MINUTES OF THE
SENATE COMMITTEE ON TAXATION

Seventy-third Session
March 1, 2005

The Senate Committee on Taxation was called to order by Chair Mike McGinness at 2:06 p.m. on Tuesday, March 1, 2005, in Room 2135 of the Legislative Building, Carson City, Nevada. The meeting was videoconferenced to the Grant Sawyer State Office Building, Room 4406, 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.

COMMITTEE MEMBERS PRESENT:

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

COMMITTEE MEMBERS ABSENT:

Senator John Lee (Excused)

STAFF MEMBERS PRESENT:

Brenda Erdoes, Legislative Counsel
Chris Janzen, Deputy Fiscal Analyst
Ardyss Johns, Committee Secretary

OTHERS PRESENT:

Jeremy Aguero, Principal Analyst, Applied Analysis
Guy S. Hobbs, Hobbs, Ong & Associates, Inc.

CHAIR MCGINNESS:
We will call this meeting of the Senate Committee on Taxation to order. We will first hear testimony from Brenda Erdoes regarding what constitutes economic hardship as we look into property tax relief concepts.

BRENDA J. ERDOES (Legislative Counsel):
Most of you are aware in 1991 there was a proposed joint resolution to amend the *Constitution of the State of Nevada*. Though it failed, it was the precursor of S.J.R. No. 11 of the 70th and 71st Sessions, which passed in 1999 and 2001 and then was approved by the people at the 2002 general election. The ballot question added a subsection 10 to section 1 of Article 10, which controls taxation in the Constitution. It says, "The legislature may provide by law for an abatement of the tax upon or an exemption of part of the assessed value of a single-family residence occupied by the owner to the extent necessary to avoid severe economic hardship to the owner of the residence." That language has not yet been construed; we have no interpretation by the courts, and we found nothing particularly similar in other states. This is language needing to be enabled, or have legislation by the Legislature.

There is a provision in *Nevada Revised Statute* (NRS) 361.736 through NRS 361.7398 providing for postponement of tax payment, but it has some strict requirements for its use. The residence has to be worth less than $175,000 and the assessed value has to be less than $135,000. You cannot own any other property worth more than $30,000. You have to have occupied the residence for six months. You cannot be subject to bankruptcy proceeding. You cannot have any delinquent taxes, and you have to have suffered a severe economic hardship caused by circumstances beyond your control. The total annual income of the members of the household must be at or below the federally designated level signifying poverty.

Many people have inquired about using this postponement statute, but it is my understanding, so far, no one has qualified for it. Since this only became effective after the 2003 Legislative Session, maybe there has not been time yet.

What you are interested in is how this could be interpreted in solving our problems. The framers of this statute, and the people who wrote the explanation and arguments for passage on the 2002 general election ballot, were pretty kind to this Legislature in terms of having it construed fairly broadly. Basically, they indicated to the voters the Legislature would enact laws to find the kinds of economic hardships that would make a homeowner eligible for such an abatement or exemption and set forth a permissible amount and duration of the abatement or exemption.

In the arguments for passage, they said in some cases, this hardship is caused by unemployment or extraordinary medical expenses. They also said in other cases, homeowners have occupied the same house for many years during which the value of the home has greatly increased. What this Legislature is attempting to look at this Session is how far you could go under this provision, and this lets you know it is out there should you choose to go in that direction.

SENATOR COFFIN:
If a person has had a bankruptcy, they must have had a severe economic hardship somewhere. The ballot question actually was a lot more restrictive than we thought.

MS. ERDOES:
The ballot question was not restrictive, but the language you adopted last Session in this postponement statute is really pretty rigid. The person can have a bankruptcy in their past, but they cannot be the subject of any bankruptcy proceeding at the time they apply.

SENATOR COFFIN:
That is somewhat similar to the deferral concept I have talked about. However, it is just a deferral, not forgiveness. Am I correct in saying there is no forgiveness in the statute?

MS. ERDOES:
Not currently.

SENATOR TIFFANY:
You said some of the arguments mentioned unemployment and medical costs. You then said something about increased property taxes.

MS. ERDOES:
The arguments for passage on the 2002 ballot, in which the people approved this question, said “In some cases, this hardship is caused by unemployment or extraordinary medical expenses.” The next sentence says, “In other cases, homeowners have occupied the same home for many years and during that time, the value of the home has greatly increased.” It goes on to say, “If this increase in value of the home causes a corresponding increase in the property taxes that are due … and in some cases the homeowner’s income has not kept pace.”

