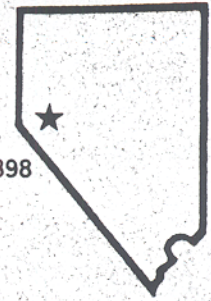




NEVADA ASSOCIATION OF COUNTIES

1761 E. COLLEGE PKWY. #113 • CARSON CITY, NEVADA 89706-7954 • (775) 883-7863 FAX (775) 883-7398



February 26, 2002

Chairman Guy Hobbs and Members of the
Governor's Task Force on Tax Policy in Nevada
3900 Paradise Road, Suite 152
Las Vegas, NV 89109

Dear Mr. Hobbs and Task Force Members:

I am writing this in response to your inquiry regarding the tax system in Nevada and challenges posed to county government.

Let me begin by endorsing the approach of the Task Force in determining the current baseline financial situation. In our view credible and well-researched information on the current financial situation is essential to the success of the Task Force as you explore modifications to our current tax system.

As counties, we partner with the state in the provision of many direct services. Our ad valorem revenue base is directly impacted by the funding of education and state debt. We are also impacted by unfunded state mandates such as long term care that cap state responsibility and result in the transfer of state responsibility to county government. As the ad valorem tax base is impacted by declining assessed values such as has occurred in 2000-2001 in Humboldt, Mineral, Storey and White Pine counties many counties are driven to the \$3.64 cap and forced to reduce budgets or find themselves at the ad valorem cap imposed in the 1981 combined maximum allowable revenue formula. We have other counties who rely heavily on centrally assessed properties as a component of the total county assessed valuation and still others rely heavily on possessory use tax. In addition, the preponderance of public lands managed by the federal agencies severely limits the tax base of all of our counties, especially rural Nevada. Federal Payments in Lieu of Tax payments, which are subject to annual congressional appropriation, are a critical source of revenue for our rural counties. In summary, Nevada's counties are all currently being impacted by the changing dynamics of our tax base as a result of new federal and state laws, agency regulations, and land management policies. We urge you to evaluate these dynamics as you evaluate the tax system in Nevada.

Sound tax policy can only be developed given a clear understanding of the interrelationships and differences in the value of certain aspects of our revenue system in each county. You cannot address the needs of the state of Nevada without impacting county government.

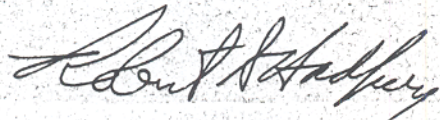
Guy Hobbs and Members of the
Governor's Task Force on Tax Policy in Nevada
Page 2

As you move toward developing tax policy recommendations several important components of our revenue base need to be freely explored. Nevada must take advantage of all federal funding options that can result in long term cost savings. Short term savings in state matching or expanded service requirements should not drive tax policy if such funding options can result in long term cost savings. Sales tax exemptions should be narrowed and whenever possible cost effective means testing should be used in lieu of politically popular broad exemptions. The broadening of the sales tax base should be carefully reviewed once the exemption issue is addressed. The ad valorem tax cap should be evaluated to determine if it still meets the goals for which it was established. Having been involved in county government in Nevada since 1977, it is unclear to me on what basis changes in our tax system have been based. In the absence of clear public policy a piecemeal approach appears to be the preferred political approach.

The tax system should have at its foundation clear goals which should be measurable and be subject to periodic review. This approach would provide us all with a clear, understanding of what our revenue system is designed to achieve.

I hope these comments will be useful as you continue your work. I must again reiterate the importance of a sound financial base from which to assess future needs, and if necessary, revenue options. You are fortunate to have all the financial data developed on your behalf to date without funding from the legislature or state.

Sincerely,



Robert S. Hadfield
Executive Director