

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

**Seventy-third Session
March 22, 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 1:37 p.m. on Tuesday, March 22, 2005, in Room 4100 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.

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

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GUEST LEGISLATORS PRESENT:

Senator Bob Coffin, Clark County Senatorial District No. 10

STAFF MEMBERS PRESENT:

Brenda J. Erdoes, Legislative Counsel
Russell J. Guindon, Deputy Fiscal Analyst
Chris Janzen, Deputy Fiscal Analyst
Ardyss Johns, Committee Secretary
Susan E. Scholley, Committee Policy Analyst
Gregory Sharpy, Committee Attaché
Tanya Morrison, Committee Secretary

OTHERS PRESENT:

Dr. Walt Rulffes, Deputy Superintendent of Operations/Chief Financial Officer,
Clark County School District
Pat Zamora, Clark County School District
Anne K. Loring, Washoe County School District
Marty Johnson, Bond Consultant, Johnson Consultants
Terry Hickman, President, Nevada State Education Association
Al Bellister Director of Research, Nevada State Education Association

CHAIR MCGINNESS:

In this joint meeting of the Senate Committee on Taxation and the Assembly Growth and Infrastructure, we were going to make some comparisons on the different proposals we have had for the property tax issue. We will not be able to do that today due to complications involving reconciliation of numbers from the Department of Taxation and the Legislative Counsel Bureau (LCB). We would rather not work with numbers that may not be correct. We will give staff a couple of days to work on these issues.

We are going to take testimony from some of the school districts today, and Senator Coffin will introduce his idea to the Committee, in detail. The Nevada State Education Association has some information to provide for the Committee.

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DR. WALT RULFFES (Deputy Superintendent of Operations/Chief Financial Officer, Clark County School District):

You have a handout in front of you titled, "Joint Meeting of the Senate Committee on Taxation and the Assembly Committee on Growth and Infrastructure" ([Exhibit C](#)). It is our goal today to share with the Committee the issue related to adjusting the tax or the assessed value in relation to the overall financial model of the School Construction Debt Service Fund. We are not going to address the operational property tax issues, only the roll-over bond issues we were asked to bring to you. Please follow along as I explain the different graphs from [Exhibit C](#).

The graph on the second page is the model used in the development of the roll-over bond program. The section in red at the bottom is the 1994 debt that continues to exist for a bond issue passed in 1988 and 1994 with remaining debt. The blue section shows the debt which is still outstanding for the 1996 program. The larger section, in yellow, is the outstanding debt for the 1998 program. This is the 10-year roll-over bond. Finally, the green section is the future capacity under this tax rate of 55.34 cents per hundred. This is of major concern to us. We are almost at two-thirds percent of the way through the 1998 program.

We want to point out the significance of the longitudinal aspects of this issue. Even the 1998 program, which is in place now, has an outstanding debt that will expire in the year 2028. We present some numbers to the Committee in a theoretical fashion, rather than based on any specific recommendations. This shows the outcome of the tax rate and potential revenue used for school construction under various scenarios. We will show the reduction of a percent and the consequential reduction in revenue.

PAT ZAMORA (Clark County School District):

I am a vice president for public finance at Nevada State Bank, as well as a representative for the Clark County School District. Page 3 of [Exhibit C](#) shows a history through 2005 and then a projection from 2006 through 2028. The District is using the school construction program to show assessed value needed to support this program. The projections used are provided by the University of Nevada, Las Vegas (UNLV), Center for Business and Economic Research. This was taken from a forecast done for the District in July 2001. If you boil down everything in the forecast, there are only two variables. Those

variables are the anticipated population increase and the anticipated rate of inflation. The District is counting on these two variables to support the school construction program.

On page 4 of [Exhibit C](#), there is a table with five columns. The section, Years 2002 through 2008, shows bond issues already sold in the first three years. The District sold \$475 million in June of 2002, \$400 million in November 2003 and \$450 million in November 2004. The next anticipated sale will be \$600 million in November 2005. The column labeled "Current UNLV Forecast" demonstrates the amount these bonds will be, according to UNLV Center for Business and Economic Research.

