Chairman Paul May called the meeting to order at 2:06 pm, with the following members and guests present:

PRESENT: Mr. May
Mr. Coulter
Mr. Bergevin
Mr. Brady
Mrs. Cafferata
Mr. Craddock
Mr. Marvel
Mr. Price
Mr. Rusk
Mr. Stewart
Mrs. Westall

Please see attached guest register for guests present.

S.B. 583 - Makes supplemental appropriation to department of taxation of budgeting changes.

Mr. May explained that this is an appropriation measure to the Department of Taxation in the amount of $90,000 to assist them in some costs they have incurred in budgeting changes.

A motion was introduced by Mr. Bergevin for a "do pass" with referral to the Committee on Ways and Means; motion seconded by Mr. Marvel and carried by a unanimous vote.

A.J.R. 40 Permits exemption of fire protection equipment from taxation.

Testifying in support of this measure, Mr. Ed Kovacs, Assembly District No. 1, Clark County, called attention to lines 1 through 21 which is a copy of Article 10 of the Nevada Constitution. The only changes are that it provides protection from fires and empowers the legislature to give tax relief for fire protection equipment installed. This would have to be approved by the voters after being passed by two sessions of the legislature. Mr. Bergevin asked if this is for the retrofitting of the highrises and was advised that it was.

Mrs. Cafferata asked if this includes fire protection within private homes and pointed out that it isn't clear whether it is or not. Mr. Kovacs agreed the measure was vague in that area and the committee perhaps should consider clarification measures.

S.B. 582 - Authorizes Department of taxation to charge for actual costs of cigarette revenue stamps.

Mr. May informed the committee that he had a request to take no action on this bill today but they would take testimonty for action at a later date.

Mr. Roy Nickson, Director of the Department of Taxation said this was an administration sponsored bill to reduce expenses of the Department.

He presented testimony on his budget to both the Assembly Ways and Means and the Senate Finance Committees. The cost is approximately $71,500 each year of the biennium for the purchase of fuse-on cigarette tax stamps. He noted that the cigarette wholesalers have an option of using either the fuse-on stamps or of using a Pitney-Bowes meter machine; if they use the Pitney-Bowes meter, there is no expense to the State. The Department furnishes fuse-on stamps at no charge. The Deputy Attorney General assigned to the Department indicates that they were not authorized to made such charges and recommends that legislative action be undertaken. This represents some 82% of the operating supply budget and he is recommending in Section 1 of this bill to permit the department to make collections from the cigarette wholesalers and utilize these funds to procure additional stamps so that it is a continually revolving fund. Over the biennium, this will save the state $110,000. He noted that the cigarette wholesalers are given a 4% discount for their services in affixing the stamps. A 1½% discount is allowed the sales and use tax retailers for their collection efforts. He does not think it will be an undue burden for the cigarette wholesalers. He noted as well that all funds collected under the cigarette tax go directly to the local governments. He suggested that the non-smoking citizens should not be required to spend dollars to provide cigarette fuse-on stamps.

Testifying in opposition to the bill was Mr. Jack Sheehan, Attorney at Law, representing the Meyercord Company and Western Cigar of Las Vegas who are tobacco wholesalers. He read his testimony into the record which is attached as EXHIBIT I.

At the conclusion of Mr. Sheehan's testimony, Mr. Rusk asked for comments from Mr. Nickson regarding the Pitney Bowes Company. Mr. Nickson explained that he has no knowledge that Pitney Bowes stamps have ever been counterfeited in Nevada, as suggested by Mr. Sheehan. Their representative has indicated to him that they are interested in continuing their business in the state and feel their machine is as safe from counterfeiting as the fuse-on stamps.

Mr. Bergevin asked if they use Pitney Bowes meter would not the expense of the fuse-on stamps be unnecessary. Mr. Nickson responded if this bill is passed and everybody uses the Pitney Bowes meter, they would still save that amount of money and in addition the $30,000 in the revolving fund. He added that this is a continuing expense. The Department has additionally secured Indian stamps and they do not receive any tax on those and yet to protect the integrity of the cigarettes within the State they require all the wholesalers utilize those Indian stamps so the major wholesalers are eceiving these stamps free and the State receives absolutely nothing for it.

Mr. Sheehan pointed out that if the bill were to pass, there would not be any stamps to put on Indian cigarettes which might cause more problems with the Indians.

Mr. Nickson responded that the Pitney Bowes is prohibited from using the the fuse-on stamps for the Indian cigarettes yet some dealers do use them.

Mr. May reiterated his statement that there would be no action taken on this bill and that the committee will try to meet once again on it for further discussion and consideration.

S.B. 593 - Requires certain persons to pay casino entertainment tax monthly.

Mr. Bergevin pointed out that this bill will generate an additional $8-million to the state because of the speeded-up tax situation and in the circumstances he moved a "do pass", seconded by Mr. Marvel; motion carried unanimously.

S.B. 301 - Exempts housing for elderly persons operated by nonprofit corporations from property tax.

This bill would exempt from taxation federally subsidized HUD section 202 housing. These are projects operated by nonprofit corporations to provide shelter to needy elderly or handicapped people whith rent based on their ability to pay.

Mr. May reminded the committee members that they had previously heard testimony on this bill and was advised there were three such projects in the state that would qualify; these projects are built with Section 8 money, one in Sparks and two in Clark County. He added that he had called Mr. Art Sartini who is a housing director in Las Vegas and he had indicated that he felt should be tax exempt. This was an issue that should be given favorable consideration.

A motion was made by Mr. Rusk to "do pass"; seconded by Mr. Craddock and unanimously passed.

Mr. Marvel advised the committee that he has discussed this concept with many people from Clark County and they have all indicated they would be in favor of it.

A.B. 247 - Increases excise tax on liquor and directs use of increased revenues for treatment of alcoholism.

This bill would increase the tax on liquor containing more than 22% alcohol by volume (hard liquor) from $1.90 to $2.09; taxes on dessert wines, wine and beer would be increased as well.

A motion was made by Mr. Marvel for a "do pass"; seconded by Mrs. Westall.

Mr. Bergevin explained that he had contacted the liquor industry and they didn't feel the industry was given due consideration. They feel very strongly this bill will put them out of competition with California. They suggest increasing only the tax on hard liquor, i.e., the 22% or more. They propose a 5¢ gallon increase and are willing to compromise on that, which would yield about $436,000 per year, and do away with the tax increase on wine and malt liquor. They also suggested earmarking the total amount of money for the use of the Division of Drug and Alcohol for the programs set forth. He said their gussgestion for revising the bill will yield just

about as much money in that fashion to that particular program as the way it was originally written. In the original bill, the 5/19ths is going back to the cities and counties, not necessarily to the drug and alcohol programs but to the general fund.

He then moved to amend the motion to place a 10¢ tax on 22% liquor and delete the increases in taxes on the wines and malt liquors and earmark those funds for the Drug and Alcohol Abuse Programs in the State of Nevada to be used for programs in the treatment of alcoholics. This would yield approximately $436,000.

Mr. Richard Ham, Chief of the Bureau of Alcohol and Drug Abuse spoke in opposition to the amendment. Original projections were aimed at funding of detoxification centers in Washoe and Las Vegas and providing continuing service throughout the state. They estimate that to do that, it would take about $1.5-million. Mr. Howard Barrett has projected that the bill, as written, would bring in between $1.2-million and 1/5-million; He agreed with Mr Bergevin that the the way the bill was amended that 5/19th of the monies would be going to the cities and counties and that amendment does say, in earmarking the funds that he would remove the 5/19ths requirement.

Mr. Rusk seconded Mr. Bergevin's motion to amend the original motion.

Mr. Rusk pointed out that there is nothing earmarked but under a proposed amendment, there would be. He was advised by Mr. Ham that that was a correct analysis. He added that there are two parts of Mr. Bergevin's amendment with which they totally agree; one is that there be an earmarking of funds and the other is that 5/19ths of the funds not go to cities and counties; they have some problem with the amount of tax revenue generated. Mr. Bergevin pointed out that there is no guarantee in the first reprint of the bill that they would receive any money and he is trying to do something that will give them the help they need even though he feels they have to keep this industry competitive with California or end up getting less revenue than at present.

Testifying in support of Mr. Bergevin's amendment to the bill were the following individuals:

Mr. Curt Brown, with Capitol Beverages in Carson City, stated that this proposed amendment is a compromise they can support. There was testimony in Ways and Means Committee that a good program would cost $13-million and that may be too great a sum for the present. He stated his industry was not consulted when the tax structure was drawn on the increases but they could stand some tax increases within this scope of excise taxes which would be on the 22% alcohol. The current tax structure in California is $2.00 per gallon on hard liquor, which is what Nevada's will be if this amendment is adopted; the beer tax is 4 cents in California and 6 cents here.

Mr. Bergevin explaned the proposed amendment would change the language on line 7 from $1.90 to $2.00 then strike the new language elsewhere in the bill and provide the proper language to earmark the additional money that is over $1.90 for the Division of Drug and Alcohol Abuse.

In response to a question from Mrs. Westall on the amount that will be generated by this amendment, Mr. Bergevin explained the 10 cent increase will generate approximately $237,000 per year; the original bill would have been about $1.2-million; the 5/19ths would be taken off and sent to the cities and counties under the present distribution of alcohol taxes; there's no allocation of the balance within the general fund. It was pointed out that there had been no increase in the alcohol tax since 1967. Mrs. Westall stated that, in her opinion, any tax that hasn't been raised since 1967 should be.

Mr. Stewart stated that he was reluctant to go with the amendment inasmuch as he doesn't like to earmark funds; he feels that is a dangerous area to get into. If the bill isn't going to pass without the amendment he will vote for it. In his opinion, if the programs involved are worthwhile they should be funded through the general fund and not have to depend on earmarked money.

Mr. Bergevin restated his motion which was to take the $2.09 figure out of the bill and insert $2.00, delete the 55 cents and drop back to 50 cents; delete 33 cents dropping back to 30 cents and delete 6.6 cents going back to 6 cents; and add a section providing that all funds generated by this revenue, over and above the $1.90 cent tax earmarked for the Drug and Alcohol Abuse Division for use in programs for the alcoholic. This would generate approximatley $437,00 per year for the treatment programs. The motion was seconded by Mr. Marvel.

Mr. Price stated that he would have voted for that amendment if they had left the hard liquor at $2.09 and removed the increase from the wine and beer. He moved to amend the main motion, leaving the liquor at $2.09 and removing the proposed increase from the wine and beer; this would still generate approximately $800,000 per year. Motion was seconded by Mr. Brady.

Mr. Craddock expessed concern regarding competition with California and added projected revenues may not be generated as a result. For that reason, he intended to vote against the motion.

The motion failed with a vote of 5 voting "aye", 6 voting "nay". Voting "aye" were Messers. Brady, Coulter, Marvel, Price and Mrs. Westall. Voting "nay": Messrs. Bergevin, Craddock, Rusk, Stewart, and May and Mrs. Cafferata.

Mr. Bergevin then moved to amend the previous motion to read: $2.05 on hard liquor and remove or roll back all proposed increases on wine and beer and earmark the funds as proposed earlier for the alcohol abuse programs. He explained that 5/19ths of the collection of the 22% goes to the cities and counties and the rest goes to the general fund. Under his proposed amendment $870,000 would be generated. The motion was seconded by Mr. Price.

In response to a question from Mrs. Westall, Mr. Ham explained that, under the bill in its present form 5/19ths of the revenue would go to the cities and counties. Under Mr. Bergevin's amendment, they would not as he has marked all the monies for alcohol and drug treatment.

Mr. Miles estimated that the projected increases would generate 5¢ based on the $654,000.

The motion passed by a vote of 6 voting "aye", 5 voting "nay. Voting "aye were Messers. Bergevin, Brady, Coulter, Marvel, Price and Mrs. Westall. Voting "nay" were Messrs. Craddock, Rusk, Stewart and May and Mrs. Cafferata.

Vote on the main motion to amend and "do pass" carried by a vote of 6 voting "aye and 5 voting "nay.

A.B. 637 - Provides for submission to voters of amendments to Sales and Use Tax Act.

