

**MINUTES OF THE
SENATE COMMITTEE ON TAXATION**

**Seventy-third Session
March 30, 2005**

The Senate Committee on Taxation was called to order by Chair Mike McGinness at 3:16 p.m. on Wednesday, March 30, 2005, in Room 1214 of the Legislative Building, Carson City, Nevada. The meeting was videoconferenced to the Grant Sawyer State Office Building, Room 4412, 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 J. Tiffany, Vice Chair
Senator Randolph J. Townsend
Senator Dean A. Rhoads
Senator Bob Coffin
Senator Terry Care
Senator John Lee

GUEST LEGISLATORS PRESENT:

Senator Dina Titus, Clark County Senatorial District No. 7
Senator Warren B. Hardy, Clark County Senatorial District No. 12
Senator William J. Raggio, Washoe County Senatorial District No. 3

STAFF MEMBERS PRESENT:

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

OTHERS PRESENT:

David Kallas, Las Vegas Police Protective Association; Nevada Conference of
Police and Sheriffs; Police Managers and Supervisors Association
Raymond McAllister, Professional Fire Fighters of Nevada
Carole Vilardo, Nevada Taxpayers Association

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Mary C. Walker, City of Carson City; Douglas County; Lyon County
Andrew List, Nevada Association of Counties
Marvin A. Leavitt, Urban Consortium
Michael R. Alastuey, Clark County

CHAIR MCGINNESS:

We will call this meeting of Senate Taxation to order. Assembly Bill (A.B.) 489 is the only bill we will be addressing today.

ASSEMBLY BILL 489 (1st Reprint): Provides for partial abatement of ad valorem taxes imposed on property. (BDR 32-1383)

Section 1 of the bill is the declaration regarding the increases in property tax and land values. Its goal is to provide equity while understanding State and local governments have to provide critical services. We are trying to find a balancing act between the two. In section 3 it says, "The Legislature hereby finds and declares that an increase in the tax bill of the owner of a home by more than 3 percent over the tax bill of that homeowner for the previous year constitutes a severe economic hardship." The owner of a single-family residence, which is the primary residence of the owner, is entitled to a partial abatement of the ad valorem taxes. If you own three homes, only your primary residence is eligible.

SENATOR CARE:

I have talked to some members of the Legislative Counsel Bureau about the preamble of the recital to section 3 regarding severe economic hardship. I believe a bill, which includes language something like this in the final version, will pass. I also believe there will be a challenge, and it is important that there be data or something to back up legislative intent. We can say "severe economic hardship," but I am going to suggest we have some data presented to this Committee. We need to make a case for what we mean by severe economic hardship. We can say one exists, but we are going to have to have something that references foreclosures, bankruptcy filings and the like to make what we believe, collectively, to be a case.

CHAIR MCGINNESS:

I am not sure we have to have any background, because the constitutional amendment we passed gave us that authority.

SENATOR CARE:

I am not saying it is required. I am just advising we may want to do that because I can certainly see where, down the road, the court is going to want to know what we were relying on when we said this. They may very well go back and look at a previous session in which we adopted a resolution.

SENATOR TOWNSEND:

Assembly Bill 489 talks about every piece of property in the State of Nevada. It talks, specifically, about the rolling ten-year average in every county, or double the Consumer Price Index (CPI), whichever is higher. Section 3 deals with the economic hardship, which is what Senator Care has referred to, and is for those residences Chair McGinness has already articulated. Sometimes, we get a little ahead of ourselves, but we need to understand, every piece of property in the State is being treated by the rolling ten-year average in this bill. Economic hardship comes as a second component of that.

CHAIR MCGINNESS:

That rolling 10-year average, starting at the bottom of the page in section 4, and in the middle of page 5, starting on line 17, talks about "a percentage of the amount determined pursuant," and "the average percentage of change in the assessed valuation," et cetera, in "the 9 immediately preceding fiscal years." Then, on line 23, "Twice the percentage of increase in the Consumer Price Index for the immediately preceding calendar year, whichever is greater."

BRENDA ERDOES (Legislative Counsel):

Subsection 2 of section 4 has been changed. Property with a new parcel number would be treated as new property and valued at new values, rather than having a cap applied. This provision deals with the issue of where you have a large parcel, say 5,000 acres, and you take out one small part for development. The part you take out for development is considered new. The remainder of the parcel is actually existing property, so the cap would apply.

