MINUTES OF THE MEETING
OF THE
ASSEMBLY COMMITTEE ON TAXATION

Seventy-Seventh Session
February 26, 2013

The Committee on Taxation was called to order by Chairwoman Irene Bustamante Adams at 1:31 p.m. on Tuesday, February 26, 2013, in Room 4100 of the Legislative Building, 401 South Carson Street, Carson City, Nevada. The meeting was videoconferenced to Room 4406 of the Grant Sawyer State Office Building, 555 East Washington Avenue, Las Vegas, Nevada. Copies of the minutes, including the Agenda (Exhibit A), the Attendance Roster (Exhibit .B), and other substantive exhibits, are available and on file in the Research Library of the Legislative Counsel Bureau and on the Nevada Legislature's website at nelis.leg.state.nv.us/77th2013. In addition, copies of the audio record may be purchased through the Legislative Counsel Bureau's Publications Office (email: publications@lcb.state.nv.us; telephone: 775-684-6835).

COMMITTEE MEMBERS PRESENT:

Assemblywoman Irene Bustamante Adams, Chairwoman
Assemblywoman Peggy Pierce, Vice Chairwoman
Assemblywoman Teresa Benitez-Thompson
Assemblyman Jason Frierson
Assemblyman Tom Grady
Assemblyman Cresent Hardy
Assemblyman Pat Hickey
Assemblyman William C. Horne
Assemblywoman Marilyn K. Kirkpatrick
Assemblyman Randy Kirner
Assemblywoman Dina Neal
Assemblyman Lynn D. Stewart

COMMITTEE MEMBERS ABSENT:

None

GUEST LEGISLATORS PRESENT:

None

Minutes ID: 346

STAFF MEMBERS PRESENT:

Russell Guindon, Principal Deputy Fiscal Analyst
Michael Nakamoto, Deputy Fiscal Analyst
Earlene Miller, Committee Secretary
Gariety Pruitt, Committee Assistant

OTHERS PRESENT:

Jeremy Aguero, Principal Analyst, Applied Analysis
Carole Vilardo, President, Nevada Taxpayers Association
Wes Henderson, Executive Director, Nevada League of Cities and Municipalities
Joyce Haldeman, Associate Superintendent, Community and Government Relations, Clark County School District
Richard A. Derrick, Director, Finance, City of Henderson
Cadence Matijevich, Assistant City Manager, City of Reno
Liane Lee, Legislative Officer, City of Las Vegas
Tim Bedwell, Director, Intergovernmental Services, City of North Las Vegas
Lona White, Private Citizen, Carson City, Nevada
Dianne Wagner-Robak, Private Citizen, Reno, Nevada
John Wagner, representing the Independent American Party
Carol Howell, Private Citizen, Carson City, Nevada
William Birk, Private Citizen, Carson City, Nevada
D'ann Chagnot, Private Citizen, Carson City, Nevada
Janine Hansen, representing Nevada Families
Geoffrey Lawrence, representing Nevada Policy Research Institute
Joshua Wilson, Assessor, Washoe County

Chairwoman Bustamante Adams:
We have a presentation about property tax by Jeremy Aguero followed by a bill hearing.

Jeremy Aguero, Principal Analyst, Applied Analysis:
The last time I appeared, we had a conversation about the Consolidated Tax. It is one of the most complicated taxes in the state's revenue generating arsenal. A close second is the property tax. You have been provided copies of my presentation on ad valorem property taxes in Nevada (Exhibit C).

Applied Analysis was retained to review Nevada's ad valorem property tax. Specifically we were retained to look at making adjustments to the depreciation factor. I will provide an overview of the ad valorem property tax system in general. The analysis that I am going to show you is largely based on the Clark County Assessor's Office data file. They are the largest assessor's office in terms of parcels and value. It provides a way for us to analyze changes in the way our property tax system works. Doing that same analysis for every county and using every database would be massive. I will show some information based on impact analysis, which means looking at a typical single family residential home, an office building, or a hotel/casino. We try to do a theoretical analysis on all those properties. I have summarized that for a typical homeowner.

The property tax system is incredibly complex. With the adoption of the property tax abatements in 2005, any analysis of incidence almost requires a parcel-by-parcel analysis. There are over a million parcels in a large area like Clark County and analysis is remarkably complicated. I have provided you with a way to look at the order of magnitude estimates as a model. (Exhibit C).

There are three parts to the presentation. The first is a general overview of Nevada's ad valorem property tax system. The second is a review of what changes are being proposed and the policy underpinnings to those changes. The third is an impact analysis relative to those proposed changes.