The provisions of this bill would allow the Sales Tax to apply to the wholesale prices of the food rather than the retail price of food dispensed by vending machines. The original Sales and Use Tax Law was approved by the voters in referendum, therefore, this change must also be approved at the polls. The Department of Taxation estimates the loss of revenue under the State Sales Tax, Local School Support Tax and the City-County Relief Tax at approximately $270,000 annually.

Testifying in support of this bill was Mr. Joe Midmore, representing the WW Vending Company of Las Vegas, which is the largest pure vending machine operation in the State. He said last session they attempted to have food products sold through vending machines included in the exempt status because they were essentially the same food products. Most vending machines of food products in this State are in the back of industrial plants, sometimes casinos, places where Nevada people work. The belief that these machines are primarily catering to tourists is not correct.

The vending machine business is very competitive with the same products on sale in other places. Sales prices are in increments of coinage of a nickel and up, it is impossible to deal in the normal tax amounts. An operator to remain competitive sometimes has to pay the tax himself out of his price. This bill suggests that the food items be taxed at the wholesale price. This makes legal the status of the vending machine operator as the ultimate user. He advised the committee that the Chairman had requested from the Department of Taxation, a fiscal impact on this but there has not been one as yet, but it should be a minimal impact.

Jean Hannifin, Deputy Director of the Department of Taxation, stated that she had made an effort to work up a fiscal impact on this bill but that it had not been completed. She added that it is difficult to break out vending machine sales that do not include cigarettes and they did include that in their preliminary figures; doing a rough estimate of one-third of those sales representing cigarettes, would have a fiscal impact of $350,000 per year. That was estimated on the fiscal year 1983-84 where they figured 14% for inflation taking it to that year because this begins in January of 1982. There would be a six month impact at that time, or $150,000 per six months. She urged that they consider the fact that a lot of the hotel-casinos

sell a lot of playing cards through the vending machines and there would be no tax on those because they have already had tax paid at the time the casino purchased the playing cards and the casinos own the vending machines so there won't be a cost on the cards purchased that way.

Mr. May advised that no action would be taken on this until more information was made available.

Mr. Stewart explained that on the estate tax package, he was going to get back to the committee on some amendments that would earmark those funds for education but he doesn't have them as yet and asked that nothing be done at this time.

S.B. 69 - Revises factors which may be used in determining full cash value of real property for taxation.

Mr. May explained that S.B. 69 (5th reprint) is the 1st part of the tax package that will be processed this year. He asked Mr. Jim Lien, a member of the Task Force Committee, to review the bill with the committee.

Mr. Lien distributed to the members a 4-page package which consists of two pages of explanation on the amendment and the Amendment No. 1070 (attached as EXHIBIT II). He explained that this bill basically revises the method of assessing property for taxation purposes in the State of Nevada. It primarily removes the concept of "full cash value" as is applied to total property and inserts instead the concept of "taxable value". Taxable value is the amount which can be anywhere from $100's worth of value up to full cash value. The amendments which are to be discussed are technical with a couple of substantive changes and are written out on the attached exhibit.

He said SB 69 will stand by itself no matter what occurs with the other two tax bills; there has been a severing of the three parts of the tax package.

Mrs. Westall asked Mr. Nickson when the new tax bills would be out and was advised it would be some time around the 1st of August.

Mr. May asked if there was any provision whereby people could be shown what their tax bill has been in comparison with the adjusted rate; Mr. Lien and Mr. Nickson both stated that is in the new law on page 30, lines 13 through 20. Mr. Lien explained that line 20(d) indicates a notice be included in the bill detailing the tax that would have been had the assessed valuation and proposed tax rate not been adjusted as well as the new tax rate and the adjusted value.

Mr. May then asked if it would help to pull from the bill section 3 and pass it in another bill on an emergency basis. Mr. Nickson stated that there have been concerns expressed by the Tax Commission on the assessors ability to complete the work that is required of them between now and July 1st- and July 1st is a mandatory date. He doesn't know if they could severe a section of this bill (which isSection 31 through 34) but if he were a county assessor he would

be extremely concerned as he will have to change the entire roll and would encourage their passing Section 31 as it is written. Mr. Lien added that the assessors do have an attorney general's opinion which excludes them from acting upon what may occur either by vote or statutory action.

Mr. Bergevin pointed out that we have had joint hearings with the Senate on most of the things contained in this bill. If they should get this amendment drawn this evening and get the bill out, the problem with impound accounts can be addressed in another bill. They have got to give the assessors the help they need.

Mr. Lien explained there is a trailer bill effecting the other two bills in the package and the item suggested could very easily be attached.

Mr. May stated it was his intention to get the amendments adopted, the bill reprinted and back to the committee as soon as possible.

Mr. Pat Pine submitted written testimony, attached and identified as EXHIBIT III and stated that Clark County does not and has not opposed the basic concept of some shift which would enable them to lower property taxes. What they have consistently disagreed with all session is the mechanics by which that shift would take place or how property taxes might be lowered. They basically disagreed with the mechanics but have never taken the position of disagreeing with the concept that property taxes should be lowered. His county commission has attempted several times over the years to reduce taxes and reduce rates where they could and their elected officials understand, as well as state officials, the problem existing with property taxes. To throw out market value as the yardstick they feel is a mistake in public policy. In response to a question from Mr. Stewart, Mr. Pine stated they had discussed this aspect with the Senate at several points during discussion of the tax package. Their difficulty with this matter is that some of it was in public testimony and some was in private conversations with various members of the Committee.

Mr. Bergevin pointed out some of the problems contained in the letter from the Bond Counsel, Sherman and Howard (contained within the Exhibit) that has been totally resolved by the Legislative Counsel with the reslt that there were about two words missing in SB 411 that they felt were erroneous and that was "service charges". The bond attorneys were satisfied after they had the opportunity to talk to Frank Daykin about that matter.

Speaking next on the bill was Mr. Orvil E. Reil, NRTA/AARP- Nevada Joint State. He distributed copies of his written testimony and read it into the record (attached as EXHIBIT IV). There were no questions from the committee at the conclusion of his testimony.

A motion was made by Mr. Bergevin to adopt Amendment 1070, the amendments nos. 1 thru 14 proposed by Mr. Lien and add the provision for "impound accounts", reprint and refer back to this committee; seconded by Mr. Marvel and carried unanimously.

THIS PAGE IS MISSING FROM BOTH THE ORIGINAL MINUTES AND THE MICROFICHE.

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Mrs. Westall, member of a sub-committee assigned to study this bill, reported on their findings and recommendations. They recommend that hearing aids and prescription part of glasses be included. Although they haven't received a fiscal note on that part as yet, it should reduce the original estimate considerably. She then moved to "amend and 'do pass as amended' with referral to the Committee on Ways and Means; motion seconded by Mr. Coulter. The motion was defeated by a vote of 6 nay, 5 aye.

A.B. 97 - Increases assistance to elderly for property taxes.

Mr. Coulter reported on the sub-committee studying the senior citizen bills. Distributed to the committee were copies of a report showing the fiscal impact (attached and identified as EXHIBIT VII and an Amendment No. 1030 attached as EXHIBIT VIII. He advised those present that the sub-committee, composed of himself, Mr. Brady and Mr. Rusk had met and were ready to recommend that this bill be amended (as attached) and rereferred to the Committee on Ways and Means for the necessary appropriations.

He explained that the financial report indicated that the Governor's recommendation which was acceptable to both the Senate Finance and the Assembly Ways and Means Committee.

Additionally the report shows with the tax relief package a lot of people dropping down on what the average rebate would be for example in the 90% category, the average rebate would drop to about $109.00. This bill, as amended would attempt to shift a lot of the lowest income category into that 90% figure by raising the top of the scale from @2999 to $4500; this also would shift a lot of people and that would be the bulk of the relief. It would also increase from $11,000 to category to $12,000 and we would still be within the governor's projected budget but would put some serious relief into the hands of the lowest incompe people - the senior citizens of the state.

Mr. Coulter then moved to amend and do pass as amended with rereferral to the Committee on Ways and Means; seconded by Mr. Price unanimously carried.

There being no further business, the meeting was adjourned.

Respectfully submitted,

Nykki Kinsley

NYKKI KINSLEY, Committee Secretary

ASSEMBLY

AGENDA FOR COMMITTEE ON Taxation

Date Mon, May 18, 1981 Time 1:30 pm Room 240

Bills or Resolutions to be considered	Subject	Counsel requested*
	ALL MEETINGS OF THE ASSEMBLY COMMITTEE ON TAXATION WILL BEGIN PROMPTLY AT 1:30 PM. PLEASE ARRANGE YOUR SCHEDULES ACCORDINGLY.	
A.B. 247-*	Increases excise tax on liquor and directs use of increased revenues for treatment of alcoholism.	
A.B. 637-	Provides for submission to voters of amendments to Sales and Use Tax Act.	
A.J.R. 40-	Permits exemption of fire protection equipment from taxation.	
S.B. 593-	Requires certain persons to pay casino entertainment tax monthly.	
S.B. 69-	Revises factors which may be used in determining full cash value of real property for taxation.	
	(Note: The hearing on SB 69 will be continued for further testimony, if needed, to Tuesday, May 19, 1981)	
	*No testimony will be taken on AB-247.	
	Sub-committee report on Senior Citizens Tax Bills	
S.B. 582-	Authorizes department of taxation to charge for actual costs of cigarette revenue stamps.	
S.B. 583-	Makes supplemental appropriation to department of taxation for budgeting changes.	

THIS SUPERSEDES AND CANCELS PREVIOUS AGENDA POSTED FOR THIS DATE.

922

*Please do not ask for counsel unless necessary.

ASSEMBLY

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*Please do not ask for counsel unless necessary.

ASSEMBLY TAXATION COMMITTEE

Date: May 12, 1981

GUEST LIST

PLEASE PRINT YOUR NAME	PLEASE PRINT WHO YOU REPRESENT	I WISH TO SPE[AK] FOR	AGAINST
Joe Midmore	WW Valley Co. [illegible]	AB637	
[illegible]	Co. [illegible]		
Dorothy [illegible]	[illegible]	A[illegible]	
Bill [illegible]	N[illegible]		
[illegible]	[illegible]	AB[illegible]	
Jim Dick	[illegible]	[illegible]	
Jane Rubinstein	Oikos, Inc	AB 247	
Jim Widner	LV Valley [illegible]		
M. Guerrero	Nevada [illegible]		
Arvis [illegible]	[illegible]	SB-[illegible]	SB-69
Homer Rodriguez	Carson City Assessor		
Leroy L. Ward	Lyon County Assessor		
[illegible]	Chief Dep/Treas - Lyon Co.		
Roy E Nickson	Dir. [illegible]		
Jeanne [illegible]	[illegible]		
Jim Hawkins	Nev. State School Board		
JACK SHEEHAN	MYERCORD		

Date: May 25, 1995

GUEST LIST

PLEASE PRINT YOUR NAME	PLEASE PRINT WHO YOU REPRESENT	I WISH TO SPEAK FOR	AGAINST	BI
Roy E Nickson	Dept. of Taxation			
Les Comstock	SELF			
Ralph A. Irwin	Self			
Sandy [illegible]	[illegible]			
[illegible]	[illegible]			
Don F. Hellwinkel	C.O.I. Gaming Affairs	✓		
Hal Bibb	DMV			
Dick [illegible]	[illegible]			
John [illegible]	[illegible]			
Daryl E Capurro	" "			
Virgil R. Anderson	AAA			
JERRY HOGGINS	Gaming Inds Assoc	✓		NR 44
Ed [illegible]	[illegible]	✓		595
L. BUTCH LYNN	WASHOE MOTOR CAR DEALERS ASSN / SELF	✓		
DON WEIR	" " " " & Ford Dealers	✓		
[illegible]	[illegible]			

JACK SHEEHAN
ATTORNEY AT LAW
P. O. BOX 1599
MINDEN, NEVADA 89423
(702) 782-5005

May 18, 1981

Paul May
Chairman, Assembly Taxation
Committee
Legislative Building
Carson City, Nevada, 89710

Re: SB 582

Dear Mr. May,

I am a registered lobbyist representing the Meyercord Company who manufactures cigarette revenue stamps and Western Cigar of Las Vegas and Glaser Brothers, two tobacco wholesalers. Combined those two businesses account for approximately seventy precent of the cigarette wholesale business in the state and likewise pay approximately seventy percent of the cigarette tax.

