYWOMAN GIUNCHIGLIANI:
Clark County is the only one on a yearly cycle, and the rest of you are on a five-year cycle.

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MR. MCGOWAN:

We just started last year in Washoe County to do the improvements every year, because last Session you changed the law to allow it.

ASSEMBLYWOMAN GIUNCHIGLIANI:

It is a staffing issue because then you have an inequity going across the State, depending on who is appraising what at what time. Regarding the improvements issue, do we not require a building permit in order to do an improvement to one's home?

MR. DAWLEY:

There are many counties in Nevada not requiring building permits.

ASSEMBLYWOMAN GIUNCHIGLIANI:

Then, why do we have a law saying you can do improvement assessments if not everybody requires improvements to be tracked? How else would you know an improvement was being done? As we deal with this situation, we have a lot of inequities built into the inequitable administration of it. Mr. Schofield, are you saying you had no sign there were going to be some problems in 2004?

MR. SCHOFIELD:

Yes, we did. As I indicated, when we closed the roll for fiscal year (FY) 2004-2005, and then picked up new construction in December, 2003, we started seeing the initial spike occurring. It all started with the recent BLM transactions. Many of you representing southern Nevada, and who live close to new subdivisions, will have noticed in the last year and a half signs advertising new homes and showing the mid-range price point for those homes. In the last year and a half, those prices have gone up from the mid-\$150,000 range to the mid-\$250,000 range. It happened that quickly and was just extraordinary. It was contributed to by the people who came in from out of state and invested in property. The biggest reasons are scarcity and supply and demand due to the tremendous influx of population in Clark County, which is between 5,000 and 6,000 people per month. The economy here, as all of you well know, is flourishing, which is one of the reasons you have such a tremendous budget surplus in the State.

Touching on one other thing, I heard the terms "bubble" and "aberration." Let me assure you, we see no "bubble" coming. In fact, the median price of new

homes is continuing to rise, as is the cost per acre. What we are seeing however, is a flattening in the real estate market. We are seeing homes stay on the market longer. In addition, taxable value cannot exceed market value or full cash, which is the term used in the statute. We are not at market value, and we are seeing homes being reduced because their price point was too high to begin with. In essence, people were trying to take advantage of the market.

I want to make something very clear relative to annual reappraisal. If Clark County, for example, was on a five-year cycle and we did not have the ability or the resources to reappraise the county every year, there is a provision in the law requiring you to factor the land and the improvements up to market value based on the time frame prescribed in the statute. Ironically, if we were on a five-year cycle, and we were not reappraising every year, four-fifths of the county would experience the same increases as the one-fifth we reappraised.

ASSEMBLYWOMAN GIUNCHIGLIANI:

You are saying they all do the factoring. Are there adjustments made in five years when you get to the actual assessment of that property?

MR. SCHOFIELD:

Yes, there are.

ASSEMBLYWOMAN GIUNCHIGLIANI:

You mentioned the BLM transactions. What exactly drove what from that?

MR. SCHOFIELD:

Of the several BLM transactions we have seen, one of the largest and most recent involved some parcels that sold for twice their appraised value. The one in Henderson, which they attempted to sell initially, was imbedded in a requirement that a low-income or an affordable-housing component must be included. That transaction did not take place, but after it was rethought and re-crafted, it sold for twice the appraised value. Land values in the Las Vegas area are increasing at an alarming rate due to the fact there is not a lot of developable land available.

ASSEMBLYWOMAN GIUNCHIGLIANI:

Is there a problem how we appraise the actual property? Why would it sell for double the appraised value?

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MR. SCHOFIELD:

We have nothing to do with the appraisal. An auction is assumed to be an arms-length transaction.

ASSEMBLYWOMAN GIUNCHIGLIANI:

You do not do any of the backup on appraisals?

MR. SCHOFIELD:

No, we do not for those purposes. We have seen people pay over the asking price, making it so even though you might have paid twice the appraised value, it is recaptured when the property is developed and sold to the public, whether for commercial improvements or residential improvements.

