**MINUTES OF THE MEETING
OF THE
ASSEMBLY COMMITTEE ON TAXATION**

**Seventy-Seventh Session
March 12, 2013**

The Committee on Taxation was called to order by Chairwoman Irene Bustamante Adams at 1:37 p.m. on Tuesday, March 12, 2013, in Room 4100 of the Legislative Building, 401 South Carson Street, Carson City, Nevada. The meeting was videoconferenced to Room 4401 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:

Assemblyman Skip Daly, Washoe County Assembly District No. 31

STAFF MEMBERS PRESENT:

Russell Guindon, Principal Deputy Fiscal Analyst
Michael Nakamoto, Deputy Fiscal Analyst
Gina Hall, Committee Secretary
Gariety Pruitt, Committee Assistant

OTHERS PRESENT:

Carole Vilardo, President, Nevada Taxpayers Association
Geoffrey Lawrence, representing Nevada Policy Research Institute
Ray Bacon, representing Nevada Manufacturers Association
Joshua G. Wilson, Assessor, Washoe County
Craig Madole, representing Nevada Chapter Associated General Contractors of America, Inc.

Chairwoman Bustamante Adams:
[Roll was taken.] We are going to open the meeting with a presentation from our colleague, Assemblyman Daly, on Assembly Bill 201.

Assembly Bill 201: Revises certain provisions governing the taxation of property. (BDR 32-660)

Assemblyman Skip Daly, Washoe County Assembly District No. 31:
You have before you today Assembly Bill 201, which revises certain provisions governing the taxation of property. I have some written comments on the bill that I will use during my presentation and which I shall turn over to the Committee Secretary when I am finished (Exhibit C). Essentially, this bill is a measure to help the cities, counties, and school districts within the state with a revenue problem. On the Assembly Committee on Government Affairs, every presentation we heard from various cities and counties throughout the state said that revenues were down due to the drop-off in property tax. As I traveled around my district in the 2012 cycle, I talked with many people and heard repeated requests to properly fund education, fix the cracks and potholes on their streets, and help them with code enforcement problems with foreclosed homes just down the street from their residence. Other constituents would say they have a crime problem and do not have enough sheriff patrols in their neighborhoods. Assembly Bill 201 is designed to help those entities providing the services that the people indicated to me they wanted the most. So that is the reason that we brought this bill forward.

Nevada has a very complicated property tax system, but I will do my best to try to explain it in simple terms. I believe it will help if I start with a few key facts about the State of Nevada's property tax system (Exhibit C):

- Nevada has a constitutional cap on property tax of $5 for every $100 of assessed value.
- Nevada also has an annual depreciation rate of 1.5 percent for a maximum of 50 years, which I believe reduces that potentially to 75 percent on improvements, not on the raw land.
- Nevada has a statutory limit on the maximum tax rate, which is set at $3.64, lower than the $5 for every $100 of assessed value.
- Nevada uses an assessed value instead of market value, which is set at 35 percent to calculate the property tax.
- Nevada has a statutory limit on the amount that property tax bill can increase from the previous year. Any increase from the previous year is capped at 3 percent on residential property and 8 percent on commercial property.

Assembly Bill 201 deals with the assessed value, which is set in statute. To help you understand this, I will give a couple of examples. Feel free to stop me if you have a question.

Let us say you have a house, and the market value is assessed at $200,000. Under the current law, the assessed value would be 35 percent of $200,000, or $70,000. We will divide the $70,000 by 100 in order to arrive at increments of 100 for calculating the tax, which equals 700. So in this example, there would be 700 increments of $100 of assessed value, under the 35 percent market value limit. The tax bill on the $70,000 would be 700 multiplied by $3.64, which equals $2,548. Now, under the 3 percent limit on the amount that taxes can go up on this particular piece of property for the next year's tax bill, the increase in property tax could not be any greater than $76.44 (Exhibit C).

Under this proposal, the assessed value would go up 1 percent per year for a period of ten years, setting the new assessed value limit at 45 percent. The reason that we are taking the 1 percent incremental approach is that if we were to raise it up to 45 percent all at once, an existing house in your neighborhood would go up 1 percent with the 3 percent cap, but a new house that is built in the second year of this ten-year period would jump all the way to 45 percent.

Using the 1 percent per year increment, if we are in year five, the assessed value would be calculated at 40 percent, and that new house would come in at 40 percent as well, and then go up 1 percent per year with the 3 percent cap, until you reach 45 percent.