The next change is in section 5. The old recapture provisions in the bill, as introduced, actually provided recapture of the tax liability you carried forward. This new recapture provision only provides for recapture if there was a decrease of 15 percent or more in the taxable value of the parcel on or after July 1, 2003. The prevalent place where something like this could occur would be in a rural county whose economy might be dependent on some specific item, for example, mining in Elko. If the price of gold went down enough, a \$200,000

home might be devalued to \$120,000. Then, another year, the price of gold goes back up, and the home's value might increase to \$200,000 or \$220,000. The theory here was those kinds of fast economic changes should not be capped by the 3-percent cap. In other words, you would not apply the 3-percent cap to the very bottom value. That was indicated as a fairness issue.

Section 6 is also a refined concept. It provides for a change in the tax rate if it is needed for the payment of obligations secured by the proceeds of the tax. The tax actually goes within the cap. Voter-approved rates would be placed outside the cap.

CHAIR MCGINNESS:

Did that provision come from bond counsel, and was it mainly to protect the bonding?

MS. ERDOES:

Yes, they were very adamant about it. It is in section 7. When a taxing entity is allowed to raise the rates to pay the cost of bonded indebtedness, it cannot take away from the other entities that go in the overall rates. In other words, if the rate was for bonded indebtedness, or for any other purpose, actually, where you take it to a vote of the people and they approve the rate, then that amount of revenue is outside of the cap.

CHAIR MCGINNESS:

Section 10 outlines the appointment of a committee to conduct an interim study of the taxation of real property in the State. It would include three members of the Senate and three members of the Assembly. The Committee may want to ponder a further amendment on who should appoint those Legislators, the Legislative Commission or the majority leader of the Senate and the speaker of the Assembly.

Section 11 sets up the time frame for when the provisions of this bill apply. Section 12 is the severability. If any portion of the act is held unconstitutional, the rest of the bill remains.

SENATOR TIFFANY:

I was under the impression we were going to attempt to come up with a constitutional, long-term solution during this Session. If we do, is an interim study needed?

CHAIR MCGINNESS:

Even though we may think this is a long-term solution, in my opinion, an interim committee should be formed. As we have seen from the last Session, some of the things we work on have unintended consequences, and a committee should be the place to bring those concerns forward.

SENATOR TIFFANY:

So, a committee would perhaps fix the short-term issues by statute and/or still look at other long-term solutions.

CHAIR MCGINNESS:

We have all agreed, following the passage of this bill, there will be some constitutional amendments to address some of the other long-term issues. In my opinion, whatever we decide, a committee would be helpful.

SENATOR TIFFANY:

We had talked about perhaps having a fund set aside for unintended consequences, which would more likely occur in the rural counties. Would this be an appropriate time to think about putting something like that in the bill?

CHAIR MCGINNESS:

Being a representative of rural Nevada, it would be an appropriate idea to establish a fund to allow for some of those unintended consequences. Constituents living in those rural areas would have a place to go if they found there was some problem.

SENATOR TIFFANY:

Before we end up passing the final bill, I would really like to make sure we take care of the unintended financial consequences.

SENATOR COFFIN:

In one of the joint hearings, I brought up the idea of protecting people who are operating a small business in a single-family residence, or what we term here as a unit of personal property. There are over 200,000 businesses where people are either doing business on the Internet, or in some fashion within the law, in their homes. They will show up on tax rolls as a business. As we have discussed, the intent of the bill should not violate the immunity those people have as a single-family residence, or a unit of personal property, just because

they have a business there. It is not addressed in the bill, and I am a little nervous with just having someone say the intent was to not create a different taxable situation for those persons.

MS. ERDOES:

If you are concerned about it and wish to add something, we certainly can. It is not currently in the bill because we intended it to be covered by regulation of the Tax Commission. Generally, those kinds of details are left to the administrative agency having to interpret and enforce this. Sometimes, it is difficult to craft something in the bill that addresses every part of an issue. There is no provision in the bill allowing for disqualification of a primary residence for any reason, including having a business there.

SENATOR COFFIN:

A line of print is better than a dictionary of intent. Besides, we put a lot off on the Nevada Tax Commission last Session. We can take one more thing off their shoulders by including a line in the bill addressing home-based businesses.