SB 582 in our opinion constitutes an unwarranted intrusion into the business of all three of the firms and will constitute such an economic burden that the use of stamps will no longer be used which will operate to the detriment of all concerned including the integrity of the present cigarette tax collecting system.

BACKGROUND

In the mid 1970's, I, as Director of the Department of Taxation, held a public hearing pursuant to Chapter 233B of N.R.S. The purpose of the hearing was to determine if the use of "revenue stamps" should be authorized in Nevada or if the state should continue with the exclusive use of the "ink impression". One of the motivating factors to conduct the hearing was growing fear that the ink impression was subject to counterfeiting. This fear later became a reality on the east coast. As

Exhibit I

a result of the hearing the use of stamps was allowed. The State Purchasing Department submitted for bid, the purchase of stamps and the Meyercord Company submitted the successful bid.

At the same time, I incorporated within the "cigarette tax administration fund" of the Departments budget, the cost of those stamps. My recollection is that the amount was about $60,000.00. The Legislature appropriated the amount and has continued to do so since that date.

Approximately six months ago, the Department requested authority from the Tax Commission to "sell" the stamps to the wholesalers at their face value of ten cents ($.10) together with the acquisition cost from the supplier.

The wholesale cigarette business is high volumn and low profit by nature. If this cost is now passed on to the wholesaler, they will not use the stamps which will be to nobody's best interest.

With that by way of background, I will attempt to express the results if SB 582 passes as proposed.

1. Wholesalers will be required (by reason of economics) to forfeit their statutory right to use either revenue stamps or ink impression. (See N.R.S. 370.180)

2. The Meyercord Company will suffer economic hardship to the extent it has made an investment in Nevada. (design of stamps, itc.)

3. The two wholesalers above named will lose their investment in stamping equipment and will be forced to buy or lease ink impression devices which they found unacceptable in the past.

4. The real threat of counterfeiting will exist.

5. Not until now has it been suggested that this relatively small sigment of the Nevada business community should pay the administrative costs of a State Agency. The Legislature has accepted the responsibility of adequately funding the Department of Taxation in the past. This responsibility should not be shifted to half a dozen wholesalers.

6. No other state except with the possibility of Florida, in peculiar circumstances, charges wholesalers for the cost of the stamp because of the fear of the loss of the system.

7. The cigarette industry has been burdened and confused for a decade now because of the problems experienced when Tribal Smoke Shops came on line. While there still are some problems and unexplained procedures in Nevada, the situation has settled considerably. SB 582 may well result in additional problems that could take another decade to resolve.

For all of these reasons, I respectfully register our opposition to SB 582 and request to be advised of hearing dates on the bill.

Very Truly Yours,

Jack Sheehan
Attorney at Law

Meyercord Company
Western Cigar of Las Vegas
Glaser Brothers

E 6 9

1) Amend sec 2.6, pg 2 by deleting line 40 and inserting:

3. Property found to be obsolete must be identified on the roll

2) Amend bill by deleting sec 5, pg 2.

9) Amend sec 17.7, pg 14, line 34 by deleting "4th" and inserting 1st

10) Amend sec 20.6, pg 28, line 25 by deleting "361.745"

11) Amend sec 31, pg 28, line 45 by deleting the period and inserting:

located on a parcel of land on which there is no other use.

12) Amend sec 34, pg 30, line 4 by deleting "May 8" and inserting May 30

Exhibit II

13) Amend sec 36, pg 31 to

effect conversion of lien date from 1st Mon. of Sept to July 1 to July 1, 1982.
May have to amend NRS 361.450 & 361A.280

(Purpose is to allow title & escrow companies 1 yr period for conversion to avoid penalizing the seller)

1981 REGULAR SESSION (61st)

ASSEMBLY ACTION		SENATE ACTION		Assembly AMENDMENT BLANK
Adopted	☐	Adopted	☐	AMENDMENTS to Senate
Lost	☐	Lost	☐	Bill No. 69 ~~Joint Resolution No.~~
Date:		Date:		
Initial:		Initial:		BDR 32-689
Concurred in	☐	Concurred in	☐	Proposed by Committee on Taxation
Not concurred in	☐	Not concurred in	☐	
Date:		Date:		
Initial:		Initial:		

Amendment No. 1070

9) Amend sec. 8, page 4, by deleting lines 13 through 15, and inserting:

"(a) The full cash value of land by considering the uses to which it may lawfully be put, any legal or physical restrictions upon those uses, the character of the terrain, and the uses of other land in the vicinity."

4) Amend sec. 8, page 4, line 34, by deleting "cost of replacement" and inserting:

"original cost".

5) Amend sec. 8, page 4, line 40, by deleting "and personal property".

6) Amend sec. 9, page 5, by deleting lines 6 through 11, and inserting:

"(a) The full cash value of land by considering the uses to which it may lawfully be put, any legal or physicial restrictions upon those uses, the character of the terrain, and the uses of other land in the vicinity."

7) Amend sec. 9, page 5, line 27, by deleting "cost of replacement" and inserting:

"original cost".

8) Amend sec. 9, page 5, line 34, by deleting "and personal property".

14) Amend the bill as a whole by renumbering section 39 as section 40 and adding a new section designated section 39, following section 38, to read as follows:

To: E & E
LCB File
Journal
Engrossment
Bill

Drafted by FKD:smc Date 5-17-81

"Sec. 39. 1. Section 40 of chapter 149, Statutes of Nevada 1981, is hereby amended to read as follows:

Sec. 40. The legislature declares that this bill [, Senate Bill No. 69] and Senate Bill No. 411 of this session constitute an integrated plan for the relief of the residents of this state from excessive property taxes while providing revenue for the necessary services of local government, and that their provisions are not severable. If any provision of any of these bills which becomes law, or the application thereof to any person, thing or circumstance is held invalid, the other provisions of each of these bills become ineffective, and all statutes repealed by [any] either of these bills are revived.

2. Section 20 of chapter 150, Statutes of Nevada 1981, is hereby amended to read as follows:

Sec. 20. 1. Except as provided in subsection 2, the legislature declares that this bill [, Senate Bill No. 69] and Assembly Bill No. 369 constitute an integrated plan for the relief of the residents of this state from excessive property taxes while providing revenue for the necessary services of local government, that their provisions are not severable. If any provision of any of these bills which becomes law, or the application thereof to any person, thing or circumstance is held invalid, the other provisions of each of these bills become ineffective, and all statutes repealed by [any] either of these bills are revived.

2. If the interim legislative committee on local governmental finance is held invalid as a whole or unable to perform any particular function, all of its functions or that particular function, as the case may be, devolve upon the Nevada tax commission."

CLARK COUNTY

PRESENTATION ON SB 69

AND LEGISLATIVE "TAX PACKAGE"

ASSEMBLY TAXATION COMMITTEE

MONDAY, MAY 18, 1981

PATRICK PINE, ASSISTANT COMPTROLLER

GENERAL STATEMENT OF POSITION

CLARK COUNTY
STATEMENT OF POSITION
ON SENATE BILL 69
AND LEGISLATIVE TAX PACKAGE

Monday, May 18, 1981

As the Taxation Committees in both houses of the 1981 Nevada Legislature are well aware, Clark County has consistently voiced opposition to many aspects of the bills now commonly referred to as the "Tax Package," namely SB 69, AB 369, and SB 411. Our presentation today must relate most specifically to SB 69, but it also must reiterate objections to other bills since the three bills are inherently linked together. We do not wish to belabor several points in reaction to the prior passage of AB 369 and SB 411 and are willing to admit that we "lost" the argument in terms of legislative votes, but we also desire to make clear our position once more so that there is no ambiguity at a later date.

1. We believe that a change to some system of annual updating of appraised and assessed values which retains consideration of market values, among other methods of appraisal, is the means by which this Legislature should have addressed most property taxation problems.

2. We believe that the "Tax Package" now before us will prove to be too complex and bureaucratic, that bonding capacity will be jeopardized, that control of matters at the local level will erroneously shift to the state level, and that numerous problems in providing services to the public will arise as a result of the difficulty in interpreting aspects of the package.

The above general statements of position do not mean that we will actively solicit opposition to the "Tax Package," but are meant to show that Clark County has been, and will be consistent in its views. The following pages outline our comments on each part of the "Tax Package" in more specific detail.

COMMENTS ON SB 69

COMMENTS ON SENATE BILL 69

We have attached a letter from the Denver-based law firm of Sherman and Howard, which is a well-known bond counsel serving governmental agencies throughout the country, including Clark County, which clearly states concerns over the impact on bonding (see Attachment 1).

In addition to the fundamental concern with SB 69's impact on bonding, which we understand may be supplemented by concerns expressed by other bond counsel firms and local governments, we are opposed to the elimination of "market value" in appraisals. The biggest problem the State of Nevada has with its present assessment system is large fifth year increases without identical reductions in tax rates causing significant property increases for some property owners every five years. SB 69 only touches upon this problem by imposition of a factoring system for the four years the property is not scheduled for reappraisal. However, a factor, or factors, cannot account for the annual amount of appreciation on land resulting in large increases every five years, particularly impacting vacant land owners.

We are opposed to the basing of appraised/assessed values upon replacement cost with "book" depreciation which does not necessarily relate to market-oriented depreciation. The following quotes are from a research study entitled Understanding Real Property Assessment - An Executive Summary for Government Officials, prepared jointly by the Department of Housing and Urban Development and the International Association of Assessing Officers in January, 1979 (see Attachment 2).

> "There are several links between a local government's fiscal health and real property assessments. Assessments based on up-to-date property values can strengthen fiscal health by accomplishing the following goals:
>
> Maximizing potential property tax revenues. Inadequate assessment practices usually underestimate property values, thereby limiting potential property tax revenues by understating the tax base.
>
> Increasing borrowing capacity. Because the borrowing capacity of local governments is often limited to a certain ratio of debt to total assessed value, any general underassessment restricts the power to use bond financing. Bond rating houses also examine

"assessed value when assigning ratings. With the same debt load, a higher assessed value can result in a higher bond rating and lower interest rate.

Assuring a full share of intergovernmental aid. Intergovernmental payments to local governments are often tied to property values. Increasingly, aid distribution formulas penalize local governments that understate property values.

Sound assessments can help maintain fiscal health in other ways. The property tax is a more stable revenue source than the sales and income taxes because property values reflect long-term economic considerations. Property tax rates are flexible and can be easily adjusted to meet changing revenue needs as long as rate ceilings have not been reached. Real property is immobile, and property taxes are difficult to avoid. The property tax captures for the community some of the windfall increases in property values that are generated by public expenditures for services and capital improvements. These benefits of the property tax are maximized when assessed values are based on current market values.

The law in each state requires that property tax liabilities be distributed according to property values. Market value is the usual basis. Under the market value assessment standard, assessors are required to estimate the most likely sales prices of all taxable properties in their jurisdiction. Actual assessments, in turn, are some portion of these estimates, which are called appraisals. The advantage of the market value standard is that property owners and others, using recent sales prices as evidence, can easily judge for themselves whether they are being correctly and fairly treated.

In many of the nation's jurisdictions the law has been ignored. The standard of market value has not been adhered to. Such practices have been tolerated or winked at in the past, but this is rapidly changing. Taxpayers, both individually and collectively, are challenging illegal assessments. They are taking their cases to courts and to the press. Journalists and consumer groups are increasingly zeroing in on inequities in property tax administration. The attacks are sophisticated, and state and federal courts are being persuaded that inequities must be corrected."

In 1979 the 96th U. S. Congress introduced a bill, HR 4905, designed to promote standardization of market value in property tax laws nationwide. The findings of the bill state:

> "(2) the poor and uneven administration of real property tax laws diminishes their effectiveness as means of raising revenue and causes resentment among taxpayers;
>
> (3) reform of administration of real property tax laws can be expected to insure that the burden of real property taxation is more fairly shared by all taxpayers."

The International Association of Assessing Officers participated in efforts to prevent this bill from becoming law. Assessors felt federal intervention would be infringing upon states. However, the movement to base property taxes on inequitable systems may renew federal interest in regulating the property tax administration.