SENATOR TIFFANY:
Why are we looking at the exemption part of it? Is it related to what we might be able to do or not do with the caps?

MS. ERDOES:
I suspect this is one of the tools you might use in solving this whole problem. Many of the scenarios run thus far, with some of the fixes, such as the cap or some of the other proposed fixes, will not address, for example, what they call the "pockets," such as at Incline Village. While most of the county is okay, you have a small pocket where the values have spiked, as opposed to Clark County, where many values have spiked. Because some of the scenarios considered thus far would not cover everything, this is just one way you might be able to cover some of those types of areas.

SENATOR TIFFANY:
This certainly would not cover my district because of the six-month residence requirement. It is all too new, and yet, it is on the very high end. From some talk I heard in the halls, a cap would not be constitutional. Is that another completely different discussion?

MS. ERDOES:
It is indeed, and we have refrained from opining on any of those plans thus far.

SENATOR TIFFANY:
Do you mean you have refrained from opining on those, other than noting we could have a problem with caps?

MS. ERDOES:
Yes, we have explained where the uniform-and-equal clause of the Constitution might be of concern in some of the plans, but we have not issued any opinions.

SENATOR TIFFANY:
In your opinion, because the arguments were rather limited, do you think we have a fair amount of authority in expanding these exemptions?

MS. ERDOES:
I would say the Legislature has a fairly broad area in which to legislate in this case; although, I think the bottom line is going to be what you think severe economic hardship means. The questions posed to me thus far have all been

related to whether one could experience a severe economic hardship without being subject to a means test. In other words, could someone who owned a $3-million home be subject to a severe economic hardship?

CHAIR MCGINNESS:
You talked about the expanded language. It said, "In some cases" and "in other cases." Does that imply there may be some other case? I know the legal folks use language, "including, but not limited to," so does the language included in the ballot question mean subject to opinion? I assume there could be other cases because it says "in some cases." Does that mean there is something dangling that may also be included?

MS. ERDOES:
Yes, it is a fairly broad explanation to really not particularly limit it to anything. It is trying to be very open for interpretation by the Legislature.

CHAIR MCGINNESS:
Jeremy Aguero will testify from Las Vegas and the Committee has been given a copy of his PowerPoint presentation entitled, "Analysis of Property Tax Cap Alternatives" (Exhibit C, original is on file at the Research Library).

JEREMY AGUERO (Principal Analyst, Applied Analysis):
I appreciate the opportunity to speak to you today about some of the issues surrounding the cap alternatives you have seen thus far. As I go through the presentation, you can follow along on your handout. With regard to the presentation in general, we are going to go with three topics. The first topic will be the mechanics of a cap, and how it works. The second will look at preliminary county-level impacts, and what impacts the alternatives have on the counties. The third portion will look at tax incidence considerations, who pays the tax and how much.

I know you have probably been over the mechanics of the property tax calculation several times. Taxable value is a function of the full cash value of land plus improvements at their replacement cost less depreciation. Assessed value is taxable value times the assessment rate. Tax liability is assessed value divided by 100 times the tax rate.

For the purposes of this discussion, we are focusing on the red area, which is assessed value. This is where the tax caps come into play. They limit the amount assessed value can increase between any two years. One example, shown on page 5 of your handout, is as follows: Land value at $75,000 plus improvement value. In this example, we are assuming depreciation has already been deducted at $150,000. It gives us taxable value of $225,000 times the assessment ratio of 35 percent which equals assessed value of $78,750 times the tax rate of $3 per $100, which equals the tax liability of $2,362 or an effective tax rate of 1.1 percent of taxable value.

Looking at the next slide, here is where the problems we have seen come into play. In this hypothetical example, the land value increased from $75,000 to $150,000 and the improvement value increased from $150,000 to $170,000. Though the tax liability increases from $2,362 to $3,360, the effective tax rate as a percentage of our taxable value remains the same at 1.1 percent. The percentage change in this particular example is 42.2 percent, which is not dissimilar from many parcels in portions of Nevada which have seen substantial increases, or will witness substantial increases between the 2004-2005 and 2005-2006 tax years. In this case, for the example we will be using throughout this presentation, the hypothetical parcels, or hypothetical homes, increased by 42.2 percent. Our tax liability also increased by 42.2 percent.

