

**MINUTES OF THE
SENATE COMMITTEE ON REVENUE AND ECONOMIC DEVELOPMENT**

**Seventy-ninth Session
April 11, 2017**

The Senate Committee on Revenue and Economic Development was called to order by Chair Julia Ratti at 3:49 p.m. on Tuesday, April 11, 2017, in Room 2135 of the Legislative Building, Carson City, Nevada. The meeting was videoconferenced to Room 4412E of the Grant Sawyer State Office Building, 555 East Washington Avenue, Las Vegas, Nevada. [Exhibit A](#) is the Agenda. [Exhibit B](#) is the Attendance Roster. All exhibits are available and on file in the Research Library of the Legislative Counsel Bureau.

COMMITTEE MEMBERS PRESENT:

Senator Julia Ratti, Chair
Senator Aaron D. Ford, Vice Chair
Senator David R. Parks
Senator Ben Kieckhefer
Senator Michael Roberson
Senator Heidi S. Gansert
Senator Patricia Farley

GUEST LEGISLATORS PRESENT:

Senator Becky Harris, Senatorial District No. 9

STAFF MEMBERS PRESENT:

Russell Guindon, Principal Deputy Fiscal Analyst
Joe Reel, Deputy Fiscal Analyst
Tina Nguyen, Committee Manager
Lex Thompson, Committee Secretary
Colleen Lennox, Committee Secretary

OTHERS PRESENT:

Scott Anderson, Chief Deputy, Office of the Secretary of State
Jared Busker, Children's Advocacy Alliance
Jonathan P. Leleu, Northern and Southern Nevada Chapters, NAIOP
Wendy Boszak

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Chris Daly, Nevada State Education Association
Lindsay Anderson, Washoe County School District
Jeff Fontaine, Nevada Association of Counties
Cheryl Blomstrom, Nevada Taxpayers Association
Brian McAnallen, City of Las Vegas
David A. Dawley, Nevada Assessors' Association
Tammi Davis, Treasurer, Washoe County

CHAIR RATTI:

I call this meeting to order. We will do the work session first.

JOE REEL (Deputy Fiscal Analyst):

First on the work session today is Senate Bill (S.B.) 179. I will read from the work session document ([Exhibit C](#)).

SENATE BILL 179: Expands the eligibility for tax abatements for certain businesses related to airplanes. (BDR 32-805)

SENATOR KIECKHEFER MOVED TO DO PASS S.B. 179.

SENATOR FORD SECONDED THE MOTION.

THE MOTION CARRIED UNANIMOUSLY.

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MR. REEL:

I will now read from the work session document ([Exhibit D](#)) for S.B. 343 and Proposed Amendment 3486 ([Exhibit E](#)).

SENATE BILL 343: Requires the Office of Economic Development to collect and report information related to gender equality in the workplace. (BDR 18-990)

SENATOR GANSERT:

Is this a one-time survey? Is the Secretary of State going to do that every year or every few years?

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SENATOR FARLEY:

It is a study now. From the study we will return to the Legislature and propose a long-term plan.

SENATOR ROBERSON:

This is more than a study, and it is annual. The key portion now is that it is voluntary.

CHAIR RATTI:

The amendment keeps the study as an annual study, moves it from the Governor's Office of Economic Development (GOED) to the Secretary of State (SOS) and makes it voluntary for participants. Is that correct?

SENATOR ROBERSON:

Yes.

SENATOR KIECKHEFER:

The report the Secretary of State needs to compile for the Governor and the Legislature, is it a data compilation or is there an evaluation of businesses?

CHAIR RATTI:

Since it was Senator Becky Harris's amendment, and she is not available to answer the question, we are going to move this bill to the end of the agenda to see if she can join us later.

SENATOR KIECKHEFER:

You can process it if you want to; I am going to vote against it. I think it leaves it at the whim of the Secretary of State to decide whether a business is good or bad based upon its response to the survey.

SENATOR ROBERSON:

I would say that if everyone goes to section 6.2, subsection 4, of [Exhibit E](#), it states, "A business is not required to respond to the survey, and the Secretary of State may not take any action against the business as a penalty for not responding to the survey."

I thought, maybe someone can help me, that a business can use a survey if they fill it out to promote their hiring practices within their company to promote their company. The government cannot take any negative action toward a

business based upon whether they filled out the survey. If anyone thinks that is not accurate, I would love to hear that.

CHAIR RATTI:
That is my understanding of the amendment.

SENATOR KIECKHEFER:
I am not suggesting the amendment allows them to take an action against a business, but in a report the Secretary of State makes, it is up to the Secretary to decide what to put in it. The SOS judgment and opinion is potentially included in a report. The amendment says SOS will compile a report and submit a report on those responses. A lot is left to interpretation.

CHAIR RATTI:
Out of respect for my colleague Senator Becky Harris, I am going to give her the opportunity to speak to the concern. I will move this to later in the work session, and if she can make it here from whatever Committee she is in, we will ask her to come forward. I will open the hearing on S.B. 363.

SENATE BILL 363: Makes various changes relating to regional commercial air service in this State. (BDR 18-92)

MR. REEL:
I will now read from the work session document ([Exhibit F](#)).

SENATOR FORD MOVED TO DO PASS S.B. 363.

SENATOR GANSERT SECONDED THE MOTION.

THE MOTION CARRIED UNANIMOUSLY.

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MR. REEL:
Next on the work session is S.B. 415. I will now read from the work session document ([Exhibit G](#)).

SENATE BILL 415: Proposes to exempt sales of feminine hygiene products from sales and use taxes and analogous taxes. (BDR 32-631)

SENATOR FORD MOVED TO DO PASS S.B. 415.

SENATOR ROBERSON SECONDED THE MOTION.

THE MOTION CARRIED UNANIMOUSLY.

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MR. REEL:

Senate Bill 440 is next. I will now read from the work session document ([Exhibit H](#)).

SENATE BILL 440: Extends to all counties the requirement for certain employees of establishments where alcoholic beverages are sold to complete certain training. (BDR 32-1003)

SENATOR FORD MOVED TO AMEND AND DO PASS AS AMENDED S.B. 440.

SENATOR PARKS SECONDED THE MOTION.

THE MOTION CARRIED UNANIMOUSLY.

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MR. REEL:

Next is S.B. 441. I will now read from the work session document ([Exhibit I](#)).

SENATE BILL 441: Revises provisions relating to workforce development. (BDR 18-1122)

SENATOR FORD MOVED TO DO PASS S.B. 441.

SENATOR FARLEY SECONDED THE MOTION.

SENATOR GANSERT:

I support this measure, but I am concerned about eventually balancing the budget. I am not sure what revenue we have available. I recognize this program is successful and I do want to support it.

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SENATOR KIECKHEFER:

My issue is similar to Senator Gansert's. The appropriation is too much to vote in favor of at this time. I will be voting no. We can look at this when it comes into the Senate Committee on Finance. I agree with the policy.

THE MOTION CARRIED UNANIMOUSLY.

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CHAIR RATTI:

We are going to go back to S.B. 343. Senator Harris, will you walk us through the amendment?

SENATOR BECKY HARRIS (Senatorial District No. 9):

There is broad consensus and support for Proposed Amendment 3486, [Exhibit E](#), from the various stakeholders who reached out with concerns. The idea behind the amendment is that the survey would be voluntary. Businesses, regardless of number of employees or size, could elect to participate in the survey. The Secretary of State in conjunction with the Nevada Commission for Women (NCW) would design a survey.