One possible alternative solution to the valuation problem is the adoption of an appraisal program in which all properties are reappraised using market value periodically, with a tax rate reduction which somewhat corresponds to total roll's periodic increase. Increased government cost could be allowed for the intervening period by addition of new real property to the tax roll and allowing small increases to the previously reduced tax rate.

Other alternatives have been discussed -- what Clark County objects to in SB 69 is that market value is an important yardstick that should not be thrown away. Finally, with the caps in SB 411 on total ad valorem revenue, it seems immaterial to suppress both values and rates if total tax revenues are controlled in any case.

COMMENTS ON AB 369

COMMENTS ON AB 369

Our primary concern with AB 369 is quite simple: The proposed method for distributing proceeds from the Basic and Supplemental City-County Relief Tax (1/2 cent and 1 3/4 cents, respectively, of the 5 3/4 cent "sales tax") seems to be overly complex, speculative in assuming total proceeds, and discriminatory toward those residents and tourists who will pay taxes in Clark County to finance local services elsewhere.

Under the previous system, the property taxpayer may have been unhappy about the total amount of taxes paid, but that taxpayer could see firsthand what services those taxes paid for in the local area.

Now the person who pays sales taxes to finance local government will be unable to discern where or how many of those dollars are being spent in Nevada. If, for instance, it becomes assumed that 5 percent of the sales taxes paid by Clark County residents are used to finance services outside of Clark County, those residents will be justified in complaining about the lack of accountability in showing where tax dollars are spent.

COMMENTS ON SB 411

COMMENTS ON SB 411

We again refer Legislators to Attachment 1, which explains the concern of bond counsel with SB 411's impact on long-term borrowing. Most of that concern relates to Section 5 of SB 411. We understand that legislation to cure some of the defects in this area has been introduced, but must reiterate our concern until remedial legislation is enacted.

We believe that Section 2.5 should be more specific as to when the Interim Legislative Committee on Local Government Finance is to be appointed and when or how often this body must meet. We are also concerned as to the problem of "separation of powers" that has been raised with respect to this committee.

We believe that SB 411, while it makes provision for a levy of a special ad valorem rate of up to 50 cents to meet the costs associated with particularly difficult problems, ignores the fact that such a levy can be established only once each year. Therefore, if a particularly difficult situation, such as a major disaster, occurred in September, this "relief" mechanism would not be of assistance until nearly a year later.

We have discovered some problems associated with developing the local government budgets for 1981-82 under SB 411. For instance, the unincorporated town of Laughlin in Clark County has not had any tax rate for operations prior to this time. A 17 cent rate for debt service only existed in 1980-81. We had hoped to levy ad valorem taxes (30 cents) to provide only the most basic police and fire services to this community in 1981-82. Since the 1980-81 rate was for debt only, no provision to provide proceeds from the Supplemental CCRT exists. The only means of doing this would require a meeting of the Interim Committee on Local Government Finance, which does not yet exist. Our final budget is due June 10, and it seems that no method of dealing with this or other problems has been discussed -- so budget development is difficult and speculative.

We have also voiced strong objection to Section 5 as an improper infringement on local control. We continue to believe that.

We previously objected to the "caps" imposed by SB 411. We indicated that a 12 percent cap for fiscal 1981-82 would place Clark County nearly $3 million below its

tentative budget for 1981-82 -- a budget already reduced by 2.2 percent in relation to 1980-81. Several Legislators scoffed at that estimate as simply a "scare" tactic. We have received an estimate of the allowed proceeds from ad valorem and Supplemental CCRT dollars in 1981-82 prepared by the Department of Taxation. That estimate indicates a reduction in excess of $2.3 million dollars. Our "scare" tactic appears to be accurate and proves that we are correct in contesting statements by some that this package will allow for a "dollar-for-dollar" replacement of ad valorem revenues with sales tax revenues.

Finally, we want to point out several other concerns:

1. No consideration has been given to the difference in responsibilities of local governments. We believe counties have most of the mandated program responsibilities under Nevada law. Yet cities receive equal or better consideration in the revenue distribution system. Counties must provide and pay for indigent care, most of the court systems, and in Clark County's case, do not receive any revenues from liquor taxes, cigarette taxes, or the Basic CCRT. That means that some local governments have great discretion in determining what expenditures they may make, while others, particularly counties, have limited discretion.

2. Little consideration has been given to the relationship of new legislation with a fiscal impact on local government to the constraints of SB 411. It appears that Clark County will, by legislative mandate, be required to spend more for courts (additional courts, more payments to court reporters, less revenue due to victims assistance, more costs to enforce tougher DUI laws), more for indigent care (the State may cap its spending for "welfare" which naturally forces more persons to ask for indigent services at the county level), and more for administration (to keep track of a more complicated budget and taxation system). We do not see much appetite among Legislators to direct cuts in particular mandates, rather there seems to be an interesting push to cut local control of revenues while not removing local responsibility for services.

3. We see no reason why various indices to control revenues have been chosen. The ad valorem and Supplemental CCRT caps for 1981-82 of 12 percent and years thereafter of 4.5 percent were never carefully analyzed for fiscal impact; the cap on fee changes

of 80 percent of the Consumer Price Index has never been analyzed for fiscal impact.

In summary, we believe SB 411 has flaws in several respects. We believe that SB 411 will cause government to spend more on "bureaucracy" and less on "service." If the public wanted more street sweepers and fewer budget analysts, the public, as a result of SB 411, is likely to be disappointed. That is one of the key points to our opposition to the "Tax Package" -- it is entirely too complex. We prefer to see property tax relief implemented in a more simple manner. One of the reasons Nevada has appealed to many is its relatively low level of governmental complexity. It will be difficult to claim that Nevada's system will be easy to understand.

ATTACHMENT 1

LETTER FROM BOND COUNSEL

Sherman & Howard
(DAWSON, NAGEL, SHERMAN & HOWARD)

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May 7, 1981

Mr. Nicholas G. Smith, President
Burrows, Smith and Company
Suite 1003, Keerns Building
Salt Lake City, Utah 84101

State of Nevada, Legislation
Senate Bills No. 69 and 411,
Sixty-First Session (1981)
Impact on Issuance of Municipal Securities

Dear Sir:

There have recently come to our attention Senate Bill No. 69 (Fourth Reprint) and Senate Bill No. 411 (Eighth Reprint), approved on April 30, 1981, and also known as ch. 150, Statutes of Nevada 1981 (herein "S.B. 69" and "S.B. 411," respectively), which will have a substantial adverse effect upon governmental finance in Nevada, and which we feel should be brought to your attention as a financial consultant to governmental entities in Nevada which are, or have been, a client of this firm as to the issuance of the client's bonds or other securities.

945

RAMIFICATIONS OF S.B. 69

If adopted in its present form, S.B. 69, after the next fiscal year beginning on July 1, 1981, provides for the determination of the taxable value of real property the appraisal for each fiscal year (1) of the full cash value of (a) vacant and (b) improved land consistently with the use to which the improvements are capable of being put, and (2) any improvements made on land by subtracting from the cost of the replacement of the improvements all applicable depreciation and obsolescence. The taxable value of taxable personal property, other than a merchant's or dealer's stock in trade, must be determined by subtracting from the cost of replacement of the property any depreciation. The computed taxable value of any property must not exceed its full cash value. The Nevada tax commission shall by regulation establish (a) standards for determining the cost of replacement of improvements and personal property of various kinds, and (b) schedules of depreciation based on the estimated life of each kind of property. Depreciation must be determined according to the actual age of the improvements or other depreciable property. The standards and schedules must be approved by the interim legislative committee on local governmental finance before they are used. Each county assessor shall adhere strictly to these standards and schedules.

Although it does not appear from the face of S.B. 69, we have been informed, and based upon this information, we believe that it is the legislative intent to have residential land increase its taxable value as inflation increases its full cash value but to have residential improvements depreciated at a rate so that the total taxable value of such land and such improvements will remain substantially the same as fixed for the fiscal year beginning on July 1, 1981. Possibly properties used for other uses also will fall in this category.

In any event it appears that the taxable value of some properties will not be increased at the rate full cash value is increased by inflation. Of course, the construction of new improvements and the conversion of properties to new uses may result in significant increases in the taxable value for the total assessed valuation of taxable property in some local governments, upon which valuations the debt limitations are based inhibiting the incurrence of an indebtedness by the issuance of general obligation bonds or other like securities, or by the creation of other contractual obligations not payable in the fiscal year in which the contract is made.

Thus, the unexhausted debt-incurring power of a local government (as well as the state) over a period of years may become smaller, remain substantially the same, or progressively grow larger but at a retarded rate compared with valuation factors in existence prior to the adoption of S.B. 69. Accordingly, the power of some, and possibly all, local governments, and possibly the state, to issue general obligation bonds and other general obligation securities may be adversely impacted over a number of years, in either a small or large degree, dependent on a number of factors, including the enactment of S.B. 69.

In any event, in future years the legislature may also find it appropriate to increase the statutory debt limitations. (The 1% state constitutional debt limitation for nonexempt debt incurred by the state may be more difficult to amend.)

The statutory debt limitations for charter cities run, for example, from none for Elko, 10% for the Carson City urban district and 10% for Carson City as a whole, 10% for Gabbs, 15% for Henderson and Reno, 20% for Caliente, Carlin, Las Vegas, North Las Vegas, Sparks, and Yerington, and to 40% for Wells;

and such limitations for statutory cities and Boulder City are 30% for bonds and 20% for warrants, scrip or other evidences of indebtedness other than bonds, but excepting debts contracted for securing supplies of water. The statutory debt limitation is 25% for unincorporated towns, 10% for counties, 15% for school districts, and 50% for general improvement districts. (Each designated percentage pertains to the assessed valuation of the taxable property in each designated governmental entity.)

RAMIFICATIONS OF S.B. 411

In the absence of its amendment prior to the adjournment of the current session of the legislature, S.B. 411 will compel this firm to decline to approve with an unqualified opinion the issuance of at least most revenue bonds and other revenue securities of local governments in Nevada which securities are payable from service charges, i.e., use charges, except such securities pertaining to hospitals, or county or authority airports, or such securities issued for convention authorities or the Las Vegas Valley Water District. Further, in our view any qualification as to this subject in our approving opinion is likely to result in a proposed issue being unacceptable to proposed purchasers.

In the case of double-barrel securities, i.e., general obligation securities payable from general (ad valorem) taxes, which payment is additionally secured by a pledge of net revenues derived from the operation of the system or other facilities acquired or improved with the proceeds of the securities, from the standpoint of the bond market, S.B. 411 may nullify the additional security for the payment of that type of securities but would not prevent their issuance unless the local government offering them for sale is unable to issue "straight" general obligation securities.

S.B. 411 also imposes general (ad valorem) tax limitations upon local governments, except school districts, by § 3 thereof. Subsection 1 of that section excepts from the tax limitation for the fiscal year ending June 30, 1981, taxes ad valorem "levied for the payment of bonded indebtedness and interest thereon incurred as a general or short term obligation of the issuer, or for the payment of obligations under a capital lease executed before the date of passage and approval of this act, ***."

Subsection 2 concerns taxes levied for the fiscal years beginning on and after July 1, 1982, presumably for the same local governments designated in subsection 1. This subsection does not expressly exempt taxes to pay bonded indebtedness, interest thereon, and such capital leases. Subsection 3 fixes another tax limitation for each fiscal year beginning on or after July 1, 1982, for local governments, without expressly excepting school districts, but excepting taxes levied for debt service, but not expressly excepting payments under such capital leases.

If these apparent differences in coverage are the way the act should be construed, in different areas under different circumstances, either subsection 2 or 3 is likely to be materially more restrictive than either of the other 2 subsections designated above.

We suggest a clarification of the ambiguities.

MISCELLANEOUS COMMENTS

1. S.B. 69.

S.B. 69 pertains to the method of the calculation of the assessed valuation of taxable property in the state. Assessment will no longer be based on 35% of "full cash value" of such property but on 35% of the "taxable value" thereof, except for the fiscal year commencing on July 1, 1981.