Page 8 of your handout shows what is capped when we are talking about capping mechanisms. What is capped is real property existing in its current form in Year 1 and Year 2. It had to be on the previous year’s roll, and it had to be in the same form during the two years, which begs the second question: What is outside the cap? These are the items not subject to a cap under the proposals discussed thus far. Newly constructed property is not subject to the cap. For example, I had a vacant piece of land on which I constructed residential housing. It is no longer subject to the cap. Another item not subject to the cap would be subdivided property. For example, I had a vacant ten-acre piece of land which I subdivided into ten one-acre parcels. They all received new parcel numbers and those ten acres are no longer subject to the cap.

Properties with a change in use would not be subject to the cap. For example, I bought an apartment complex and decided to convert it into a number of condominiums, which would be a change in use, and therefore, no longer subject to the cap. Properties with a change in exempt status are not subject to the cap. For example, I purchased Bureau of Land Management (BLM) property and it was formerly exempt or partially exempt. It now comes onto the roll and is taxed as normal property and not subject to the cap for the first year it comes online. These four items are outside of the cap these calculations.

MR. AGUERO:
There are six alternatives we are going to be looking at throughout this presentation. The status quo is the first one, which is if we did nothing. The second is a 6-percent cap, or capping assessed value at 6 percent. The third is a consumer price index (CPI) plus 2-percent cap. Over the last 5 years, CPI has averaged 2.71 percent. Therefore, CPI plus 2 percent equals 4.71 percent. Next, a CPI plus 1 percent cap would be a 3.7-percent effective cap. The straight CPI cap would be a 2.71-percent cap. Last, is the 0-percent cap, or what we classified as an “effective freeze.”

Page 10 shows an example of the capping at 6 percent and how a capping mechanism might work. The land value, the improvement value and the taxable value remain the same, as does the assessment ratio. Through the normal assessment process, this equals the total assessed value. The increase, however, is capped at 6 percent instead of being allowed to increase to 42.2 percent, which reduces the taxpayer’s tax liability and his or her effective tax rate in year two.

The next page shows an example of a 0-percent cap. The capping limitation limits how much the value can increase over time and allows for a lower effective tax rate. The tax liability remains the same in those two years. A comparison of all the alternatives on page 12 shows all of the different caps on this hypothetical piece of property.

In this example, imagine year one is last year. The “Year 1” column shows what the value of the land was, the improvements, the taxable value, etcetera and the total tax liability. The next column provides the status quo. This is what would happen on our hypothetical parcel if we did nothing. The following columns show the 6-percent cap, the CPI plus 2-percent cap, the CPI plus 1-percent cap, the CPI and the freeze. If you look at the four bottom lines, in red, you will notice the assessed value is capped in this particular model. In each case, it can only go up by some amount less than the status quo and, of course, under the freeze, the amount is the exact same as it was in the previous year. The tax rate remains the same and the tax liability for this individual taxpayer decreases, as does the effective tax rate in each scenario.

The 6-percent cap is the most generous cap and the 0-percent freeze would be the most aggressive cap. We have tried to show the CPI, the CPI plus 1 percent and the CPI plus 2 percent, so there is a descending order from an analysis standpoint, even though I realize it looks a little confusing to have the CPI plus 2 percent preceding the CPI.

The next three slides, pages 13, 14 and 15, show preliminary county-level impacts. Each slide provides information on what each county might expect with regard to growth between 2004-2005 and 2005-2006. The first line says "Baseline (05-06)." That is to say if we did nothing, took no action, overall, all the counties combined, as shown on page 16, would have an increase in their total assessed value of 22.4 percent. That is net assessed value, which would lead to an increase in tax collections of 22.4 percent.

The second line on page 13 shows the 6-percent cap would result in a net assessed value of 6.3 percent. If we capped it at CPI plus 2 percent, we would have an increase of 5.5 percent and so on, down to the freeze, which would allow a 2.1-percent increase in net assessed value. This includes all of the information we have from each one of the counties thus far. However, there are some supplemental assessments and new construction continuing to be added to the roll through December, and therefore, there will be a somewhat upward adjustment to each one of these. For the vast majority of the counties, this upward adjustment is likely to be about 0.5 percent. In Clark County, it could be as high as 2 to 2.5 percent on each one of these.

SENATOR RHOADS:
Why is Eureka so negative?

MR. AGUERO:
They had a significant decline in some type of property. If I remember correctly, either Mineral County or Eureka County had some large piece of equipment taken off the books. They had about a 14-percent increase last year and a 22.5-percent decrease this year. Because the base is so low, if they have any real material change, such as demolishing a building, it can have a very substantial impact on the bottom line. We are actually analyzing all of this at the parcel level.