There was a question earlier about editorializing. It is not my intent that there would be any analysis. These survey questions would be compiled and the businesses that participate in the survey would then have an opportunity to respond to those questions. The results of that survey would be posted on the Secretary of State's Website next to the entity number. When a business is searched, individuals can click on the survey. The survey is completely voluntary.

Businesses are not compelled to continue participating in the survey if they elect to do it one year but not the next. Responses would be available to Nevada System of Higher Education for research purposes only. If someone from the University of Nevada, Reno, or the University of Nevada, Las Vegas, wanted to do some research on gender equality, that information would be made available.

SENATOR KIECKHEFER:

My concern is section 6.3, subsection 2, where it talks about the Secretary of State compiling a report. To me, it leaves broad discretion to the Secretary of State to decide what to include in the report or not. I think the Secretary of

State could interpret this to make value judgments. Would you have any concern striking subsection 2 and leaving subsection 1 so all the reports do get posted and made public?

SENATOR HARRIS:

I have no problem with the reports being made public. I will tell you this was intended to only be statistical data reported, not an analysis as to why businesses might choose to participate, what makes a good business or a gender equality index. It was to allow the NCW and the Secretary of State's Office to put together a survey and then report those findings back to the Legislature. As long as Senator Farley is fine with it—her name is on the bill, it is her jacket. I am open to limiting the way the data would be transmitted back to the entities.

SENATOR KIECKHEFER:

I am concerned about placing value judgments on businesses from a State governmental entity. That could be real trouble. I understand what you are trying to accomplish. Your intent is clear.

SENATOR HARRIS:

Senator Farley, I will let you follow up with Senator Kieckhefer about whether you want to accept that amendment?

SENATOR FARLEY:

Yes.

CHAIR RATTI:

Senator Farley, since the bill is in your jacket as Senator Harris just indicated, do you want to respond now or would you like us to pull this for the next work session?

SENATOR FARLEY:

Let us pull it for the next work session.

CHAIR RATTI:

I would like to make sure you have all the questions on record.

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SENATOR GANSERT:

With the proposed amendment, there is no longer an index, only a survey for gathering information?

SENATOR HARRIS:

Yes.

SENATOR GANSERT:

We are starting a process where we are creating annual surveys. Consider a sunset on it because this would go ad infinitum. Maybe this should be a pilot and we should test it for five years.

SENATOR HARRIS:

Senator Farley's jacket, Senator Farley's discretion.

SENATOR KIECKHEFER:

Maybe we could put it at the bottom of the agenda and I could talk to Senator Farley, then we could resolve it before the next work session.

CHAIR RATTI:

Can you say that again?

SENATOR KIECKHEFER:

I do not think we have to put it off to the next work session. If we want to process the bill, we can move it.

SENATOR HARRIS:

Senator Farley, are you open to his amendment and Senator Gansert's amendment?

SENATOR FARLEY:

I am not sure.

SENATOR KIECKHEFER:

I am suggesting that if you want to move your bill, I will withdraw my consideration. The intent is clear.

SENATOR FARLEY:

Okay.

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SENATOR HARRIS:
Okay.

CHAIR RATTI:
I will take a motion.

SENATOR FORD MOVED TO AMEND AND DO PASS AS AMENDED
S.B. 343.

SENATOR ROBERSON:
Which amendments are we agreeing to?

CHAIR RATTI:
Can I get a second so we can move to discussion appropriately?

SENATOR ROBERSON SECONDED THE MOTION.

SENATOR HARRIS:
It would be the amendment the Committee has before them, Proposed Amendment 3486, [Exhibit E](#), with a sunset provision added so we are looking at this as more of a pilot program.

SENATOR FORD:
Five years?

SENATOR HARRIS:
Correct?

SENATOR GANSERT:
Right, that is what I was asking for.

SENATOR HARRIS:
Senator Kieckhefer has withdrawn his concern about how the data will be presented. The only additional amendment would be Senator Gansert's.

CHAIR RATTI:
Senator Farley, since it is your jacket, what sunset date would you like?

SENATOR HARRIS:
Four years?

SENATOR FARLEY:
Five years.

SENATOR HARRIS:
Four or five years?

SENATOR FARLEY:
Five years is fine.

CHAIR RATTI:
Five years.

CHAIR RATTI:
Do you understand the amendment we were talking about Senator Roberson?
Do you have clarity?

SENATOR ROBERSON:
I have reached clarity.

CHAIR RATTI:
We are going to have to change the motion. The motion on the floor is to amend and do pass. The way I would interpret that is as the amendment we have seen is written. We have a first and a second. We will need to ask the maker of the motion if he were willing to amend his motion to include a sunset date. If the seconder is okay with that, we will move forward. Is everybody okay with that?

SENATOR ROBERSON:
I have one question. We have not heard from the Secretary of State. Are they okay with taking this on?

SENATOR HARRIS:
I am unclear on that. I have not had a chance to connect with Secretary of State Barbara Cegavske to talk with her specifically about that.

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SENATOR FORD:

I will accept five years as the sunset.

CHAIR RATTI:

We have a motion and a second on the table. Are there any other questions or discussion?

SENATOR ROBERSON:

Someone from the Secretary of State's Office is here. Do we want to hear from him?

SCOTT ANDERSON (Chief Deputy, Office of the Secretary of State):

We have not had any chance to look at this. In fact, we were listening to this hearing in our offices, heard our name mentioned and quickly went to look at the bill. We had seen the bill previously with the provisions with GOED. We have not had the opportunity to go through this and see. I have it in front of me now.

SENATOR HARRIS:

I am going to give you another copy so you have it.

MR. ANDERSON:

What this would entail, as far as our office goes, considering the 350,000 entities that do business with our Office and how that would affect our system. Not to derail this by any means, but we would at least like to have the opportunity to discuss this. This is the first indication we have had that the Secretary of State's Office would be taking this on.

SENATOR FORD:

I withdraw my motion on S.B. 343.

SENATOR ROBERSON:

I withdraw my second.

CHAIR RATTI:

We will pull S.B. 343 from today's work session and ask that you get together with the Secretary of State's Office and make sure we are all on the same page. We will place it on the agenda for Thursday.

SENATOR HARRIS:

With Senator Farley, because it is her jacket, right? Do you want to have a conversation?

CHAIR RATTI:

I would like you all to work it out.

SENATOR HARRIS:

Okay.

CHAIR RATTI:

And if we do not, then we will not put it in work session.

I close the hearing on S.B. 343. Next is the work session for S.B. 455.

MR. REEL:

I will now read the work session document for S.B. 455 ([Exhibit J](#)).

SENATE BILL 455: Authorizes tax credits for employers who assist employees in paying for child care. (BDR 32-1006)

CHAIR RATTI:

We will move on to the explanation of the amendment so we are talking about the bill in its current proposed form.

MR. REEL:

You should see on the dais Proposed Amendment 3708 ([Exhibit K](#)).

JARED BUSKER (Children's Advocacy Alliance):

The majority of the amendment is cleanup language we worked through with the Department of Health and Human Services (DHHS) to clarify the intent of the proposed amendment and also to remove some of the references to an entity, which is defined as the Division. The Division means the Division of Welfare and Supportive Services (DWSS) of the Department of Health and Human Services.

Proposed during the hearing was an increase for the credit received from \$2,500 to \$5,000 per employee per year. The last change is section 1, subsection 7, paragraph (b). The General Fund contribution of \$50 million to the

Program for Child Care and Development has been removed. We will advocate for a budget increase in the budget hearing.