The next column, "Forecast Minus One," is what happens to the capacity of the program if you remove only 1 percent of growth in each of the years shown on the previous page. On the previous page, the growth rate for 2006 was at 8.45 percent; in 2007, it would be 7.45 percent; and 2008 would be 7.02 percent. The immediate impact to the District's 1998 School Construction Program is a reduction of \$175 million in bonding capacity.

The next column shows a \$380-million impact on removal of 2 percent in the forecasted, assessed value growth. Across the graph, it shows the impact if 3 percent is removed and, again, when 4 percent is removed. The District does a long-term forecast of revenues being used to support bonds and what bonds would be sold through June 30, 2008. They are 20-year bonds. Taxes will be collected on these bonds through June 2028.

Section 2 shows the impact of several percentage factors if they are implemented from the assessed value growth of the future bonds beyond the 1998 program. The impacts would be \$2.4 billion if we remove 1 percent of growth, \$4.3 billion if we remove 2 percent of growth, \$5.9 billion by removing 3 percent of growth and \$7.1 billion if 4 percent were removed in each year going forward. We were not able to cost out any of the proposed bill draft requests (BDR) from last Tuesday. It would be impossible, since all of the BDR proposals had the premise of a two-year, temporary solution. It would be necessary for the Legislature to create a permanent solution in 2007. The way we issue the 10-year roll-over bond program makes it a long-term forecast.

MR. RULFFES:

The next two pages of [Exhibit C](#) have been provided to the Committee in prior meetings. We want to show you the projected enrollment and the actual increased cost of construction. We are as stunned as everyone about the relentless increases in the costs of construction. The point to be made is we must consider the variables in developing a solution to tax limitation. The first is student enrollment, which is growth we cannot control. The second issue is cost escalation due to inflation. Finally, the generator of the revenue is the assessed value in the tax rate. Keep in mind, we do not believe we can have a cap on the revenue generator and not have any ability to control the other two variables.

At some point, the lines will cross, and as Mr. Zamora indicated, we do not have enough data at this time to indicate to you when those lines will cross in terms of a cap on assessed value. The issue is there in concept and theory. The three variables move together. Those, again, are enrollment cost, escalation and assessed value. If the Legislature caps one of those variables and we do not have the ability to control the other two, we could be in a situation where we are unable to build schools to deal with the construction requirements of the incoming students.

ANNE K. LORING (Washoe County School District):

We are essentially in the same position as the Clark County School District from the standpoint of continuing to work on the numbers. The handout given to you ([Exhibit D](#)) shows a large-scale view of what would happen with various scenarios in terms of drops in assessed valuation.

On the first page, part 1 demonstrates the effect of a 1-percent decrease from the current, assessed valuation growth for fiscal year 2006. It is estimated to be 8.74 percent. Our current tax rate for our roll-over bond is 38.85 cents. The table on page 1 of [Exhibit D](#) shows the effect of a 1-percent drop from 8.74 percent, basically, going down to just below 0 percent. The far right column shows the reduction with each percentage drop in revenue and the needs to translate that to a school or something that can be visualized. Please take a look at the note on the bottom of the page. The Washoe County School District shows a reduction of \$900,000 in debt service revenues is equivalent to a reduction in bonding capacity of approximately \$11 million, which is shy of the cost of one new elementary school in Washoe County.

On page 2 of [Exhibit D](#), there is a somewhat different picture prepared by Marty Johnson, who does the Washoe County School District's bond analysis. As we mentioned to the Committee in a past meeting, our roll-over bond was passed by the voters in 2002. It is a 10-year bond, holding the rate steady. This bond will take our County to 2012.

