

**PROPOSED REGULATION OF THE
NEVADA TAX COMMISSION**

LCB File No. R039-10

(This agency draft replaces the one posted 3/15/2010)

EXPLANATION – Matter in *BLUE* is new; matter in brackets ~~omitted material~~ is material to be omitted.

AUTHORITY: §§1 through 62, NRS 360.090, 360.250;

Section 1. Chapter 361 of NAC is hereby amended by adding thereto the provisions set forth as sections 2 through 62 of this regulation.

Sec. 2. “Adjustments” defined. *“Adjustments” means modifications in the reported value of a variable, such as sale price or gross income, in order to be used to estimate market value, and are measured using model calibration techniques such as those listed in LCB File No. R166-07, Section 8, or in Section 30 of these regulations.*

Sec. 3. “Auditee” defined. *“Auditee” means any “Responsible County Official” selected for a performance audit.*

Sec. 4. “Condominium” defined. *“Condominium” means a form of fee ownership of separate units or portions of multi-unit buildings that provides for a formal filing and recording of a divided interest in real property. the unit owners hold an undivided interest in the common elements.*

Sec. 5. “Excess land” defined. *“Excess land” means land that is not needed to serve or support the existing improvement. Excess land has the potential to be sold separately and must be valued as vacant land 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.*

Sec. 6. “Fixture” defined. *“Fixture” means an article that was once personal property but has since been installed or attached to the land or building in a permanent manner and is regarded as real property. An item is a fixture and therefore real property if:*

(a) The item is attached, imbedded, permanently resting upon land or improvements, or is attached by other means that are normally used for permanent installation, and cannot be removed without substantially damaging it or the real property with which it is being used; or

(b) The use or purpose of an item not otherwise physically annexed to real property is so adapted that it is:

1. A necessary, integral, or working part of the real property;

2. Designed or committed for use with real property, or

3. So essential to the real property that the real property cannot perform its desired function without the nonattached item; and

Ê A reasonable person would consider the item to be a permanent part of the property, taking into account annexation, adaptation, and other objective manifestations of permanence.

Sec. 7. “Land” defined. *“Land” is that portion of real property which contains:*

(1) The earth’s surface, together with everything under its boundary to the apex at the center of the earth and the air space above the surface;

(2) Any natural resource in its natural state attached to it such as, but not limited to, mineral deposits, timber, water, and soil; and

(3) All rights, benefits, and privileges in any way belonging or appertaining to the land.

Sec. 8. “Off-site improvements” defined. *“Off-site improvements” mean improvements to land located outside the boundaries of the parcel necessary to facilitate development of the parcel, including, without limitation, improvements that do not fulfill a specific use, such as*

streets, traffic signals, curbs, gutters, sidewalks, and the availability of water, sewers, electricity, natural gas, telephone and data lines.

Sec. 9. “Parcel” defined. *“Parcel” means a contiguous area of land identified by an assessor’s parcel number, that is subject to single ownership and capable of being separately conveyed. Each parcel must be identified consistently with the requirements of NRS 361.189 through NRS 361.220.*

Sec. 10. “Performance audit” defined. *“Performance audit” means the systematic and objective examination of evidence for the purpose of providing an independent assessment of the performance of each responsible county official’s office in order to provide information to improve public accountability and facilitate decision-making by parties with responsibility to oversee or initiate corrective action.*

Sec. 11. “Raw land” defined. *“Raw land” means land to which no improvements have been made; land in its natural state before grading, construction, subdivision, or the installation of utilities and that has not been developed or prepared for use.*

Sec. 12. “Real Property” defined. *“Real Property” has the meaning ascribed to it in NRS 361.035 and includes the rights, interests, and benefits connected with the physical parcel of land, improvements to land, improvements, and fixtures.*

Sec. 13. “Reconciliation” defined. *“Reconciliation” means the final step in the valuation process in which the assessor considers the relative strengths and weaknesses of the methodology used, the nature of the property appraised, and the quantity and quality of available data in formation of an overall opinion of value. The process is also known as correlation.*

Sec. 14. “Responsible County Official” defined. *“Responsible County Official” means any county assessor, county treasurer, county recorder, county comptroller, county auditor, or any other county official responsible for compliance with any portion of the Nevada property tax system.*

Sec. 15. “Site” defined. *“Site” means land that is developed so that it is ready to be used for a specific purpose. A site may have on-site and off-site improvements or physical enhancements to the land that make it suitable for its intended use or for new construction.*