SENATOR ROBERSON:

Could you restate the issue with the \$50 million? Is there still a \$50 million fiscal note on this bill?

MR. BUSKER:

No. We removed that and the bill now only includes the information regarding the childcare tax credit. The cost to the State for this program is \$10.5 million over the new biennium.

SENATOR KIECKHEFER:

Under the new amendment, an individual would go through the application process through DWSS for the childcare tax credit program. If the applicants qualify and have participating employers, do they get to stack benefits from the existing childcare assistance program and tax creditable contribution from their employers?

MR. BUSKER:

Technically, they may be able to stack. I anticipate that would not happen and the agency would see to that since the applications are processed by the same department of DHHS that contracts with applicants. The agency would be able to recognize it is already providing childcare through the childcare subsidy program or the childcare tax credit program to ensure we do not have individuals stack the benefits.

SENATOR KIECKHEFER:

Ultimately, is it run by DWSS and the two community providers as well? Will it still involve the Urban League and The Children's Cabinet?

MR. BUSKER:

Potentially, DWSS could contract out to either one of those entities, but in the language of the law, it only gives the Division the ability to contract out for this program. It would be up to the Division to decide which entity it wants to run this program. It is not explicitly said that it has to be those two entities.

SENATOR ROBERSON:

I am getting texts from people in the crowd who testified for this bill who have not seen this amendment. Has this amendment been disseminated to the public?

CHAIR RATTI:

It was put up on NELIS as soon as we received it. It has been on NELIS for a portion of today.

SENATOR ROBERSON:

I will say that I think this bill still needs a lot of work. I am confident that will get worked out in the Senate Revenue and Economic Development Committee. I support the concept so I will gladly support the bill, but there is still work to be done.

SENATOR GANSERT:

I also think it is worthy of consideration because quality childcare is extremely important. There are some details to work out. We need to make sure we do not overfund it, meaning there is reimbursement greater than the amount paid for childcare and also the stacking of benefits. We have to make sure the appropriate amount is paid to a quality childcare provider. As I mentioned earlier, other considerations are the overall budget and the affordability to add to this program or expand something like this.

SENATOR ROBERSON:

I said Senate Revenue and I meant Senate Finance Committee.

SENATOR KIECKHEFER:

If it does not have a fiscal note on it, then it will not necessarily go to the Senate Committee on Finance because there is no appropriation. The \$5 million in credits will.

SENATOR ROBERSON:

Madame Chair, would you entertain a motion to re-refer this to the Senate Committee on Finance with a recommendation for passage, amend and do pass?

CHAIR RATTI:

Give me a second.

SENATOR KIECKHEFER:

It will go to the Senate Committee on Finance because it has the \$10 million in tax credits and we have to get those on the sheets.

CHAIR RATTI:

Either way, we could re-refer to Finance. If we do that, it will require an action of the Floor as well. If we allow Finance to pick it up because it has an appropriation, it will get there either way. My understanding is this bill will be exempted. We do not need the re-refer; that will only make our Floor Session longer the next day. I would entertain a motion.

SENATOR FORD MOVED TO AMEND AND DO PASS AS AMENDED
S.B. 455.

SENATOR ROBERSON SECONDED THE MOTION.

CHAIR RATTI:

I think the sponsor of the bill has heard the concerns. We will look to get more work done on the bill in the Senate Committee on Finance.

THE MOTION CARRIED UNANIMOUSLY.

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CHAIR RATTI:

That is the end of the work session and I turn over the Chair to Senator Ford.

VICE CHAIR FORD:

I will open the hearing on Senate Joint Resolution 14.

SENATE JOINT RESOLUTION 14: Proposes to amend the Nevada Constitution to revise certain provisions relating to property taxes. (BDR C-1123)

SENATOR JULIA RATTI (Senatorial District No. 13):

I am here to present S.J.R. 14. As you recall, we started the Session with some joint educational hearings with our colleagues in The Assembly Committee on Taxation. I want to make sure everyone remembers how property tax is calculated because Nevada has one of the more complex property tax systems

in the Nation. The goal today is to take a look at how property tax is calculated, understand the impact of depreciation and then talk about what S.J.R. 14 does.

With permission from Jeremy Aguero at Applied Analysis, we are repeating a handful of his slides from the educational presentation ([Exhibit L](#)).

In Nevada, Slide 4 shows that first we do a determination of the taxable value. We do a bifurcated assessment for the tax base. The land is calculated at full cash value or otherwise at market rate. We calculate the improvements at replacement costs, less depreciation of 1.5 percent per year for up to 50 years.

We then add an assessment rate. So we take that number and we apply a 35 percent taxable value. The tax rates vary by jurisdiction. There is a legislatively imposed cap of \$3.64 per \$100 of assessed value and a constitutionally imposed cap of \$5. The Legislature does have some leeway to raise that up to the \$5 cap. That is the rate.

I know sometimes we talk a lot about caps. We are familiar with the 3 percent and 8 percent caps. This is not that. This is the cap on the rate, meaning how much of each \$100 of assessed value can be our property tax. In this case, \$3.64 per \$100 of assessed value is the highest the tax rate can go. The valuation can change based upon the full cash value and replacement cost.

The typical \$150,000 home is shown on Slide 5. Slide 6 reminds you that taxable value does not equal market value. The example moves forward on Slide 7 with the typical \$150,000 home. Start with \$150,000 taxable value, take the assessment ratio which is 35 percent, that gives an assessed value of \$52,500. Then we place a taxable rate on it of \$2.89. If there was a local jurisdiction, that number would be more, but \$2.89 is the State rate. The property taxes due would be \$1,522.

Slide 8 takes that property tax calculation in Year 1. You can see that process follows through. The cash value of the land is \$50,000, the replacement cost of the improvements is \$100,000. There is no depreciation because it is the first year you have owned the home. The total taxable value is \$150,000. The assessment rate of 35 percent is applied to yield \$52,500. The taxable rate is \$2.89 which results in the tax liability of \$1,522. That is the effective tax rate. In other words, what is the total percentage of the taxable value of 1 percent? That is pretty easy math right? We did that on purpose. If there is a

\$150,000 taxable value, there are \$1,500 in taxes. That is the effective tax rate.

We then add depreciation. In the *Nevada Revised Statutes* (NRS) we have applied this concept of depreciation to our property tax calculations. In the first year of depreciation, meaning Year 2 of ownership, there will be a depreciation factor of 1.5 percent applied to the taxable value. You can follow the same calculations across Slide 8. The taxes have gone up because the cash value of the land has gone up and the replacement cost of improvements have gone up. You can see that the effective tax rate (ETR) is starting to go down. This happens because the depreciation is slowly eroding the taxation on that particular property. Carry the depreciation forward to the third year and the ETR is 0.99 percent. Carry it forward to the fourth year and the ETR is 0.98 percent. In the fifth year the ETR is 0.97 percent. Once you carry it forward through 50 years of depreciation, which is what the State allows, you can see the ETR is 0.51 percent. This takes a house that is 50 years old or older and it now has an ETR that is 50 percent less than a brand-new house of the exact same taxable value. That is one of the problems we are trying to address with S.J.R. 14.

Go to Slide 9. From a policy standpoint, the interesting thing is that Nevada is the only State in the Nation that applies depreciation. I am going to say that again. Nevada is the only State in the Nation that applies depreciation.

Depreciation is a finance concept that is used by accountants to take the cost of an asset that a business might purchase and spread that cost out over multiple years. As the cost is recorded on the books, the whole expense does not show in the first year. That is what depreciation does.

