

### **Exhibit 1 – Proposed Topics for Regulatory Consideration**

1. Define land, both physically and legally. In simplest terms, the definition could mean real property exclusive of improvements on the land. This definition could appear as NAC 361.017.
2. Clarify the meaning of improvements and the difference between improvements on the land and improvements to land. NAC 361.188 defines improvements as improvements on the land (“Improvement” means all appurtenances erected upon or affixed to the land), so all references to improvements throughout NRS or NAC, including golf course improvements, could mean improvements on the land.
3. Clarify the difference between vacant and improved land. NAC 316.113 says that “Improved land” means land on which there is an improvement sufficient to allow the identification of or establish actual use. Consequently, one may identify the actual use of land lacking improvements on the land as vacant (land use codes 10-19). Interestingly, Nevada law defines vacant land as a form of improved land.
4. Clarify the meaning of “cost of replacement.” found in NRS 361.227 1(b), which requires revision of NAC 361.128. For example, the cost of an improvement on the land equals its full economic cost, including without limitation the usual laundry list of costs without loopholes. It should also allow assessors to apply unusual condition multipliers if supported by verifiable market data and state explicitly that any modifications to or substitutions for Marshall Swift standard costs must appear on the tax roll as the cost of replacement. Consideration should be given to requiring assessors to submit cost update forms to the Department at least once a year.
5. Resolve the legal ambiguity over the cost date. NAC 361.128 specifies October 1 of the year preceding the closure of the roll. For example, if the 2007-08 roll closes January 1, 2007 the cost date should be October 1, 2006, not October 1, 2005 as the Department does it now. Moving the cost date to July 1 one year prior to the lien date, which coincides with the sales cutoff date, probably makes better sense, but may impose a time crunch on the assessors.
6. State explicitly that the principle of substitution applies to improvements on the land and that replacement cost thus determines the maximum full cash value for any improvement. This could appear as an addition to NAC 361.014
7. Clarify the definitions for the abstraction and allocation methods in NAC 361.107 and 361.109.

“Abstraction method” means a method of estimating the value of land by subtracting from the sales prices of improved parcels the full contributory value of all items attributable to the value of the improvements on the land, thus yielding estimates of the residual or remainder value of the improved land.

“Allocation method” means a method used to value land by estimating from sales of comparable improved properties a typical ratio of improved land to total value and applying that ratio to the improved property being analyzed to determine the value that the improved land contributes to the total value of the property.

8. Observe that NAC 361.118 3(c) specifies that if the subject property is improved land, the comparable properties must have a use that is consistent with that of the improved land. Strictly speaking, the assessor may not value improved land with vacant comparable sales. To get around this, the assessor could apply NAC 361.118 in reverse by adding the full cash value of improvements to land to estimate the value of the fully developed improved site. NAC 361.118 should really function as a two-way street that permits the assessor to value improved land with vacant sales or vacant land with improved sales by making market based full cash value adjustments to equalize the subject and comparables at the same stage of development.
9. Actually, NAC 361.118 as written merely attempts to value all improved land as vacant land, thereby making improvements to land intangible. When, contrary to NAC 361.118(c), an assessor uses vacant comparables to value improved sites, he must adjust the comparables upward for site development. In Nevada, as-if-vacant means selling price minus improvements on the land, not improved land valued as vacant land.
10. An exact definition of non-realty components with examples is needed to avoid confusion.
11. Modify the rules for tear-downs in NAC 361.118 2(b) by specifying a cutoff date (probably the sales cutoff date) for these things to occur. Also, the assessor should apply interim use adjustments to tear-downs that satisfy the time requirement and other conditions. This matches standard appraisal practice. Regulations for valuing interim use will be needed.
12. Clarify the rules for view adjustment. NAC 361.118 says that the county assessor shall make the view influence determination from any area on the parcel that is capable of development. Ordinarily, this includes any portion of the three dimensional envelope defined by the bundle of rights, like the roof of the house. This illustrates the need for a precise definition of land.
13. Clarify the term market conditions in NAC 361.118 or allow time adjustments specifically.
14. Clarify the meaning of the term “each area subject to the factor” in NRS 361.260 by adopting rules for conducting land factor studies. Because current law assigns no role to the Department in the land factor process, the Department also needs guidance from the Commission or Legislature to determine its specific duties.

15. NRS 361.333 (3) permits the department to use any statistical criteria that will indicate an accurate ratio of taxable value to assessed value and an accurate measure of equality in assessment. Does this latitude also apply to similar studies like land factoring?
16. We interpret the Supreme Court's direction that the "county assessors must use uniform standards and methodologies for assessing property values throughout the state." Under a strict application, anything not explicitly codified in NRS or NAC would be unconstitutional.
17. The regulations cannot cover every situation; therefore, we should have a reference to national assessment administration standards from the IAAO, much like we already have a reference to Marshall Swift for a cost manual. Those standards are as follows:
  - a.) Guide to Assessment Standards
  - b.) Standard on Administration of Monitoring and Compliance Responsibilities
  - c.) Standard on Assessment Appeal
  - d.) Standard on Automated Valuation Models
  - e.) Standard on Contracting for Assessment Services
  - f.) Standard on Facilities, Computers, Equipment and Supplies
  - g.) Standard on Manual Cadastral Maps
  - h.) Standard on Mass Appraisal
  - i.) Standard on Professional Development
  - j.) Standard on the Valuation of Properties Affected by Environmental Contamination
  - k.) Standard on Property Tax Policy
  - l.) Standard on Public Relations
  - m.) Standard on Ratio Studies
  - n.) Standard on the Valuation of Personal Property
  - o.) Standard on Digital Cadastral Mapping

Of these, the most important should be Mass Appraisal, Personal Property, and Ratio Studies. In the alternative, reference could be made to certain textbooks, such as "Property Appraisal and Assessment Administration (IAAO) or the 12<sup>th</sup> Ed. of the Appraisal Foundation's "The Appraisal of Real Estate."

19. Clarify the roles of NTC and SBE under NRS 361.333 and NRS 361.395.
20. Promulgate regulations on the use of the income approach. There are none, except in centrally-assessed.
21. Promulgate regulations on possessory interests. Drafts were considered by the Commission but were sent back for additional workshops. That process has not been completed.
22. Promulgate regulations on the valuation of off-the-shelf computer software. Drafts were considered by the Commission but were sent back for additional workshops. That process has not been completed.

23. Promulgate a regulation referencing all the mapping directions in the Assessment Manual that was never adopted.

24. Promulgate enforcement regulations requiring compliance with reporting of sales to the Department in the form and manner required.

25. The State Board of Equalization should complete the regulatory process of reviewing county board regulations.

26. Promulgate standards for granting exemptions. For instance, does property owned by a hospital or other charity receive the exemption at the point when construction begins, or is mere ownership enough?