CHAIR MCGINNESS:

We can consider that and see what the Committee wants to do.

SENATOR LEE:

I share Senator Tiffany's concern of an adverse condition. Because of the growth in the south and in some of the stronger counties, those areas will be okay. We have money in the surplus, right now, although I do not know the exact amount. This issue should go to the Tax Commission and not the State Board of Examiners because this should be overseen by an elected body.

SENATOR CARE:

Guy Hobbs said in his report that, historically, property taxes have not increased, in the aggregate, more than about 6 percent annually. When you combine the residential and nonresidential, can we equate whatever is before us into a similar figure, in the aggregate? What kind of an increase would that translate into for the next fiscal year?

SENATOR TIFFANY:

Friday, I asked staff if they could tell me what percentage of the property tax, collected for the whole State, was business, and what percentage was residential. Do we know the answer?

CHAIR MCGINNESS:

We do not know at the present time.

SENATOR TOWNSEND:

Two separate sets of documents are being passed out to the Committee. The first one shows the impact A.B. 489 would have on the Distributive School Account (DSA) ([Exhibit C](#)). This set of documents deals with the DSA only. Please look at the bottom of the first sheet, where it says "TAX SCENARIO - 3% Hardship CAP on Single Family Residential; CAP on All Other Property the Greater of Twice Inflation or Each County's 10-Year Historical Growth Rate (Including 2006); NEW Property at Value." Of what the Governor recommends, the loss to the DSA in the first year is \$6.3 million, with a loss in the second year of \$17.9 million. The next page deals with an 8-percent cap on all other property, with new property at value, and it shows a loss to the DSA of \$12.6 million in the first year and \$31.3 million in the second year. The third page deals with a 6-percent cap on all other property, with new property at value, and shows a loss to the DSA in the first year of \$15.7 million and \$38 million in the second year. Everyone needs to understand there is a loss to the DSA, not only under the proposed bill, but with the other two caps as well.

The next set of documents shows the effect these scenarios would have on each taxing district ([Exhibit D](#)). Across the top, in the middle of the page, where it says "05-06 Property Tax Collections Assuming With Caps - A.B. 489," is the bill before us. This shows you the actual hard number. The column to the left shows you what the numbers would be if we did nothing. Go down that column and look at Clark County, because it is the largest. The first column, where it shows \$299.5 million, is the "04-05 Total Property Tax Collections With No Caps." The 2005-2006 property tax collections with no caps would be \$383.7 million, which is a 28.1-percent increase, as shown in the next column. The column after that represents the bill before us. It shows the cap would reduce the percentage to 8.8, or \$325.9 million. The next column shows a 6-percent cap would take the adjusted growth rate to 6.5 percent and the actual revenue to \$318.9 million. The next column is an 8-percent cap, which takes it to 7.2 percent and is \$321 million. You can look through all three of those scenarios, look at the percentages, and compare them against what it would be if we did nothing. This gives you the figures based on each taxing district.

CHAIR MCGINNESS:

To clarify, when you look at the second column from the end, the "05-06 Property Tax Collections Assuming With Caps - 8%," still leaving the single-family home at a 3-percent cap, everybody else goes to the 8-percent cap.

SENATOR TOWNSEND:

You are absolutely correct. The two caps in the right-hand column are the caps for all property in the State of Nevada, and the hardship exemption remains at 3 percent.

SENATOR COFFIN:

Does the illustration of [Exhibit D](#) include the high/low, or does it include the Assembly bill, with a possible change from the amendment Senator Hardy will present?

SENATOR TOWNSEND:

What you have in front of you does not deal with the rolling ten-year average. That is in [A.B. 489](#), and based on my reading of the bill, they did not apply the removal of the highest year and lowest year. They simply went with a ten-year rolling average for each county.

SENATOR COFFIN:

Is the description at the top of [Exhibit D](#) correct where it says it is the greater of twice inflation or each county's 10-year average?

SENATOR TOWNSEND:

Yes, and the other two caps are hard caps. There is no rolling anything. They are just hard caps.

CHAIR MCGINNESS:

Senator Hardy, does this reflect your amendment?