To understand Nevada's ad valorem property tax system, the right place to begin is Article 10 of the *Nevada Constitution* which says the Legislature is given the authority to provide for a uniform and equal rate of assessment and taxation, and to secure a just valuation for the taxation of all property, exempting mines and mining claims, the proceeds alone which shall be exempted by law from municipal, education, literary, scientific, religious, or charitable purposes. The Legislature is given the authority. Properties must be treated in the same way from an assessment standpoint. Assessors in every county go through extensive efforts to provide that just valuation. There have been a lot of discussions about property tax for mines, that is covered by another section of the *Nevada Constitution*.

When we think about any tax, there are three key elements. They are the determination of values, which is called the base in other taxes; the assessment rate; and the rate of taxation. When we try to assess value of a property in Nevada, we bifurcate that property into two components. One is the value of the land. Land is assessed at its full cash value. For a vacant piece of land, it would be assessed for the lawful use for which it could be used. For an improved piece of land, it is for the purpose for which it is being used. For improvements, such as a house constructed on the property, it is assessed at the replacement cost less a depreciation factor of 1.5 percent for up to 50 years. The owner is able to depreciate the improvements by 75 percent to leave a residual value of 25 percent. There are property tax valuations relative to personal property. These are things that are not affixed to the ground such as furniture, fixtures and equipment. We apply an assessment rate to those.

We take the combination of the land value and the improvement value and calculate the tax on 35 percent of the combined value. There is a long history associated with the assessment rate, but it makes the property tax much more confusing. We then apply the tax rate, which has to be higher because the assessment rate is lower. The tax rates that are applied vary by jurisdiction. The way that we assess property is uniform and equal. Properties within counties and in different jurisdictions bear different tax rates. There is a difference between the tax a person pays and the assessment of the property.

There is a legislatively imposed cap on the rate a taxpayer can pay of $3.64 per $100 of assessed value. The state also imposes a $0.02 cent tax that is in addition to the cap which makes the highest effective cap $3.66, and that is controlled by *Nevada Revised Statutes* (NRS) Chapter 361. The *Nevada Constitution* imposes a cap at the top level of$5 per $100 of value. The voters approved a $0.02 tax for the preservation of natural resources in 2002, which is essentially outside of that cap. Those tax rates change every year. In April of each year, the tax rates are proposed by all of the local governments. There are public hearings on the tax rates. Local tax rates must be adopted no later than June 1 each year. Later in June, the Nevada Tax Commission approves the rates as submitted by the local governments. There is a process to have those evolve over time. There are some important exemptions to the property tax. Some individuals have exemptions due to disabilities or veteran status. Some people may apply for exemptions due to hardships and there are some abatements that are property and economic development specific. Some receive abatements for Leadership in Energy and Environmental Design (LEED) buildings.

My definition of property would certainly include things like cars and boats. We do not pay ad valorem property tax on them, but pay Governmental Services Taxes, such as for car registration fees. There are some explicit exemptions in the property tax statutes such as household furnishings. Stocks, bonds, bank accounts, and inventories held by businesses are also exempt. The goal is to tax property that people use or live in on an ongoing basis.

I will go through the calculation for a typical $150,000 home. Taxable value does not equate to market value. There is a disconnect between taxable and market values. The assessment ratio of 35 percent is applied and reduces the value to $52,500, which is the assessed value. We then apply the tax rate of $2.8969 per $100. In almost every case, the result is taken to the ten-thousandths place because the base is so large it makes a big difference. The result is $1,521 on the $150,000 house. It gets more complicated.

The illustration is a concept in year one. The new concept is the effective tax rate. This is how we normally think about tax rates. I used a tax rate from southern Nevada of $2.8969, but the effective tax rate, which is the resulting tax liability divided by the total taxable value, is a little over 1 percent per year. In year two, I have made the assumption that both the value of the land and the replacement costs of the improvements escalate by about 2.5 percent per year. That is lower than the longer-term average and much higher than we have seen recently. The cash value of land goes up, the replacement cost of the improvements go up, but we have to take a depreciation factor. The depreciation factor is 1.5 percent, which is deducted from the total to get to the taxable value. Our resulting tax liability increases from $1,521 to $1,543. You will also notice that the effective tax rate begins to fall. It goes from 1.01 percent to 1 percent. In years 3, 4, and 5, the rate will decline over time because we are depreciating the asset away from its replacement cost. While we are allowing it to escalate, that is a reduction to the total taxable value. If I were to continue this pattern until year 50, when a property under current law would be fully depreciated, the value of the property is substantially higher. It means the taxpayer is only paying on about 25 percent of the replacement costs of the improvements because they are fully depreciated. The assessment rate is unchanged, the tax rate is unchanged, and the result of tax liability is higher. The effective tax rate is much lower. It is roughly half of what the tax rate is for a person who moves into a new home. That is the calculation of how we go from taxable value to what people pay in tax.

Overlapping tax rates often cause some degree of confusion.

Chairwoman Bustamante Adams:
We have a question.