Depreciation from a property tax standpoint does not make any sense because it erodes the purchasing power of local governments and schools each year. What it really does is drive local communities to always chase growth. Every new building or new house that is brought on to the tax roll will give the full taxable value, but over time as it ages more, the value goes down. The existing inventory is not as valuable as brand-new inventory for a government. This drives a chase for growth, because if cities do not grow, they cannot continue to afford to deliver services. This is an unintended consequence of depreciation in a property tax system.

To bring the point home, here are some samples we pulled from public records. Slide 10 gives you a sense of it. It shows a house in northern Nevada that is approximately a \$250,000 house. The first house is in Sparks. It was built in 1965; its estimated market value is \$248,000. Market value does not equal taxable value, but this example is so you can relate it to the people who are your constituents. They go on zillow.com and see their house is worth \$248,000. For that house, worth about \$248,000 and built in 1965, the property tax paid in 2016 was \$951. If you move about 1.5 miles east, into East Sparks, you see a house built in 2013. This is a newer home; it has a similar market value of around \$267,000. The property tax for that house is \$2,080.

The Nevada Constitution calls for uniform and equal taxation. The way that has been interpreted is that the formulas we apply have to be uniform and equal. What we have done in Nevada by applying this concept of depreciation is apply the calculation uniformly, but the end result is that the taxation on real property is not uniform and equal at all. What you see here is probably that the homeowner in Sparks and that homeowner in east Sparks are utilizing the same amount of services. If this is a starter home, perhaps that means taking their toddlers to the park. One family is contributing half to the services the City provides, the other family contributes twice as much.

We look at another home in northern Nevada on Slide 11 to show that as the value of the property goes up, the impact to the General Fund for local governments gets more significant. Let us look at the house north of the University of Nevada, Reno (UNR). It is a nice older neighborhood. The house was built in 1945 with a market value around \$579,000. Compare it to a house in Somersett. We have a newer home now, built in 2013. If you look at the differences in their taxes, the house in Somersett has a lower market value at \$519,000 and pays \$4,497. This is significantly more in taxes when compared to the \$1,285 paid by the house near UNR.

I am trying to make this real for folks to understand that our fair and equal taxation system that is called for in the Nevada Constitution. When it is played out in the field, is not fair and equal at all.

Now we are talking about a middle home. Maybe these folks have a couple of teenagers. Those teenagers are in our school system. One homeowner is paying

\$1,285 and the other homeowner is paying \$4,497. This difference is due purely to depreciation.

Let us talk about the \$1 million home on Slide 12. In old southwest Reno we are talking about a house built in 1956 that is worth \$1.2 million. Another house in old southwest Reno built in 2013 is worth \$1.5 million. You can see the difference in the tax liability.

Included in these comparisons are some homes from southern Nevada where the neighborhoods might be more familiar to the Committee. I will not walk through all the slides. The point is clear: If the house is older, the taxes are lower, if it is a newer house, the taxes are higher. If we look at Slide 14, we can see the \$500,000 house. Homebuyer A is in central Las Vegas. The house was built in 1954 with the estimated market value of \$565,000 compared to one in McCullough Hills with a \$544,000 market value. You can see the latter pays approximately twice the taxes.

SENATOR FARLEY:

Does it reset now when we sell the home? The 1954 home, if that has traded hands three or four times, that is still the property tax value on it?

SENATOR RATTI:

Our current system never resets. It stops at 50 years, so the 1.5 percent depreciation is applied the second year through the fifty-first year and then it does not depreciate any further, but it never resets.

SENATOR FARLEY:

I should have bought an older home then.

SENATOR RATTI:

For those who are looking at every aspect of the pro forma, it is an issue. Sometimes it is even compounded because many newer homes tend to be in homeowners' associations, so if you are looking at your total cost of ownership in a newer home, you will probably have higher taxes in addition to the homeowners' fees.

SENATOR RATTI:

Slide 16 shows the examples we just talked about in one table. Why do we care about this? The table on Slide 17 takes this concept down to its simplest level.

If you are a local government or a school district and are reliant on property taxes for a significant portion of your revenue, if we remove all other factors and look at inflation, the cost of doing business will go up regardless of any policies we make. That is general inflation.

At the same time, you have depreciation on assessed value throughout the city. The spending power of schools and local governments is going down.

Over many years, we as a Legislature have created a structural deficit for local governments and schools. They do have other funding sources, but this is a substantial part of their funding source, and this funding source will always be in deficit because of depreciation. That is the fundamental problem.

The chart on Slide 17 shows that if you were looking at the value of \$1 in 1976, then look at that \$1 in 1996, it would now be \$2.76 because of inflation. But if you look at its purchasing power because of depreciation in our system, it is only worth \$1.93 to that local government or school. The reason why this has become more and more urgent for local governments is it never narrows. That gap, as you follow the chart and look out 40 years to 2016, the \$1 that was worth \$1 in 1976 is now \$4.22 because of inflation, but it is only worth \$1.69 to that school district or local government because of what we are doing with depreciation. It is a bit of an oversimplification, but if you look at what those two lines are doing, that is the structural deficit that local governments and school districts face.

There is no question that we need to do a full review of our property tax system. During the Interim we can work on the entire system.

For many years, people in this building and in other stakeholder groups have talked about the concept of resetting depreciation at point of sale. Whenever we talk about property tax we have two needs to weigh. The first need is to protect the taxpayer. You have seen legislation come out of this Body such as the partial abatements which are the 3 percent and 8 percent caps. There is the \$3.64 cap on the rate. Apparently when the split system was created for assessment value on land cost but only replacement value on the home, that was an attempt to make sure property taxes would never grow too quickly for our residents. That is a real issue and we need to protect taxpayers.

The second issue is those same taxpayers see an ever-eroding level of services in their community because there is a structural deficit. For the State, it puts pressure on the Distributive School Account (DSA) because as you erode the property tax base of our schools, they need more money from the DSA to stay whole.

Reset of depreciation at point of sale protects the taxpayer. That is why I am calling this the Senior and Disabled Taxpayer Protection Act. This is for the proverbial elderly persons living on fixed incomes who do not want to see a significant increase in property tax because they do not have the ability to change their incomes. Those persons are protected if they do not do anything until the point of sale.

If S.J.R. 14 passes, it does not affect the current owner of a property. As soon as that property sells, then depreciation resets, as Senator Farley was alluding to, and that property is now taxed as if it were new.

We will use the house built in 1965 in Sparks as an example. Its taxes would reset to somewhere closer to \$2,000 at point of sale. The buyers can come in with eyes wide open and look at their pro forma, their assessment of whether or not they can afford that house and the property taxes.

I would like to remind you of the charts we saw during the educational process at the beginning of the Session. At the higher, 1 percent effective rate, property taxes in Nevada are already significantly lower than most every other state in the Nation. When we get down to the 0.5 percent effective rate, we are far out of norm for most states and their property tax rate. This means we cannot afford services.

SENATOR GANSERT:

This is about the sale of property whether it is a residence or a commercial property. Is that accurate? Commercial properties have different ways they can have their property tax assessed based on income rather than the value of the property. Is that affected as well?

SENATOR RATTI:

Depreciation is applied to both commercial and residential properties. Regardless of the way the property is assessed, if there is any depreciation that has been applied to the assessed value, it would reset. It only affects the depreciation.

SENATOR GANSERT:

What about transfers of property? For instance, if you have relatives transferring to someone or a corporation and they transfer, maybe there is an umbrella corporation to a corporation within their framework, how does this affect transfers?