Using the same assessed value in this next example, a $200,000 home, under this bill we would now use an assessed value of 36 percent for the second year, or $72,000. $72,000 divided by 100 gives us 720 increments of $100 of assessed value. The new tax bill would be 720 multiplied by $3.64 equals $2,620.80, an increase of $72.80 annually, or $6.06 per month (Exhibit C).

The next year, the home would be assessed at 37 percent, assuming the value stays the same, making the tax bill for the same $200,000 house $2,693.60, or another increase of $72.80. Carried out for the ten years, the total increase at the end of ten years would be $728 for a total tax bill at the end of ten years of $3,276. Remember, this is without any appreciation or depreciation. As I said, we have a complicated system.

Let us look at an example that takes into account depreciation. If you took the same $200,000 home, used an assessment of 35 percent, or $70,000, and had a 1.5 percent depreciation of the assessed value, it would be lowered $1,050 down to $68,950. This would give us 689.5 increments of $100 multiplied by $3.64 that would give us a tax bill of $2,509.78, representing a decrease of $38.22 from the previous year (Exhibit C).

So the passage of this bill would ensure that even with the flat market value rate and even with the depreciation, cities, counties, school districts will not see a decline in the property tax revenues, unless property values go way down.

In the example taking into consideration depreciation, year two would work out as the $200,000 market value being assessed at 36 percent, which equals $72,000, minus the 1.5 percent depreciation. This lowers the taxable amount to $70,620, or 706.2 increments of $100 multiplied by $3.64, giving us a tax bill of $2,581.49, or an increase of $33.49 from the previous year, rather than a decrease of $38.22.

With this next example, we will assume a 2 percent appreciation in market value under the current law. The new market value would be $204,000. The assessed value of 35 percent would be $71,400. Divide that by 100 and you have 714 increments of $100 of assessed value, multiplied by $3.64 and you have a property tax rate of $2,598.96 or an increase, without the bill, of $50.96. If you use the same scenario with the bill, in the first year with the 2 percent increase in the market value ($204,000), the first year would be assessed at 36 percent, or $73,440, minus the depreciation of 1.5 percent lowering the assessed value by $1,101 to $72,338. Divide that amount by 100 and you have 723 increments of $100 assessed value, multiply by $3.64 for a tax bill totaling $2,633.12, or an increase of $85.18 (Exhibit C).

Now, as you have hopefully remembered from earlier, 3 percent is the limit on the amount a tax bill can increase from one year to the next. In the example of a home with the market value of $200,000, no depreciation and no appreciation, assessed at 35 percent of value, the tax bill was $2,548. This meant that with a 3 percent cap, the most the property tax could increase per year would be an additional $76.44. In the scenario I just gave you, a $200,000 home, with a 2 percent increase of market value, and a 1 percent increase in assessed value (36 percent), minus the 1.5 percent of depreciation, results in an increase of $85.18. Since the increase is capped at 3 percent, or $76.44, that means $8.64 would go into an abatement that is held in reserve should property values drop or you reach the 45 percent (Exhibit C).

I did say that this was a complicated issue.

Chairwoman Bustamante Adams:
Mr. Daly, I would like to pause here so that we may ask a few questions before we go further into your presentation.

Assemblyman Kirner:
I am trying to understand this, so please bear with me. On pages 6 and 7 of your bill, I believe a critical part is the change in language from "assessed value" to "taxable value." In your presentation, you use the phrase "market value." Could you differentiate these terms for us please?

Chairwoman Bustamante Adams:
I would like to have our fiscal staff person clarify that point.

Russell Guindon, Principal Deputy Fiscal Analyst:
In the bill where "assessed value" is being stricken and replaced with "taxable value," the intent is to insulate those provisions of the law from the impact of changing the assessed value factor from 35 percent in year one to 36 percent in year two, then up to 37 percent in year three, and so on. If you did not, then not only would the assessed value grow, but the five-year moving average of the assessed value would start to grow, because you are changing this assessment factor, not because there is actually any growth in the assessed value within the tax districts. So, by taking and replacing "assessed value" with "taxable valuable," we are then insulating it from the impact of this bill by changing the factor.

Assemblyman Kirner:
Thank you, Mr. Guindon, for that explanation. However, in Mr. Daly's presentation, he used the term "market value." Would you say that it is equivalent to "taxable value," or is that a different number?