SENATOR COFFIN:

I have a thought on the questions raised and some ideas about improvements in older districts. The most frequent improvement is to the interior of the home. If you take a \$200,000 home and spend \$50,000 on the interior, all you have done is spent \$50,000 to bring it back to a \$200,000 house. It does not really push the market. It would be a shock to people who are investing to bring these houses up to par, to find out they might be penalized for doing it.

MR. MCGOWAN:

Under the law, we cannot exceed market value, but there is no rule about how much below. If a house is deteriorated to such an extent when we do our prescribed way of coming to a value, but is still above the market value, we would then have to apply obsolescence. If you come in at a future date and do some improvement, then it should come up to whatever the market value is in that area.

SENATOR COFFIN:

What I wanted to stress was it is not so simple as to assume the money spent on a house is an improvement that will increase the market value, or just sustain the market value.

MR. MCGOWAN:

You can spend a lot of money on a house just to sustain the market value. We are supposed to be able to figure it out. The State audits the work we do every three years.

MR. SCHOFIELD:

Senator Coffin, I am very familiar with the area in which you live. I am sure you are very familiar with the Huntridge area, which is a classic example of what you were referring to earlier. We have many young families going into the Huntridge area and rehabilitating those homes, many of them over 50 years old. The market value there is increasing because they are becoming desirable, as is your area. It is extraordinary what is happening just three blocks down from you. Putting \$50,000 in improvements in a home to make it more appealing would not necessarily be reflected in the market unless everybody did it. Once a market condition is created where we see an increased price, then, as assessors, we would have to go in and address it.

ASSEMBLYMAN SIBLEY:

When the new homes are being built in Las Vegas, at what point does your office add the improvements to the tax bill? Is there a period during which people are in a new home where they are not paying property tax on the improvement value?

MR. SCHOFIELD:

There should not be. We may get the bill to them a little late. We have until December 15 to bill all new construction, but if we were not aware of the home being constructed, it is possible it did not get on the roll in time. If a home is in the process of being built on a vacant lot, and construction was started in December, typically you will get your notice-of-value card in December showing a land value only. When the home is completed, you will then get another card showing what the land with the improvement is worth, and it will show up on the treasurer's tax bill.

MR. DAWLEY:

The assessors of Nevada are very concerned about the escalating property tax issue, and would like to offer any support we can.

CHAIR MCGINNESS:

We will move on to the presentations by the Nevada Association of Counties (NACO) and the Nevada League of Cities and Municipalities.

J. DAVID FRASER (Executive Director, Nevada League of Cities and Municipalities): We recognize that something unique has happened in the State of Nevada recently, which has significant impact on property taxes. We also recognize, being property tax payers ourselves, it is a serious issue. I have made a list of some things we believe the Committee and the Legislature will want to keep an eye on as proposals come forward and are entertained individually ([Exhibit J](#)). The most important thing is to properly define the problem. As was stated earlier by Assemblyman Perkins, it is important to understand whether the problem is long-term or short-term and to make sure the solution is properly fitted to the problem. It is also important for you to decide where relief should be targeted. Are you trying to help residential or nonresidential taxpayers? Are you trying to help owner-occupied versus rental properties? Is there an element of economic hardship that should be identified and addressed?

When you do aim at your solution, in addition to making sure the solution is uniform and equal, you also need to recognize that the entire State is not in the same growth pattern. First, consider the high-growth areas like Clark County, which is growing at exceptional rates compared with other parts of the nation. You also have moderate-growth areas as well as low- and, in some cases, negative-growth areas. In fact, eight of the States' counties have had declining valuations in the last several years. It is, therefore, important to look at all of those issues as you examine each of the proposals, and to make sure what will work well in one part of the State is also going to work in another.

Several areas could be impacted by this. We are here to represent local governments because they have a high reliance on property taxes and could, therefore, be impacted. You also have redevelopment agencies that will have planned for the increment in the property taxes to fulfill their missions. The distribution of the consolidated tax could be affected depending on the solution you pursue. School districts are the largest recipient of property tax funds in the State of Nevada, and their revenues will be affected. It could also affect the State, itself, because of guarantees made to school districts. In addition, whatever solution is pursued could impact the State's bond capacity.