Sec. 16. “Site description” defined. *“Site description” means a comprehensive listing of property data, including a legal description, other title and record data, and information on the physical characteristics of the site.*

Sec. 17. “Stratification” defined. *“Stratification” means the process by which parcels are sorted into relatively homogeneous groups based on use, physical characteristics, or location. Stratification permits analysis of mass appraisal performance within and between property groups. The objectives of the analysis determine the strata to be used. For the purpose of analyzing land sales, comparable sales should be stratified at a minimum by geographic area and use pursuant to LCB File No. 166-07, Section 8(1).*

Sec. 18. “Surplus land” defined. *“Surplus land” means land that is not currently needed to support the existing improvement but cannot be separated from the property and sold off. Surplus land does not have an independent use separate from the improvements and may or may not contribute value to the improved parcel.*

Sec. 19. “Units of comparison” defined. *“Units of comparison” are the components into which a property may be divided for purposes of comparison. The unit of comparison may be*

the property as a whole or some smaller measure of the size of the property, such as price per square foot, front foot, cubic foot, room, bed, seat, apartment unit.

Sec. 20. “Vacant Land” defined. *“Vacant land” means land not occupied or put to an actual, specific use which can be identified other than general uses to which the land may lawfully be put; and includes any land other than land on which there is an improvement sufficient to allow the identification of or establish actual current use, such as raw land and sites.*

Sec. 21. 1. *The Tax Commission hereby adopts by reference the Standard on Mass Appraisal of Real Property, January 2008 edition, published by the International Association of Assessing Officers. The Standard on Mass Appraisal of Real Property may be obtained from the International Association of Assessing Officers, 314 West Tenth Street, Kansas City, Missouri, 64105-1616 or on the Internet at <http://www.iaao.org/store> , for the price of \$10.00. A free copy of the Standard on Mass Appraisal of Real Property, January 2008 edition, may be obtained on the Internet <http://www.iaao.org/uploads/StandardOnMassAppraisal.pdf>*

2. If the publication adopted by reference pursuant to subsection 1 is revised, the Tax Commission will review the revision to determine its suitability for this State. If the Tax Commission determines that the revision is not suitable for this State, the Tax Commission will hold a public hearing to review its determination and give notice of that hearing within 30 days after the date of the publication of the revision. If, after the hearing, the Tax Commission does not revise its determination, the Tax Commission will give notice that the revision is not suitable for this State within 30 days after the hearing. If the Tax Commission does not give such notice, the revision becomes part of the publication adopted by reference pursuant to subsection 1.

3. A copy of the Standard On Mass Appraisal Of Real Property must be available in each county assessor office for review by the public.

Sec. 22. *1. The Tax Commission hereby adopts by reference the Standard on Automated Valuation Models (AVS), September 2003 edition, published by the International Association of Assessing Officers. The Standard on Automated Valuation Models (AVS), may be obtained from the International Association of Assessing Officers, 314 West Tenth Street, Kansas City, Missouri, 64105-1616 or on the Internet at <http://www.iaao.org/store> , for the price of \$10.00. A free copy of the Standard on Automated Valuation Models (AVS), September 2003 edition may be obtained on the Internet http://www.iaao.org/uploads/AVM_STANDARD.pdf*

2. If the publication adopted by reference pursuant to subsection 1 is revised, the Tax Commission will review the revision to determine its suitability for this State. If the Tax Commission determines that the revision is not suitable for this State, the Tax Commission will hold a public hearing to review its determination and give notice of that hearing within 30 days after the date of the publication of the revision. If, after the hearing, the Tax Commission does not revise its determination, the Tax Commission will give notice that the revision is not suitable for this State within 30 days after the hearing. If the Tax Commission does not give such notice, the revision becomes part of the publication adopted by reference pursuant to subsection 1.

3. A copy of the Standard on Automated Valuation Models (AVS) must be available in each county assessor office for review by the public.

Sec. 23. *1. The Tax Commission hereby adopts by reference the Property Appraisal and Assessment Administration, 1990 edition, published by the International Association of Assessing Officers. The Property Appraisal and Assessment Administration may be obtained*

from the International Association of Assessing Officers, 314 West Tenth Street, Kansas City, Missouri, 64105-1616 or on the Internet at <http://www.iaao.org/store> , for the price of \$75.00.