Assemblywoman Pierce:
Is the depreciation 1.5 percent of the cash value of the land plus the replacement cost of the improvements?

Jeremy Aguero:
It only applies to the improvement component.

Assemblywoman Pierce:
After 50 years, is there no more depreciation?

Jeremy Aguero:
The property is fully depreciated at 50 years.

The second concept is overlapping tax rates. There is often confusion among taxpayers. There are many rates that are added together. The assessor is required to do an incredibly difficult task to get every taxpayer covered by the rates that apply to their specific overlapping district. In the example on the chart on page 9 (Exhibit C), it shows what Clark County generates in terms of overlapping rates. School districts are the single largest beneficiaries of property taxes in Nevada. Cities benefit from taxes as do special purpose districts and agencies such as libraries and funds. Higher education benefits, and there is an entry for the cooperative extension, which is a part of higher education. The State of Nevada also benefits largely due to capital.

Chairwoman Bustamante Adams:
There is a question.

Assemblywoman Neal:
Where did the idea of depreciation originate? Because we are in a negative property tax environment, how do we grow?

Jeremy Aguero:
In a negative environment, if everything were flat, our tax base would erode and continue to go down. After 50 years in my hypothetical example, we would divide in half the amount of revenue with the same amount of property. The negative environment does not stop the depreciation factor from applying. It adds to the decline we are having relative to our property tax base. Is there a nexus to the depreciation factor? The state and local governments are charged with providing services to people who live in houses and public safety to people in offices and hotels. A person who resides in an older house has less of a tax burden. The nexus between where demand comes from and how taxes are paid is broken. There are two theories about taxation. One is the theory of wealth and the other is the theory of demand. The theory of wealth says wealthier people should bear a higher tax burden. The theory of demand means the people who demand services should pay more for them. While the property tax goes along the wealth basis of taxation, the depreciation factor is a departure from that.

Assemblywoman Neal:
It seems that we are over dependent on new construction to offset the depreciation. When you get into the question of sustainability and how you grow the market and those factors are negative, what is the alternative? It seems like the reliance on the property tax base is not helpful unless there is

constant new construction growth that offsets depreciation at the 50 years. There should be a staggered approach to how you do new development.

Jeremy Aguero:
I think the answer is yes, and that worked well for us for so long. We were arguably the most prolific state in the United States for the past 50 years by adding more houses, office buildings, hotels, and retail centers than anywhere else in the United States. From a property tax perspective, it made everything seem pretty good and masked the negative attributes under a slow or no growth environment.

Assemblyman Hardy:
Regarding the property tax calculation summary, how are the replacement costs of improvements calculated? What if a person does not make improvements?

Jeremy Aguero:
There are factors used in estimating the replacement costs of properties provided by companies like Marshall & Swift, whose reports are used by the assessor. If there are improvements including new construction, there are increases of a supplemental value. After the first year, those improvements would be depreciated and would be subject to those replacement costs. There is a disconnect between market value and replacement value. There are industries that understand the cost of replacing an asset and the assessor's office goes to great lengths to do the best they can. There is also an extensive process that allows for property tax payers to appeal the assessments for residential and commercial properties.

Chairwoman Bustamante Adams:
Why did our state include the depreciation factor?

Jeremy Aguero:
I do not know.

Carole Vilardo, President, Nevada Taxpayers Association:
The depreciation factor was added during the 1981 Legislative Session that is referred to as "the session the tax shift occurred." The Chairman of Assembly Taxation at that time, Assemblyman Price, was concerned about residents being able to keep up their homes and brought forth the idea of depreciation. The original bill allowed depreciation to be set at 2 percent. In the 1983 Legislative Session, that rate was determined to be too accelerated and it was reduced to 1.5 percent. We have had the system since the 1981 Session and we are the only state that still has depreciation in its formula to determine

taxes. Ohio was the last state to have depreciation and that was repealed about five or six years ago.

Jeremy Aguero:
We have talked about the calculation of property tax and the overlapping rates associated with the property tax. To add to the complexity, in 2005, abatements of 3 percent annually on owner-occupied single-family residential housing and not to exceed 8 percent on all other property types were added. With regard to the 3 percent caps, we have seen property values decline dramatically and as they rise, they are likely to grow at a rate more than 3 percent, which creates some challenges. The 8 percent can also include residential properties that are not owner occupied unless they are leased out at the U.S. Department of Housing and Urban Development's level of fair market rent, in which case, they can qualify for the 3 percent cap.

The 8 percent is actually a more complicated formula. It is the greater of the 10-year county average assessed value growth rate or twice the increase in the Consumer Price Index for the previous calendar year, not to exceed 8 percent. That rate, in Clark County, is now lower, or about 6 to 6.5 percent. It is complicated because in reality, when the value of property is decreasing, property taxes can increase. It is confusing to the taxpayer, but when it was imposed, values were escalating so quickly, that there was great concern relative to the increase in value and ultimately to the increase in property taxes. There are exemptions to the abatements. Voter approved rates are outside of the abatement. Additional tax rates needed to repay bonds and any legislative acts after 2005 are outside of the abatements.