If we go through the Carson City example, the expectation under the status quo is a 4.7-percent increase. The 6-percent cap drops it to a 1.5-percent increase, sliding down the scale until we get to a freeze, which pushes Carson City to a negative 1.1-percent. It decreases Carson City's net assessed value and would decrease its ability to generate property tax revenue. There is something I want to point out here. If Carson City is only increasing at 4.7 percent, then how can a 6-percent cap impact it? It is because it is at the parcel level. If every parcel in Carson City were to decrease in value by 1 percent, and one parcel out of all of them was to increase by 10 percent, that parcel would be capped at 6 percent and would put some downward pressure on the overall ability to generate taxes.

Clark County has a relatively robust impact, which is largely associated with the fact it had such a large decline. Douglas County is one of the others significantly impacted, both under the CPI cap and the 0-percent freeze, pushing them into the negative column. Esmeralda County showed relatively modest growth, while Eureka County showed substantially negative growth. Both Humboldt and Lander Counties anticipate having negative property tax growth with some extension of those negativities associated with any type of capping limitation. Lincoln County and Lyon County are seeing positive growth under the baseline condition being reduced. Mineral County is seeing modest increases, while Nye County went from a positive 6.7 percent to a negative 1.1 percent. Pershing County is another one having a relatively significant negative decline in value. As I pointed out earlier, it is an issue of small base. As I will show you in just a moment, these counties can have wide variations in this growth rate. If you look over the last 10 years, the counties can be up 30 percent 1 year and down 15 percent the next. That is what happens when we are looking at such small property tax bases, at least in comparison to some of the larger counties. Storey County had negative growth.

SENATOR CARE:
I would like you to follow up on an earlier question, but I want to apply it to the slide we are looking at now. If you look at the Pershing County column, all the way down, the numbers virtually never move. It is 13.3 percent and then it goes to 13.6 percent and remains at 13.6 percent until you get to the bottom, where it becomes 13.7 percent. Then, if you look at the Humboldt County column, where the baseline is a negative 2.5 percent, there are different amounts of negative numbers down the column depending on what kind of a cap is attached.

MR. AGUERO:
Why these differences can occur is one of the most difficult things to conceptualize. It is because you have different distributions of value within each county. Imagine a county having half of its parcels growing at 50 percent and the other half growing at negative 50 percent. It would be impacted much differently if the same county had every one of its parcels growing at 6 percent or 5 percent. Because this is at the parcel level, and where there are pockets of value, those pockets of value get impacted. The size of those pockets is what creates this different dynamic among and between counties. This not only occurs at the county level, but at the district level as well. The individual taxing district level will have variations, not dissimilar to this, depending on the distribution of each and every parcel within the taxing district. There is some uniformity because, generally speaking, many tax districts tend to be more homogeneous than counties as a whole. However, it is a rule having several exceptions.

SENATOR CARE:
The impression many people have is, if you say 6-percent cap, certainly the parcel owner in a particular pocket is not going to have to worry about a liability any higher than 6 percent. However, because of what is happening in the remainder of the county, overall, the tax base shrinks, even with a 6-percent cap. Am I correct?

MR. AGUERO:
You are absolutely right. One of the things we have been discussing is if the situation you were talking about were applied to a county, can someone be guaranteed his or her tax liability will not increase? The thing we have not touched on is the fact someone could adjust the rate. If the rate goes up, in order to make some type of adjustment because of these negatives, then that individual property taxpayer would, even under this scenario, bear a higher increase in taxation.

Washoe County and White Pine County are shown on page 15 of Exhibit C. Washoe County has had a relatively modest increase in its baseline net assessed value even though it has witnessed residential and land property increases not dissimilar to Clark County. The proximate cause of this differential is the one-year versus the five-year assessment cycle. Next year and the years to follow, you may see an increased escalation in the baseline value, particularly in the Washoe County area.

I have been advised to go over just a few of the next several charts. It is important to spend a minute to understand how these charts work. You will find them very helpful in evaluating this issue in particular. The first chart reads "Growth Analysis: All Counties." The green bars between fiscal year (FY) 1999 and FY 2005 are the historical rates of taxable value growth. Overall, we had just under 10 percent in 1999, and just under 13 percent in 2000 and so on. The red line represents the ten-year average. To make these charts somewhat easy to read, I have not included all ten years going back, but shown here is where the ten-year average would have been for taxable value increases in all counties over the last ten years.