ANDREW LIST (Executive Director, Nevada Association of Counties): I have prepared a handout for you in the form of a booklet entitled, *The Fiscal and Economic Trends in Nevada Counties* ([Exhibit K](#), original is on file in the Research Library). This report is not only about property tax, but also about the

counties and all of the fiscal and population trends those counties are experiencing. First, I want to talk about some of the population trends and how those tie into some of the assessed valuation trends. Out of the 17 Nevada counties, we have 9 experiencing population losses. Lander County, where the population has declined 29 percent since 1996, has experienced the biggest loss due primarily to the downturn in the mining sector of its economy. Normally, with the downturn in population trends comes a downturn in assessed valuation which impacts the county's ability to collect property taxes. Nine of our counties also lost assessed valuation. Sixty percent of Mineral County's assessed valuation has been lost since 1996.

The booklet also shows general fund revenues, and indicates where the counties are getting their money. It is all over the board. The two main components of general fund revenue in the counties are the consolidated sales tax and property tax. Eureka County gets 62 percent of its general fund revenue from the consolidated sales tax. On the low end of the spectrum, Nye County receives only 17 percent, so as you can see, there is a wide range of reliance on the consolidated sales tax.

Storey County receives 49 percent of its general fund revenue from property tax, while Humboldt County receives only 14 percent. A new mine is opening up in Humboldt County, so hopefully their percentage will increase. These numbers are FY 2003. We are required to use FY 2003 data rather than FY 2004 because many of the counties have not yet completed their audits, due to some difficulty in complying with new accounting regulations.

Also included in this report is a breakdown of the maximum overlapping tax rates in each county. On page 15, figure 3.4 shows the maximum overlapping tax rate in Mt. Charleston in Clark County. The property tax rate there is \$3.46. Assemblyman Perkins asked why the county does not simply lower its tax rate. As Mr. Schofield pointed out, lowering the tax rate will not work because there is not enough room in that piece of pie to get the desired results.

If you look at this particular piece of pie, out of the \$3.46 tax rate, Clark County's piece is only 12 percent. Some of the larger pieces of the pie are the school district, which receives 38 percent of the tax rate, and the Mt. Charleston Fire Protection District, which receives 25 percent. Therefore, you cannot just ask the county to lower the tax rate. All of the taxing entities in

the affected taxing area would have to lower their tax rates. It would include the school district, the State of Nevada, the county and some of the cities. For example, for those in Washoe County, the maximum overlapping tax rate is in the City of Reno, which is roughly \$3.65. They are about a penny away from as high as you can go. Out of the \$3.65, Washoe County gets about 25 percent, the city gets 26 percent and the school district gets 31 percent. Clearly, if you wanted to lower the tax rate, those three entities would need to work together. It is not simply a county problem.

MR. LIST:

Another item I would like to touch on is expenditures. For each county, you will see a pie graph telling where these general funds are being spent and some of the phenomena we have seen. As the population in some of these counties decreases, the assessed value decreases as does the sales tax revenue. These counties are then forced to cut away some of their discretionary funding. I have seen counties lay people off, cut library hours and stop maintaining parks. I have seen it affect some of the more essential services as well. Right now, Mineral County has only two deputies in the entire county.

As the counties lose revenue, they stop spending their discretionary money and move it toward the more essential services. In some of those smaller counties, the portion for public safety has grown and so has the portion for the judicial system.

This segues into a comment Assemblyman Hettrick brought up earlier about the 6-percent cap. Can counties live with a 6-percent cap? Sure they can. County government has existed since Nevada became a state in 1864 and will continue to exist if there is a 6-percent cap. Cities and counties are in one business only, which is to provide services. The question is, if we have a certain amount of money, what services do we provide, and how well can we provide them?

Let me talk briefly about a discussion I had with my board of directors regarding some of the ideas out there for the tax cap. First and foremost, NACO realizes there is a problem with some people being forced out of their homes due to enormous tax bills, and we think something should be done. We advocate going quickly and carefully through this minefield, if it can be done. As you heard from Ms. Erdoes, it needs to be constitutional and it needs to be done as quickly as possible in order for the counties to get their budgets together for the fiscal year

beginning July 1. We need to make sure this is not just a temporary market aberration. If it is, we think you should consider a sunset on this law, or some sort of way to phase the cap out over time. One of the ideas my board felt like discussing further would be some sort of rolling average, going no higher than the past five years.