If we think of the process in the three steps we have discussed, we calculate the liability, and we determine how that will be distributed to the state and local governments. This deals specifically with how much a property tax bill can increase. If all those calculations indicate a larger tax bill, the bill can only increase by 3 percent and would be proportionally distributed to all of the overlapping rates. If we look at the parcels receiving abatements on page 14 of the presentation (Exhibit C), in Clark County we see some important trends. In 2006, 2007, 2008, and 2009 as many as 620,000 parcels received some type of abatement. It declined dramatically after that.

The projections for 2014 suggest the number will rise again. Why are we seeing the abatements increase again? We know that values are increasing both in the north and south, but there is evidence that in some counties there was an overcorrection relative to valuation. When the market was at its worst, assessors devalued properties more than they should have. In retrospect, they may think the replacement cost is higher, but the abatements are a one-way ratchet. You can fall as fast as you like, but taxes can only increase by 3 percent. If a house declined 50 percent from the peak market, in order for it to get back up to that value, it has to increase by 100 percent. That is the problem with the one-way ratchet. If we think about a 3 percent growth rate and a 50 percent decline in value, it will take a long time to get back to anything that looks like peak, even if values escalate. If we look at the amount abated, in Clark County alone about $3.7 billion has been abated since fiscal 2006. As the economy corrects, the realities of the abatements as we grow are much different than the abatements as we decline.

I want to distinguish between real and personal property. Business property is also subject to tax and has its own set of depreciation factors, which are between 3 and 30 years, and is determined on the useful life of the assets. There are also properties that go across county lines such as railroads and utilities, which are centrally assessed. Centrally assessed properties is a concept that falls within the purview of the property tax. Net proceeds of mines is also considered a property tax and is imposed at or near the constitutional maximum. Redevelopment activity also impacts property tax. There is an extensive property tax appeals process for a taxpayer who feels their assessment is out of line. Property taxes are among the most complicated to be administered. Enhanced technology used by assessors in Nevada has made our process superior especially in the ability to provide information to the public.

Chairwoman Bustamante Adams:
Are there any questions? [There were none.]

Jeremy Aguero:
We have already seen the depreciation factor as the subject of legislation. We are considering reducing it from 1.5 to 1 percent per year. It would then take 75 years to fully depreciate a property instead of 50 years. The proposal as set forth in the bill extends the time period to reach full depreciation. It would slow the rate of depreciation from the effective date of the bill. The bill is forward-looking. This will only slow the negative impact in a slow or no growth economy. It softens the blow, but does not eliminate it. This will not change the tax abatements. A single family residential owner of property cannot have their tax increased by more than 3 percent. No matter what we consider under an analytical standpoint, it always operates under the assumption that the 3 percent cap and the up-to-8 percent cap will continue.

Chairwoman Bustamante Adams:
We have a question.

Assemblywoman Neal:
The abatements will eventually expire, but there is still an amount that is not paid because it is abated. It slows the rate but there is money that has not gone into the "bucket." It does not balance to me and there will still be a hole.

Jeremy Aguero:
If you are not depreciating the value, you may not get the tax, but it still goes into the abatement bucket. In the event the property value drops, you will still see the tax increase by 3 percent per year until you start to diminish everything that you have put into the other bucket. On years that are growing, the bucket will be filled a little faster.

Assemblywoman Kirkpatrick:
The abatements are property tax relief for our residents. I do not want to lose sight of that. There are more abatements that result from property tax appeals. Taxpayer rates have not increased as much as they would have without the caps.

Jeremy Aguero:
You are absolutely correct. The property tax relief abatements of 2005 were intended to defer property taxes from increasing 20 to 40 percent. There is no doubt tax relief was intended. The design that was intended to protect taxpayers from exorbitant increases in their property tax bills is now essentially creating a situation where properties that are undervalued may never get back to their theoretical tax value in terms of taxation. I want to balance both sides.

Nevada is the only state in the United States that currently uses this depreciation factor. There is a reason depreciation has been phased out and eliminated in other states. I would submit that our declining condition is different from other states. The chart on page 17 (Exhibit C), indicates Nevada's total assessed value. At our peak, Nevada's total assessed value was $144 billion. In fiscal year 2012-2013, it declined to $82 billion. If we consider how our property taxes work, this is a phenomenal decline. It is staggering and unprecedented in modern Nevada history. That is 43 percent of property tax dollars that essentially went away.