SENATOR HARDY:

This amendment ([Exhibit E](#)) is based, specifically, on the numbers you have in front of you, using the same methodology to arrive at those numbers. The amendment is relatively simple. It removes all references in the bill to the caps based on the 10-year growth and assessed valuation, or twice the CPI numbers, and replaces them with a straight 8-percent cap. We will leave it to the wisdom

of this Committee to decide what the cap should be. I chose 8 percent because it appeared, with the numbers we got, to be the number having the least amount of impact on the counties, particularly the rural counties. For example, if you look at Douglas County, under A.B. 489, the fiscal year (FY) 2005-2006 increase over FY 2004-2005 is 4.2 percent. Under my proposal of 8 percent, it is an identical 4.2 percent. I think you will find similar numbers throughout the rural counties.

As I review the proposals given to us by the Assembly, I remember the discussion on S.B. No. 8 of the 20th Special Session. I have been involved in a family business, of one kind or another, most of my life, and I know the one thing businesses hate is the uncertainty. Therefore, I felt it was important to provide some mechanism of certainty for businesses in what would happen going forward. Another concern some of my colleagues have addressed is making sure we, at some point, come back and address this issue through a constitutional change.

Assembly Bill 489 caps residential at 3 percent, but leaves a property tax for businesses in such a state that it continues to increase. My concern is if, for some reason, we do not follow through on a constitutional amendment, the residential rate will stay fixed, which is appropriate and our goal, but the business tax will continue to increase until the public outcry from business is so great we will be forced and compelled to deal with it. [Exhibit D](#) was a way to make sure we continue this discussion and come back with a constitutional amendment.

After I got the numbers back this morning, I thought, if we can accomplish an across-the-board, hard 3-percent cap for residential and a hard, sustainable, predictable cap for businesses—and still keep local government as whole as possible—as a matter of policy, why would we not do it? Why would we leave businesses hanging with the uncertainty of a property-tax increase, when we could do otherwise? This amendment is an attempt to say we can accomplish our goals on behalf of our residential constituents without damaging our businesses in this State. This amendment simply strikes the language throughout the bill that speaks to the 10-year growth cap based on assessed valuation, or twice the CPI, and replaces it with a straight 8-percent cap on tax liability.

The numbers you have in front of you, [Exhibit D](#), reflect what this does to each of the counties and districts. This Committee is aware of what it will do to the DSA, as well as what will happen with the bonding and the other things. It is an appropriate use of the tax surplus to pass meaningful property tax reform benefiting all of our citizens, whether they are residences or businesses. My amendment does nothing to change the residential cap, which stays as it is at 3 percent. This does not impact it in any way, shape or form.

SENATOR TIFFANY:

Did you happen to look at a straight 3-percent cap? If you take the 6 percent and cut it in half, a 3-percent cap on Clark County would end up being maybe 2 percent or 2.5 percent, which is about what CPI is.

SENATOR HARDY:

You spoke to the need for a contingency fund of some kind to help the rural counties if they were negatively impacted. A straight 3-percent cap would have a substantial negative impact, which is the reason I did not consider it. If you lowered the tax, and then created a contingency fund to take care of the tax you lowered, it would be robbing Peter to pay Paul. I was just trying to strike a balance that would not make a contingency fund necessary, although I do not oppose a contingency fund.

SENATOR TIFFANY:

Did you look at 3 percent?

SENATOR HARDY:

I did not. Based on the numbers I got back, however, I realized 3 percent would be quite detrimental to the rural counties.

SENATOR TIFFANY:

I am assuming you would be happy with 6 percent, too?

SENATOR HARDY:

Certainly, but again, we need to be mindful of goals and objectives of the other House, and timely in how we pass this legislation. I was trying to avoid a long, drawn-out battle. I am less concerned about what the cap number is than the fact we have a cap. In the current bill, the residential cap is great, politically, for all of us. With all due respect to my colleagues, I do not believe we have the

political courage to come back and address the issue if we continue to put a tax burden on businesses, as A.B. 489 would continue to do going forward.

SENATOR TIFFANY:

Can you also address where this still looks like a split tax roll?

SENATOR HARDY:

It is a split tax roll. At least, it has a lot of elements of a split roll. The real concern most businesses have with a split roll is you can continually raise one tax at a different rate than you raise another tax. Certainly, we have a different tax rate, which, in the final analysis and in the ultimate definition, is a split tax roll. However, under a cap, at least it cannot continue to go up.

SENATOR TIFFANY:

Do you think it would look less like a split roll if it was 3 percent and 3 percent?