Another idea the board would like to hear more about is the freeze. I think an absolute freeze at today's level, or even a rollback to the 2001 level, would be detrimental to the services we are trying to provide. If there is a freeze on taxes, it needs to be a freeze plus a factor for population, plus a factor for CPI. What percentage you go above the freeze is up for debate, but a freeze at today's rate would be detrimental to county governments.

Several of you have suggested an exemption on the first \$100,000 or \$50,000. The problem is, if you make the exemption too high, in some of our rural areas where the properties do not have much value at all, you essentially will have exempted a good chunk of the tax base from any tax at all. On behalf of NACO, we are here to provide as much information as we can and would like to be part of the solution.

ASSEMBLYMAN ANDERSON:

Setting a cap to sunset sometime in the future is an intriguing idea, particularly when you set up the idea of where the cap should be placed in its initial stage and then how far out you would anticipate the question to come up again. If the purpose of the cap is to avoid the possibility of a tax revolt, would it merely tell those interested in pursuing a tax revolt they need to pursue it anyway because we were really not solving their long-term problem?

MR. LIST:

You bring up a very good point. It might send a mixed message to those people. I think we need to avoid what has happened in California with Proposition 13. If there were a cap on that, I think local governments would not be experiencing the difficulties they are now. My point is if you put something in, and over time it does not work, you need to be able to get rid of it. It is easier if something sunsets under its own language than to go back and try to pull it out.

ASSEMBLYMAN ANDERSON:

Would the sunset you are envisioning be five or six Legislative Sessions away or longer so that you could come back to this? If you put it at a shorter time distance, there would hardly be enough time to get the actuarial studies in place to know the effects it would have on the county governments.

MR. LIST:

Five or six sessions may be enough time to see if the cap is working. You heard Mr. Schofield say he does not see an end to the red-hot real estate market down in Clark County, so maybe you would have to reach a little further. These are issues we would have to consider.

MR. FRASER:

My opinion may differ a little in terms of the message it might send. I think setting a sunset is a good idea. It would give you an opportunity to reexamine it to see if it had met its purposes. It may send a message to the voters that you think it is an important issue and you want to be able to reexamine it.

ASSEMBLYMAN HETTRICK:

I am absolutely convinced the public is not going to be satisfied with any kind of short-term solution. They are going to believe anything saying "sunset" is not going to address the issue. I believe they will instantly put something on the ballot and attempt to lower taxes permanently. We have heard the talk about a "bubble" in the rate and a "bubble" in the assessed values. What we are talking about here is an inverted "bubble" for the counties and everybody who gets property taxes. They will have a dip instead of a windfall. They will have a 6-percent growth rate plus newly added property values, and it will take a few years to get back to where everybody climbs back up to the 6 percent. The question you are going to get from the public is, "Does any form of government need to grow faster than 6 percent annually, plus new growth?" I do not think you are going to hear very many people in the public say their paychecks grow more than 6 percent annually, and they will question why government has to grow faster than their paychecks.

If we do not get to there, we are going to get 2 percent or less in a rollback. It is that simple. Somebody has to decide to cap something here. All the governments want the money, but the public does not want to pay any more money.

My district, which includes Incline Village, has had huge increases year after year. They are not going to be satisfied with a short-term solution. In order to avoid an initiative petition, we need to start working on a solution with which we can live and realize there may be an inverted bubble. When we look at the figures presented by the assessors, the counties and the rest of local governments have had years of significant growth in the growth counties, more than 6 percent in many of them. Nobody is talking about taking any of that away. We are talking about just capping the future. I think we have got to work on a solution here and not talk about sunsets or anything else, or we are just guaranteeing a petition.

ASSEMBLYWOMAN GIUNCHIGLIANI:

I represent older parts of Las Vegas. We hear about "the public" or somebody's group of constituents who are complaining about the property tax increase, and yet, we are not being truthful. Not every single one of us is getting the same calls or e-mails. Now we are being asked to react rather than doing something that is proper and long-term policy. I do not yet know if capping is the right thing, but if we are doing it to simply try to hedge off a group who may do an initiative petition, then shame on us. This is ridiculous. We have to do it thoughtfully and balanced. Otherwise, why are we here?