The table on page 2 shows the existing growth rate at 7 percent and what it would look like with a 6-percent cap, 3-percent cap and a 0-percent cap. This table shows the bonding amount we could sell for construction per year under each potential cap. Under a 0-percent cap, there is an estimated growth rate of 1.3 percent, which does not generate enough revenue in 2006 and 2007 to sell any bonds for construction. This is the best analysis we can give you until the staffs have come together on the numbers for each bill draft request.

Part 3 of [Exhibit D](#) shows a table that is similar to Clark County's, but we are the smaller growing district, so our numbers are smaller. Our projection, by the end of our roll-over bond in 2012, shows a growth in student population of 62,000 to 74,000 students. That is an addition of 12,000 students over the next 7 years of our bond.

Finally, on the last page of [Exhibit D](#), just for your information, there is a chart that was prepared for our school board. As I indicated to you before, Washoe County School District does not currently have any other funding stream for school construction. This chart is a "what if" scenario showing the other four types of funding streams available to various districts in the State and what it would look like for Washoe County School District. We have very similar, although smaller, issues as Clark County School District in terms of adding students, increased cost of constructing schools and being dependent upon our roll-over bond for capital construction.

ASSEMBLYWOMAN GIUNCHIGLIANI:

Mr. Rulffes, in your handout, [Exhibit C](#), would the 1 percent in your 1998 projection reduce funding by \$175 million the first year, and then, commensurately, would the 2-percent reduction then compound it?

MR. RULFFES:

Yes, that is correct.

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ASSEMBLYWOMAN GIUNCHIGLIANI:

That is prior to going back to another vote in 2006 or 2007 for them to continue with the plan?

MR. RULFFES:

That is correct.

ASSEMBLYWOMAN GIUNCHIGLIANI:

We would have to take that into consideration at that time. Are these just rough-draft scenarios for the Washoe County School District?

MS. LORING:

Let me review that briefly. On page 3, you will see the graph which is the scenario for our school district. Currently, Washoe County School District only has property tax available to it and, specifically, roll-over bonds. As I had indicated last week, in the City of Reno, we are within a penny of the cap. The first line shows the real property or ad valorem tax. In the second column, a little over a penny is left under the cap. This translates to an annual potential revenue of \$1.3 million. The final column shows \$13 million of bonding capacity, which is, essentially, one school.

The next four lines represent the four other funding streams available to other school districts in the State. Real property transfer tax is available to Clark County School District only. If Washoe County School District had transfer tax at the same rate as Clark County School District, that would be 60 cents per \$500. This translates to \$4.3 million to \$4.5 million in annual revenue, or an estimated bonding capacity of \$50 million to \$70 million. Currently, no other county except Clark County School District has that revenue.

The second funding stream available is residential construction tax. This is available to school districts in the counties with populations under 100,000 at \$1,600 per unit, the maximum allowed by law. That tax would generate about \$7 million to \$8 million a year in revenue. This is one funding stream not suitable for bonding. Not only does it fluctuate, but every four or five years you have to go back to the Nevada Tax Commission for approval. With that funding, you use the annual revenue and do not bond against it. Nevertheless, it would produce some annual revenue. The fourth line is the county infrastructure sales tax. It is in statute for counties other than Clark and Washoe Counties. This tax

can be used for county infrastructure, including the other 15 school districts. Even though it is 0.25 percent, we used 0.125 percent for Washoe County and would have estimated annual revenue of \$7.5 million with bonding capacity of \$75 million.

The room tax, which is currently only available to the Clark County School District at 1-5/8 percent, generates the least of the four, with annual revenue of approximately \$4.5 million and less than \$30 million in bonding capacity. This graph shows what other revenue streams would look like if they were available to Washoe County School District.

ASSEMBLYWOMAN GIUNCHIGLIANI:

Is this representative of the 50-cent portion of the State? There is 50 cents and then there is 25 cents.

MR. RULFFES:

We are talking about the 55-cent debt service property tax. We are not addressing the State 50-cent or 25-cent tax, at all.