The stacked bar chart on the right-hand side provides a look at what we might expect under all of the different scenarios. Remember, this is a stacked bar chart, so the top of the purple is what we would expect to get in terms of growth if we remained at the status quo. The top of the black bar represents expected growth if we capped assessed value at 6 percent. The top of the dark gray bar represents expected growth if we capped assessed value at CPI plus 2 percent. The light gray bar represents expected growth if we capped assessed value at CPI plus 1 percent, while the top of the light blue represents expected growth if we capped it at CPI. The top of the dark blue represents expected growth if we capped it at 0 percent, or used the effective freeze methodology.

Since I will be going through several of these charts, I would like to know if anyone has any questions about how the charts work.

SENATOR RHOADS:
I am a little confused on the freeze level. It looks as though if we froze it at today's property tax income, it would be up to the ten-year average or higher.

MR. AGUERO:
That is not what this chart is intending to show. You will notice the bottom portion of the blue bar under FY 2006 only comes up to about 2 percent, which is as high as we get to go under the freeze. If we add the two blues together, the top of the other blue is what we get when we go to CPI. Each one of those colors represents the incremental value we are able to generate in terms of growth. We start at the 0-percent cap, work our way up the ladder to the 6-percent cap and then add what we would get in terms of the status quo.

SENATOR TOWNSEND:
The difficult part to understand in the chart clarifies itself on the left-hand side where it says, "Annual Increase in Net AV." When you look at the navy blue section of the bar on the right, and you compare it to FY 1999 when there was an approximate 9-percent increase in assessed value, under your scenario for a freeze, the increase for FY 2006 would be approximately 2.5. Is that statewide?

MR. AGUERO:
Yes, that is correct. I will walk through a couple of these charts to give you a sense of how they work. If we look on the next page at Carson City, this one is a little different. You can see the status quo takes us a little over what the ten-year average has been in Carson City. The 6-percent cap drops us down, as does the CPI. However, the blue actually shows negative, suggesting the freeze takes us from a historical growth rate of roughly 5.3 percent, down to a negative. Even though this does not include all of the supplemental and new value, which may adjust this somewhat, it should give us a pretty good idea.

Churchill County has been a little different where some large increases came online. The chart for Clark County shows the substantial increase occurring in FY 2005-2006, and the chart for Esmeralda County shows small changes occurring there and so on.

The next set of charts, starting on page 33 of Exhibit C, deals specifically with the incidence of these tax caps. The first one, entitled "Incidence: Land Use Analysis" is specific to Clark County. We have the ability to break it down by detailed land-use categories, which is to say the difference between vacant property versus improved property, as well as improved residential property, improved industrial or commercial property, transportation, communications and public utilities. The question here, in terms of tax incidence, is who benefits from a cap? Within Clark County, which is not dissimilar in other areas, the vast majority of the increase in value has been tied to changes in the value of land. Therefore, vacant landowners are the ones who benefit to the greatest extent, in terms of percentage-wise, from any particular cap.

In this particular cap, we have illustrated a 6-percent cap. Although the trends would be the same, the ratios would be proportionately different. If you look at the 0-percent cap or any one of the CPIs or CPI derivations, you will see vacant land in Clark County represented about 13.9 percent of Clark County's assessed value of $61 billion. The column down the left-hand side of this chart shows all the land uses. You can see what percentage each one of those categories makes up of Clark County's total assessed value of about $61 billion. We also see how much of the benefit, in the case of the 6-percent cap, generates an opportunity-cost loss of taxes; those taxes that would have otherwise been paid are $298 million. Vacant land, in this case, represents about 14 percent of all the assessed value, but receives about 25.2 percent of the benefit of the capping mechanism. Residential, industrial, commercial et cetera actually have a negative-side impact. Those get less of the benefit in proportion to what their share is of the total net assessed value. The ratio provided for you in blue, on the right-hand side, shows you the difference between those percentages. For example, vacant property has an 11.3-percent positive benefit in comparison to its total net assessed value, which has to do with where the growth in value is actually taking place. We know land value is the proximate cause of the increases we have seen overall. Land values have seen an increase of about 88 percent, while improvement values for single-family residential homes have seen increases only in about the 2-percent range. Vacant land has seen much of the increase, which is why it is seeing so much of the benefit.