From what we have heard today, no matter what we do, an initiative petition is going to happen. We still have a responsibility to try to do the right thing for our constituents who are being negatively impacted. We should be looking at a long-term solution; not just something that is "fix-it and reaction" just because there might be an initiative petition. We cannot please everybody. We have to do what is the most equitable and fair in the long-run and not just for governments. If certain services are impacted, the people who are going to need those services and were relying on them will not have them. I would hope people stop using the verbiage of, "Oh, we are throwing people out of their houses." That is not what we have done, and it is nobody's intent, whether you are a Democrat or a Republican. We have to be very sensitive to how we are dealing with it, but I am getting tired of being threatened with, "If you don't do this, this is what is going to happen." We should be doing things because it is the right thing to do, and if it is a 6-percent cap, a 2-percent cap, no cap or a structure taking off a certain assessment value, let us do the right thing.

SENATOR COFFIN:

My tax bill from the Clark County Treasurer shows exactly how the money is going to be spent, which is something mandated by the Legislature. People can look at their tax bills and see where the money is being spent. About 90 percent of my tax bill is being spent by people who are elected and have constituencies, such as county commissioners, city council persons and school district board members. I am not talking about the folks who make the noise at every meeting, but rather, is there discontent in the district about a service being provided? Are there too many libraries? Are there too many police? Do we have too many firemen, teachers or too many schools?

This question could be answered at the local level, because I will not be stampeded into putting any cap or any solution on anything until I know or feel comfortable that the services are actually being provided for the money being collected. It seems to me the local governments, the library boards and the school boards must get out into the communities. I know all their budgets are open, and there are a lot of people who sit at home and complain about their taxes. They do not usually go down and see the books, even though they are available. I would not force my ideas on my colleagues unless I felt they were not delivering the services. I have not heard anybody say a service for which they are being taxed is not being delivered.

I do not know anybody who complained when the value of their house increased. They probably complained because it went up too fast. They just did not expect the speed with which the value would increase. I understand you cannot sell your home without moving someplace else. Ninety percent of the budgets are controlled by elected and/or appointed boards with open meeting requirements. What is their complaint? I want to know.

MR. FRASER:

I appreciate your pointing out that the decisions of how these property taxes are used are made at the local level. The people local government serves have an opportunity to go down to the council chambers, the commission chambers and the school board meetings and look those folks in the eye and say, "Account to us for how you are spending our money." I have said from the outset I think a lot of these solutions can be found in the council chambers and the commission chambers. I believe our local government officials do go through

a very deliberate and careful process when balancing resource and service demands.

SENATOR COFFIN:

We do not control their spending, and we cannot micromanage local governments. We could do the same damage the Legislature did in 1979 and 1981, which we have spent 15 years trying to undo.

VICE CHAIR TIFFANY:

I do not think any of us will be rushed into a decision because of the threat of a petition. I do not agree with Assemblywoman Giunchigliani when she says we are reacting to it, because we are not. All the constituents want is relief, and from what I understand, those checks are not due until August, so we have a lot of time to work this out. What I hear NACO saying is, "Protect the counties and throw everybody else under the bus."

MR. LIST:

I guess what I am saying is, "if we get thrown under the bus, everyone else is coming with us," because that is the way the tax rate works. If you put a 6-percent cap, as has been suggested, it applies to your school districts, your fire districts, your hospital districts, your cities, your towns and your counties. We are all under the bus together, so to speak. Guaranteed funding for the school districts was another thing that was mentioned, which is a per-pupil amount out of the Distributive School Account. If you do not get the money from a property tax cap, it will come out of the State's General Fund, and the State will be forced to cut back in some of its areas. Right now, the State is dealing with a surplus, so it might not be too difficult, but in the future, the State will be "under the bus," too.