A more compelling order of magnitude estimate is on the table of residential property appreciation rankings. Over the past five years, Nevada has lost 55.2 percent of its assessed value and that ranks number one in the United States. Since 1991, the combined value of residential homes in Nevada have only increased by 17 percent. The next closest state is Michigan, which has seen an increase of 50 percent in the same period. We lost almost a generation of value over the past five to six years. We also saw a huge run-up in value for the five years leading up to that. Had we not had abatements, it would have been problematic, but today we are hopefully at the bottom of the pricing and economic cycle. It will be more challenging to climb out the other side.

This is among the most important sources of revenue we have. It goes to the state, local governments, special districts, libraries, and to the single largest beneficiary, schools. Schools, in terms of operating and debt rate, get more of the property tax than any other single entity and that is $1 billion of property taxes. The abatement total to Nevada schools between 2008 and 2013 declined from $1.4 billion to $945 million. If we are going to think about depreciation and freeing up some of the revenue, it is fair to talk about where it is going to be distributed. Schools will receive roughly 39 percent in terms of that increase. In the illustration (Exhibit C), you will notice that school debt and school operating rates are bigger than any of the other categories. The measure that is before you is revenue generating. If you want something to be revenue neutral, you will have to find some other type of tax to reduce. If we reduce the depreciation rate, it will lead to increased revenue for schools, cities, counties, the state, and special districts. This will require program changes for assessors to give them the time and resources necessary for this to happen. It is critical to successful policy.

There was a question about the nexus of demand for government services and the idea that depreciation is somehow linked. There seems to be a disconnect between that and government services. This a long-run strategy. Year one will have a "rounding error effect." From a budgeting standpoint, when we look at the size of revenue sources and how funds are allocated, it is going to take longer to create a more stable and more predictable property tax revenue stream. This is one step; it is not a comprehensive fix. The property tax lacks transparency. Some of the changes we have made make it increasingly complex. It has taken one of the most stable and reliable revenue sources and devolved it to a shadow of its former self. There may be policy reasons for it, but if we are going to talk about reforming the property tax over the long run, this is the beginning.

The third element of my presentation deals specifically with impacts. We developed an impact assessment model. We took all of the parcels in Clark County for the years 2011-2012 and estimated what they would pay in additional taxes if depreciation did not exist. The assumptions underlying this are critically important. If property values remain flat, depreciation will slow the rate of decline in collections. If property values decline, it will also slow the rate of decline in collections because depreciation is not layered on top of declines. If property values increase by less than the statutory abatement caps, then property tax collections will increase until you get to the 3 or 8 percent caps. If property values increase by more than the statutory abatement caps, the amount of the depreciation will be put in that abatement bucket and it will stay there until those property values grow at a slower rate.

We analyzed depreciation for Clark County, and the presentation shows a few of the jurisdictions. We analyzed it at the current rate of 1.5 percent per year, at 1.25 percent, 1 percent, 0.75 percent and 0.5 percent. I will focus on the level proposed by the bill which is 1 percent. In Clark County, it would increase the total tax liability by about $6.3 million or about 0.3 percent in terms of aggregate increased tax liability in the first year. Those who benefit from the tax today will also disproportionately benefit if depreciation is slowed. In the hypothetical example, Clark County Schools' operation and maintenance would benefit by an estimated $1.5 million per year. The chart on page 21 of the presentation (Exhibit C) is a simulation of year 1 but it provides a general overview of what it would look like.

The impact assessment considerations that I think are important for understanding include growth over time. Depreciation is applied every year so, assuming things remain constant, the impact would be expected to increase each year. The rate of depreciation each year is slowing. The compounding nature means a person will have to pay on a higher percentage of the property value. Full depreciation will take longer. Today, somebody can be fully depreciated and only pay on 25 percent of the improvement value after 50 years. Under the alternative proposed in the bill, it will take 75 years. Valuation trends are critical. I cannot predict property values and when there will be another economic downturn, but I can assure you that there will continue to be ups and downs.

I would like to show you the impacts on a typical $150,000 home on page 23 (Exhibit C). We have looked at a house valued at $150,000 today with a 2.5 percent inflation rate that would be valued at $1.73 million in 100 years. So when we go out to periods such as year 93 and look at the tax rates, we need to take it with a grain of salt. Long-term history is going to be this way. The chart on the left of page 23 looks at the tax liability today. When you get past year 50, the tax liability starts accelerating quickly because the depreciation stops. The chart on the right illustrates the effective tax rate, which is the total tax liability divided by the total taxable value. What you see in the chart is that the effective tax rate starts at 1 percent and erodes over time until it gets to the flat line amount and then remains flat. In terms of effective tax rate, because a house is one year older than another, the tax liability will be a little less than another house until both houses are at 50 years.