On the next slide entitled, "Incidence: Detailed Land Use," you will see these same percentages illustrated in bar chart format. Along the left, you will see the more detailed categories of land uses, everything from vacant land to mobile homes to transportation facilities. Anywhere you do not see a bar means the benefit derived from the capping mechanism is about equivalent to what that particular land use represents as a share of the total assessed value. Anywhere those lines extend out to the right, they gain a greater benefit than their share. Anywhere they extend to the left, they get lower than their share. You can see the greatest beneficiaries, in terms of percentage, are vacant land, single-family homes and hotels and casinos. The least benefited are shopping centers, general services and apartments.

MR. AGUERO:
The slides on pages 35 and 36 of Exhibit C, entitled "Incidence: Single Family," show a number of value cohorts. What I mean by value cohort in this first column is a property valued for tax purposes somewhere between zero value and $100,000. The average property in this particular category had an average taxable value of $74,577. Its taxable value, between 2004-2005 and 2005-2006, increased from $74,577 to $92,818. The next line shows how that translates into assessed value when multiplied by the assessment rate of

0.35 percent. The status quo growth rate, or what occurred between 2004-2005 and 2005-2006, was 24.5 percent, leading to a status quo tax liability of $975. The capped liability, in this example the CPI plus 1 percent, would reduce the taxpayer's liability by $162. The percentage savings for this taxpayer is 16.7 percent, and his adjusted effective tax rate is 0.87 percent of taxable value.

We have provided the same information for the $100 to $150,000 cohort, the $150,000 to $200,000 cohort and the $200,000 to $400,000 cohort. We will work to try to provide similar information for each individual county. This is specific to Clark County at this point. These trends may not be similar across all the counties throughout the State of Nevada. What is important here is to see the different growth in different areas. Interestingly enough, we would have suggested at the outset the vast majority of the increase would have been at the very high spectrum, or the million-dollar homes that have seen the real substantial increases, but the data simply does not bear that out. If you look at the status quo growth rate line, you will see there is actually a U-shaped curve. Very low-end properties had a modest increase of 24.5 percent, which increases to almost 34 percent in the $150,000 to $200,000 cohort. You will notice those increases decline as you move to the next page. The million-dollar homes, which are growing on a larger tax base, had a relatively smaller rate of increase. Similarly, the percentage savings are somewhat less as you go up the value increases. The adjusted effective tax rate, as a percentage of taxable value, starts to work its way back up, because less growth means less capping.

The items listed on page 37 deal with structural considerations and lead to some of the differences between and within counties. The share of new value attributed to new construction in areas where there is a substantial amount of new construction has, for purposes of this modeling simulation, been held outside the cap. The extent my county, my jurisdiction or my tax district has a substantial amount of the increase in its value attributed to the construction of new property, will give me a higher share of the revenue than it would if the value was attributed to the appreciation of property existing within the same tax district.

Bureau of Land Management land releases can make a substantial difference as they come online in certain jurisdictions. They will have a relatively substantial increase on any jurisdiction's ability to generate revenue. The distinction between Washoe County and Clark County assessment cycles is important. If we are only assessing once every five years as opposed to every year, we may not capture or see all the value today, but would expect to see it over time. It may come in a less rapid form, but from a capping standpoint, you may not see it quite as much in one area or another.

Another structural consideration is conversion trends. In southern Nevada we have had a large trend with regard to acquiring certain properties and converting them to alternative uses. This trend also places those properties outside of the cap. Therefore, we have to be somewhat concerned about where those trends occur or where they do not occur.

MR. AGUERO:
Finally, the makeup of the tax base in different areas has different distributions. This goes to Senator Coffin's earlier comment, and I hope these next four slides provide some additional insight with regard to the distribution issue. No two counties are the same. Some have more residential, some more industrial and some more mining. These pockets, or concentrations-of-value issues, can have substantial differences on how these particular regimes may or may not impact not only the individual counties and the jurisdictions within them, but also the State.

The chart on page 38 of Exhibit C looks at the number of parcels within each jurisdiction, which I will take a moment to explain. There are a lot of colors here because I wanted to provide you will all of the information. This chart breaks down each county's parcels into a number of value cohorts. The $17,500 worth of assessed value, shown on the lower right-hand side, equals $50,000 worth of taxable value. Therefore, these cohorts along the bottom are really zero value to $50,000, $50,000 to $100,000, $150,000 to $200,000, et cetera. What is important to note here is the difference in the makeup of the different counties of the State. Many of the rural communities have substantially more of their value concentrated in parcels having values at or below the $50,000 threshold.