Russell Guindon:
No. Market value and taxable value is not the same thing. Under Nevada's laws, the taxable value of your property is the land at full cash value, which would be market value, and the improvements, which are at replacement cost less depreciation. Thus you can see market value, which is what your house may sell for; versus the taxable value would not be the same number, because the house is at replacement cost less depreciation.

Assemblyman Kirner:
So based on that understanding, I believe Mr. Daly what you want to say is taxable value, not market value.

Assemblyman Daly:
May I clarify? The value I was referring to is the percentage of assessed value that the county assessor is going to use to calculate the property tax. I am actually referring to the 35 percent or the 36 percent.

Chairwoman Bustamante Adams:
Are there any other questions for Assemblyman Daly?

Assemblywoman Neal:
I believe I have a technical question that should be addressed to staff but, Assemblyman Daly, in section 3, what was the thought behind the 35 percent taxable value increasing to 45 percent? What is the practical effect of that?

Assemblyman Daly:
That is the philosophical part of the bill. If property values go down, then income and revenue to the cities and counties will go down. For instance, I have attended meetings with Washoe County where they have said that the average number of sheriffs per 1,000 people in the western states is 1.7, but here in Washoe County, we are just under one sheriff per 1,000 people. Those are the types of services that we are simply unable to adequately maintain because property values have gone down. Property tax is what funds your cities, what funds your counties, and what funds the school district. You could try to raise the maximum tax rate of $3.64 up, you could raise the cap from 3 percent for residential properties and 8 percent for commercial properties, or you can raise the assessed value. I believe this solution will provide for stable, predictable, long-term increases of at least 3 percent.

Chairwoman Bustamante Adams:
As some of our Committee members are visual learners, we have a table that we created to be able to demonstrate section 3 (Exhibit D). I will ask our fiscal staff go through this table with the Committee so that we can better understand the 1 percent increase per year and the impact. Do you have other questions Ms. Neal?

Assemblywoman Neal:
I would like to know if this bill might create artificial inflation.

Chairwoman Bustamante Adams:
Ms. Neal, I am going to keep your question in mind and ask Mr. Guindon to present the table to the Committee.

Russell Guindon:
There may be a bit of redundancy in my examples, given the explanation that Assemblyman Daly gave. On page 1 of 2, Table 1 (Exhibit D), you will see the heading "Current statute under 35 percent assessed value factor." In this example, the taxable value of the property, which is both home and land, is $300,000. To get the assessed value you will multiply the taxable value by 35 percent, which equals $105,000. Assemblyman Daly pointed out that the maximum tax rate by statute is $3.64, but there is actually two cents that is outside the cap, so the maximum tax rate is actually $3.66. Now if you follow across the first row for Year 1, you will see the tax due would $3,843. Since this is year one, there are no abatements. On this table, I assumed, just as Assemblyman Daly did in his example, that the taxable value would go up 3 percent each year. The assessed value factor under current law would stay at the 35 percent. This translates to the assessed value going up 3 percent per year and your property taxes increasing 3 percent per year. Since the increase is 3 percent per year, which is the abatement, there are no abatements, so you are paying tax. That is under current law.

If you turn to the second page, you will find table 2 with the heading "A.B. 201 proposal to increase assessed value factor by 1 percent a year for 10 years" (Exhibit D). On this table I do not change anything in columns A though E, so the taxable value is the same, with a 3 percent growth. However, in Year 6 you would change the assessed value factor from 35 percent to 36 percent and from that point forward add an additional 1 percent per year over the next ten years. In this example, you can see that the taxable value goes up 3 percent, but the change in the assessed value increases 5.9 percent. Then, as you glance across the first row to column J, you will see the tax due of $4,582. In column K, with the change in the assessment factor, your taxes would go up 5.9 percent, but due to the abatement cap of 3 percent, your actual increase is 3 percent with the abatement, and thus there would be no difference in taxes under this proposal compared to current law.

Chairwoman Bustamante Adams:
For the Committee members and those persons in attendance today, we do have the tables available for viewing on NELIS.

Assemblyman Grady:
Mr. Daly, if your bill were to pass, it would take effect July 1, 2013. Have you talked to any of the state agencies, or more importantly to the county assessors, to see how this would affect them? Could they even amend their systems in the time between passage of the bill and the end of this fiscal year?

Assemblyman Daly:
I did not contact every county assessor, and the state is not affected, as the assessors are the ones assessing, collecting, and distributing the tax. Different assessors have different dates, however, I am sure whatever date we picked would not coincide perfectly with one county assessor or another. I would not be opposed to moving the date to accommodate, if that is necessary.