SENATOR HARDY:

I suppose.

SENATOR TOWNSEND:

Under your proposal, all property in the State of Nevada would be hard-capped at 8 percent, and then those who qualify as a hardship would remain at a hard cap of 3 percent.

SENATOR HARDY:

Yes, a hardship as defined in A.B. 489.

SENATOR CARE:

The 8 percent is based on the need for certainty in the business community and is not based on any specific economic data as to particular parcels or businesses, as I understand it. I would like to know how specific business properties would be affected in these different scenarios. I want to know, specifically, the difference between how particular properties or businesses would benefit from the bill, as currently drafted, and the bill with the proposed amendment.

SENATOR HARDY:

I endeavored, mightily, not to consider that because I wanted us to avoid a rehash of S.B. No. 8 of the 20th Special Session. I wanted to get an

aggregate of how this impacted the counties across-the-board, which is the reason I did not look at individual properties or industries. I wanted us to have a broader general-policy discussion.

SENATOR COFFIN:

I, too, felt insecure about the idea that words like "greater than" would make people a little upset. It is not because it would automatically mean a very big number, but it would mean there would be no upside, so I can see why that, psychologically, needs to be addressed. On the other hand, I sit on the Senate Committee on Finance, as do several other people here, and I want to make sure we watch what we do with these numbers as they relate to the school districts. Senator Townsend has done some work on that, because he understands it is a touchy area. When it comes down to cutting budgets, if you short the school districts \$1, something will happen. Some project, over and above what is mandatory, would probably be cut.

I remember in our budget hearings, we have a biennial DSA budget, somewhere along the line of 8 percent. The annual percentage increase was estimated by the Governor. In looking at Clark County, the 6 percent lowers the amount quite a bit; 7 percent would lower it by \$4 million from the almost \$5 million in the Assembly bill, and \$60 million one year from the projection with no caps. That is a dicey situation. Four million dollars does not sound like a lot of money on one district, but maybe to some districts, \$40,000 would be a large number. When we just take a flat number and apply it to everything, we are hitting some agencies that may or may not be able to cope with it, while others can. Under your scenario, is there a way to direct limits and/or the direction of the spending? That is a global question because it relates to everything we have done, but we are at decision time now.

SENATOR HARDY:

Our primary consideration always needs to be with regard to the reduction this may have in the DSA account, or other places. There is a commitment to fill that gap. I seem to recall, during a debate on S.B. 8 of the 20th Special Session, there was a lot of discussion about making sure the taxes we passed created a more equitable tax base and to not fund any tax increase on the backs of the residents. It is appropriate to discuss applying the surplus to some of the things you are talking about. I think it is a policy discussion for this Legislature and the budget committees to have.

SENATOR COFFIN:

I assume if we passed a budget similar to the Governor's budget, the difference between the two revenue sources would have to be made up at some time in the future from our General Fund. Whatever it adds up to for the State, we would need to make sure there is enough money. This is just one year's projection on our revenue for the property tax; I do not know what it would be in the out-years.

SENATOR HARDY:

That illustrates the point on why I want to cap.

SENATOR COFFIN:

What contingency would we follow if we shortchanged the school fund?

SENATOR TOWNSEND:

If you look at A.B. 489, the deficit in the DSA for both years would be approximately \$24 million. With the 8-percent hard cap, it would be approximately \$44 million, so the difference between the two is an additional \$20-million deficit to the DSA. We would have to make a determination of whether the proposed budget and the projected revenue increases could absorb that deficit. It is not a decision to be made by this Committee.

SENATOR COFFIN:

I understand we have enough surplus this year to handle that kind of thing if we set our minds to it, and actually set the money aside in some fund. What about the out-years? I see the growth rate was taken care of in the Assembly bill at 8.8 percent. The 8 percent Senator Hardy proposes shorts it.

SENATOR HARDY:

I am not proposing this as a permanent fix. I am proposing it as, largely, a way to make sure we come back and address this constitutionally.

SENATOR COFFIN:

Why not 9 percent? Nine percent would cover the Governor's budget for the schools. Numbers were run on 6 percent and 8 percent. Why not 9 percent? I like the idea of removing the uncertainty, but why not make sure some of these things are whole?