2. If the publication adopted by reference pursuant to subsection 1 is revised, the Tax Commission will review the revision to determine its suitability for this State. If the Tax Commission determines that the revision is not suitable for this State, the Tax Commission will hold a public hearing to review its determination and give notice of that hearing within 30 days after the date of the publication of the revision. If, after the hearing, the Tax Commission does not revise its determination, the Tax Commission will give notice that the revision is not suitable for this State within 30 days after the hearing. If the Tax Commission does not give such notice, the revision becomes part of the publication adopted by reference pursuant to subsection 1.

3. A copy of the Property Appraisal and Assessment Administration must be available in each county assessor office for review by the public.

Sec. 24. 1. *The Tax Commission hereby adopts by reference the Residential Cost Handbook published by Marshall & Swift. The Residential Cost Handbook may be obtained from Marshall & Swift, 911 Wilshire Blvd., 16th Floor, Los Angeles, CA, 90017-3409 or on the Internet at <http://www.marshallswift.com/p-39-residential-cost-handbook.aspx> , for the price of \$308.95.*

2. If the publication adopted by reference pursuant to subsection 1 is revised, the Tax Commission will review the revision to determine its suitability for this State. If the Tax Commission determines that the revision is not suitable for this State, the Tax Commission will hold a public hearing to review its determination and give notice of that hearing within 30 days after the date of the publication of the revision. If, after the hearing, the Tax Commission

does not revise its determination, the Tax Commission will give notice that the revision is not suitable for this State within 30 days after the hearing. If the Tax Commission does not give such notice, the revision becomes part of the publication adopted by reference pursuant to subsection 1.

3. A copy of the Residential Cost Handbook must be available in each county assessor office for review by the public.

Sec. 25. 1. *The Tax Commission hereby adopts by reference the Marshall Valuation Service published by Marshall & Swift. The Marshall Valuation Service may be obtained from Marshall & Swift, 911 Wilshire Blvd., 16th Floor, Los Angeles, CA, 90017-3409 or on the Internet at <http://www.marshallswift.com/p-30-marshall-valuation-service.aspx> , for the price of \$562.95.*

2. If the publication adopted by reference pursuant to subsection 1 is revised, the Tax Commission will review the revision to determine its suitability for this State. If the Tax Commission determines that the revision is not suitable for this State, the Tax Commission will hold a public hearing to review its determination and give notice of that hearing within 30 days after the date of the publication of the revision. If, after the hearing, the Tax Commission does not revise its determination, the Tax Commission will give notice that the revision is not suitable for this State within 30 days after the hearing. If the Tax Commission does not give such notice, the revision becomes part of the publication adopted by reference pursuant to subsection 1.

3. A copy of the Marshall Valuation Service must be available in each county assessor office for review by the public.

Sec. 26. 1. *The Tax Commission hereby adopts by reference the Residential Estimator and Commercial Estimator software published by Marshall & Swift. The Marshall Valuation Service may be obtained from Marshall & Swift, 911 Wilshire Blvd., 16th Floor, Los Angeles, CA, 90017-3409 or on the Internet at <http://www.marshallswift.com/p-43-residential-estimator-7.aspx> , for the price of \$980.95 or <http://www.marshallswift.com/p-15-commercial-estimator-7.aspx> , for the price of \$1,146.95.*

2. If the software adopted by reference pursuant to subsection 1 is revised, the Tax Commission will review the revision to determine its suitability for this State. If the Tax Commission determines that the revision is not suitable for this State, the Tax Commission will hold a public hearing to review its determination and give notice of that hearing within 30 days after the date of the publication of the revision. If, after the hearing, the Tax Commission does not revise its determination, the Tax Commission will give notice that the revision is not suitable for this State within 30 days after the hearing. If the Tax Commission does not give such notice, the revision becomes part of the publication adopted by reference pursuant to subsection 1.

Sec. 27. 1. *A sufficient amount of data regarding property characteristics must be collected for purposes of classification and establishing taxable value. The property characteristics selected must be collected and maintained in a manner consistent with Section 3, Standard on Mass Appraisal of Real Property adopted by reference in section 21 of this regulation.*

2. The property data gathered pursuant to subsection 1 of this regulation must be maintained on electronic media.

Sec. 28. 1. Units of comparison may be used to facilitate comparison of the subject and comparable properties and include, without limitation, price per square foot, front foot, acre, lot, dwelling unit, floor area ratio (FAR), or other units used in the market.