If you look at the third bar from the left, which is Clark County, you see the difference in the number of parcels at those value thresholds compared with the number of those of rural counties. The conceptual, or how we view value in and among the very diverse counties we have within Nevada, is clearly shown here. Staff asked us to focus on Clark, Douglas and Washoe Counties in the next slide because they are considered to be comparable in some ways. However, even these have relatively substantial differences. Clark County has much fewer of its parcels in the lower income ranges and substantially more in the higher income ranges.

The last two charts, instead of looking at the number of parcels in each one of these cohorts, look at the value in each one. Clark County had a substantial share of its overall value in the lower cohort. If you look at the far right cohort, you will see how much of its total parcel value is concentrated at the top end. You will notice the rural counties have an inordinate concentration at the lower end and a relatively modest concentration at the higher end, which is exactly what we would expect. Focusing on the value in Clark, Douglas and Washoe Counties, you will again see there are material differences. If you look at the far right, you see a substantial amount of difference in the concentration of value at the top end between Clark and Washoe Counties alone.

These structural differences between and within each one of Nevada's counties creates challenges and will result in different degrees and levels of impact, which were reflected in those charts on pages 13, 14 and 15 of Exhibit C.

CHAIR MCGINNESS:
Going back to page 35 of Exhibit C, "Incidence: Single Family," when you went from zero value to $100,000, the effective rate was 0.87 percent. The $150,000 to $200,000 cohort was 0.81 percent, and the $1-million-plus cohort was 1.02 percent. This example uses a CPI plus 1-percent cap. I am sure no matter what capping mechanism you apply to those, the effective tax rate is going to change in each of those categories. Is it at this point we come into problems with uniform and equal?

MR. AGUERO:
I am not qualified to opine on the legalities of uniform and equal, but it is my understanding it is one of the issues. The other issue is how you are treating new properties being brought online and whether or not those are taxed at a different rate. Of course, if we were to add new construction into each one of these cohorts, under the same assumptions we have provided here, it would have an effective tax rate of 1.1 percent.

SENATOR MCGINNESS:
If you singled out the new properties, they would probably come up with a different tax rate as well. Am I correct?

MR. AGUERO:
Yes, if we brought on a new property, and it just happened to fall in the zero value to $100,000 cohort, if it was assessed under the normal process under the assumptions we have made here, the effective tax rate would be 1.1 percent.

SENATOR COFFIN:
Did you rely on data provided to you by the assessors?

MR. AGUERO:
The Legislative Counsel Bureau's Fiscal Analysis Division helped us work with the assessor's office to refine and get the data into similar format. We also worked with Advanced Data Systems, Inc., which provides information and maintains some of the databases on behalf of some of the rural counties.

SENATOR COFFIN:
Do you have a lot of confidence in the accuracy of the data you were given?

MR. AGUERO:
Yes, I am generally confident. We are still working with some of the counties to try to refine nuances here and there, so some of these numbers may change a little. We have worked very closely with the folks in Clark County, who have helped us get over the initial hump of how we can make it work. They have run an independent model and have been able to come up with similar results within a very small margin of error, at least at the aggregate level, under the 6-percent cap. We have also run the information past the folks in Washoe County to make sure it looks consistent and uniform with their understanding. They had some concerns about how redevelopment areas are impacted, and it is something we are continuing to work through.

We have been in contact with every one of the rural counties and we continue to find little nuances here and there. It is challenging, because no two counties are exactly the same. We have been provided as much data as was available, but the process of assessment continues in 2005-2006, which will add some value, particularly new construction. In Clark County, supplemental assessments will continue throughout the balance of this year.

SENATOR COFFIN:
If we were to act, we would have to set a firm date. You have to be specific. Correct? If a freeze, cap or any artificial reduction in these values is to occur, does any date become more critical than another? We are being asked by people to roll them back three or four years and go with those values, but I do not see how we can do it. It may be possible, but we would really throw everything upside down. Do we have to nail down any particular date of the year as an effective date for a particular value in that moment in time?

MR. AGUERO:
The 2004-2005 roll is completely finished and closed, and it is the point at which the cap would be applied. Whether it is 6 percent, 0 percent or CPI plus 2 percent, the 2004-2005 is not moving. It is the 2005-2006 that continues to move somewhat. I am not terribly concerned about it because what we do not have right now are the new construction and additional supplementals coming on the roll, which would only add to the ability to generate revenue as opposed to being under the cap.

SENATOR COFFIN:
Have you had a chance to see the analysis done by the City of Las Vegas on property within its boundaries?

MR. AGUERO:
I have.

SENATOR COFFIN:
I assume you do not have the other cities or the unincorporated areas broken down. Do their numbers seem reasonable and what you would expect?