Chairwoman Bustamante Adams:
Mr. Grady, I am going to have fiscal staff clarify a statement on page 12 of the bill, which talks about the fiscal year.

Michael Nakamoto, Deputy Fiscal Analyst:
I would point the members of the Committee to section 3 on page 12, lines 35 through 38. The change from 35 to 36 percent would take effect in fiscal year (FY) 2015, and not FY 2014, so there would be some time for the assessors to take that into account.

Chairwoman Bustamante Adams:
Are there any more questions for Mr. Daly?

Assemblyman Grady:
My concern, if I understood you correctly, is that you said that this bill would have no effect on the local governments; in fact, it would have the most effect on local governments.

Assemblyman Daly:
I said it would have no effect on the state. The county assessors do all the calculations, send out the tax bill, collect the tax, and then distribute the tax. The state is not involved in that process but does receive some of those funds.

Assemblyman Grady:
You stated that you had not contacted all the assessors. Have you contacted any of the county assessors in the state?

Assemblyman Daly:
Yes, Washoe County.

Chairwoman Bustamante Adams:
We will be hearing from some of the individual county assessors who are neutral, so we will be able to ask that question of them as well.

Assemblyman Hardy:
In section 5, line 24 of the bill states, "county commissioners shall not allow the county assessor a salary or other compensation for any day after January 1 during which the roll is not completed." Is there anywhere in any other statute where that would read as it does in this bill?

Chairwoman Bustamante Adams:
On page 15, lines 24 through 26, Mr. Hardy? That is already existing law. Are there any other questions at this time? Mr. Daly please continue.

Assemblyman Daly:
The following portion of my presentation discusses how Assembly Bill 201 can help cities, counties, and our school districts (Exhibit C). It is my understanding that regardless of where you live, all property tax rates include the following per $100 of assessed value:

- State debt service: $0.17.
- School district: varies, but not less than $0.75; in Washoe County it is $1.14.
- County: varies at a rate set by the County Commissioners, in Washoe County $1.39.
- City: varies depending upon where you live, in an incorporated city, general improvement district (GID), fire district, or other entity granted an increment of property tax, the City of Reno receives $0.96.

Under the examples I gave earlier, this bill gives an increased number of $100 assessed value times the $3.66, which is then distributed to the various entities. So this bill would protect against the possible loss of revenue if property values were to go down. The bill would act as an offset to depreciation and will provide stable, predictable revenue into the long-term future until amounts build up as abatements are used up. And eventually they would be. This bill also increases the state's debt limit, which could be used for bonding needed projects, since the debt limit is based on the assessed value of property in the state.

I am proposing to delete sections 21 and 22 of the bill, which would have required half of the revenue raised by the bill to be used for capital improvements. As much as I would love to see that happen, our system and the calculations are already complicated enough, and the cuts in so many cities and counties have been so severe, I wanted to leave the priorities of services up to the local governments. So on that note, if there is a county or city in this state that does not need revenue, the local city or county governments have the authority to lower the tax rate to offset the assessed amounts.

Section 20 proposes to repeal *Nevada Revised Statutes* (NRS) 361.457. And if you thought everything I just said was complicated and confusing, then an explanation of this will be worse.

Nevada Revised Statutes 361.457 has to do with the combined rate of property tax in a county. The maximum combined rate is $3.66. Using the City of Reno as an example, per $100 of assessed value:

State of Nevada	.17
Washoe County School District	1.1385
Washoe County	1.3917
City of Reno	.9598
Total	$3.66

That is how the County Assessor is allocating the tax now. In the City of Sparks, the breakdown is:

State of Nevada	.17
Washoe County School District	1.1385
Washoe County	1.3917
City of Sparks	.9161
Total	$3.6163

So in the City of Sparks, there is $0.0437 remaining under the combined rate cap of $3.66 in Washoe County. Therefore, under this example, the only entity that has any room to raise the rate is the City of Sparks. If Washoe County tried to raise their rate by $0.0437, property tax payers in Sparks would be at the cap, but the tax payers in the City of Reno would be above the cap at $3.70. The entity in this example that could raise the rate without affecting the other rate payers elsewhere in the county, thereby forcing their rate over the cap, is the City of Sparks.