ASSEMBLYMAN PERKINS:

I agree we have to do what is right for the citizens of the State of Nevada, which I think is some property tax relief, particularly, when you have the rates going up as well as the cost of housing. What I find ironic is, oftentimes during a Legislative Session, the cities and counties ask for some sort of liberalization of the home-rule standards in order to make their own decisions and set their own destinies. Now, we are in the reverse, where the Legislature needs to create a solution. I realize it would be a very complex thing for local governments to reduce the rates, but as you can see from the three hours of

discussion we have had today, whatever we do is going to be very complex. It would not be much more complex for them all to get their heads together and find some way. They would have that home-rule authority in the future, depending on what happens in our markets.

You mentioned some concern about the exemption of value as it relates to the rural counties. I still think we can find some safety valve for the rural counties that meets constitutional muster. As I listen to this discussion, I see three basic steps. We need an immediate, short-term solution because some immediate relief is needed. We also need to find a long-term solution that will work several years out and has the flexibility to move with the economy as things change and our property values change. Third, we need to figure out what the real problem is. The real problem is how the values are going through the roof in a handful of our counties, and we need to figure out what is driving it.

Affordable housing is an oxymoron in some of our counties. Whether it is speculators, or commercial versus residential, or resident versus non-resident rates, it would create a constitutional issue for us to address, if we are going to address those separately from the normal residential approach we now take. The BLM trickles out about 1,500 to 2,000 acres of developable property at a time, thus driving the cost up because of a simple supply-and-demand scenario.

No matter what we do in the short-term/long-term solution, I think we also need to take a look at the bigger picture and figure out how we can keep housing costs from continuing to soar in some of our faster growing counties. My wife and I would love for our five children to be able to find affordable housing in our county when the time comes. At the rate we are going, it is just not going to happen.

ASSEMBLYMAN MORTENSON:

It is important to do something about this property tax. I spoke with one of my constituents who is a very elderly widow. She told me she would have to sell her house if it is capped at 6 percent. She only receives a 1- or 2-percent increase in her annual income from Social Security. We have terrible choices here. We have schools and counties we have to support, as well as those little old ladies.

MR. FRASER:

I am not sure Assemblyman Perkins fully understood what we are trying to communicate to you. We simply understand there is a will in the Legislature to do something about what is obviously an issue. I have full faith and confidence in local government in addressing this as a local issue. It would require local governments to act in concert with one another in responding to the public's needs. I recognize it is a challenge, but each year in the budget process, the local government goes through the process of defining what its resources are and what services are being demanded. The public has a thorough process, subject to open meeting laws, in which they try to determine what the people are willing to pay for the level of service they want, because government is funded by the people.

I think there are some unique things happening in real estate in many parts of the State, and our local governments are prepared to deal with those issues through their budgetary process. The Legislature also has an inclination to deal with those issues. People can go down to city hall, the county commission building or the school board and demand to know what is being done with their money.

ASSEMBLYMAN PERKINS:

I do not mean to make this an adversarial discussion. We are certainly in partnership to find a solution for this crisis. There are a number of things the local governments need the Legislature to do because it has the only authority to do it, but this is not one of those situations. Local governments now have the authority to reduce this levy if they choose to. No local government in the State needs a 20-percent increase to continue its operations. If they were to have gotten together and in concert, we may not be having this discussion. I am fully prepared to do my part to alleviate this crisis. My point was local governments could have gotten together and alleviated this crisis before we got to Carson City.

CHAIR MCGINNESS:

There is a 6-percent growth cap on local governments, is there not? Is that what we are talking about? Explain the difference to me.

MR. LIST:

I think the 6-percent cap you are talking about is on expenditures. There is no cap on revenues.

MARVIN A. LEAVITT (Urban Consortium):

I will explain how the existing caps work as well as how the proposed cap works. The existing cap is a cap on revenue on property taxes. It takes the revenue you received from property taxes in the prior year and multiplies it by 1.06. You then divide that by the current value of property according to the preceding year's roll, which could have the potential, in a rapidly growing assessed value, such as we have now, of reducing the rate. However, there is another provision that says the rate, so determined, will not be less than it was in the prior year. In other words, the rate, through the capping mechanism, will not go down. The local government does not have to levy the rate they are allowed. They can actually levy anything they want in the way of property taxes, including nothing if they so desire. Local government could levy in this next year a rate the same as they levied last year, which, in some cases, would provide a huge increase in property taxes.