We have given the Committee a lot of numbers, and in a more generic way, we would like to explain. In 1997, the Legislature developed an ingenious model to assure schools would be built for the growing population. That model has worked very well, and we have the evidence in both Clark County and Washoe County of how the model has been able to address the needs of increasing population, and to some extent, remodeling, as well.

We would urge the Legislature to proceed with great caution in changing the model in any way that could eventually impair our ability to provide continued school construction for new students. I am speaking to remodeling, as well as replacement of schools, since that has been on the agenda of the Legislature and local school boards. We would like to stay close to the planners developing the different models that come before you to assure the school construction model and the 10-year roll-over bond, which has worked so well, will be preserved.

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ASSEMBLYMAN PERKINS:

Mr. Rulffes, if I am reading this correctly, in Clark County, the 1998 bond was predicated from 2011 on an originally projected 6-percent growth. Is that correct?

MR. RULFFES:

That is correct. It is in the fourth column of [Exhibit C](#). These are the original projection, and we have adjusted these annually and used several sources in order to compensate for adjustments in the program.

ASSEMBLYMAN PERKINS:

My point is, the original financial modeling was based upon, at least beyond 2011, a 6-percent growth.

MR. RULFFES:

That is correct, Mr. Perkins.

ASSEMBLYMAN PERKINS:

Looking at the Washoe County numbers, it appears their modeling was done at 8.74 percent.

MS. LORING:

Mr. Perkins, I apologize for that misunderstanding. Those are the March 15 numbers for growth in 2006. We do not have a comparable table in our presentation today.

ASSEMBLYMAN PERKINS:

My point is, when we did these projections, there was an implied contract with the public as to what we were looking for as far as funding into the future. The public voted to impose a certain tax, at a particular rate, and we have to be mindful and respectful of that, as well.

MARTY JOHNSON (Bond Consultant, Johnson Consultants):

In terms of Washoe School District, we look at it on an annual basis as to what the growth rate has been and plug that in. The 7-percent growth rate in the memo represents the 10-year historical average of the assessed-value growth rate in Washoe County. The actual growth rates have ranged from 4 percent to

10 percent. The 10-year average is approximately 7 percent. That is the number we have been looking at in a one-year term, and in longer terms, it drops off.

I want to echo everything the testifiers in Carson City have said today. Once we get some good assessed value numbers and projections, it will be easier for us to demonstrate what the impact might be on rural districts. We also have Nye County School District and Storey County School District, who have roll-over questions in place, like Clark County and Washoe County. As most of you know, the Pahrump area is growing significantly, and they may be impacted, as well, by the results of these discussions.

ASSEMBLYWOMAN GIUNCHIGLIANI:

As we debate this issue, is there a way we could be segregated somehow, because the voters approve the roll-overs?

BRENDA J. ERDOES (Legislative Counsel):

You can segregate those out, legally, if you choose. Once you segregate those out, would the proportional reduction of what is left get you where you want to be financially? There are alternatives to this, working within the requirements so as not to impair the bond contract.

ASSEMBLYWOMAN GIUNCHIGLIANI:

We might be able to go back if we cannot find the whole model. We could go back to the minutes of A.B. 353 of the 69th Session and see if the growth numbers for Washoe County were projected in the minutes of one of those meetings. I know I had the Clark County projections in one of the meetings. That might help us see what they projected and what the rural counties were projecting. The rural counties did ask to be released under portions of that bill, due to lack of revenue generated under the transfer tax and the room tax. Subsequently, the rural counties were given the sales tax portion to utilize. We might be able to, at least, gather that information for the Committee.

MR. RULFFES:

This might be a good forum to tell the Legislature and this Committee, there is an impression the 10-year model has generated a good deal more revenue than is needed for school construction. That impression is true, and we would certainly provide that information to anyone who asks for it. In the same breath, we want you to know we are thankful. Because the increased assessed

valuation was beyond what was originally projected, we have been able to deal with the cost of inflation. This inflation has been severe, but the 10-year model has enabled the District to have revenue to deal with the construction needs in spite of the cost escalation. While there has been additional revenue, it has also enabled us to address some of the problems that have come along.