2. Sales of comparable property may be analyzed to determine which units of comparison have the closest correlation with the comparable sales. The analysis will identify the proper unit of comparison to be used, such as price per acre or price per square foot. The units of comparison selected depend on the appraisal problem and the nature of the property. For example, the analysis may consist of dividing the sales price data for each comparable sale by the unit of comparison with a resulting range of value for the type of unit. The next step is to calculate the percent difference in the range to indicate which unit of comparison produces the least variation in value.

3. The assessor may also consider the following criteria in determining which comparison by sale price is appropriate for the appraisal analysis:

(a) Comparison by sale price per front foot is appropriate where frontage is a primary determinant of value. A front foot is a strip of land one foot wide that fronts a street, freeway, or body of water or other feature recognized by the market. This unit of comparison may be useful in the appraisal of commercial sites that benefit from drive-by or other visibility or for residential property located next to a lake or river;

(b) Comparison by sale price per square foot is appropriate for in industrial and commercial properties in which square footage is a good measure of development potential and frontage is not the dominant factor;

(c) Comparison by sale price per acre is typically used in the valuation of large industrial or commercial sites, subdivision land, and rural and farm properties;

(d) Comparison by sale price per building site assumes that buyers purchase a site with limited concern for small differences in front footage or square footage, and are instead primarily concerned with the site's overall desirability (e.g., views or exposure) for residential purposes;

(e) Comparison by sale price per units buildable assumes that market participants value land based on its development potential on a units-buildable basis, for example, sale price per apartment unit, condominium unit, or single-family lot; or

(f) Comparison by a unit which reflects market considerations, such as, but not limited to, price per seat, machine unit, guest room, apartment unit, bed, bay, or buildable square foot.

Sec. 29. 1. *When the sales comparison approach is used pursuant to Sec. 8 of LCB File No. R166-07 or NAC 361.118, property sales must be first stratified into primary land use categories pursuant to NAC 361.154. Property sales may be further stratified into secondary land use categories identified in the land use code prescribed by the Department pursuant to Section 56 of this regulation.*

2. Properties having a similar or competitive use may be further stratified into market areas. Market areas may be defined first by major natural, political, or man-made boundaries and then further refined by areas of complementary land uses, or neighborhoods, in which all properties are similarly influenced by environmental, governmental, social, and economic forces. Additional criteria may be considered for determining a market area including, without limitation, size of land parcels and subdivision.

3. Assessors may cooperate in the exchange of information in the event a market area may cross county boundaries for purposes of analysis.

4. The number of land use categories and market areas used in stratification will depend on the size and diversity of the geographic area being analyzed and the number of sales available within each proposed strata.

Sec. 30. *1. The amount of adjustment to comparable sales or to the base lot or comparative unit value may be determined using model calibration techniques, such as paired sales analysis, sales-resales analysis, or regression analysis .*

2. Paired sales analysis, sales-resales analysis, regression analysis, or other model calibration techniques must be performed in accordance with the provisions of Property Appraisal and Assessment Administration, 1990 edition, Chapters 6 and 15, published by the International Association of Assessing Officers, adopted by reference in section 23 of this regulation.

3. Adjustments to comparable sales must be made in sequential order, with transactional adjustments first and then adjustments to property. Transactional adjustments must be made to the total sale price in the order described in subsection 4. Units of comparison are then calculated based on the adjusted sale price. The unit of comparison is then adjusted for differences in location and physical and economic characteristics and may be made in any order after the transactional adjustments are made.

4. For purposes of this section, “transactional adjustments” are defined as adjustments for real property rights conveyed, financing terms, conditions of sale, expenditures made immediately after purchase, and market conditions.

5. For purposes of this section, “adjustments for market conditions” means adjustments to sales prices of comparable properties required by Sec. 8 of LCB File No. R166-07 or NAC

361.118 to reflect increases or decreases in property values in the market over time and are also known as “time adjustments.”

(a) An adjustment for market conditions is made if property values of the same general classification and area have increased or decreased since the transaction dates. If market conditions have not changed, no adjustment is required even though considerable time may have elapsed.