The proposal as outlined would essentially drop the annual decline in depreciation from 1.5 percent to 1 percent. One percent is lower but it extends further, which shows the proposal will allow people to get all the way to full depreciation as they do today but it takes longer. After 75 years, both rates will be the same. In terms of tax liability, the next chart compares the status quo with the alternative. Over time, those get a little further away from each other as one house depreciates faster and then they get closer to each other as the 1 percent depreciation level catches up to the 1.5 percent level. The next charts on page 25 illustrate the impact on a typical homeowner and a property tax liability comparison. [Read from (Exhibit C).]

As illustrated in the "Impact on a Typical Homeowner Effective Tax Rates" chart, it is more important that greater equity has been created relative to the effective tax break. Essentially we are saying that without depreciation, neighbors whose houses may have been built before or after each other would bear tax liabilities that would ultimately be more closely aligned.

I will summarize by making four points. Nevada is unique. Changing something merely because it is unique is neither appropriate nor necessary. When it comes to the depreciation factor, there is a fair argument that looking at our property taxes is necessary and appropriate and depreciation is one part of that. The second point is that the property taxes have been destabilized. This will be a long-term fiscal realignment. It will not fix our problems overnight, but is a step in the direction of creating a greater nexus between demand for services and the reality of values in the market. The details are critical. Property taxes are complicated and so is changing them. Making sure that we do this correctly is more important than making sure we do this now.

Chairwoman Bustamante Adams:
Are there any questions?

Assemblyman Hickey:
This is a short-term fix to a long-term problem. Why not change the assessment to the point of sale? Is that too heavy of a lift to take on in one session? That seems to be one way to solve this problem.

Jeremy Aguero:
In terms of taking a long hard look at our property taxes and the changes we have made to it, I think it is exactly what you said. There are challenges. We either have to face the challenges or deal with what we have created over time. What is being proposed here may be a partial fix, but it is a long-term view. Stemming the tide of depreciation and continuing to erode the amount of taxes over time would lead to eliminating some of those inequities.

Chairwoman Bustamante Adams:
Seeing no more questions, I will open the hearing on Assembly Bill 26. [Committee rules were reiterated.]

Assembly Bill 26: Reduces the statutory rate of depreciation applicable to improvements made on real property for the purpose of determining the taxable value of the property. (BDR 32-258)

Wes Henderson, Executive Director, Nevada League of Cities and Municipalities:
I submitted written testimony (Exhibit D). Assembly Bill 26 was introduced on behalf of the League and it seeks to change the rate of depreciation on improvements to real property from 1.5 percent to 1 percent. It would not change the ultimate 75 percent depreciation that can be reached. It would just take 75 years to get there instead of 50 years. We have offered an amendment to the bill (Exhibit E). It would change the effective dates in subparagraph (1) of paragraph (b), of subsection 2, of section 1 from December 31, 2012 to December 31, 2013. In subparagraph (2) it would change the date from January 1, 2013 to January 1, 2014. The effective dates of the act in subsections 1 and 2 of section 3 would both be changed to July 1, 2015.

Based on conversations with the assessors before this hearing, there still may be difficulty in using a calendar date instead of a fiscal year date and we are willing to work with them to correct that.

Chairwoman Bustamante Adams:
Are there any questions? [There were none.] Will those in support of this bill please testify?

Joyce Haldeman, Associate Superintendent, Community and Government Relations, Clark County School District:
As the single largest recipient of this bill, education stands firmly in support. This would bring needed money to K-12 education.

Richard A. Derrick, Director, Finance, City of Henderson:
The City of Henderson supports this bill. The current depreciation factor causes extreme challenges from a service delivery standpoint. [Read from prepared testimony (Exhibit F).]

Chairwoman Bustamante Adams:
Are there any questions? [There were none.]

Cadence Matijevich, Assistant City Manager, City of Reno:
The City of Reno supports this bill for the reasons stated by Mr. Derrick. The Reno City Council adopted a formal position in support for the bill.

Liane Lee, Legislative Officer, City of Las Vegas:
The city strongly supports A.B. 26. A decrease in depreciation would net the City of Las Vegas over $340,000 in additional revenue that would have a compounding impact each year to support local government.

Tim Bedwell, Director, Intergovernmental Services, City of North Las Vegas:
We agree with the other cities that have testified on the bill.

Chairwoman Bustamante Adams:
Are there any others in support of A.B. 26? [There were none.] We will move to the opposition.

Lona White, Private Citizen, Carson City, Nevada:
I am here to represent the ordinary person and tell how taxes affect the ordinary person. It appears the effect of the bill would be to raise taxes. As somebody who is retired and struggling financially, taxes are a great problem for me. I used to have a sufficient amount of money from my retirement, but I have taken a financial hit. I have lost about 80 percent of my real estate holdings and financial investments. During the same time, all of my expenses have risen precipitously. My water bill has increased 16 percent in one year, my telephone bill has increased almost 40 percent over the past few years, my Internet service has increased 65 percent since 2007, and my grocery bill has increased by about 68 percent over the last 10 years. I am affected by taxation and the cost-of-living increases, and I am struggling. I would ask you to consider the reality of this economic climate and that you are taxing the unemployed, the underemployed, those on fixed incomes, and businesses that are struggling to exist.