SENATOR RATTI:

A number of very wise people have counseled me that you want to put as little detail as possible in the Constitution when you are talking about taxation that you do not want to tie the hands of future Legislators. The only reason we are in the Constitution at all on this bill is because of the uniform and equal clause. We cannot do this concept without it. What this resolution does is leave it to the Legislature to define sale or transfer. We can come back in after it passes and by law decide if the property is handed off by a family member to a family member do we want to count that; if it is a parent company with a subsidiary, do we want to count that. We get to come back as a Legislative Body and define sale or transfer and change it if there is reason to change it over time.

SENATOR ROBERSON:

I want to clarify, this does not reset with regard to the caps. It only resets with regard to the depreciation?

SENATOR RATTI:

Sort of. The way our partial abatements work, you are capped at 3 percent. Let us say your house went up in assessed value, not market value, by 5 percent. That 2 percent does not just go away, it stays in a banked scenario. I am sure there are assessors in the audience cringing at the way that I describe this, but it stays on the books. If people have banked abatements and the next year that house only went up 1.5 percent, but there is still abated amounts, that gets applied to the tax bill until it gets to 3 percent. The banked amount of abatements would reset in this proposal.

What you do not want to set up is a home-buying scenario where I want to buy your house; I do not realize there are \$2,000 worth of banked abatements on it. Now my taxes are going to go up or down. To clear out that abatement, you would either have to pay it off, and we do not want to do that, we do not want it to feel like it is a lien or something along those lines, or it would stay on the books and affect that new owner. What this resolution does is in the first year because the first year is the clearing out year. It is not subject to the 3 percent

and 8 percent caps because the tax will be coming up significantly and is not subject to depreciation. This clears out the abatements and from that point forward, the 3 percent and 8 percent caps are still in place and depreciation starts again. You need that one reset year.

SENATOR ROBERSON:

I get the reset. I get the fact that there is not a 3 percent cap applied in the first year because you are starting over. But as far as the depreciation, you are not banking depreciation, are you?

SENATOR RATTI:

No. Just partial abatements are typically banked. Everything resets at point of sale.

SENATOR ROBERSON:

The abatements related to the 3 percent cap?

SENATOR RATTI:

The partial abatements related to the cap, yes.

SENATOR ROBERSON:

To answer my own question, basically you start over for purposes of calculating the 3 percent cap?

SENATOR RATTI:

Yes.

Let us walk through what the Constitution says about property taxes to make sure it is understood. Article 10, section 1, subsection 1 of the Nevada Constitution requires the Legislature to provide by law a uniform and equal rate of assessment and taxation, and shall prescribe such regulations as shall secure a just valuation of all property real, personal and possessory. That is the part of the Constitution that brought us here today.

Article 10, section 1, subsection 8 allows the Legislature to exempt by law property used for municipal, educational, literary, scientific or other charitable purposes, or to encourage the conservation of energy or the substitution of other sources for fossil sources of energy. We made sure this bill was written in such a way that it did not affect any of those exemptions.

Still, in Article 10, section 1, subsection 10 allows the Legislature to provide by law for an abatement of the tax upon or an exemption of part of the assessed value of a single-family residence occupied by the owner to the extent necessary to avoid severe economic hardship to the owner of the residence. That is the portion of the Constitution where our 3 percent and 8 percent partial abatements currently live. That is the enabling part of the Constitution.

In *Nevada Revised Statutes* (NRS) 361.227, we require a taxable value of real property to be determined as we talked about: the land at full cash value, and the improvements on the land are required to be valued at replacement costs, less all applicable depreciation or obsolescence. Depreciation must be calculated at the 1.5 percent of the cost of replacement for each year of adjusted actual age of improvement up to a maximum of 50 years. That is the section that is bringing us to depreciation.

SENATOR ROBERSON:

Does the depreciation start over again once the house is transferred? For instance, if I purchase a home from you, and then the clock starts again for depreciation on the home, so I can start taking depreciation as I own that home? Is that the way it works or does depreciation go away for the new home owner?

SENATOR RATTI:

The way S.J.R. 14 is written, depreciation starts again. What it does is, for that one year, remove the ability to consider anything regarding—and we do not actually say, to be very clear, we do not say, the word—depreciation in this resolution because depreciation is a statutory construct. A future Legislature may choose to change depreciation, but what the resolution does say is anything that affects the value of the home based on the age of the asset.

SENATOR ROBERSON:

Great. Thank you.

SENATOR RATTI:

It is NRS 361.227 that provides how we actually value it, so that is statutory. The statute also requires the taxable value of any property cannot exceed its full cash value. That is going to be important in some testimony you will hear today. If the way we are doing it now with the replacement costs of the improvements plus the market value of the land exceed market value for the entire property

because of this bifurcated system, nobody can pay more than market price. It is not allowed. Then the taxable value must be reduced, if necessary, to comply with the statutory requirement. In making the determination of whether taxable value exceeds full cash value or whether obsolescence is a factor, the following may be considered: comparative sales, a summation of the estimated full cash value of the land and the contributory value of the improvement, and capitalization of the fair economic income expectancy or fair economic rent or an analysis of the discounted cash flow. It is important to note that by law we are not allowed to charge more than market value.

SENATOR FARLEY:

Have you modeled out what we think the cash infusion to local governments might be based upon the average home ownership of four years? I am thinking the average commercial property may be significantly longer. I am curious, what is the revenue?

SENATOR RATTI:

We have not tried to make any projections because there are too many variables within the formula. It is going to be different in our State county by county. Some counties have a higher turnover rate than others.

SENATOR FARLEY:

We heard at the beginning of the Session that there was a hole. I was curious if you have an educated guess?

SENATOR RATTI:

It may surprise you to hear that I am not seeking to fill any budget hole. I am concerned with the structural deficit. Local governments are empowered to balance their budgets. Like us, they have to get to zero at the end of the day. They have been hamstrung by a structural deficit that will change from year to year based upon whether Consolidated Tax is up or down or any number of other factors. Over time there is a structural deficit that needs to be fixed. I am more interested in fixing the structural problem, and the local governments will be the ones charged with balancing that budget. I want to be very clear. Nobody believes this solves all of the problems for local government. We can take a crack at projections, but there are a lot of variables in that projection.

S.J.R. 14 adds a new section. Now I will take you through the constitutional amendment. Section 11 is added to section 1 of Article 10 of the Nevada Constitution.

For the purposes of assessment and taxation of property:

(a) Except as otherwise provided in this paragraph, for the first fiscal year after the sale or transfer of real property, the real property sold or transferred shall not be eligible for any adjustment provided by the Legislature by law based on the age of improvements to the real property, ...

That is the depreciation factor. It also says: "... any abatement of the tax upon the real property provided by the Legislature" That is the 3 percent and 8 percent in our current construct, but we are changing the Constitution. Future constructs, if there were any abatements or adjustments based upon the age of the property that a future Legislature chose to add or remove, would reset at point of sale. We are doing that purposefully to not tie our hands to current statutory constructs.

The other thing S.J.R. 14 does is on line 35 in Article 10, section 1, subsection 11, paragraph (a): "The provisions of this paragraph do not apply to real property for which the Legislature has provided for by law for an exemption of the tax on property." That is the place that is going to take care of exemptions such as the Parasol Foundation and others who have a current exemption.

Section 1, subsection 11, paragraph (b) is for clarity. This is where Senator Roberson's line of questioning is made clear. It starts as if that property were new and then everything triggers back in. The 3 percent and 8 percent caps and depreciation come back on line.