With the repeal of NRS 361.457, that would allow a larger local government to buy down the tax rate so that the larger local government could have room to raise their rate under the cap. To use Washoe County again as an example, everyone pays the following:

State of Nevada	.17
Washoe County School District	1.1385
Washoe County	1.3917
Total	2.7467
	(or .9133 cents under the cap)

If NRS 361.457 is repealed, Washoe County would be able to buy down \$0.05 from the City of Reno, and any other area in the county that is within \$0.05 of the cap, and then raise the county rate by \$0.05 everywhere in Washoe County. Then Washoe County would pay the City of Reno and the others back, dollar for dollar. The rate payers in Reno would remain at the cap, other buy-down areas should also remain the same, but the rate for the other rate payers in Washoe County where they were not at the cap would go up \$0.05, and Washoe County would no longer be too blocked because only certain areas of the County are at the cap. I know this is difficult to follow.

For example, if you are in the City of Reno, you are paying the \$0.95, and Washoe County says they are going to lower the rate in Reno by \$0.05, now you are only paying \$0.90, and the County can now increase its rate from \$1.39 to \$1.44. Now Washoe County will have to pay Reno back the nickel but can keep the increase in rate from all other areas in the county.

Right now, Washoe County cannot raise their \$1.39 rate, because if they did raise it anywhere in the County, that would also raise the rate in Reno and they are already at the cap, so there is no room. This buy-down method would allow Washoe County the opportunity to raise their rate.

One final comment on the buy downs is that I would revise NRS 361.457 to only allow counties to make a buy down and limit the amount they could do per year to \$0.03 or \$0.05. An additional amendment could be written to prohibit counties from raising the rate up a large amount all at once. Remember, the key portion of this bill is about having the assessed value go up through a slow, predictable, incremental, not catastrophic process.

Chairwoman Bustamante Adams:
We have an illustration on the buy-down proposal, which our fiscal analysts will present to the Committee.

Russell Guindon:
The illustration is a one-sided document with the heading "Example of property tax rate buy down in Washoe County" (Exhibit E). Under the buy-down provisions, a larger governmental entity, such as a county, would be taxing the properties within the boundary of that district at the maximum rate that they can apply.

In the example titled "City of Reno Property Tax District," (Exhibit E) you will see there is the state debt rate of $0.17, which is composed of the statutory cap of $0.15 plus $0.02 over the $3.64 rate Assemblyman Daly previously mentioned in his presentation. The Washoe County School District rate is a combination of their operating rate and their debt rate for $1.1385. Washoe County's rate is $1.3917, and is composed of their operating rate, their debt rates, legislative overrides, et cetera. Then you have the City of Reno at $0.9598, and again that would be their operating rate, debt rate, and perhaps other assessments that are there against property tax authorized or allowed under statute. The total combined equals $3.66.

The next example given is for the Truckee Meadows Fire Protection District. You will see the same amounts noted for the state debt rate, Washoe County School District, and Washoe County. What you do not see is an entry for the City of Reno since there is no property in the city limits that is taxed in this district. Instead, you will see the Truckee Meadows Fire Protection District with a rate of $0.54 and the Palomino Valley GID at a rate of $0.4198. So here is another district that has a different set of rates, but they are also at the $3.66 cap. If Washoe County wanted to do a buy down, it would have to go to the Truckee Meadows Fire Protection District and the City of Reno and say, we are going to lower your rate by $0.10, which we will add to our assessment, raising it to $1.4917. Therefore, Washoe County adds the $0.10 and they stay at the maximum rate of $3.66. Washoe County is now able to impose $0.10 on the property in the whole of the county, but they could then use those proceeds to hold harmless, or better than hold harmless, the City of Reno and the Truckee Meadows Fire Protection District.

I hope that you can see why the provisions stipulate that it is the bigger governmental entity buying down the rate of a smaller one. The buy-down allows, in this example, Washoe County to raise the rate on more property and thus compensate those smaller entities that lowered their rate with the additional revenue Washoe County earned.

Chairwoman Bustamante Adams:
Mr. Hickey, do you have a question for Assemblyman Daly?

Assemblyman Hickey:
Assemblyman Daly, abatements have been mentioned in your introduction to the bill and by staff, and I am wondering what will the rate of increase of assessments do to the various abatements that are already in existence?

Assemblyman Daly:
It is my understanding through my discussions with Washoe County, that when everything went down, they had quite a bit of abatements built up, and they have since used them all. If property values start to go up, with the increase in assessed value, you would probably hit the 3 percent cap and start building abatements again. That is what I meant by saying long-term, stable, predictable increases so by the time you get to the 10 percent, with all the other things it is going to be predictable for long into the future.