The unemployment rate in Nevada is 10.2 percent, which is the worst in the nation. Raising taxes affects unemployed people. It seems that raising taxes and increasing spending is the only answer to every question that comes up. We need to come up with creative solutions as businesses do. I have a partial list of many kinds of taxes that are affecting people to give an idea of how overtaxed and burdened we are. We have taxes on accounts receivable, building permits, car rentals, driver's licenses, cigarettes, corporate income, dog licenses, ObamaCare taxes, excise taxes, federal income tax, federal unemployment tax, fishing license, food license, fuel permit, gasoline tax, gross receipts tax, hotel tax, hunting licenses, inheritance, inventory, Internal Revenue Service penalties and interest charges, liquor tax, luxury taxes, marriage license tax, Medicare, personal property, real estate, service charge tax, social security, road usage, recreational vehicle tax, sales tax, school tax, and about seven telephone taxes and surcharges.

Chairwoman Bustamante Adams:
I would like the testifiers to speak to the technical part of the bill. We are talking about property tax.

Assemblywoman Kirkpatrick:
I implore you to stop by my office because I would like to hear your solutions to these problems. You probably left off about 75 taxes that other states charge that Nevada does not.

Chairwoman Bustamante Adams:
Are there any questions from the Committee? [There were none.]

Dianne Wagner-Robak, Private Citizen, Reno, Nevada:
I have two properties in Washoe County and am aware of the fact that the economy has taken a dip and it affects the state as well as my finances. The state finances are my concern. There should have been a rainy day fund established when the economy was better after 2005. We are at the same level now as we were in 2005. The reduction of depreciation is a whole one-third and that is an impact. The presentation made it seem like it was all right because the increases would be spread out. I think the state has to move things around in their budget as I do in mine. From the consumer's point of view, when we do not like these things and we see new roundabouts being created and artwork on the freeways, we think that is terrific. Then the newspaper shows me a picture of the schools needing money and they show a frayed carpet. I have frayed carpet that I cannot afford to replace. It was stated that this is a first step until we find another way to increase taxes even more.

John Wagner, representing the Independent American Party:
We oppose this bill because it is a tax increase. In 75 years most people will not be around. The federal government allows businesses to write off things they buy in a much shorter period of time. The longer you take to depreciate an item, the more money it generates. This reminds me of a person dying in the desert and they are out there picking his bones while he is barely alive.

Carol Howell, Private Citizen, Carson City, Nevada:
Any way you look at this bill, it is a tax increase on property owners. When you lengthen the time of depreciation and cut the rate by one-third, that is a tax increase. It is no wonder the cities are supporting and sponsoring this

bill. It is revenue for them and we understand that. It is time the cities, state, and federal governments take a look at that. I put together a list of 47 taxes we pay directly or indirectly with another 20 that will come into effect with Obama Care. In this session alone, in four weeks, we have more bills to increase our taxes from a margin bill, a fat tax bill, and a study to do a tax on services. It has gotten to the point that "enough is enough."

Chairwoman Bustamante Adams:
I will extend the same invitation to you. If you have any additional solutions regarding our state, Assemblywoman Kirkpatrick would love you to see her and share those solutions.

Carol Howell:
May I suggest we have a workshop of citizens and legislators to work out some of these details?

Chairwoman Bustamante Adams:
Who is your assemblyperson?

Carol Howell:
My assemblyman is Pete Livermore.

Chairwoman Bustamante Adams:
He does not sit on this Committee, but it would be great to have his participation. Are there any questions or comments?

Assemblywoman Pierce:
It should be noted that in 2007, Nevada had the least public employees per capita of any place in the country. During this recession, the state and municipalities have cut more public employees than any other place in the country.

William Birk, Private Citizen, Carson City, Nevada:
I am a retired veteran of 23.5 years in the Air Force. I have lived in many states and paid taxes in many states. Not only is this bill "broke," the system of taxation in this state is "broke." If I go to McDonald's to buy a hamburger, I should not have to give my income amount to see what I have to pay for it. We all use the same city and state services. Every resident in this state should pay the same tax. It does not matter what size a house is or how many people live in it, they use the same streets, and the same sewer system. Our system allows for people to pay for the water they purchase, but the other available services should be at an equal cost. The individual gives the power to the government to do something for them. Should we pay different rates for fire

protection because of our income? No. The word fair has a different meaning in government. Fair means the same. I will pay a buck for my hamburger and I expect everybody else to pay the same.

Assemblyman Frierson:
Are you proposing that we not have a depreciation rate to avoid people paying different rates?