SENATOR TOWNSEND:

It would be very helpful for both Committees if you gave us copies of your exhibits the night before testifying. It is difficult to listen to presentations and try to read the handouts at the same time. This is not very effective for us and does not give us the opportunity to consider some of the impacts of the various proposals brought before us. This is a significant debate and needs our full attention.

CHAIR MCGINNESS:

I echo Senator Townsend's request. It would be helpful to have this material the day prior to the meetings in which you will be testifying.

TERRY HICKMAN (President, Nevada State Education Association):

Nevada is at a crossroads when it comes to funding for public education. The economy is robust, yet education remains underfunded. We, as an association, are concerned about some of the property tax proposals and their possible impacts on the Distributive School Account (DSA). The fact remains, if the proposed DSA goes through, we will continue to have overcrowded classrooms, old and outdated textbooks and no full-day kindergarten to enhance the student achievement of our youngest learners.

We know there is a lot of pressure to do something about property tax and to do it soon. Every proposal must be looked at in terms of the impact in the short term, as well as the long term, on public education.

AL BELLISTER (Director of Research, Nevada State Education Association):

We have some concerns with the Distributive School Account as it exists today. Between our Association, the school districts and the Department of Education, we have essentially identified approximately \$100 million worth of issues with the DSA. These range from failure to accurately report expenditures, which we believe has resulted in a decrease in basic support of about \$42 per child from current year to fiscal year 2006. We have also found failure to adjust for

inflation in operating categories in the DSA; operating items such as textbooks, instructional supplies and computer hardware and software have not been adjusted for the increased costs.

Certainly, we are concerned with the 2-percent salary proposal in the DSA, and it is inadequate. It does not help public school employees' salaries keep pace with inflation. Salaries are simply not competitive. That is the DSA as we stand today, and that is based on the assumption the assessed value will grow at a rate of approximately 8.5 percent the first year and a little over 9 percent the second year. Anything you do with the pending proposals before you would only compound those problems.

The revenue range is wide on the three highly publicized proposals this Committee received on March 15. The impact on the DSA from those proposals on the low end is \$60-million over the upcoming biennium and as high as \$130 million. I have not seen any numbers on the proposal that is being crafted by Assemblywoman Buckley, but the range that is before you is as I stated.

The question remains, is this Legislature prepared to shift that burden to the State General Fund and assume this \$60-million to \$130-million impact on the DSA. If you are, I want to review some of the results with you that have occurred over the last several years, going back to 1979. We shifted, then, from the property tax rate for operating of \$1.50 to 50 cents. The result was the General Fund was going to offset that reduction. In 1983, the Legislature had to come back and reduce basic support because the General Fund simply could not sustain the burden of the increased cost to the DSA. The increase in growth and the increase in enhancement were too great.

The Legislators came back in 1983 and subsequently shifted responsibility from the General Fund to sales tax. You have all heard sales tax is a volatile tax. In 1992 and 1993, sales tax could not sustain the burden of the increase of growth to the DSA or increase enhancements to programs in the DSA.

The question for you is: Will anything you do, in terms of affecting property tax and the stable source of funding for the DSA, be a sustainable shift as we go into the future? We are very concerned, and history seems to indicate we have not been able to sustain growth to the DSA when you shift from the stable source of property tax to more volatile sources of funding.

Mr. Hickman already touched on some of the areas of concern. As you know, we have some of the highest class sizes in the country. We have teacher shortages in critical areas; we have textbook and supply shortages; and we have quite a backlog of deferred maintenance to our capital facilities. We are concerned with the long-term ramifications of anything you do.