For that year, by § 31, S.B. 69, taxable real property will be assessed at 35% of its "adjusted cash value." The adjusted cash value for assessable real property is calculated by multiplying the full cash value thereof, as determined by an appraisal made in this or a prior year, by one of 5 factors pertaining to the year in which the appraisal was made (1) for "residential improvements" or (2) one of 5 other factors pertaining to such year and to the appraisal for "other property."

Under § 31.3, for the assessment period ending December 15, 1981, except as provided in § 32 of the act, all property, except as provided in § 32 of the act, must be assessed at 35% taxable value. For existing properties the taxable value must be determined by multiplying the adjusted cash value pursuant to § 31 of the act by the appropriate factors provided by the department of taxation. For new properties the county assessor must determine taxable value consistent with the value of like properties as determined from adjusted cash value.

The legislature declared by § 33, among other matters, that those factors for the respective years of appraisal have the approximate effect of placing property appraised before the fiscal year 1980-1981 on a parity with property appraised during that fiscal year, and the respective classes of real property

separately specified on a parity with one another. (This is, in our view, a laudable objective.)

By § 32, the provisions of § 31 do not apply to the assessment of (1) any personal property, (2) utilities property assessed by the Nevada tax commission pursuant to NRS 361.320, (3) any agriculture lands classified and assessed by the commission pursuant to NRS 361.325, (4) any agriculture or open-space real property assessed pursuant to ch. 361A of NRS, or (5) shares of stock in banks assessed pursuant to ch. 367 of NRS. Further, each of the classes of property is assessed pursuant to NRS in such manner that no adjustment is required to place all property within that class on a parity.

For the fiscal years following 1981-1982, assessments must be made as summarized at the beginning of this letter under the title "Ramifications of S.B. 69."

2. S.B. 411.

As a preliminary to understanding the effect of S.B. 411 on revenue bond financing, it is necessary to understand some financial features of that type of security payable from net pledged revenues derived from service charges (i.e., use charges) collected in the operation of the system or other income-producing facilities to which the bonds pertain. In order for a prospective purchaser to be interested in the purchase of revenue bonds, among other factors, the governmental entity issuing the bonds must covenant that the facilities will be maintained, preserved, kept, and operated in good repair, working order, and condition, that gross revenues will be applied in a timely manner to the payment of operation and maintenance expenses, to the payment of debt service pertaining to the proposed issue and any outstanding securities payable from those revenues, and to the accumulation (except to the extent capitalized with bond proceeds) and maintenance of a bond reserve account and possibly one or more other accounts for

various purposes relating to the facilities. Of utmost importance to the investor is the apparent fact that the governmental entity has the power during the term the bonds are to be outstanding to fix and collect service charges (and possibly other revenues, e.g., rents) to comply with such covenants.

Thus, the proceedings authorizing the issuance of revenue bonds must include some kind of rate maintenance covenant in order to attract investor interest. Typically, the bond contract provides that there shall be charged against users of, or against purchasers of services or commodities pertaining to, the facilities, directly or indirectly, such fees, rates, and other charges as shall be adequate to meet the requirements of that covenant. It typically requires that the charges pertaining to the facilities shall be sufficient to produce gross pledged revenues, together with any other funds available therefor, at least to pay in each fiscal year, as obligations become due, the operation and maintenance expenses of the facilities for the fiscal year, and an amount at least equal to a stated percentage (e.g., 135%) of the debt service of the outstanding and the proposed bond issues becoming due in that fiscal year or a bond year relating thereto.

The provisions of S.B. 411 are such that it is likely that any such covenant may at sometime during the term of a revenue bond issue contravene or purportedly contravene service charge limitations in S.B. 411.

S.B. 411 relates to governmental finance, fixes statutory limits on revenue of local governments derived from general (ad valorem) taxes and the supplemental city-county relief tax and on the increase of fees imposed for regulation or revenue.

A copy of § 5, S.B. 411, is attached as Exhibit 1, the provisions of which section are quite troublesome.

Subsection 1 of § 5 in effect provides in relevant part that a "local government shall not increase any fee for a license

or permit or adopt a fee for a license or permit or impose a service charge not previously assessed, including without limitation every license or permit issued for revenue or regulation, or both, *** except as permitted by this section," and that "[t]his prohibition does not apply to service charges or fees made by hospitals county airports, airport authorities, convention authorities or the Las Vegas Valley Water District."

Parenthetically, we note that, as bond counsel, our concern is with the limitation on service charges and not with license or permit fees.

In our view, the first clause of the subsection is ambiguous. It is clear, in the case of a license or permit fee, that a local government "shall not increase" or "adopt" such a fee. But in the case of a service charge, a local government shall not "impose a service charge not previously assessed." It is not clear whether the prohibition merely prevents a local government from fixing or adopting a new type of service charge or whether the prohibition also prevents the local government from increasing the amount of an existing service charge. (A similar type of ambiquity exists in subsection 3 of § 5 at lines 23 and 24 of page -5-.) The way this ambiguity is resolved is of critical importance in the operation of any enterprise fund facilities to which revenue bonds or other revenue securities pertain.

The basic prohibition is the antithesis of a rate maintenance covenant in a revenue bond contract. Thus, the exceptions to the basic prohibition are of extreme importance.

Subsection 2 of § 5 provides for an annual increase in the rate structure of any fee for a license or permit not exceeding 80% of the inflation in the next prior calendar year based on the Consumer Price Index. But there is no such adjustment for service charges, notwithstanding that enterprise facilities, e.g.,

potable water systems and sanitary sewer systems, are experiencing substantial inflation in at least some types of operation and maintenance expenses and perhaps an even greater rate of inflation in capital improvement costs. Further, the need for capital improvements does not arise from inflation but in large measure from growth -- domestic, commercial and industrial growth, which local governments are more or less powerless to cut off. Of course, an increase in operation and maintenance expenses results in part from inflation and in part from capital improvements and the need for larger utility systems or other enterprise facilities.

Subsection 3 of § 5 provides in relevant part that a "local government must submit any proposal to impose a new charge for service" (whatever that means) "and must submit a proposal to increase a fee for a license or permit to the executive director of the department of taxation for approval if" any one of 4 stated conditions is met. The subsection then provides a procedure to effect an exemption.

The four subsection 3 exemptions, however, only concern a fee for a license or permit, not a service charge, unless the operation and maintenance of enterprise facilities is construed to be a "business" as the term is used in ¶¶ (b) and (c) of subsection 3. In any event ¶ (b) seems inapplicable because service charges are not stated in terms of "a fraction or percentage of the gross revenue of the business," and ¶ (c), "[t]he classification of a type of business is changed or new categories of business are added," also seems inapplicable to a service charge except possibly the second clause.

Thus, as a practical matter, there appears to be no condition which a local government can meet in order to obtain a subsection 3 exemption for a service charge, although the subsection purports to apply to service charges, as well as license or permit fees.

Parenthetically, we note that the fourth condition is peculiar from a policy standpoint. A license fee may be increased if "the license fee for which increases are proposed has been increased between July 1, 1979, and the date of passage and approval" of S.B. 411. In our view the converse makes more sense, i.e., if the license fee had not been increased during such period.

Subsection 4 only pertains to a license or permit fee and is irrelevant for our purposes.

Subsection 5 of § 5 provides that a "local government may submit an application for exemption from the provisions of this section to the interim legislative committee on local governmental finance, which may grant the exemption if it finds" one of 3 stated conditions is met.

The first condition in ¶ (a) pertains to the existence of a subsection 3 exemption, which, for the reasons stated above, is wholly or largely irrelevant.

The second (¶ (b)) exemption is whether the "local government has not previously charged a fee for a license or permit or imposed a service charge." (Emphasis added to quotation herein). Literally this condition requires, for example, a denial of such an application for exemption, if a local government has fixed a service charge for its potable water system, and if the application pertains to a proposed service charge for new waste water treatment facilities. But in our view this is an absurd result. A court is thus not likely so to construe the second exemption. It is more difficult, however, to guess what construction will be given to the condition so as to determine what the condition does mean. If the term "impose" includes both an "adoption" and an "increase" of a service charge, the meaning of the second exemption is even more obscure. as is its purpose.

In our view the second condition is quite ambiguous.

The third condition, stated in ¶ (c), is whether the "last increase was not recent" (whatever that means) "and the rates of the fees charged by the local government are at a significantly lower level than those of other similar local governments in the state." Apparently this third exemption also only pertains to license or permit fees -- not to service charges -- and is thus irrelevant. But if it does pertain to service charges, it would pertain to no or little growth communities where the pressure to increase service charges pertaining to enterprise facilities is small. The condition thus is not of great practical impact.

In summary, the basic prohibition against fixing or adopting, and possibly increasing, service charges, is at least without any material exception, and possibly without any exception. It is unlikely that a local government will have no need during a term of outstanding revenue securities, and especially long-term revenue bonds, to increase the service charges pertaining to the payment of those securities. Even in a non-inflationary economy the factors of obsolecence and growth require the improvement of enterprise facilities and the issuance of securities for the payment of the improvement costs, the debt service of which securities may require an increase in service charges. An inflationary economy such as we are now in puts further pressures on such increases. Thus a normal rate maintenance covenant in a contract pertaining to revenue bonds or possibly other revenue securities will probably require a rate increase one or more times during the term of the securities, particularly bonds. In such case the rate maintenance covenant would contravene, or purportedly contravene subsection 1, § 5, S.B. 411.

Further, the second sentence of subsection 6, § 5, reads "[a]n ordinance or resolution enacted by a local government in

violation of provisions of this section is void." (Emphasis added to quotation herein.) Thus, a bond ordinance or bond resolution with a typical rate maintenance covenant, sometime after the issuance of the bonds and subsequently the need arises to adopt or possibly increase service charges, becomes void, and thus the outstanding bonds become void because they are issued under an invalid instrument authorizing their issuance. (We recognize that a court might hold that, notwithstanding the literal language of the quotation, only the provisions of the rate maintenance covenant in its application to the fact situation requiring an adoption or increase in service charges is invalid. Thus, the bonds do not then become invalid, but only an important security for their payment is diminished. But even in such case, unacceptable risks are involved.)

Further, we fear that national rating agencies will remove their ratings on revenue bonds and other like securities which are outstanding on July 1, 1981 (the effect date of § 5) and have been issued by Nevada local governments when those agencies learn of the provisions of § 5 -- somwhat analogous to the action taken by them as to securities payable from general (ad valorem) taxes on the adoption, or the anticipation of the adoption, of Proposition 13 in California. Any such action will probably kill any market for revenue securities issued by local governments in Nevada for an indefinite period of time, as has been the case in California as to bonds payable from general (ad valorem) taxes.

Thus, we regretfully report, as we noted above, that this firm will feel compelled to decline approving with an unqualified opinion at least most revenue bonds issued by local governments in Nevada so long as S.B. 411 remains unamended, except as provided in subsection 1, § 5 thereof, and restated above in the first paragraph following the heading "Ramifications of S.B. 411." Further, in our view any qualification as to this subject in our approving opinion is likely to result in a proposed issue being unacceptable to prospective purchasers.

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Parenthetically, we note that in our opinion § 5 is unconstitutional in its application to ordinances and resolutions authorizing the issuance of revenue securities, and especially the rate maintenance covenants therein, which securities are outstanding on July 1, 1981, the effective date of § 5, i.e., in the application of § 5 to circumstances in which the covenant requires an adoption or increase of service charges.

The Federal Constitution provides (art. 1, § 16, cl. 1) in part that "[n]o State shall *** pass any law impairing the obligation of contracts," and similarly the Nevada Constitution provides (art. 1, § 15) in part that "[n]o *** law impairing the obligation of contracts shall ever be passed." (See L. Jones, Bonds and Bond Securities, 4th Ed., § 435 et seq.; and 5 E. McQuillin, Municipal Corporations, 3d Ed., §§ 19.34 to 19.54.)

It is well settled that action of a political subdivision is action of the state for the purposes of this constitutional provision, and that state and municipal bonds, in particular, are contracts protected by it against impairment. U.S. Trust Co. of New York v. State of New Jersey, 431 U.S. 1, 97 S. Ct. 1505 (1977), rehearing denied 431 U.S. 975, 97 S. Ct. 2942 (1977); Murray v. City of Charleston, 96 U.S. 432, 24 L. Ed. 760 (1877); Von Hoffman v. Quincy, 71 U.S. (4 Wall.) 535, 18 L.Ed. 419 (1867). A local government, being a creature of the state and a political subdivision thereof, is subject to the same constitutional proscription as the state.