SENATOR TIFFANY:

You chose the 8-percent cap because it did the least amount of harm to the rural counties, and it may be a little more negotiable on the Assembly side when we come to a conference committee. In my opinion, it is not as important to keep local government whole as it is to avoid creating a split tax roll. We have surplus to make up the difference; this is a short-term fix, and we are trying to get equal taxation here.

SENATOR HARDY:

I will leave it to the collective wisdom of this Committee to decide what the cap should be. We need to have certainty, and there needs to be a hard cap. These are good numbers, reflective of what is going to occur for purposes of discussion. My issue is to have a hard cap on business.

SENATOR RAGGIO:

I am not part of this Committee, but I would like to ask this question to clarify something. It is my understanding if you combine the 8-percent cap on other properties with the treatment for the owner-occupied properties at 3 percent, in essence, you assume a 6-percent property tax across the State. It is an issue that should be pointed out. I am not passing judgment on any of these at the moment, but do I understand this correctly?

SENATOR TOWNSEND:

Yes, if you look at the last page of [Exhibit D](#), the bottom of the last column shows it comes out to almost exactly 6 percent.

DAVID KALLAS (Las Vegas Police Protective Association; Nevada Conference of Police and Sheriffs; Police Managers and Supervisors Association):

I am here today in support of A.B. 489, whether in its current version, or as a hybrid version of the amendment Senator Hardy proposed. I do want to address concerns about a couple of statements made about keeping local governments whole. As more and more residents move into our communities, they expect more and more from our governments: more parks, more roads and certainly, more public service. They want cops in their neighborhoods; they want firemen to respond promptly to their fires; and they want their children in classroom sizes that are not overcrowded. If we impact local government by doing something that is popular to cover everybody, it is going to have an impact on those services. As someone who has spent 26 years on the street, the reality is somebody is going to suffer. I am concerned public safety and the

public in general will suffer if we do not ensure whatever we do here is going to give the local governments enough money to provide services the residents of those communities expect, especially from a public-safety perspective.

RAYMOND McALLISTER (Professional Fire Fighters of Nevada):

We stand in support of A.B. 489. We also ask that you, in an expeditious way, move this along and provide relief for the citizens, and at the same time, maintain the level of public safety they have come to expect.

CAROLE VILARDO (Nevada Taxpayers Association):

I appreciate a hard cap, but because of the proprietary interest we have in the severe economic hardship legislation, we feel a 3-percent increase in a property-tax bill does not constitute a severe economic hardship. It does not, because I can give you examples where the voters chose to approve a ballot question for an operating override, or for a bond issue, which represented an increase considerably greater than 3 percent. I realize we are on a fast track, and there is probably no chance to get some adjustment made to the 3 percent. However, I have to be on record with this because it is playing loose with the intent of what constitutes severe economic hardship.

Amendments are needed to the bill, and I assume a trailer bill will be coming through. We would like to work on that trailer bill. You have issues of notification relative to how you determine if a property is a primary residence. This issue has to be addressed. You do not want to delay the bill at this time, but you have a number of things like that. There was also concern about a local government, in order to keep whole its bond obligations, being able to impose an additional rate. I may misunderstand the way this was going to be solved, but it was my impression if there was any property tax increase, including for debt, it would go to the Tax Commission. We have a number of issues approved by the voters, for, say, 10 cents, for which medium-term obligations will be imposed as well as a portion for operating expenses. If I look at the total amount of revenue generated, within that total is enough to cover the debt requirement. I may have to reduce the operating expenses, but I cannot take any of the money used for those expenses to cover the debt. I need to keep all of it for operations, and levy an additional tax to cover that portion of debt. I would be more comfortable seeing a tie from the provision to the approval by local government and the tax committee, or I would ask that you request a report back to this body by any entity utilizing that provision.

MARY C. WALKER (City of Carson City; Douglas County; Lyon County):

A rural fund is a consideration we would appreciate. As you can see through your numbers, for the most part, the rural counties are basically flat, even using the Assembly bill. We are trying to grapple with how we would pay for services with those revenues being flat, let alone having something like a freeze. If there were some type of freeze, most of the rural counties would definitely go into some type of deficit. In the rural communities, you do not have a lot of growth in assessed value, and you do not have a lot of commercial. What you have is your base, and if you were going to go in with some kind of a freeze, you would be affecting that base. For the most part, we cannot really grow ourselves out of a deficit. We have long-term employee contracts we have already entered into based on normal revenues. Not having those normal revenues could seriously affect our ability to pay for those contracts.