I want to shift to the need for you to focus on the No Child Left Behind Act. One of the good things that Act did was help us focus on student achievement. It helped us track student achievement data by certain subpopulation groups, not the least of which were minority youngsters, youngsters who require special education, youngsters who have limited English proficiency and youngsters who come from disadvantaged income backgrounds. Across all grade levels in 2003-2004, on English, language arts and mathematics tests, these youngsters failed to make adequate yearly progress (AYP).

We now know we have 103 public schools placed on the watch list for their failure to make AYP and an additional 127 schools which have been designated "in need of improvement." The reason I am pointing this out to you is due to recent estimates that came out of the National Conference of State Legislatures. Some of the experts have estimated the cost of moving to 100-percent proficiency level of the No Child Left Behind program could require as much as a 20- to 30-percent increase in funding to education. After all, the goal is No Child Left Behind.

This leaves the question to you. Can you balance the need to provide property tax relief to those in greatest need and still meet the needs and provide adequate resources to serve over 400,000 students in Nevada's public schools?

In 2003, the Nevada Supreme Court, in *Guinn v. Legislature*, 119 Nev. 277 (2003), opined the framers of the *Constitution of the State of Nevada* elevated the public education of the youth of Nevada to a position of constitutional primacy. I will leave you with this question. Will the level of kindergarten-through-Grade-12 funding be sustainable and adequate to ensure our public schools the ability to demonstrate proficiency on State-mandated academic standards?

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CHAIR MCGINNESS:

Senator Coffin introduced a bill concept today, and we have the bill draft request in our possession. He will go over this BDR with the Committee.

BILL DRAFT REQUEST 32-1183: Provides for postponement of payment of increase in property taxes. (Later introduced as [Senate Bill 259](#).)

SENATOR BOB COFFIN (Clark County Senatorial District No. 10):

Thank you for entertaining my BDR. You have heard a little bit about it over the last six weeks. The first week of March it dawned on me, after listening to testimony, receiving e-mails, letters, phone calls and newspapers, we have a problem that required more than just an immediate addressing of needs. We are facing a problem that is hard to define because it is compared to another state's problems.

This BDR addresses relief for certain homeowners in unique situations. We have all heard of those unique situations. Some of them have to do with the individuals who got a 50-percent property tax increase, or individuals who are impoverished and got a smaller increase, but cannot afford it. It could be the individuals are elderly, sick, unemployed, but doing anything they can to hold onto their houses. These are all self-respecting citizens who want to hang onto their homestead.

The idea regarding California Proposition 13 (1978) that appealed to me is homeowners do not pay for the increases in value of their homes until they transfer ownership in some fashion. That is the concept in this current proposal.

I do not like the way it is written in [Senate Bill 259](#) or as it will be introduced. The idea of deferring is better than "giving a break." People appreciate being treated as citizens, and as property owners, on the same footing as all others. I do not think the idea of a "gift" appeals to Nevada people when they have good credit and can get a loan. There is no greater asset on which to base a loan than your home, and no greater or more relevant purpose for a loan than to help pay the cost of protecting that home. The cost might be through police, fire department and educational services for children who may or may not occupy that dwelling.

The voters and the residential owners are scared about what is happening to their property taxes. On one hand, they are happy the value of their land has gone up, but some of them just cannot afford the increased taxes. Basically, the idea in this BDR is we need to help the people who cannot afford to pay, no matter what cap is adopted. This bill is meant to stand alone or be part of whatever solution is proposed by the Legislature. It could fit with any of the proposals set forth so far, and it is not meant to supplant any other proposals; it is meant to work with them.

No matter what cap we place on property tax, there are a number of people who cannot afford the increase. What we think might be fair may not seem fair to the general public. If that is so, the general public will adopt, vote for and pass a constitutional amendment which will be much more restrictive on education and local government resources than anything this body would ever pass. I feel the element of deferral is an appropriate thing to bring in, even in a normal year when we did not have this property tax crisis.