A couple of different times during the history of this Body, we have chosen to initiate a fund or mechanism for seniors on fixed incomes or persons with disabilities whose property tax is becoming such a burden that it now affects their ability to stay in their homes. We know it is not cost-effective to remove people from their homes. It gets far more expensive when we have to help people live in places with higher costs than their primary residences.

This calls for the Legislature to create what is known in the tax world as a circuit breaker program. A circuit breaker is a switch you can flip when things have not gone quite to plan. This compels the Legislature to create this fund so that if you do have seniors or people on fixed incomes who are struggling in their current homes, they are not going to sell their homes. If they need property tax assistance, we are going to create a fund, not an exemption or an abatement, but a rebate program to help those folks so that property tax is not the reason they have to lose their homes.

SENATOR KIECKHEFER:

This encapsulates a lot of what has been discussed about some of the problems, particularly with the depreciation as well as the reset upon resale issue. On the circuit breaker program, the Legislature will ultimately have determination over what should be included. Right? When it says anyone with a disability, there are degrees of disability. Some disabilities do not impede people from working or earning income. The entirety of the program is left up to the discretion of the Legislature to craft. I want to make sure I understand the intent. Not every senior or any person with any level of disability will get a refund.

SENATOR RATTI:

I will be honest, when I first read the bill I said, wow, we just exempted every senior. That seems like not the intent. In talking it over a little bit more, it is wanting to keep the construct in the Constitution as broad as possible so that future Legislatures can craft a program that makes sense for their time and place. It allows the Legislature to define the eligibility for that program.

SENATOR KIECKHEFER:

In other circuit breaker programs where property tax revenue is split between governmental entities, who funds the refund?

SENATOR RATTI:

There are a number of different models across the Nation. You can find a mix of both state and local dollars. I think the caveat is to remember that there are different divisions of taxation in each of those jurisdictions as well. What I can say is that we have a circuit breaker program here in Nevada. It is the Senior Tax Assistance Rebate Program. You may recall it as the STAR Program. It was a one-year program. In that case, it was a fund created by the State. What I would say to that is we are a Dillon's Law State. If you feel like a portion of

revenue that is currently going to local government should go into the fund or a future Legislative Body wanted that to be borne in a different way, it is the State Legislature that holds all the cards to make those decisions.

SENATOR KIECKHEFER:
Future Legislative Body.

JONATHAN P. LELEU (Northern and Southern Nevada Chapters, NAIOP):
We support S.J.R. 14. This issue is one that I personally have studied and written about over the last year. It causes a lot of consternation to my client, NAIOP, in how to tackle these issues. In particular there is a lot of frustration because reset on sale is the option that seems to be the least impactful on the taxpayer on an immediate basis. The tax increase does not affect existing owners, it affects buyers upon the purchase of the property. Based upon that alone, this solution seems the most palatable of the 16 solutions brought forward by Jeremy Aguero of Applied Analysis during the primer on this at the beginning of the Session.

That being said, we were frustrated because there was a constitutional impediment to implement a reset-on-sale solution. Accordingly, we did monitor a number of the different bills brought forward. We have testified against those because they brought forward incomplete solutions. Specifically, Assembly Bill 43 sets a floor, but it does not address raising revenue. Senate Bill 425 addresses raising revenue, but it does not address a floor. The municipalities are not protected from catastrophic losses in revenue that could be experienced by a rapid fluctuation or downturn in the market. We will testify against that bill when it comes up because it is also an incomplete solution.

ASSEMBLY BILL 43: Revises provisions governing the partial abatement of taxes levied on residential and other property. (BDR 32-441)

SENATE BILL 425: Revises provisions governing the partial abatement of taxes levied on certain property. (BDR 32-1008)

Reset on sale does offer a complete solution. We were frustrated because we were not going to see that solution before the Legislature and be able to debate that solution in a real way because of the constitutional impediment. This bill addresses the constitutional impediment. While the Constitutional impediment is going to take a while to resolve because amending our Constitution takes

two Sessions plus a vote, this does get us moving down that path. Because it does move us down that path, NAIOP is happy to support S.J.R. 14.

SENATOR ROBERSON:

Both Southern Nevada and Northern Nevada chapters of NAIOP, their position is support for S.J.R. 14?

MR. LELEU:

Yes.

WENDY BOSZAK:

I stayed because I wanted you to hear from somebody in the public. I am representing myself, but I am a senior advocate in Washoe County. In looking at this bill and the opinions of people who are against it, they appear not to understand because they say no new taxes. For people in their houses, the bill will not be taxing current owners.

I am especially glad to hear about the compensation or the rebate for seniors who are aging in place and staying in their homes. Many seniors own their homes and could not afford to live if they had to rent. This would be very helpful if their taxes become a burden as their income changes. I do not see any problem with it resetting. I think it is a good thing. From my past in education, I know the tax base needs to be there, and this would do that.

CHRIS DALY (Nevada State Education Association):

We represent 40,000 educators across the State. Nevada State Education Association supports S.J.R. 14 as a much-needed modernization of the existing property tax system in Nevada. It is smart to address the issue of depreciation while also including necessary assistance to seniors and people with disabilities who may be impacted.

In terms of education funding, I am usually across the hall talking about great ideas about how to improve public education. A lot of those great ideas come with price tags. If you look at the Governor's recommended budget on education, there seems to be a lot of investment proposed. When the Department of Education does the math and looks at the total rolled up per pupil spending in the State, the average across the school districts goes up less than \$150 per pupil. That is a less than 2 percent increase from the last fiscal year to

the next, which is less than the increase in the cost of doing business projected into next year. Fixing the structural problem is a smart way to go.

LINDSAY ANDERSON (Washoe County School District):

I represent Clark County School District, as well as my own, because Clark County representatives could not be here to testify. We support S.J.R. 14. We have both worked in good faith with the Local Government Fiscal Working Group throughout the Interim which tried to address some of the issues with property tax. This is a good first step.

JEFF FONTAINE (Nevada Association of Counties):

We support S.J.R. 14. There has been a lot of discussion this Session about property taxes, specifically as it relates to our counties. This measure is a good and thoughtful process and a way to address a structural problem with property taxes. We also appreciate that it includes a way for property taxes to be paid as a circuit breaker for those who need help with their property taxes.

CHERYL BLOMSTROM (Nevada Taxpayers Association):

This is an elegant solution to a problem that has been identified as a problem for many years. It became incredibly apparent at the recession when the caps were in place that we had a serious problem. We absolutely support rationalizing our taxes and stand prepared to help as we can and look forward to the Interim study on property taxes. I know everybody is really excited to spend an Interim doing that, but it is time. If we do it in the bright light of day and publicly, then it gives all our citizens and taxpayers an opportunity to see what is happening. It also does not let the naysayers have a place to hide.

BRIAN MCANALLEN (City of Las Vegas):

We support S.J.R. 14. This is a well-thought-out proposal for us to move forward. We have thought for a long time that a comprehensive study on property tax issues is needed because they impact everybody in the State. This is important so we can have consistent interpretation of property taxes, and that is the primary tax local governments rely upon. We also need to provide services to our citizens.

DAVID A. DAWLEY (Nevada Assessors' Association):

We are neutral on S.J.R. 14. One of the concerns we have on this bill is the fact that if you completely get rid of depreciation and then add the full taxable

value of land and full replacement cost of the structure, it will put a lot of properties over market value.