ANDREW LIST (Nevada Association of Counties):

Nevada Association of Counties remains neutral on A.B. 489, at this point. As to the amendment proposed by Senator Hardy, the numbers do change somewhat. However, we remain neutral on the amendment and leave the decision regarding the 8-percent hard cap up to the wisdom of this Committee. As Ms. Walker said, there are some fixed, long-term costs with which the counties will be dealing, and a lot of those are affiliated with contracts. With A.B. 489, we can still provide those services, at least in the near future.

I express our support in regard to section 5 of the bill, which allows the recapture provision for some of the counties that have lost assessed valuation quite rapidly over the last couple of years. Currently, there are nine different counties declining in assessed valuation. They are actually going backward. As far as addressing additional taxes for voter overrides, additional services or bonded indebtedness the counties might need to levy, I remind you, we have five counties right at the \$3.64 cap. Therefore, something might need to be done to provide rate relief if anything were to go outside this particular cap, such as a voter-approved override.

MARVIN A. LEAVITT (Urban Consortium):

The basic idea behind the bill is excellent. You have taken advantage of the constitutional provision approved by the people, and the mix is good. You provided relief to the residential homeowner, while avoiding the potential

downsides of a California Proposition 13 look-alike. Passage of A.B. 489 would guarantee homeowners protection against rising property tax values without all the negative things we see so much in Proposition 13.

The adjustments proposed today have some interesting effects. For instance, if you look at Clark County in [Exhibit D](#), the cap we compute for the current year under A.B. 489 is approximately 13 percent. If I look at 13 percent compared to 8 percent, there is approximately a 61-percent ratio. However, if we look at Clark County as a whole, the actual numbers go between 8.8 percent and 7.2 percent, which is an 80-percent relationship. It shows the actual percentage growth does not change as much as the changing outside percentages because we have properties that have grown less than either of those caps.

If you look at Sparks, in Washoe County, the A.B. 489 growth rate is 5.1 percent. When you look at the 6 percent or the 8 percent, it has almost no effect on the percentage-allowed growth. The same thing is true of Reno and Washoe County. The effect is somewhat different throughout the different counties of the State, depending on where the growth of their business property is in relationship to the 8 percent and the 6 percent. When we talk about these percentages, we are really talking about three things moving in relationship to each other. The cap, in section 4, applies to all property, including residential property, while in section 3, it applies only to owner-occupied residential property. We are talking about the percentage growth in residential, we are talking about the percentage growth in all other property and we are talking about new property coming on the tax roll. When I look at how close 8 percent is to what we would otherwise get, as it relates to the moving average, there are advantages and disadvantages of both. This would relate both to looking at it from a government standpoint as well as the taxpayers' standpoint. None of us know how much the growth, in actual assessed value, is going to be in the future. The 8 percent, the 6 percent or whatever you decide upon, is a growth on revenue from the parcel. It does not relate to assessed value, per se. It is a revenue limit, which you need to consider in determining the better plan for the future. Is it the one tied to revenue growth and which relates to actual growth in revenue over time, or would you prefer a flat number that relates to either of these?

Based on our current situation in this State, local governments can live and survive with either of them. We recognize you have to do a job here, and we

recognize the taxpayers demand it. We will support what we think is reasonable, particularly the 8 percent. I am a little nervous about the 6 percent, but I will not complain about the 8 percent or the rolling average.

MICHAEL R. ALASTUEY (Clark County):

Each of the scenarios represent less than normal growth in property tax revenue year after year, both in southern Nevada and Statewide. That includes A.B. 489, as now written, and each of the scenarios under Senator Hardy's amendment structure. They all represent less than the growth otherwise expected by a 6-percent value cap with new property coming on at value. These all demonstrate significant restraint on the part of both State and local government. I was particularly impressed with the remarks of Senators Raggio and Townsend regarding balancing the State's budget vis-à-vis the DSA. We are all, in effect, tied to the same property tax base and sales tax base. We are, by virtue of any of these scenarios, not simply returning revenues to the taxpayers that otherwise would be windfalls. We are returning to the taxpayers an extra measure of revenue representing the difference between normal growth and growth under these scenarios.