Assemblyman Hickey:
This does apply to both residential and commercial properties, correct? And would it not be the case that some of the commercial businesses might have particular abatements that are different from residential properties?

Assemblyman Daly:
As I said, the cap is 3 percent on residential properties which are owner-occupied. Commercial properties are capped at 8 percent, so if you have a rental, even though it is a house, it is considered a commercial property and falls under the 8 percent cap. People are still able to file a challenge to their property tax bill and state that their value was not based on the right assessment, or whatever. All of that remains unchanged. The caps do not change, the $3.66 limit does not change, and the depreciation does not change.

Chairwoman Bustamante Adams:
Does anyone else on the Committee have a question for Assemblyman Daly?

Assemblyman Stewart:
Mr. Daly, can you tell us how you arrived at the ten years? Was that in collaboration with others or just an arbitrary number, and would you be willing to move that down at all?

Assemblyman Daly:
There was no scientific reasoning behind it. My intent was to simply move from point A to point B in small amounts that would be predictable.

Chairwoman Bustamante Adams:
Are any other questions for our presenter?

Assemblyman Grady:
My question is actually for our fiscal staff. You showed a couple of entities within Washoe County in the buy-down example, but if you add everything up, could it not reach a point where Washoe County would have to say they could not buy them all down?

Russell Guindon:
The answer to your question is yes. It could happen if you tried to buy-down thirty or forty cents, that mechanically you would not be able to get the buy-down to work because the magnitude would be too much.

Chairwoman Bustamante Adams:
Are there any other questions for Assemblyman Daly?

Assemblyman Hardy:
What effect does this have on the potential changes in the Consolidated Tax Distribution (CTX) method that we are looking at?

Assemblyman Daly:
I believe staff can confirm, but it is my understanding that it would have no effect on the CTX.

Chairwoman Bustamante Adams:
Mr. Guindon, can you verify that?

Russell Guindon:
That is correct. Section 1 of the bill addresses NRS 360.690, which is the CTX section of the law. Section 1 is where the changes from "assessed value" to "taxable value" are made, and it holds NRS 360.690 harmless from this changing assessed value factor of 35 percent to 36 percent and so forth.

Chairwoman Bustamante Adams:
With that then, we are going to call any others in support of the bill to the witness table. Is there anyone in Las Vegas in support of A.B. 201? [There was no response.] We will move on to those in opposition to A.B. 201. Is there anyone in opposition to A.B. 201 who wishes to speak?

Carole Vilardo, President, Nevada Taxpayers Association:
I can appreciate what Assemblyman Daly is trying to do because the property tax system has been very frustrating for individuals, businesses, and for the government. Property taxes used to be the most stable source of revenue, yet I submit to you that legislative changes over the years have helped to make it a more volatile source of revenue than you would like to anticipate.

One of the reasons for our opposition, and there are two main reasons from our perspective, is the fact, and I believe Assemblyman Daly said this in his presentation, that the system has become so convoluted. I would say that many of you receive phone calls from your constituents and, trust me, we get phone calls whenever the notices of assessed value go out. You have people who want to know why they did not receive an abatement without realizing that their bill actually went down, because the formula did not apply to an abatement. For the first time I received a call from a gentlemen who found out that the hybrid system we have is market value on land and depreciated value on buildings. Somewhere along the line, he found out that there are land factors that impact the market value of the land, and he absolutely could not understand if it was market value why there were also land factors.

When the system started getting more complicated, we published a book, using 10-point font type that was 12 pages in length and fit inside a number 10 envelope. Last year's edition was 25 pages. This is not a simple exercise in making changes to property tax; this change just adds a level of complexity that we do not believe is warranted at this time. Look at the depreciation bill you heard, and how complex that makes the system. To solve the problems of our convoluted, hybrid system in Nevada, we would recommend the Committee authorize an interim study following a similar process that was used for the CTX. The reason for that is that you had a technical committee that could study the issues.