The general rule is that a contract takes it character and receives its obligation from the law in force at the time and place that it is made, and the rights acquired under it cannot be affected materially by a subsequent repeal or change of law or other action. 5 E. McQuillin, Municipal Corporations, 3d Ed., (herein "E. McQuillin"), § 19.42.

These constitutional limitations, however, do not necessarily prevent a modification of a contract unilaterally. No impairment of an obligation of a contract results from an action that affects a contract but does not materially and adversely destroy or diminish any right under the contract. 5 E. McQuillin, § 19.43. But the circumstances to which we refer would materially and adversely destroy or diminish a right under the bond contract. U.S. Trust Co. of New York v. State of New Jersey, supra.

We regret to note that rating agencies may lower ratings on other types of bonds and other securities issued by the state and its local governments because of the attempted impairment by the state of the revenue securities contracts of the state's local governments. We can only speculate as to the impact any such action might have on marketing other types of securities in the state.

Subsection 1 of § 20, S.B. 411, provides that "[e]xcept as provided in subsection 2," which subsection is irrelevant for our purposes, "the legislature declares that this bill, Senate Bill No. 69 and Assembly Bill No. 369 constitute an integrated plan for the relief of the residents of this state from excessive property taxes while providing revenue for the necessary services of local government, that their provisions are not severable," and that "[i]f any provision of any of these bills which becomes law, or the application thereof to any person, thing or circumstance is held invalid, the other provisions of each of these bills become ineffective, and all statutes repealed by any of these bills are revived." (Assembly Bill No. 369 increases and provides for the collection of a number of sales, use, and other business excise taxes, including, without limiation, the local school support tax and the city-county relief tax, and also provides for the distribution of proceeds derived from such taxes.)

Thus, in our opinion, the state may be in the unenviable position of making a major change in its finances, then having a bondholder or other person in interest successfully challenging at some undetermined and indefinite period of time thereafter the validity of the prohibition in § 5 against the adoption or possibly the increase of service charges under the circumstances stated above, and then making in midstream of a fiscal year a return to the now existing statutory scheme of financing as required by the quoted severability provision.

Another ground of possible invalidity of S.B. 411 occurs to us.

Is the title of the act sufficiently broad to permit the prohibited "imposition" of service charges. Art. 4, § 17, Nev. Const., requires in relevant part that "[e]ach law enacted by the Legislature shall embrace but one subject, and matter properly connected therewith, which subject shall be briefly expressed in the title; ***." The title expressly refers to "statutory limits on revenue of local governments derived from taxes ad valorem *** and on the increase of fees imposed for regulation or revenue," but makes no reference to service charges.

Please excuse the length of this letter. The matter under consideration is complex and the problems raised by S.B 411 are numerous. In our view greater risks may arise from a simpler but necessarily a more incomplete statement, than from a longer but more burdensome statement of S.B. 411.

If we may assist you in any further way, please so inform us.

Yours truly,

act for a temporary exemption exist, and makes written findings of the facts supporting the distribution.

SEC. 5. *1. A local government shall not increase any fee for a license or permit or adopt a fee for a license or permit or impose a service charge not previously assessed, including without limitation every license or permit issued for revenue or regulation or both, such as business licenses, liquor licenses, gaming licenses, and building and zoning permits, except as permitted by this section. This prohibition does not apply to service charges or fees imposed by hospitals, county airports, airport authorities, convention authorities or the Las Vegas Valley Water District.*

2. The rate structure of any fee for a license or permit in effect on the date of passage and approval of this act is the base from which any increase in such license or permit fee must be calculated. On February 1 of each year the executive director of the department of taxation shall certify the increase in the Consumer Price Index for the preceding calendar year and shall furnish this information to each local government. Subject to the further limitation imposed by subsections 3 and 4, no fee for a permit or license may be increased more often than once in any calendar year or by an amount greater than its amount for the preceding calendar year multiplied by 80 percent of the increase in the Consumer Price Index from the beginning of the preceding calendar year to the beginning of the calendar year in which the increase is made.

3. A local government must submit any proposal to impose a new charge for service and must submit a proposal to increase a fee for a license or permit to the executive director of the department of taxation for approval if:

(a) The method of computation of a fee for a license or permit is changed;

(b) The method of computation existing on the date of passage and approval of this act is a fraction or percentage of the gross revenue of the business;

(c) The classification of a type of business is changed or new categories of business are added; or

(d) The license fee for which increases are proposed has been increased between July 1, 1979, and the date of passage and approval of this act.

A local government or any person who may be required to pay the charge or fee may appeal the decision of the executive director of the department of taxation to the interim legislative committee on local governmental finance. The executive director and the committee shall evaluate the proposal to determine whether the proposed change is consistent with the purpose of this section to limit increases in the rate structure for these revenues.

4. A local government may not increase any fee for a license or permit which is calculated as a fraction or percentage of the gross revenue of the business if its total revenues from such fees have increased during the preceding calendar year by 80 percent or more of the increase in the Consumer Price Index during that preceding calendar year.

5. A local government may submit an application for exemption from the provisions of this section to the interim legislative committee on local governmental finance, which may grant the exemption if it finds that:

(a) The conditions prescribed in section 3.3 of this act for a temporary exemption exist, and makes written findings of the facts supporting the exemption;

(b) The local government has not previously charged a fee for a license or permit or imposed a service charge; or

(c) The last increase was not recent and the rates of the fees charged by the local government are at a significantly lower level than those of other similar local governments in the state.

6. The provisions of this section apply to any license or permit for any purpose regardless of the fund to which the revenue from it is assigned. An ordinance or resolution enacted by a local government in violation of provisions of this section is void.

SEC. 6. Any ending balance of the general or a special revenue fund, other than those established solely for the purpose of administering federal, state or private grants in aid, which exceeds the sum of the money appropriated for the opening balance of that fund for the succeeding fiscal year and one-twelfth of the expenditures from that fund for the fiscal year just ended may only be used to augment the appropriations of the succeeding year upon the favorable vote of a majority of the members of the governing body and upon the consent of the executive director of the department of taxation. The executive director shall not approve such an application for augmentation unless it is for the sole purpose of replacing an identifiable appropriation for a specified purpose which lapsed at the end of the preceding fiscal year and which has not been reappropriated in the year in which the augmentation is to become effective, except where the conditions prescribed in section 3.3 of this act for a temporary exemption exist. The local government may appeal the decision of the executive director to the interim legislative committee on local governmental finance, whose decision is final. If the executive director or the committee approves the augmentation, it must make written findings of the facts supporting its action.

SEC. 7. 1. The department of taxation shall review each annual audit to determine whether it complies with regulations adopted pursuant to NRS 354.594. Any independent auditor's report, whether upon financial position and results of operations or upon internal financial controls, which the department believes may not comply with those regulations must be referred by the department to the state board of accountancy for investigation and such action in respect to the issuing accountant as the board may find appropriate in the circumstances.

2. In its review of the annual audits submitted, the department shall identify all violations of statute and regulation reported therein. Within 60 days after the delivery of the annual audit to the local government, the governing body shall advise the department what action has been taken to prevent recurrence of each violation of law or regulation or to correct each continuing violation. The department shall evaluate the local government's proposed plan of correction and, if the plan is satisfactory, shall so advise the governing body. If the plan is not satisfactory, the department shall advise the governing body that it deems the plan inadequate and propose an alternative plan. Within 30 days thereafter the governing body shall report its assent to the department's plan or request

ATTACHMENT 2

"UNDERSTANDING REAL PROPERTY ASSESSMENT"

UNDERSTANDING REAL PROPERTY ASSESSMENT

The research and studies forming the basis for this report were conducted under a contract (H-2172R) with the U.S. Department of Housing and Urban Development (HUD), Office of Policy Development and Research. The statements and conclusions in this report are those of the contractor and do not necessarily reflect the views of the U.S. Government in general or HUD in particular. Neither the United States nor HUD makes any warranty, expressed or implied, or assumes responsibility for the accuracy or completeness of the information in this report.

PREFACE

This report is written for local government officials—elected or appointed—who want to improve real property assessment practices. It outlines what these officials should ask about or look for in evaluating whether assessment practices in their communities meet modern standards. It also outlines how improvements can be made in assessment practices.

There are two companion pieces to this report. *Evaluating Real Property Assessment Practices: A Management Guide* provides more detailed guidelines on making a self-evaluation of assessment practices. *Improving Real Property Assessment: A Reference Manual* provides detailed guidelines for assessment personnel on evaluating and improving real property assessment practices.

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WHY ARE ACCURATE PROPERTY ASSESSMENTS IMPORTANT?

Property assessments are a source of many local political and fiscal problems. Taxpayers object when assessments are inequitable. Fiscal management is also adversely affected. Large, unvoted increases in property taxes caused by the failure to offset increases in assessed values with decreases in tax rates are unpopular. Major shifts in the share of property taxes borne by homeowners, farmers, business, and industry that follow infrequent reassessments also cause an outcry. Reforming real property assessment practices can help avoid or resolve such controversies.

Fiscal Health

There are several links between a local government's fiscal health and real property assessments. Assessments based on up-to-date property values can strengthen fiscal health by accomplishing the following goals:

- **Maximizing potential property tax revenues.** Inadequate assessment practices usually underestimate property values, thereby limiting potential property tax revenues by understating the tax base.
- **Increasing borrowing capacity.** Because the borrowing capacity of local governments is often limited to a certain ratio of debt to total assessed value, any general underassessment restricts the power to use bond financing. Bond rating houses also examine assessed value when assigning ratings. With the same debt load, a higher assessed value can result in a higher bond rating and lower interest rate.
- **Assuring a full share of intergovernmental aid.** Intergovernmental payments to local governments are often tied to

property values. Increasingly, aid distribution formulas penalize local governments that understate property values.

Sound assessments can help maintain fiscal health in other ways. The property tax is a more stable revenue source than the sales and income taxes because property values reflect long-term economic considerations. Property tax rates are flexible and can be easily adjusted to meet changing revenue needs as long as rate ceilings have not been reached. Real property is immobile, and property taxes are difficult to avoid. The property tax captures for the community some of the windfall increases in property values that are generated by public expenditures for services and capital improvements. These benefits of the property tax are maximized when assessed values are based on current market values.

Legal Mandate

The law in each state requires that property tax liabilities be distributed according to property values. Market value is the usual basis. Under the market value assessment standard, assessors are required to estimate the most likely sales prices of all taxable properties in their jurisdiction. Actual assessments, in turn, are some portion of these estimates, which are called appraisals. The advantage of the market value standard is that property owners and others, using recent sales prices as evidence, can easily judge for themselves whether they are being correctly and fairly treated.

In many of the nation's jurisdictions the law has been ignored. The standard of market value has not been adhered to. Such practices have been tolerated or winked at in the past, but this is rapidly changing. Taxpayers, both individually and collectively, are challenging illegal assessments. They are taking their cases to the courts and to the press. Journalists and consumer groups are increasingly zeroing in on inequities in property tax administration. The attacks are sophisticated, and state and federal courts are being persuaded that inequities must be corrected.

WHAT IS THE RELATIONSHIP BETWEEN PROPERTY ASSESSMENTS AND TAX POLICY?

Public confusion over who is responsible for setting property tax policy often hampers efforts to improve assessment practices. Property assessment involves (1) locating and describing properties; (2) appraising or estimating the value of all properties; (3) keeping records linking properties to their respective owners; and (4) designating the official value for tax purposes, taking into account legal reasons for altering appraised values. Property assessment, therefore, is an administrative function.

Responsibility for the Property Tax

Elected officials, however, are responsible for setting property tax levies and rates.

Popular misconceptions about who is responsible for the property tax arise because assessors adjust assessed values to reflect changes in market values, which increase or decrease property tax liabilities. Several states—including Florida, Hawaii, Montana, and Virginia—have enacted disclosure procedures to help dispel any confusion about who is responsible for property tax increases. These procedures restrict property tax revenues to the amount raised before a reappraisal unless a local governing body (*a*) gives notice of its intent to raise its levy and (*b*) holds a public hearing on the proposed levy increase. These hearings enable taxpayers to express their views on the services they expect to receive and to obtain satisfactory justification for the property tax burden they ultimately bear.