The average growth in Clark County, without including the so-called spike year, was between 11 percent and 12 percent over the last decade. Every one of these scenarios is significantly below that, which is common throughout the State. Can the State afford to float the school fund, at least in the near term, with other revenues you have on hand that have come in over projections? Yes. I expect you all, in your various calculations and with your legislative options, have answered that question. Can local government, also having benefited in some areas of the State from significant sales tax revenues coming in over projections, survive the near term? Yes, I would say collaterally, absolutely.

That is the short term. We do not know when, but at some point, sales tax will fall short. As we de-emphasize certain sources of revenue, like property tax, we could leave ourselves open to emphasizing and relying on other sources. An interim structure is required. It is absolutely appropriate because we are facing a situation borne of a short-term economic phenomenon. With the exception of the DSA, all of these decisions are being made on one-year projections. The DSA second year simply presumes a continued 6.9 percent or whatever-percent increased blended rate, based on one of the cap scenarios. We are basing our decisions for the long term on short-term phenomena. Therefore, an interim structure and interim government is absolutely necessary.

With respect to Ms. Vilardo's comments, regardless of the decision you make, there are technical changes and amendments needed to any instrument going forward. In the long term, a collective caution, with some educated hindsight in some of the previous situations we have faced, is well warranted.

SENATOR TIFFANY:

Can you tell me how much was reverted from the local school districts back to our General Fund this biennium?

MR. ALASTUEY:

I do not have a figure for you, but the reversion is in the Governor's budget, and estimated at \$140 million, as of January. It is now estimated somewhat higher.

SENATOR TIFFANY:

We have a reversion coming back from the local school districts which goes right back into the General Fund.

MR. ALASTUEY:

The actual property tax collections are relatively close to the projections the Legislature approved last Session. Therefore, the most significant part of the reversion is related to sales tax and not property tax.

SENATOR TIFFANY:

We have a reversion of \$140 million, or more, back to the General Fund, which is collected at the local district. A portion of it is property tax. At the 8-percent cap, the DSA is short \$43 million; at the 6-percent cap, it is something like \$55 million; and at the 3-percent cap, it is \$110 million. That could be made up in the reversion very easily, not even talking about the surplus.

MR. ALASTUEY:

Essentially, you are saying what I said. You are substituting sales tax for property tax, in whatever form.

SENATOR TOWNSEND:

I would move to amend A.B. 489, section 10, by substituting "Legislative Commission" as the appointing authority, with "majority leader of the Senate and the speaker of the Assembly." I would also use Senator Hardy's amendment, which places a hard cap of 8 percent for all property, and leave the 3-percent hard cap for hardship cases.

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SENATOR TOWNSEND MOVED TO AMEND AND DO PASS AS AMENDED A.B. 489.

SENATOR LEE SECONDED THE MOTION.

SENATOR TIFFANY:

I agree with everything except the 8-percent hard cap. I would like to amend it to a 3-percent cap with a \$50-million contingency fund to aid the rural areas in case of some economic hardship.

SENATOR TIFFANY MOVED TO AMEND THE AFOREMENTIONED AMENDMENT.

THE MOTION FAILED FOR LACK OF A SECOND.

SENATOR COFFIN:

I would hope the amendment would include the home-based small business clarification.

CHAIR MCGINNESS:

Committee members are welcome to bring amendments to the Senate Floor, but I would appreciate notification.

SENATOR COFFIN:

A government entity or school district may look at these and see a language problem and maybe want to make a suggestion.

SENATOR RHOADS:

Do we need to put the fund for rural Nevada in this bill?

SENATOR TOWNSEND:

We will if it is necessary. Without putting anything in A.B. 489, it would give local governments, at the rural level, and our staff an opportunity to look at the impacts. If the case were made, they could come back to either the tax committee or the money committee in a follow-up bill based on the revenues, at which point we could have that discussion.

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SENATOR RAGGIO:

It may be very appropriate to do that, but I would suggest it not be in this bill. It would have to go to the Tax Commission to establish the criteria required to qualify for something of that kind.

THE MOTION CARRIED UNANIMOUSLY.

* * * * *

CHAIR MCGINNESS:

We are adjourned at 4:50 p.m.

RESPECTFULLY SUBMITTED:

Ardyss Johns,
Committee Secretary

APPROVED BY:

Senator Mike McGinness, Chair

DATE: _____