Exemptions and property tax are really interesting, when you take a look at those that are charitable, because they are not charitable across the board. You have to be a named charity in statute, you have land factors, you have depreciation, you have myriad ancillary issues, you have recapture provisions, and I am waiting until that one comes in. That has already happened with some commercial properties. But if the value of your land or the value of your tax bill goes down greater than 15 percent and then it increases greater than 15 percent, you recapture the taxes that were given under the abatement. Excuse me? I had a call regarding a residential property, two tract houses, built the same year, same exact taxable value. There was a $228 difference in the tax bill. It took me a while to figure out why, and it was because under the abatement, the house across the street from the gentlemen who called me had gone into foreclosure. Because it was in foreclosure, it was not a 3 percent cap on that property. It was 8 percent on that property, which accounted for the differential on the value. It is for all of the reasons that I really strongly suggest that you consider an interim study with a technical committee and lay out these issues and come back as you did on CTX with what you would recommend. Voters and the taxpayers want to understand what they are paying taxes for. They do not have to like it but, trust me, unless you are brilliant with mathematics, you do not understand our system.

The second area of concern is the buy down, which was the last section that Assemblyman Daly spoke to. If you look at the language in the buy down, and I am very familiar with this, because it was a bill I requested to prohibit and the reason I did was we hit a period, and I became aware that property tax, when it is levied, is levied for very specific purposes. Even the general operating fund of a city or a county or a general improvement district (GID), is going to provide you specific services. What was happening is one entity was taking a portion of the property tax rate from another entity and in most of those rate reductions, except for one that was done by a tax commission in a dispute, you sweetened the pot a little to make sure the entity would agree to the buy down.

Now here I am, I have paid a tax, which should go to fund those specific services, but you are going to take it to buy down another entity, and I will not get the benefit from that buy down. The rate that I am paying on my property tax bill has, to me, the expectation of those services I will get and achieve. If that money is used to buy down another entity, I am not getting those services, my money is supporting the other entity. Interestingly enough, if you look at the language in the repealed section, there is no transparency to it. Under the current system, we have not stopped buy downs, we have changed the way buy downs are done. Buy downs are now done through the consolidated tax revenue formula with interlocal agreements and because of the language allowing that in the CTX revenue, it is usually done before the distribution so there is no great deal of transparency to it. You have not stopped buy downs at all. They are still allowed, but this time you use CTX instead of property tax. If you look at the revenue distribution of CTX, it is a potpourri of residents and tourists put into the pot, so you do not have that same kind of identity you do with property tax.

Chairwoman Bustamante Adams:
Thank you, Ms. Vilardo. I believe you did a very thorough job in addressing the concerns. I appreciate the history that you have, so gentlemen please do not feel obligated to repeat that information.

Geoffrey Lawrence, representing Nevada Policy Research Institute:
I second everything that Ms. Vilardo said, and let me also say that some of the things she talked about are exactly why the Nevada Policy Research Institute has supported scrapping the whole property tax system as it exists now and replacing it with a market-based valuation that is not bifurcated between land and improvements.

Chairwoman Bustamante Adams:
Mr. Bacon, you have signed in under opposition of the bill. You may come forward to speak.

Ray Bacon, representing Nevada Manufacturers Association:
Ms. Vilardo spoke about the rate differential as you take a look at residential properties. The same thing happens on the commercial and industrial side where you have properties that have gone through foreclosures where companies have gone under. That also changes the value of those properties and becomes even more complex on the residential side. The residential side is actually the easier one to calculate.

If I follow the calculations that Mr. Daly did, and I believe I have, if you look at an area where there is an increasing market value, that property is going to be capped out at the 3 percent and then the problem is going to be the abatements which will push that tax off into the future. Conversely, if you look at an area where there is less of an increase in the market value, they are going to be hit with the increase in the appraisal rate. So what will happen is property taxes in the less wealthy areas are going to increase, and taxes in the more affluent areas are going to be capped out. From a policy standpoint, I do not think that is what you want to do.

Chairwoman Bustamante Adams:
Are there any persons who are neutral on the bill that wish to testify? I request that the county assessors come up at this time so that we can address Mr. Grady's question.

Josh Wilson, Assessor, Washoe County:
I did have an opportunity to speak with Mr. Daly, although it was more conceptual than specific, and it was some months ago. I believe in his analysis about what this bill will do, his assumption is that replacement cost-new stays static and that just gets depreciated at 1.5 percent per year, which in fact is not the case. Each and every year, pursuant to regulation, we are required to determine the replacement cost-new using a certain edition of the Marshall and Swift costing manual, so it is really dependent upon what kind of increase

is in the replacement cost-new, before applying any depreciation and how that will affect the rate.