Since we received notice of what was going to happen this year, no local government has filed a budget. Because the tentative budgets are filed on April 15, and the final budgets are filed on June 1, no local government has done, or could have done, anything in this existing situation. What could local governments do if they were so inclined to solve the problem? For an example, look at the breakdown of the rate as it exists in Clark County. First, the schools levy \$0.75 for operating purposes out of a total average rate of \$3.14. The 75 cents is not set by the school board. It is set by the Legislature by statute. The second part of the rate, set after a vote of the people, is for school debt. Within that rate, a substantial amount of money goes to the Las Vegas Metropolitan Police Department for new officers. There is a question as to whether the local governing boards could actually decrease that rate since it was previously set not only by you, but by a vote of the people. Technically, the local governments could decrease the rate, but could not affect the 17 cents levied by the State. They cannot affect their own debt which is required to make payments. Debt rates will normally decrease in a situation like this. However, the Clark County School District rate, which is a guaranteed rate instead of an amount, would stay the same. Even though the local governments decrease the rate, they would be actually addressing a fairly small portion of the

total rate. If you really want to do something by rate, you could allow the local governments to do it for their portion, but the only body who really has authority is you.

Legal counsel would have to address the issues in which we have to have voter approval of some of these rates. Rate is one of the options among many, but I do not think the local governments can actually do it in and of themselves. The only thing they could really address is their own operating rates.

MR. LIST:

The school district rate of \$1.30, shown on page 62 of the document in front of you, [Exhibit K](#), includes the 75 cents plus any voter-approved bonds. The Las Vegas Metropolitan Police rate is 28 cents. Add the State rate at 17 cents and you are getting pretty close to the average rate in Clark County, which is \$3.08.

SENATOR TOWNSEND:

Perhaps you can clear up a couple of important things. You talked about a 1.06 rate. How does that differentiate from what is being bantered about or originally proposed by Mr. Schofield? You are saying you already have it for local government for property tax. Could you clear that up for us?

MR. LEAVITT:

There is a real difference between the two. In a rapidly growing assessed value, the language saying it will not be less than it was in the prior year essentially eliminates the effect of the 6-percent cap. A declining assessed valuation would be another matter. This cap is a cap on total revenue of the local government. The cap Mr. Schofield is talking about is a cap on individual property owners' assessments. What does that amount to in local government revenue? The answer is we do not have the slightest idea. I will give you an example. Suppose we had a local government whose total population was only 2 homes, each valued at \$200,000. Suppose one did not grow at all in assessed valuation and the other grew by 50 percent. The one with no increase will not cause the local government revenue to grow at all, while the other one could grow by 6 percent, to \$212,000. The total valuation between those two homes would be \$412,000. Local government revenue actually has grown by 3 percent, so when you talk about a 6-percent cap, it really means a 6-percent growth in

revenue for local governments. In some of the rural counties, it might not represent any growth in revenue.

Even in Clark County, it has to be less than 6 percent because you have some properties growing either not at all or they are growing less than the 6 percent, in which case, you never go above their actual growth. Therefore, the actual growth for a local government will always be less than whatever capping mechanism you apply. Remember, the 6-percent cap is the maximum amount any property can grow. It does not mean all properties are going to grow at that rate. The 6-percent cap we have now is on total revenue, and so it is a very different kind of a situation.

SENATOR TOWNSEND:
From where did the original 6 percent come?

MR. LEAVITT:
It originally was 4.5 percent and came about as a result of local governments, at the time, feeling the system was not producing enough revenue to continue existing services. We found a situation in which having a rapidly growing assessed value in one year, like we do right now, can force the rate down by a huge amount. Then, we found with the mathematical allowance of the rate in subsequent years, you would never get back to where you started out even though you might not get the growth. You can get a huge forcing down of the rate when you have a one-year bubble, making it difficult to ever come back.

SENATOR TOWNSEND:
Was the language, "not less than" originally in the 4.5-percent?

MR. LEAVITT:
No, it was not.

SENATOR TOWNSEND:
When, exactly, did the assessors or other county and city groups finally identify this problem?