William Birk:
I am saying that we need to adjust the whole system. Why do we have the depreciation rate or why do we set the rate based on the value of the property?

D'ann Chagnot, Private Citizen, Carson City, Nevada:
I agree with everything said today against the bill.

Janine Hansen, representing Nevada Families:
We appreciate the dilemmas you face. A lot of people are struggling today. My husband lost his job in November, my stepson lost his home, and my son-in-law is unemployed. There is a lot of pain in our state and a lot of people are suffering. This bill is a tax increase and will extend over 75 years. The advantage we have now will not be there. That makes a lot of difference to people who are on fixed incomes. My son lives next door with seven children. He is experiencing that the economy in Elko is not any better. He is barely able to feed his children, so he is considering moving to another state. We have to look at the long-term effects on people who are struggling to survive. I have some suggestions.

Chairwoman Bustamante Adams:
I would like to get your suggestions in a written document and you could share them with Assemblywoman Kirkpatrick.

Assemblywoman Kirkpatrick:
It is about having solutions, but it is about respect. You are always welcome to come to my office and I will share them with the Committee.

Chairwoman Bustamante Adams:
Are there any others in opposition? [There were none.] Is there anyone to testify from a neutral position?

Geoffrey Lawrence, representing Nevada Policy Research Institute:
There seems to be some confusion about what depreciation means in economic terms. It is that the value is used up over time. In the case of housing, the architecture becomes outdated or the house falls into disrepair and becomes

used up and no longer valuable. It is misleading when we compare depreciation to the inflation rate. While we consider a $150,000 house today, a comparable new home in 75 years may cost over $1 million, but it will not be the same value as the 75-year-old house. Because a lot of this is based on how often the individual owner retrofits his home or what the rate of disrepair is for a particular home, Nevada Policy Research Institute has always felt that any arbitrary depreciation schedules set by government are not going to appropriately treat each individual parcel. This is why we feel the bifurcated system Nevada uses is outdated and should be updated with some kind of market-to-market valuation system.

Chairwoman Bustamante Adams:
Are there any questions? [There were none.] Is there anyone in the neutral position in Las Vegas before we lose our videoconference? [There was no one.]

Geoffrey Lawrence:
I have published a book about solutions called *Solutions 2013* and I would be happy to speak with you about them.

Carole Vilardo, President, Nevada Taxpayers Association:
I wanted to let the Committee know the reason that depreciation was put forth was because of the concern that individual residents who stayed in their properties for any length of time with the increase in values would have a harder time finding money to repair those properties because as you get older and retire, your income would be reduced. I think this bill and what the Assembly and Senate Taxation Committees have done so far is outstanding. The reason is you have to have policy discussions periodically about your existing tax structure. If you had put in a tax in 1946 and you never looked at it, that tax would not reflect the economy, the way business is done, or the way we live. I do not know if you should process this bill. That is your policy decision. From the phone calls I receive, we have the most complicated tax system for property in the United States. We publish a book called *Understanding Nevada's Property Tax System*. It is available on our website and can be downloaded. Nevada does not even use the terminology that other states use. I applaud you for what you are doing. I think looking at the entire tax structure needs to be done.

Chairwoman Bustamante Adams:
We have extra copies of that taxpayer book if any of the members need one.

Joshua Wilson, Assessor, Washoe County:
The calendar year dates will be problematic for the assessors because we work on a fiscal year basis. I think the soonest this bill could be implemented would

be for the 2014-2015 fiscal year. There will be some programming challenges we will need to overcome. We already have a difficult system to explain and this could increase some of the confusion.

Chairwoman Bustamante Adams:
Are there any questions? [There were none.]

[Five emails were submitted in opposition to the bill. (Exhibit G, Exhibit H, Exhibit I, Exhibit J, and Exhibit K.)

I will close the hearing on A.B. 26. Is there any public comment? [There was none.]

The meeting is adjourned [at 3:15 p.m.].

RESPECTFULLY SUBMITTED:

Earlene Miller
Committee Secretary

APPROVED BY:

Assemblywoman Irene Bustamante Adams
Chairwoman

DATE: ____________________________

EXHIBITS

Committee Name: Committee on Taxation

Date: February 26, 2013 **Time of Meeting: 1:31 p.m.**

Bill	Exhibit	Witness / Agency	Description
	A		Agenda
	B		Attendance Roster
	C	Jeremy Aguero	Presentation
A.B. 26	D	Wes Henderson	Testimony
A.B. 26	E	Wes Henderson	Proposed Amendment
A.B. 26	F	Richard A. Derrick	Testimony
A.B. 26	G	Tom Jones	Email
A.B. 26	H	Sandi Darby	Email
A.B. 26	I	Bonnie Edwards	Email
A.B. 26	J	David Smith	Email
A.B. 26	K	Tracy Burke	Email