Reconciliation of Property Tax Policy with Public Goals

Elected officials face a difficult problem in reconciling property tax policy with various public goals. Preserving farmland and open space, for example, may be adversely affected by market value assessments. Some taxpayers, notably the poor and the elderly, may be overburdened even if the assessment function is performed perfectly. Solving such problems requires political judgments that are beyond the scope of this report. However, property tax relief for the poor and elderly can be accomplished through tax credits and abatements without destroying assessment uniformity. Farmland, open space, and historic structures can be preserved by restricting the use of such properties. In this way market value is equal to current use value.

In working to improve property assessments, it may become evident that present law obstructs sound assessment practices. Thus, it may be necessary to lobby for improved property tax legislation. New legislation reinforcing the market value assessment concept should be enacted, while existing legislation hampering market value assessment should be repealed. The property tax relief measures discussed above can help overcome opposition to better assessments from those who fear the consequences of an accurate reflection of current market values in assessed values.

HOW GOOD—OR BAD—IS YOUR PROPERTY ASSESSMENT SYSTEM?

You may hear that assessing is not an exact science and that perfection is not attainable. Both are true. Nevertheless, standards of reasonable performance do exist, and there are reliable means of measuring and applying these standards.

Assessment Ratio Study

The most objective way to evaluate assessment performance is to make an assessment ratio study. An assessment ratio study is a comparison of the property appraisals made by the assessor and the actual sales prices of the same properties. An assessment ratio is calculated by dividing the assessed (or appraised) value by the sale price, and an assessment ratio study reveals how closely appraised values correspond to sales prices. The overall relationship between assessed values and sales prices in a jurisdiction or class of properties is represented by the average (mean) or middle (median) assessment ratio. Overall assessment ratios for a class of properties, or for the jurisdiction as a whole, should be approximately equal to the legal assessment ratio or to the legal mandate fraction assessed values are of market values. If the overall ratio is below the legal ratio, the tax base is understated. If the assessment ratios for different classes of properties or neighborhoods are unequal, assessment inequities exist.

Coefficient of Dispersion

The variation among individual assessment ratios is represented by the "coefficient of dispersion." The coefficient of dispersion is the average percentage by which individual assessment ratios deviate from the median assessment ratio. It is also a measure of assessment equity. For example, a 20 percent coefficient of dispersion means that roughly half of the properties in a class or jurisdiction fall within a range of 20 percent above or below the median assessment ratio. Coefficients of dispersion for residential properties should generally range between 5 and 15 percent. In areas of similar single-family residential properties, coefficients closer to 5 percent are attainable. In older, dissimilar areas, a coefficient at the upper end of the range might indicate good performance. A similar range in coefficients of dispersion should be attainable for multi-family and other income-producing properties. The market for vacant land, however, is much more volatile and, therefore, difficult to predict. Coefficients of dispersion in the area of 20 percent may therefore indicate good performance.

Appraised and Market Values

Close correspondence between appraised values and market values is crucially important to property tax equity. A property assessed 20 percent more than market value pays 50 percent more taxes than an equal property assessed 20 percent less than market value. For this reason, your assessor should conduct his own assessment ratio study. Alternative sources of assessment ratio studies include the state property tax supervisory agency; a county-level assessment equalization agency if assessing is a municipal or township function; and the *Census of Governments*, made every five years by the U.S. Bureau of the Census. If an assessment ratio study indicates that assessments are below par, a review of the assessment system should reveal the reasons for the poor performance.

DOES YOUR ASSESSOR HAVE THE ESSENTIAL ELEMENTS OF A SOUND PROPERTY ASSESSMENT SYSTEM?

You can determine whether an assessment system is sound by asking your assessor the following questions: Are appraisals current? Is the existing appraisal program capable of maintaining up-to-date appraisals? Is assessing carried out openly? Is the assessment appeal process accessible, inexpensive, and effective?

Are appraisals current?

Assessing must be a continuous process. Properties change, owners change, and values change. Annual appraising is recommended. As long as taxes are levied annually, property assessments should be updated annually so that taxes are fairly distributed. Appraisals four or more years old are sure to be a cause of serious property tax inequities.

Is the existing appraisal program capable of maintaining up-to-date appraisals?

To get an answer to this question, you should ask the following questions:

Does the assessor have adequate staff support? The appraisal staff should be technically proficient and large enough to get the job done. Appraisers who perform best usually have at least some college education and, in addition, have taken specialized courses in real property appraisal along with having at least several years of experience. The correct size of the appraisal staff can be determined only after a careful study of the appraisal workload, the appraisal techniques used, and the available data processing resources. Appraisal workloads are strongly affected by rapid growth and rapidly changing market values. Other things being equal, older properties present more appraisal problems than newer properties do. Similarly, properties in homogeneous land-use areas are easier to appraise than are properties in mixed

use areas. In general, appraisers should not be responsible for more than 6,000 parcels.

Does the assessor have the necessary informational resources? The assessor needs a set of up-to-date assessment maps showing the size, shape, and location of each parcel of land. The assessor also needs up-to-date records containing a description of the physical and locational characteristics of each property; records of sales detailing the price, terms, and conditions of the sale *and* the characteristics of the property at the time of the sale; and records of the names and addresses of property owners. To help maintain his records, the assessor should be automatically and routinely furnished with copies of all deeds and other real property transfer documents. These property transfer documents are the primary sources of the sales data which are crucial to market-value appraisals. The assessor should also be notified automatically of all building permits. Building permits alert the assessor to changes in property characteristics. The assessor should have an independent program consisting of periodically inspecting all properties and updating cost, rental, and operating expense data.

Does the assessor have data processing resources sufficient to support annual appraisals? An annual appraisal program requires considerable data processing support. If the assessor still relies on manual methods to make appraisal calculations, consideration should be given to using computers.

Does the assessor employ all three basic methods of appraising properties: the sales comparison approach, the income approach, and the cost approach? The sales comparison approach consists of estimating the values of unsold properties on the basis of sales prices of sold properties. The income approach involves appraising properties on the basis of their income-generating capabilities and on expected rates of return on real property investments. The cost approach consists of adding independently determined estimates of land and building values, the building values being derived from estimates of current replacement cost less depreciation. All three approaches should be used. Outmoded appraisal programs often place too great a reliance on the cost approach, however. The cost approach is weakest when replacement costs are not recalculated annually and when current market data are not used to appraise site values and to estimate depreciation. More modern appraisal programs make effective use of the sales comparison approach by using a statistical technique known as multiple regression analysis (MRA). MRA is a particularly valuable tool in the appraisal of single-family residences. The income aproach is generally the most appropriate approach to use when appraising income-producing properties such as apartments, office buildings, and stores. This is because the sales of such properties are predicated on their income-generating capabilities, and the income approach is designed to reveal relationships between income and sale price.

Does the assessor monitor his own performance? The assessor should make his own assessment ratio studies; know ap-

proximately how many properties, by property type, there are in the jurisdiction at any time; have an annual work program designed to keep appraisals up-to-date; have production goals for each department or staff member; and know the current status of his work program. The absence of assessment ratio studies and other internal controls should be regarded as a serious deficiency which should be corrected immediately.

Is assessing carried out openly?

A climate of openness in addition to technical proficiency in assessing is necessary. This requires that public officials explain how the property tax administrative duties, and the assessing process in particular, are carried out. Property owners should be informed of changes in their assessments, they should be given access to their property records, and they should be informed of their appeal rights. Individual assessment-change notices should be mailed to all affected property owners, together with information about assessment methods and appeal procedures. Brochures describing the property tax system, appraisal procedures, appeal rights and procedures, and property tax relief programs should be readily available. Pains should be taken to keep the language of these notices and brochures simple, understandable, and factual. Legal and technical terminology, which confuses readers and undermines citizen confidence, should be avoided. The press should be told about reappraisals and major changes in assessing procedures. The assessor should welcome opportunities to explain assessment matters to community groups.

Is the assessment appeal process accessible, inexpensive, and effective?

Property owners should have ready opportunity to inquire informally about their assessments before their tax bills are mailed, to have factual errors corrected without the expense of a formal appeal, to make formal assessment appeals to an independent body if they are dissatisfied with their assessment, and to take the matter to court if there are questions of law or if valuation questions are unresolved. The appeal process is not merely a series of public relations gestures. It should serve as a vital contribution to the accuracy and equity of assessments. Therefore, appeals need to be handled with the same care and technical proficiency as the assessments themselves. Political considerations should not be interjected into the appeal process.

HOW DO WE IMPROVE PROPERTY ASSESSMENTS?

Planning a Reappraisal:

1st STEP

A reappraisal is called for when assessments are out-of-date and inequitable. Conducting a reappraisal requires careful planning.

The first step in planning a reappraisal is to determine what needs to be done. Maps must be up-to-date. Data collection and appraisal procedures must be developed. Forms must be designed and printed. Computer systems may need to be developed as well. Staff must be hired and trained. Work plans and assignments must be made. Quality-control checks must be instituted. Properties must be inspected and described. Market data such as sales prices, rents, and costs must be collected. Data must be transcribed, and calculations must be made. Preliminary estimates of market values must be checked for reasonableness. Progress and performance must be monitored. The public must be kept informed.

2 Planning a Reappraisal: 2nd step

The second step is to determine funding requirements and appropriate the necessary funds. The cost of work done by the assessor and other government agencies, such as the data processing department, can be determined through normal budgeting procedures. The cost of work which will have to be done by outside contractors can be determined through a competitive bidding process. It is a good idea to consider the possibilities of cost-sharing and financial assistance. For example, the cost of assessment maps and developing computerized property record files could be shared by other agencies that use property data, such as planning, engineering, highway, and even human resource departments. Local governments may elect to use federal general revenue sharing funds or community development block grants to implement improved map and record systems. Employment programs can be used to hire data collectors. Sometimes state governments have financial assistance programs for improvements of local real property assessment systems.

3 Planning a Reappraisal: 3rd step

The third step in planning a reappraisal program is to determine whether the necessary skill and manpower needs can be met within the assessor's office. In general, developing the internal capability to make and maintain current market value assessments is preferable to relying on outside services. Developing a new assessment system, particularly one that is heavily relianton computers or that requires making a reappraisal of all properties, may necessitate temporary outside assistance. If the review of assessment practices suggests that outside assistance is needed, care should be taken to ensure that contractors are selected on the basis of their responsiveness to the assessor's needs and their technical and financial qualifications, and not on the basis of lowest bid alone.

Many sources of assistance are available to communities, including the state property tax supervisory agency, faculty members of nearby colleges and universities, firms specializing in making reappraisals, firms specializing in developing assessment systems, and management consultants. The International Association of Assessing Officers (IAAO) can also provide assistance. If you or

your assessor want more detailed information on evaluating assessment systems, a copy of *Evaluating Real Property Assessment Practices: A Management Guide* can be obtained from IAAO. This guide will help you pinpoint problem areas or needs and will help you establish priorities for improving assessment practices. *Improving Real Property Assessment: A Reference Manual,* also available from IAAO, is written for assessors and specialists, and provides detailed coverage of the key elements of an effective real property assessment system as well as specific solutions to assessment problems. In addition to publications, IAAO offers consulting services and conducts assessment personnel education programs. The IAAO Research and Technical Services Department will gladly advise you on how to proceed in either evaluating existing assessment practices or implementing improved assessment practices.

Please feel free to write or call:

Director, Research and Technical Services
International Association of Assessing Officers
1313 East 60th Street · Chicago, Illinois 60637 · (312) 947-2051

SUGGESTED READINGS

Brandon, Robert M.; Rowe, Jonathan; and Stanton, Thomas H. *Tax Politics: How They Make You Pay and What You Can Do About It.* New York: Pantheon Books, 1976. 297 pp., but see especially pp. 143–244. (201 East 50th Street, 10022; $6.95 pb)
A lucid and succinct explanation of the theories and principles of property taxation, the assessment process, and the methods used to evaluate assessment performance. Written specifically for lay persons, particularly for those involved in taxpayer associations or interested in forming one.