On page 1, section 3, line 1, BDR 32-1183 addresses parcels, only. That can be changed or refined. It all depends on what is found constitutional and what is determined to be the final solution by this body. I would like to see the deferred amount be a number slightly less than the cap chosen by this body, assuming a cap is chosen.

Let us suppose you choose the cap at 6 percent. Some people cannot afford that 6 percent. They have to pay the basic tax, and then they have to pay the additional. What if you set a number of some kind, we will say 3 percent or 4 percent. The Legislature will plug in that number; it is not in this bill. We have not determined what the cap will be. If we, somehow, settle on a cap down at 2 percent, 3 percent or 4 percent, you would not have to have the language. An economic hardship for one person is not an economic hardship for another.

SENATOR COFFIN:

On the next page, BDR 32-1183 defines when a person who might feel he or she is strapped and cannot pay can file a claim with the county treasurer. It would not be means-tested, not be asset-tested. It would simply be a filing of a claim which would be recorded indicating you have an economic hardship, and you wish to postpone the taxes above the certain amount levied for the year. Again, if it is the regular tax plus a cap of 6 percent, you could choose to say

you had to defer the amount above 3 percent or 4 percent, you just cannot afford it right now. It would become a lien. The word lien scares some people. It sounds like a derogatory statement, and in some ways, it is. This Legislature can define how that lien would be approached by a credit source.

I do not want to see this in such a fashion that it appears to be somewhat like a mechanics lien or a lien set on your property by a pool builder or whatever. It would be a real lien; it would be there, but it would not be something that is considered derogatory on your credit. We have done similar things when we have passed auto insurance legislation. There are lots of ways of shifting the appearance of a problem, so it is not derogatory on the person who is holding the property.

Please look on page 3, section 7. We have deferred taxes for a while, maybe one year, two years or five years for a person. Maybe, you deferred for one or two years, the taxes were level, and you did not need to defer. For a period of time, you can continue on with this proposal.

At some time, the property is going to change hands. In the Proposition 13 language, which is broader because it was circulated widely through the State of California and has been looked at for 25 years, they go into a lot of circumstances defining what is considered a change of hands. However, at this point, what we use is the plain language, "dispose of the interest," which means selling, in most cases, or the owner dies, whichever occurs first. That language came from the Legal Division, and "due and payable immediately upon death," to me, is not a good idea. There needs to be some sort of language in the bill to impose a delay. One could use language such as "until an estate is settled," with a maximum number of months or a year before the tax is due, knowing it is always going to be paid.

We call on the Nevada Tax Commission to adopt the regulations as required for the counties to follow. We then leave the counties to do the ministerial work on designing the forms. The Department of Taxation will tell the counties how they should do their forms, but the forms could be different from county to county. The idea is the individuals, who are going to borrow against their homes to pay their taxes, are getting a good deal from the government. This would really be a grant from citizen to citizen. It is more of a helping hand than a gift, and that is why it is called a grant.

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The effective date of this bill is July 1, 2005. We should make it effective at a later date for the later sections of the bill. We can discuss this with the assessors and treasurers.

The fund flow to local governments from this bill is something we need to address. We need to know if local entities, schools and governments, would be hurt by a deferral of a portion of the tax. The deferred tax could be in the millions or many millions over a period of time. Homes turn over rapidly, so the average median would be much more than 7 years before the deferred taxes are settled, and there would be some which are held for 20 years or the life of a person.

All of the Committee members have a copy of the LCB Research Division report, "50-State Survey of Constitutions: Property Tax Provisions" ([Exhibit E](#)). In [Exhibit E](#), the Nevada notation does not show the components for the agricultural exemption and deferred taxes for up to seven years. I am not proposing we cut off the property tax exemption for seven years, but the idea is there.

ASSEMBLYWOMAN GIUNCHIGLIANI:

How would one plan ahead for the fiscal impact of this bill? In section 3, it states, "if the owner determines the payment of that amount during the current fiscal year would create a severe economic hardship for the owner." How would you project a budget for the entire fiscal year?