In Clark County, we did a study. For the first three months of this year there were over 14,000 sales. Of those, almost 11,000 would be over market value. We would have to put obsolescence on those properties and annually review them to make sure they were not over market value. I see that as a large problem for the assessors. They would have to review each one of these properties every year.

I also see an issue with the State Board of Equalization because I think there would be a lot more filings for the State Board of Equalization.

In Clark County, about 80 percent of the parcels went over market value. In Churchill County, it was 77 percent. In Carson City, there are about 32 percent that would be over market value. We would have to put some kind of obsolescence or depreciation on that property in order to keep the taxable value under market value.

Another issue I am concerned about is historic properties. You guys have allowed historic property owners to get an additional enticement or deferment so they could maintain their property at a historical value or historical appearance. I am concerned that if we were to reset all of that, then what value would that historical property have? If you are going to raise the taxes to what the full value is and the full replacement cost is, then you may stop the enticement of owning a historical property.

One of the other issues is the corporation to corporation sale. In California, this is a huge issue on the sale of property. Corporations will sell 49 percent of their shares. That is not going to kick off a new valuation of the property taxes. I would hope you would consider that.

One of the other issues that I am shocked about: Mr. Fontaine did not say anything about are the funds that would be needed for this senior rebate program. I am scared for the smaller counties that do not have a lot of sales. This might become an unfunded mandate for local governments. They would have to issue these refunds when they do not have the money coming in to cover the refunds. We are not opposed to the bill. We are neutral. We are here to educate.

VICE CHAIR FORD:

I am certain the bill sponsor will be open and amenable to any suggestions or solutions for the issues you have raised. Are there statutory solutions to the issues you have raised, or are these things that must be addressed in the Constitutional amendment that she has presented?

MR. DAWLEY:

Back in 1981, when the State converted to this process, the depreciation itself was about 2.5 percent. I believe we could lower the depreciation and that might help.

VICE CHAIR FORD:

I mean statutorily, though.

MR. DAWLEY:

That would be statutory. Depreciation is not based on the Constitution.

VICE CHAIR FORD:

Are there any of your concerns that cannot be addressed by a future Legislature statutorily?

MR. DAWLEY:

That would be the rebasing. If we were to get rid of the abatement or start the abatement new on a sale, that has to be addressed in the Constitution.

VICE CHAIR FORD:

Are you working with Senator Ratti on a proposed solution?

MR. DAWLEY:

I did speak with Senator Ratti this morning.

VICE CHAIR FORD:

So yes, you have a proposed solution?

MR. DAWLEY:

I do not have a proposed solution. I am only trying to bring up some issues.

SENATOR ROBERSON:

I know you say you are testifying neutral, but it sounds like you are opposed to the bill. I am not making a judgment about that. I am just acknowledging that it sounds like you have real concerns with the bill. I want to drill down on the issue of obsolescence.

How big of a problem will this be for you and the other assessors? What are we talking about here from your perspective as far as the magnitude of the problem?

MR. DAWLEY:

If Clark County has to adjust 14,000 parcels, and that is only in the first three months, on a yearly basis that could be a huge problem.

SENATOR ROBERSON:

Obviously that should cause all of us concern if it is going to be that big of a problem. At least at the moment, you do not have an easy fix for that?

MR. DAWLEY:

No.

VICE CHAIR FORD:

I do not understand the concept of obsolescence. Is that one of those items that can be fixed statutorily or is that a constitutional issue?

MR. DAWLEY:

That is statutory.

VICE CHAIR FORD:

Then that is something we could look to address further on down the road.

SENATOR GANSERT:

Going back to the market value issue. I was thinking assessors have to assess the value of properties every couple of years. How frequently do you reappraise for assessment purposes?

MR. DAWLEY:

In Carson City, we recost and revalue all land on an annual basis. Most of the counties are doing that. I think there are only three that are not. All the other ones are recosting on an annual basis.

SENATOR GANSERT:

Is recosting the same as determining the market value?

MR. DAWLEY:

In this situation it would be. If the replacement cost plus the land value moved and put the property over market value, then we would have to determine the market value for that property so we could give it obsolescence on a yearly basis.

SENATOR GANSERT:

When you were discussing this earlier, it sounded like you thought it was going to be a big issue to determine the market value and that you would have to do it on an annual basis. It sounds like you are doing that anyway.

MR. DAWLEY:

It is not determining the market value. It is the fact that we are having to go from a mass appraisal system, which is what we have, to an individual appraisal because we are going to have to look at each individual house to see if it is over market value. We will not have the entire subdivision that is going to be selling in one particular year, unless it is a brand-new subdivision.

SENATOR GANSERT:

Along the same thoughts as the Majority Leader, I think these are all statute issues, not constitutional issues.

SENATOR ROBERSON:

Staying on this, why do you use the term obsolescence when you are talking about recalculating the taxable burden based upon the market value? Why is it used or how is it used?

MR. DAWLEY:

During the economic downturn, we had to lower the values not with the depreciation, we had to lower them to keep them under market value. There is economic obsolescence and there is functional obsolescence. Functional

obsolescence is having a three-bedroom or four-bedroom home with one bath. That is a functional obsolescence. An economic obsolescence is when the market value is below the replacement cost of the structure. It has to be lowered to keep it under market value.

SENATOR ROBERSON:

I have heard this is an issue that is acknowledged we can deal with in statute, but how—exactly? How are we going to fix it? It sounds like it is going to be a huge burden on the appraisers. It sounds like it is going to cost you more money because you are going to have to hire more people to do these calculations. These are statements, but I mean them to be questions. I am predisposed to be supportive of this measure. I will say that from the outset. I also want to know what we are getting into, what a future Legislature will be getting into. To simply say that we can fix it by statute simplifies the potential negative consequences of this. What do you think a future Legislature is going to have to do to address this issue to help out the appraisers throughout the State?

VICE CHAIR FORD:

I do not want to cut off the conversation but answer to the extent you can. This obviously is a complex issue, and we will have to have all 63 of us thinking about this and for future Legislators. Go ahead and answer that briefly, and then let us move on to another area of questioning.

MR. DAWLEY:

I am not sure exactly what we can do because we are the only state in the Nation that provides depreciation on replacement cost. There are many states that do the replacement cost of the structures. That is their first method when they determine what the market value is. They then compare that to the market value and that is done through their state. There are so many options we can do. We can go to a straight market value approach. That is going to have to be through the Constitution, not through legislation. I think for this issue, the constitutional part of it is the rebasing of the abatement. I know the construction industry has opposed this for a long time because it does not treat the properties fairly. New construction has no abatement whereas a home built prior to 2004 has a large abatement on it. There is an inequity there.

SENATOR GANSERT:

I do not feel like we have this resolved because I do not exactly understand what you are saying as far as how you walk through the rebasing of the

abatement and so forth—based on what you are saying compared to what is in this bill. I do agree that we need to work on this quite a bit.

SENATOR KIECKHEFER:

When you need to apply obsolescence to a property now, is that done automatically or is that done through an application process that then goes to the Board of Equalization?

MR. DAWLEY:

Typically, for new construction in Carson City, when a sale goes through we look to see if our taxable values are over and automatically apply it. It does not go through the Board of Equalization.

SENATOR KIECKHEFER:

Can an individual property owner appeal your assessment and try to get obsolescence put on to the property?

MR. DAWLEY:

Yes.

SENATOR KIECKHEFER:

Does that happen?

MR. DAWLEY:

Yes.

SENATOR KIECKHEFER:

I want to make sure we are clear. The fear is that this will be a situation that arises significantly more frequently?