Ecker-Racz, L. L. *The Politics and Economics of State-Local Finance.* Englewood Cliffs, New Jersey: Prentice-Hall, Inc., 1970. 242 pp. (Order Department, 07632; $6.95 pb)
An elementary guide to the tax structure of state and local governments. Chapters 7–10 deal specifically with property taxation, and they cover such issues as full-value assessments, exemptions, farmland on the urban fringe, and site value taxation, among others.

Harriss, C. Lowell. *Property Taxation in Government Finance.* Research publication no. 32. New York: Tax Foundation, Inc., 1974. 61 pp. (50 Rockefeller Plaza, New York 10020; $2.50 pb)
An intelligent lay person's guide to the principles of property taxation, its administration, and equity issues. Also briefly discusses the nonrevenue effects of property taxation and specific suggestions for reform.

U.S. Advisory Commission on Intergovernmental Relations. *The Property Tax in a Changing Environment: Selected State Studies.* Information Report M-83. Washington, D.C., 1974. 297 pp. (726 Jackson Place, N.W., 20575; no charge pb.)
A "state of the art" report on property taxation in thirty-three states. Evaluates the property tax systems of these states in terms of their (1) legitimacy (enforceable valuation policies where there is no discrepancy between law and actual practice); (2) openness (workable appeals systems, published statistics, and the availability of assessment ratio studies); (3) technical proficiency (consolidated districts, state supervision, assessor certification requirements); and (4) compassion (relief for low-income groups). Statistical data and model legislation are included.

HEARING OF THE ASSEMBLY COMMITTEE ON TAXATION IN ROOM 240 - May 18, 1981 at 1:30 P.M.

S.B. 69 (Fifth Reprint) The existing bill in my estimation was introduced to fullfill promises made by some of the candidates in the 1980 elrction and to satisfy some of the factors desired by the supporters of question 6. That is to control the "run-away" procedures used by the assessors to fulfill the requirements established by previous laws and regulations. One of the factors used by most of the assessors is sales of nearby properties, zoned the identical zoning as the property being assessed, not useage. The proprty that had been sold was bought for the zoned useage. This results in unjust values when the actual useage is considered. In my estimation when a piece of property is assessed on the bases of zoning and not useage the price paid not only includes the true value but a fee for the privilege of using it for a different purpose. Assessing based on zoning is actually a procedure that can be used to force those on a fixed income, and this takes in the majority of elderly, to give up their property. To show what happens tp property when taxed on zoning and not useage. I have selected five properties and, only considering land values.

I have selected five properties, they were originally zoned the same. The five properties were selected because I know the were owned the entire period of time, I am using for the comparison, by the same owners, and have been occupied by the same owner for the entire time. As stated before the comparison is only on the land values. Three have always, since zoning was established, been zoned R- 1, the fourh was rezoned from R-1 to R-2 during the time, and the fifth was rezoned three times during the time; from R-1 to R-2; from R-2 to R-3; and from R-3 to RO. Each time the zone changed the appraised value has been increased which automatically increased the assessed value more than the properties remaining R-1.

In the two blocks in the northeast part of urban Carson City where the properties have been rezoned, there is a structure with 4 apartments that were built prior to zoning. There are no offices, however eight lots were rezoned 3 times against the wishes of the owners of the lots. One of the properties as been recently sold, the owner has been in a

Exhibit IV

hospital or nursing home since August 1979.

I believe the law should be changed that the assessment under the cercumstances don't change because of rezoning but be based on usage. At least as long as the residential propertt stays in the same ownership. In fact I believe the appraised value should be rolled back and based on the useage that existed for the property when the owner acquired the property.

My property which is two of the eight lots that has gone through the previously mentioned series of three zoning changes reflects the following valuation changes. I bought one lot in 1939 for $75 and the other later for $85. The two lots as a unit are now appraised at $53, 481 or 334 times what I paid for them. The assessed value is 117 times what I paid for them. I have owned the property a great deal longer than 25 years but will use the past 25 years to compare the five properties on which I have data.

There were 8 reassessments made during the 25 years on each of the properties the increase on all five properries was within 100 percent of the sane increase from the year 1956-57 to the year 1967-68, but, then the zoning changes began to seriously effect the appraised values and in turn the assessed values. The property zoned RO increased by over 3300 percent. The property zoned R-2 had increased by over 2800 percent. The properties zoned R-1 had increased by a little over 1000 percent to a little over 1800 percent in the 25 years.

From 1967-68 to 1980-81 the assessed value on the RO property had increased by over 1200 percent; the R-2 prOperty had increased by over 1000 percent; the R-1 properties had increased from 200 to 700 percent.

Reviewing the various tax bill that have been introduced, relating to assessed values, and there has been at least thirteen. Senate Bill 69 contains some text that if passed might solve the problem that I have tried to show is in existance.

As I said previously where property is now assessed on the bases of zoning the assessed value should be rolled back to the value based on actual useage. (Land Values

The method of determining the value of improvements have always been questionable In the past the local assessed supposedly has worked with an annual depreciation fact in

working up the depreciation, supposedly a 50 year life. But when questioned on it I was told that is the theory. If you keep your place maintaned and painted they deviate from the rule. I believe that is the case with my home. I started the house in 1939 finished it in 1941 and nothing was done to it until 1977 when I extended the Kitchen seven feet to the west and thereby increased the house by 105 square feet. In 1976-77 when the house was 38 years old it was appraised at $10.771. In 1977-78 it was apprised at $18514 and was 39 years old with the new 105 square feet added. In 1980-81 it was appraised at $26,829.

Combining the appraised value of land and improvements the assessment of my home increased from $22,657 in 1976-77 to $41,857, in 1977-78; from $41,857 in 1977-78 to $80,315 in 1980-81; or stating it in an other comparison in four years it had increased from $22,657 to $80, 315 when it became 40 years old,

If we used the depreciation formula proposed in lines 34 to 37 on page 4 of the third reprint of S.B. 69 my house'sreplacement value,and it has only one bath and central heating plant, would be $89430; at the present high prices it would not cost that much

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ANDREW P. GROSE, *Research Director* (702) 885-5637

May 6, 1981

M E M O R A N D U M

TO: Assemblyman Robert E. Price

FROM: Andrew P. Grose, Research Director

SUBJECT: Effect of Executor Not Filing for State Credit on Federal Estate Tax

Tom Brisendine with the Estate Tax Rulings Section of the Internal Revenue Service in Washington responded to our question in two parts:

1. If the state credit is claimed but no evidence of payment to the state is included with the Federal Form 706, the form is kicked back to the executor.

2. If the executor sent in the full amount due and did not claim a credit, field offices would notify the executor that he had failed to take a state credit. They would make no effort to force an estate to pay the state credit.

As a practical matter, Brisendine could see no logical reason for a person to not pay the state because he would still owe the state whether or not he claimed the credit from the IRS. In orther words, the estate could end up paying the amount due the state to the Federal Government and to the state.

Some of the "pick-up" states who do no auditing have arrangements with IRS field offices to be provided copies of the closing statement so the state would know how many estates paid the federal tax. I believe in testimony in previous years the Reno IRS field office has indicated a willingness to provide such copies.

APG/jld: 5.1 Estate

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Exhibit VI

THIS EXHIBIT IS MISSING FROM BOTH THE ORIGINAL MINUTES AND THE MICROFICHE.

Exhibit VII

A.B. 97 Amended

Current program: FY 1980-81 actual

Category:	90%	75%	50%	25%	10%	Totals
Income:	$1-2,999	$3-4,999	$5-6,999	$7-9,999	$10-11,000	
Recipients:	680	3,768	2,447	3,009	727	10,631
Ave. Refund:	$170	$184	$131	$73	$27	$129
Cost:	$115,605	$691,454	$320,890	$220,706	$ 19,591	$1,368,246

Proposed Program: FY 1981-82

Category:	90%	75%	50%	25%	10%	Totals
Income:	$0-4,500	$4,500-7,000	$7-10,000	$10-11,000	$11-12,000	
Recipients:	4,013	3,796	3,225	939	1,000	12,973
Ave. Refund:	$178	$148	$113	$47	$26	$132
Cost:	$713,428	$562,527	$363,851	$44,147	$26,332	$1,710,285

SR CITIZENS PROPERTY TAX ASSISTANCE - Continued

- 145 -

101-1565	1979-80 ACTUAL	1980-81 WORK PROGRAM	1981-82 AGENCY REQUEST	1981-82 GOVERNOR RECOMMENDS	1981-82 LEG. AP.	1982-83 AGENCY REQUEST	1982-83 GOVERNOR RECOMMENDS	1982-83 LEG AP.
REGULAR APPROPRIATION	$ 1,650,000	$ 1,815,000	$ 1,750,000	$ 1,750,000		$ 1,900,000	$ 1,900,000	
REVERSIONS	$ 321,894-							
REFUNDS	$ 1,992							
TOTAL FUNDS AVAILABLE	$ 1,330,108	$ 1,815,000	$ 1,750,000	$ 1,750,000		$ 1,900,000	$ 1,900,000	
PERSONNEL EXPENSES	$ 7,791	$ 11,000	$ 5,623	$ 11,000		$ 5,623	$ 11,000	
INDUSTRIAL INSURANCE	$ 63							
RETIREMENT - CLASSIFIE	$ 271							
PER ASSESSMENT CLASSIF	$ 70							
GROUP INSURANCE	$ 181							
PAYROLL ASSESSMENT CLA	$ 79							
UC CLASSIFIED	$ 21							
OVERTIME PAY (NON HOLI	$ 480							
TOTAL SALARY-PAYROLL	$ 8,906	$ 11,000	$ 5,623	$ 11,000		$ 5,623	$ 11,000	
HOME OWNERS REBATE		$ 1,804,000	$ 1,732,377	$ 1,726,848		$ 1,881,177	$ 1,874,940	
AID TO COUNTIES	$ 194,311							
SR CIT PROP TAX ASST A	$ 1,126,881							
TOTAL FOR SUB ACCT 10	$ 1,321,202	$ 1,804,000	$ 1,732,377	$ 1,726,848		$ 1,881,177	$ 1,874,940	
DATA PROCESSING			$ 12,000	$ 12,152		$ 13,200	$ 14,060	
TOTAL AGENCY EXPENDITURES	$ 1,330,108	$ 1,815,000	$ 1,750,000	$ 1,750,000		$ 1,900,000	$ 1,900,000	
AGENCY BALANCE								

1981 REGULAR SESSION (61st)

ASSEMBLY ACTION	SENATE ACTION	Assembly AMENDMENT BLANK
Adopted ☐	Adopted ☐	AMENDMENTS to Assembly
Lost ☐	Lost ☐	Joint
Date:	Date:	Bill No. 97 ~~Resolution No.~~
Initial:	Initial:	BDR 32-521
Concurred in ☐	Concurred in ☐	Proposed by Committee on Taxation
Not concurred in ☐	Not concurred in ☐	
Date:	Date:	
Initial:	Initial:	

Amendment № 1030

Amend the bill as a whole by deleting section 1 and by renumbering sections 2 and 3 as sections 1 and 2.

Amend sec. 2, page 1, line 8, by deleting "$13,000 and inserting:

"$12,000".

Amend sec. 2, page 1, line 17, by deleting "$5,000" and inserting:

"$4,500".

Amend sec. 2, page 1, by deleting line 18 through 21 and inserting:

"[3,000	---	4,999		75]	
[5,000] 4,500	---	[6,999] 7,000		[50] 75	
7,000	---	[9,999] 10,000		[25] 50	
10,000	---	11,000		[10] 25	
11,000	---	12,000		10".	

Amend sec. 3, page 2, line 7, by deleting "$13,000" and inserting:

"$12,000".

Amend the bill as a whole by deleting sec. 4 and by adding new sections designated sections 3 through 4 following section 3, to read as follows:

"Sec. 3. Notwithstanding the provisions of NRS 361.838, a person who became eligible for an allowance or refund for the fiscal year beginning July 1, 1981, pursuant to NRS 361.833 or

To: E & E
LCB File
Journal
Engrossment
Bill

Drafted by DGS:ss Date 5-13-81

361.835 by reason of this act may file a claim for an allowance or refund on or before June 30, 1981, and the department may act upon it as promptly as practicable.

Sec. 4. Section 3 of this act shall become effective upon passage and approval.