SENATOR COFFIN:

Are you talking about the schools and the local governments?

ASSEMBLYWOMAN GIUNCHIGLIANI:

Yes, I am talking about those entities.

SENATOR COFFIN:

First of all, the existing property tax and increase in property tax is due and owed at that time. We are not talking about forgiveness of deferral. We are talking about setting a number, perhaps slightly below the cap that is chosen in this BDR, so we can give some relief to the burdened taxpayer.

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SENATOR LEE:

In section 4, subsection 1, your BDR states, "the county treasurer shall." Does this section mean the treasurer is able to give the economic hardship or must give the economic hardship?

SENATOR COFFIN:

I would have written "must," but the Legal Division can tell you the difference between must and shall in that section of the bill.

SENATOR LEE:

If I was able to rent out rooms in my house and I had two vacancies, would that be an economic hardship I would be able to use for the deferral?

SENATOR COFFIN:

My suggestion is not to define it any more than the statement of what an economic hardship is considered to be. We are struggling with that terminology. We have not adopted that language. It is not permissive for the treasurer, it is mandatory for the treasurer to issue this hardship deferral.

SENATOR LEE:

Is this just for homeowners?

SENATOR COFFIN:

At the present time, it is all parcels. A new twist was introduced last week in one of the proposals to hold property tax down without saying, in plain language, there is a difference between commercial and residential. I do not propose to enter that battle.

SENATOR LEE:

I understand your goal is for the people who really have a need for this tax relief.

SENATOR COFFIN:

Even an owner of commercial or bare land can suffer a hardship because of the increase in value. I am not suggesting you direct this at the single-family homeowner.

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SENATOR RHOADS:

Is the owner of the property charged interest as time goes by until he sells his property?

SENATOR COFFIN:

There is no provision for interest or penalties in this. If the Legislature chooses to put in interest or penalties, I would suggest the amount be a low figure. People who have asked for assistance—not a gift, but assistance—paying their tax bills are already suffering economic hardship.

SENATOR RHOADS:

The property owner, in a way, is getting a loan with no interest.

SENATOR COFFIN:

That is right. If we are trying to help them during financially trying times and then came back and charged interest, they would lose a lot of the benefit from the tax relief.

ASSEMBLYMAN GRADY:

When you say abatement, are you talking about the complete tax or just the increase that year?

SENATOR COFFIN:

Let me clarify that for the Committee. We will not be abating the entire property tax, just the increased taxes which are deemed to be a hardship. We will not be forced to defer every year. It can be paid at any time.

ASSEMBLYMAN HETTRICK:

I have some concerns about this BDR. My concern is the property owner requests a postponement, and it is granted. The postponement goes on for some years, and the value is accruing over those years. I believe loaning this money at no interest would cause individuals to take advantage of this hardship bill. If a person did this for five years, and during that period, they accrued a liability of \$1,000 and then the property value decreased, the owner would owe more than the property is worth. How would that money get paid back?

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Would we forgive that debt or would we force the property owner to sell his property and lose money? I am concerned we would create a bookkeeping nightmare, particularly with the potential for properties to go down in value in rural areas.

SENATOR COFFIN:

Your question regarding value of land going down is an exception and most likely will not happen. The values do cycle every now and then. If the individual could not pay the mortgage, he would not be able to pay the taxes, and ultimately, the property would be auctioned, and the tax lien would be satisfied.

ASSEMBLYMAN MORTENSON:

I like Senator Coffin's idea. I have often thought if an individual has a capital asset that appreciates, he should not have to pay for the appreciation until he realizes that profit.

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CHAIR MCGINNESS:

Thank you, Senator Coffin for your time on this BDR. The meeting is adjourned at 2:46 p.m.

RESPECTFULLY SUBMITTED:

Tanya Morrison,
Committee Secretary

APPROVED BY:

Senator Mike McGinness, Chair

DATE: _____

Assemblyman Richard Perkins, Chair

DATE: _____