MR. DAWLEY:

Yes. More people would appeal to the Board because everybody has an opinion of the value of their property. That is their alternative, to appeal to the County Board of Equalization.

SENATOR PARKS:

I have both an observation and a question. First, most new home construction, especially in southern Nevada, commands a 20 percent increase in price or

markup per square foot. It is simply a demand by the public for a new home. Does that create an inequity in the work the assessor's office does?

MR. DAWLEY:

I am not sure I follow. That 20 percent is still reflective of the market value or what they pay for the property. No, that would not.

SENATOR PARKS:

I know we talked about obsolescence. Typically a 50-year-old home is worn out compared to a new home; however, often prices are comparable between the two properties. Is that a general observation?

MR. DAWLEY:

Yes, they typically sell for the same. It was always my understanding that the reason why depreciation was put in is because the older home has more maintenance or deferred maintenance. To help the homeowners of the older home is the reason why they got depreciation. That was from a previous assessor. It is hearsay.

SENATOR PARKS:

Some people who buy residential homes use an LLC or some kind of a trust. If they kept the home for five years and then sold it along with the LLC, would that show up on your records as far as resetting depreciation?

MR. DAWLEY:

As of right now, it would not. One of the things that could be coming up is if that property was in an LLC, they took it out of the LLC, but the new owner was the president or the manager of the LLC. That might cause a problem when we try to verify if this resets the valuation or the depreciation.

SENATOR PARKS:

In other words, they are not buying a home, they are buying an LLC that owns the home.

MR. DAWLEY:

I assume so based on this bill, then it would not.

SENATOR GANSERT:

Just a thought. I think some of that could be taken care of in the definition of sale or transfer.

MR. DAWLEY:

I agree.

TAMMI DAVIS (Treasurer, Washoe County):

I am here to testify neutral as an administrator of the policy that is being discussed. Property taxes are complex. We deal with them every day. They are hard to explain to our citizens. We look forward to being part of the discussion because I know there is a lot of detail to fill in at the statutory level. We as treasurers want to be involved in that.

SENATOR RATTI:

First, I want to say on the record that Mr. Dawley tried to get on my calendar. With it being deadline week it was not the easiest thing to do. We did meet today and we had a very productive conversation. It was too late to get to a solution on something that clearly has complexity. He is engaged. I was also approached by the Clark County Assessor. I think that sometimes we forget that our pace is different than that of the rest of the world. I think they made a good faith effort to be engaged, and I look forward to continuing that conversation with them.

Second, I want to revisit two concepts. The more we talk about it, the more we all gain a greater understanding. *Nevada Revised Statutes 361.227* requires that taxable values be determined the way that we are currently determining them, and that is the land at full cash value. We keep throwing around different terms: full cash value, market value, but full cash value is basically market value. Then the improvements are made on the land to be valued at replacement cost. The statute also requires that taxable value of any property cannot exceed its full cash value. The only reason a property currently exceeds its full market value and requires all this work on the part of the assessors is because we use this bifurcated system where we are doing one part at market value and we do the second part at replacement value. If those two things added together are more than the overall market value for the property, you end up with a system where you have to have something like obsolescence to do what the other part of the statute says, which is you can never assess more than market value.

The assessors are having to go through a process. They have to know what market value is to be able to know if a property is over market value, but assessors also have to know what the replacement value is and they have to know what the market value is on the land. That is the property tax system we have created. I will leave it there. It is not depreciation that is causing the need for obsolescence. It is the bifurcated system where part of the equation is on market value and part of the equation is done on replacement cost. That is all statutory.

The way I would anticipate this moving forward—you say there is a lot of work still to be done—I say there is an Interim Session with a property tax study where this piece moves forward. The questions brought up here today by the assessors' and treasurers' offices and the local governments, the NAIOP chapters and the chambers—everybody has pieces that interest them. How do we define a transfer? How do we deal with a trust? Who has the criteria for the senior and disabled rebate program? That is what gets done during the Interim. By the second time you are looking at this or another Legislative Body is looking at this, there is a group that has really delved into it. They have got concrete solutions; they have looked for all of the pitfalls and figured out how we solve for them. If you do not start the clock on the constitutional amendment we will be yet another Body that has kicked this particular can down the road, and I hate to see that happen. That is the intent.

This particular version, S.J.R. 14, may need some improvements to make it tighter, to make the intent better in whatever we might need to do in this Session. There is no question that because our property tax system is so complex, you want to have a forum that a 120-day Session does not allow to genuinely get into the weeds and make sure we bring it forward.

The other piece I would suggest is an implementation date. The process is Legislative Session, Legislative Session, vote of the people. You could create an implementation date that allows the next Legislative Session to do any tweaks if necessary before it takes effect. There are a number of ways to work through the process.

Lots of people have said it is an elegant solution, it is smart. In my prior time as a city council member, the Nevada League of Cities and Municipalities brought forward this solution. I did not come up with reset at point of sale. This is something that has been talked about for a long time. People felt the barrier was

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that we cannot do it because it is in the Constitution. All I did was say the Constitution can be amended. If it is really the right solution, we can address that. The Interim property tax conversations are the way to get to the detailed level of answers that would have to be addressed in statute should this pass.

SENATOR ROBERSON:

That final statement was helpful to me.

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CHAIR RATTI:

I would like to enter the following exhibits into the record: Commission on Postsecondary Education Memorandum in Opposition to S.B. 440 ([Exhibit M](#)); Henderson Chamber of Commerce, 2017 Position Statement of Opposition to S.B. 455 ([Exhibit N](#)); Janine Hansen, Written Testimony in Opposition to S.J.R. 14 ([Exhibit O](#)); Jane Gruner, Written Testimony of Support for S.J.R. 14 ([Exhibit P](#)); Nevada Taxpayers Association, Written Testimony on S.J.R. 14 ([Exhibit Q](#)); Nevada State Education Association, Written Testimony in Support of S.J.R. 14 ([Exhibit R](#)).

This meeting is adjourned at 6:49 p.m.

RESPECTFULLY SUBMITTED:

Colleen Lennox,
Committee Secretary

APPROVED BY:

Senator Julia Ratti, Chair

DATE: _____

EXHIBIT SUMMARY				
Bill	Exhibit / # of pages		Witness / Entity	Description
	A	2		Agenda
	B	5		Attendance Roster
S.B. 179	C	1	Joe Reel	Work Session Document
S.B. 343	D	2	Joe Reel	Work Session Document
S.B. 343	E	4	Joe Reel	Proposed Amendment 3486
S.B. 363	F	1	Joe Reel	Work Session Document
S.B. 415	G	1	Joe Reel	Work Session Document
S.B. 440	H	2	Joe Reel	Work Session Document
S.B. 441	I	1	Joe Reel	Work Session Document
S.B. 455	J	2	Joe Reel	Work Session Document
S.B. 455	K	8	Joe Reel	Proposed Amendment 3708
S.J.R. 14	L	18	Senator Julia Ratti	Slide Presentation
S.B. 440	M	3	Kelly D. Wuest / Commission on Postsecondary Education	Written Testimony in Opposition
S.B. 455	N	1	Aviva Gordon / Henderson Chamber of Commerce	Written Testimony in Opposition
S.J.R. 14	O	2	Janine Hansen	Written Testimony in Opposition
S.J.R. 14	P	1	Jane Gruner	Written Testimony in Support
S.J.R. 14	Q	1	Cheryl Blomstrom / Nevada Taxpayers Association	Written Testimony in Support
S.J.R. 14	R	1	Nevada State Education Association	Written Testimony in Support