MR. SCHOFIELD:
As I indicated earlier, we first identified the severity of the problem and started working on a solution in March, 2004. We formulated the proposal for the sole

purpose of igniting the dialogue on this issue. We went through several iterations in order to make sure the rural counties would be held harmless, the public needs would be met and we would not have to cut local government services. Then, I went before the county management and unveiled the proposal. I told them what the looming crisis was and what we felt was the solution. I was invited to give a presentation before the Clark County Board of Commissioners and was subsequently invited by the chair of the Southern Nevada Regional Planning Coalition to give a presentation. We are currently awaiting a resolution.

SENATOR TOWNSEND:

When were the county managers or city managers of southern Nevada made aware of the problem?

MR. SCHOFIELD:

It was sometime before June. We met with the county manager, the various lobbyists who work for Clark County and the finance director.

SENATOR TOWNSEND:

There are only two groups who can deal with the crisis once it is identified. One is the county elected bodies and the other is the Legislature. The Legislature was not meeting for another year while the other people meet every day. Under that sense of urgency, did you feel any kind of need to go to them and say, "Here is what we are projecting, based on what we know. Perhaps you had better take a look at this since you have the authority to make an adjustment."

MR. SCHOFIELD:

We did make them aware of it. Unfortunately, we felt the solution to the problem did not reside in their venue. The tax rates could not be adjusted enough to provide adequate relief. If they could have, we would have been advocating that as a primary solution.

SENATOR TOWNSEND:

Perhaps, based on the testimony here today, a rate adjustment is not the total solution, but it was the most immediate solution for at least some temporary relief before the Legislature convened. Was that given consideration?

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MR. SCHOFIELD:

It was considered, but you have to remember, the tax rates have not yet been set for this upcoming fiscal year. They will not be finally adopted until almost the end of June.

SENATOR TOWNSEND:

Are they normally done around late June?

MR. SCHOFIELD:

They are approved by the Nevada Tax Commission once the local government budgets are set.

SENATOR TOWNSEND:

You had from March until June to at least address the issue with those who set the rates.

MR. SCHOFIELD:

We are talking about two fiscal years. We are in FY 2004-2005 now. This is not the year of the crisis. This is, however, the genesis of the crisis. The true crisis will not occur until July 1, 2005. The tax rates will not be finalized until June 25.

SENATOR TOWNSEND:

No one is saying we want to duck our responsibilities, but these folks have been coming here for 25 years saying, "Give us home rule." They had an opportunity to help, but they chose not to. I am not saying they could fix it, but I think something could have been done. Those of us who represent multiple counties are very sensitive to the impact this will have, particularly in some of our nongrowth areas.

MR. LEAVITT:

Mr. Schofield mentioned that in March of 2004 he had discovered a problem would exist for FY 2005-2006. The budgets filed by the local governments in June, 2004, were for FY 2004-2005. They had nothing to do with the problem Mr. Schofield had identified. The problem he was identifying is for the year starting in July, 2005. Local governments have not considered their budgets yet and will not approve their final budgets until June 1, of this year. The sequence of events for them to reduce property taxes in a year when they have not

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shown this huge growth would not have made much sense. The first year you want to reduce the rates is when you have the huge growth in assessed valuation. The first chance they will get is June 1, 2005 when they approve the budgets.

SENATOR TOWNSEND:

Are you telling me expenditure drives the issue, as opposed to revenue? You are saying you figure out how much you are going to spend and then you go out and set the rate accordingly. There was an opportunity to say, "Okay, we are going to flatten our budget for this year." You did not know property values in southern Nevada were going up? That is straining credibility.

MR. LEAVITT:

We were setting the revenues for FY 2004-2005. We did not have an unusual jump in property tax at that time. The jump came for next year, so we had the right to reduce our property taxes down to nothing if we so desired. However, by reducing the rate, we would have actually reduced the revenue below what it as in the prior year, which would not be the case if we reduced the rate now. Obviously, we could have done it. Would it have been wise? I do not think so.

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CHAIR MCGINNESS:

Local government finance is a complex issue we expect to explore further this Session. We are adjourned at 5:37 p.m.

RESPECTFULLY SUBMITTED:

Ardyss Johns,
Committee Secretary

APPROVED BY:

Senator Mike McGinness, Chair

DATE: _____

Assemblyman Richard Perkins, Chair

DATE: _____