MR. AGUERO:
After reviewing it and speaking with Director Mark Vincent from the Department of Finance and Business Services, I believe what it says is accurate. This analysis has been done all the way down to the individual tax district entity level. We actually analyzed this at the parcel level. There are a million parcels, plus or minus, so we tried to summarize it for you.

GUY S. HOBBS (Hobbs, Ong & Associates, Inc.):
As we continue to develop the data, we will bring it to your attention and follow up on any requests you have to develop any additional analysis.

SENATOR COFFIN:
Does the data you were given provide enough information to allow you to go into further variables? Can you differentiate between commercial and residential, and between investor-owned versus owner-occupied? Is there a way to parse out who owns what and who lives in what?

MR. HOBBS:
We have worked hard on that particular question because it seems to be recurring. We worked with the Clark County Assessor's office to create what we call a presumptive investor trend. A presumptive investor exists where the physical address is not the same as the address to which the tax bill or declaration of value is sent. We trended that information over by month between 1999 and the present within southern Nevada, and would be pleased to provide the information to you. I think you will find it fairly remarkable. From a presumptive investor standpoint, the trend has gone from about 15 percent to as high as 39 percent of the sales occurring, and it has done so in a matter of months. We then put a line showing the increases in values, which showed a remarkably similar increase. The presentation we have suggests that is not the only reason values have increased, but it certainly is a telling trend when the presentation we have looks at 10 or 12 variables that have specifically gone into the increases associated with housing values. Those include such things as the increased cost of land, speculation, undervaluation of land for some period of time, changes in the stock market and shifts of additional wealth associated with lower interest rates.

SENATOR COFFIN:
I would like to receive the presentation as soon as possible. The person who lives in his or her house does a better job maintaining it than the person who is renting the house next door, trashing it and bringing the value of neighboring houses down. I would like to see the landlord pay a little higher property tax. Maybe he would take an interest in his property.

SENATOR MCGINNESS:
If you would provide that information to staff, they can provide it to the members of this Committee.

We will now close the concept hearing and open our work session to consider three bills. The first one is Senate Bill (S.B.) 15. The only change was an amendment which added "upon passage and approval."

SENATE BILL 15: Authorizes Nevada Tax Commission to compromise amounts owed by taxpayers under certain circumstances. (BDR 32-637)

SENATOR TOWNSEND MOVED TO AMEND AND DO PASS AS AMENDED S.B. 15.

SENATOR TIFFANY SECONDED THE MOTION.

THE MOTION CARRIED. (SENATOR LEE WAS ABSENT FOR THE VOTE.)

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SENATOR MCGINNESS:
The only change to Senate Bill 38 was on page 4 of the bill, lines 13 and 22. The amount shown there was changed from $70 million to $50 million.

SENATE BILL 38: Revises formula for distribution of proceeds of certain taxes to local governments. (BDR 32-863)

SENATOR RHOADS MOVED TO AMEND AND DO PASS AS AMENDED S.B. 38.

SENATOR TOWNSEND SECONDED THE MOTION.

SENATOR CARE:
This bill has a retroactive date of January 1. If the proceeds have already been collected, but not yet distributed, is it legal to have a retroactive date of January 1, 2005?

CHRIS JANZEN (Deputy Fiscal Analyst):
The Legal Division indicated there were no concerns or problems with this from a legal perspective because the county is a subdivision of the State. The State has the purview to address a revenue stream as it sees fit, so there is no prohibition against doing this. Further, the clause was clearly identified when the measure was introduced, and it met all the standards.

THE MOTION CARRIED. (SENATOR LEE WAS ABSENT FOR THE VOTE.)

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SENATOR MCGINNESS:
You will recall Senate Bill 45 was on behalf of the State Controller and basically saved some paperwork. There were no amendments proposed.

SENATE BILL 45: Eliminates requirement that State Controller receive copy of written protest filed by property owner concerning property taxes. (BDR 32-166)

SENATOR RHOADS MOVED TO DO PASS S.B. 45.

SENATOR TOWNSEND SECONDED THE MOTION.

THE MOTION CARRIED. (SENATOR LEE WAS ABSENT FOR THE VOTE.)

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SENATOR MCGINNESS:
There is no unfinished business, so we are adjourned at 3:21 p.m.

RESPECTFULLY SUBMITTED:

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Ardyss Johns,
Committee Secretary

APPROVED BY:

____
Senator Mike McGinness, Chair

DATE:____________________________________