I have examined Mr. Guindon's chart, and I am a little more optimistic about our real estate market now, even though I know there are concerns about shadow inventory and the effect of federal government actions. In Washoe County, we have seen the median selling price actually increase significantly in the last six to nine months. Considering that, we have corrected at historic rates. Let me say that differently; I have never seen the Washoe County residential real estate market decline over 50 percent in any history that I have looked at.

We are in somewhat of an anomaly now and I believe our current values are still below historical trends, so I am a little optimistic that we are going to be able to see increases in the taxable value, which will essentially abate any of the assessed value increases that are proposed by this bill. As Mr. Guindon indicated in the spreadsheet he handed out, you are still capped at 3 percent. The only other thing that I have not heard discussed is that this is going to affect, as I understand it, the rate of assessment on all property, which includes the business personal property as well.

Chairwoman Bustamante Adams:
Mr. Wilson, would you address Mr. Grady's question about impact to the locals.

Josh Wilson:
It will be significant. I do appreciate Assemblyman Daly removing sections 21 and 22. There were years and years of regulation making processes that had to do with all the programming that goes into what is new, what is inside the cap, what is outside the cap, and that is certainly going to be difficult. There will be programming changes as they relate to our systems on which we store all of the assessment data throughout the county. Ultimately, I believe some of this will affect the Office of the State Treasurer as well.

Chairwoman Bustamante Adams:
Thank you. Mr. Grady, does that answer your question? Are there any questions for Mr. Wilson? [There were none.]

Craig Madole, representing Nevada Chapter Associated General Contractors:
We would like to use this opportunity to say that anything that can be done to help fund the municipalities and the counties to have more opportunities to help their infrastructure should be looked at and considered. We do not necessarily know that this is the proper method, but anything that can be done needs to be considered to get that money back to the counties and cities to help them improve their infrastructures.

Chairwoman Bustamante Adams:
Are there any questions from the Committee? [There were none.] Assemblyman Daly, will you come back up for closing remarks?

Assemblyman Daly:
I think we can all agree the system we have is not the easiest to figure out and follow. Perhaps a study is needed. Some of the comments made regarding the increase in the assessed value basically having no effect if property values are going up are accurate. I am glad to hear that property values are going up in some areas, but in other areas, they are not. There are a lot of counties and cities and people in various parts of the state that are well-off and fine, who can lower their rate, while other places could use the revenue. So we were just trying to put something out there to address those issues we see.

I want to address the Assessor of Washoe County's comment. Essentially, all of the other back calculations you have to make on the property rate, the rebuild value, all that is the same; none of it is changed in this bill. The only thing this bill changes is moving from a 35 percent plug-in, to a 36 percent plug-in. The computer does the rest of the calculations and it spits out a number. There is no impact on accessing it and collecting it. I do not see how changing a number in a computer program changes anything. All the other calculations the assessors had to do, they still have to do. So I would just say that it is not as big of an impact on collecting as they said.

I think a study similar to what we did on CTX might be in order to at least clean up the existing statute and find a way to meet the needs of these local governments, which is really what is behind this bill. People want the services; they need a lot of those services. In the north valleys that I represent and the Stead area, they are saying they need the sheriff to come when they call or that they need the fire department to come when called. They would like the parks to be watered and the bathrooms to be open so their children can go play. Those things have been cut under a deal that this bill would help to remedy.

Chairwoman Bustamante Adams:
Thank you, Mr. Daly. I appreciate your efforts to at least bring forth a solution for us to consider. With that, we are going to close the hearing on Assembly Bill 201. We will open the meeting to take any public comment either in Las Vegas or here in Carson City. Is there anyone who wishes to speak?

[There was no response.] We are going to adjourn our hearing [at 2:47 p.m.].

RESPECTFULLY SUBMITTED:

Gina Hall
Committee Secretary

RESPECTFULLY SUBMITTED:

Karen Pugh
Transcribing Secretary

APPROVED BY:

Assemblywoman Irene Bustamante Adams
Chairwoman

DATE:

EXHIBITS

Committee Name: Committee on Taxation

Date: March 12, 2013 **Time of Meeting: 1:37 p.m.**

Bill	Exhibit	Witness / Agency	Description
	A		Agenda
	B		Attendance Roster
A.B. 201	C	Assemblyman Skip Daly	Key points and examples for A.B. 201
A.B. 201	D	Fiscal Analysis Division	Examples of growth in taxable value vs. growth in assessed value tables
A.B. 201	E	Fiscal Analysis Division	Example of property tax rate buy down in Washoe County