(b) The difference in sale prices of the same or similar properties over time must be measured in order to extract a rate of change, or rate of adjustment applied to comparable sales to improve comparability. The steps are as follows:

I. List the sales

II. Calculate the percent change between the first sale price and the resale price;

III. Divide the percent change by the number of months; and

IV. Estimate a time adjustment from the results.

(c) Sales prices of sold comparable properties used to establish taxable value must be adjusted to a common point in time, such as the date of the most recent sale, but no later than July 1 of the year before the lien date as described in NAC 361.118(1)(f)(2).

(d) Sales prices of sold comparable properties used to prepare a sales comparison indication of value used in an appeal to show trends since the date of valuation must be adjusted to a common point in time, but no later than January 1 of the year of the lien date, including sales which occur after January 1 of the year of the lien date.

Sec. 31. 1. The land to building ratio obtained in the allocation method may be derived from:

(a) Analysis of land share percentage obtained in the abstraction method;

(b) Analysis of land sales from similar or competitive market areas;

(c) Analysis of sales of vacant land compared to re-sales of the same or similar parcel after improvements have been built; or

(d) Analysis of historic sales of land in the market area when there were sufficient sales of land.

2. When the land to building ratio is derived from the abstraction method, the assessor must consider whether the construction costs and depreciation percentages used in the abstraction method were appropriately calibrated to the geographic area in question.

3. For purposes of subsection (1)(b) or (c), data necessary to calculate the land to building ratio must be obtained from similar or competitive market areas with sufficient land sales.

4. A determination of the sufficiency of land sales will depend on:

(a) The nature and complexity of the subject property to which the sales are being compared;

(b) The degree of homogeneity of elements of comparison between the subject property and the comparable sales;

(b) Market conditions; and

(c) The reliability of the information of each sale from which a credible conclusion may be obtained.

5. When paired sales analysis is used involving the sale of vacant land and the resale of the same or substantially similar parcel after the improvements have been built, the following steps apply:

(a) Adjust each vacant land sale for market conditions pursuant to Section 30(5);

(b) Adjust each vacant land sale obtained from competitive market areas for differences from the subject area pursuant to LCB File No. R166-07, Section 8(2)(a);

(b) Divide the adjusted price of the vacant land by the total sales price of the same or substantially similar parcel when it resold to determine a land to building ratio for each sold-resold pair;

(c) Array all the sold-resold parcel ratios and calculate the median land to building ratio; and

(d) Apply the median land to building ratio from the competitive market area to sales of improved parcels or other benchmark parcels in the subject area.

6. If there are no comparable sales from similar market areas available, historical land to building ratios may be used, if adjustments for market conditions have been considered to account for change in the relative value of land over time.

7. The assessor must consider whether the full contributory value of all items attributable to the value of the improvements exceeds their replacement cost new.

8. Land values obtained from the allocation method must be analyzed in the same way as vacant land sales in order to establish comparative unit or base lot values.

9. The land values calculated using the allocation method may be used either as a supplement to or as an alternative to, vacant land sales in application of the sales comparison approach.

Sec. 32. *1. The full contributory value of the improvements which is subtracted from the sales price to derive a residual land value in the abstraction method must be calculated using accrued depreciation, also known as market depreciation, pursuant to Section 38 of these regulations.*

2. The land values calculated using the abstraction method may be used either as a supplement to or as an alternative to, vacant land sales in application of the sales comparison approach.

3. The land residuals obtained from the abstraction method must be analyzed in the same way as vacant land sales in order to establish comparative unit or base lot values.

4. The abstraction method must be performed in accordance with the provisions of Property Appraisal and Assessment Administration, 1990 edition, Chapter 7, published by the International Association of Assessing Officers, adopted by reference in section 23 of this regulation.

Sec. 33. 1. *The capitalization of ground rents method may be used if there is sufficient information regarding land rents or leases independent of improvements, such as, but not limited to, the rental of farmland or commercial land leased on a net basis where the lessee is responsible for property taxes and all other expenses.*

2. If the lease has been recently negotiated or is still representative of current market rents, the net rent may be directly capitalized into an indicated land value.

3. Leases that are outdated or no longer representative of current market must be rejected or adjusted to current market conditions using verifiable market data.

4. The capitalization of ground rents method must be performed in accordance with the provisions of Property Appraisal and Assessment Administration, 1990 edition, Chapter 7, published by the International Association of Assessing Officers, adopted by reference in section 23 of this regulation.

Sec. 34. 1. *The cost of development method must be performed in accordance with the provisions of Property Appraisal and Assessment Administration, 1990 edition, Chapter 7,*

published by the International Association of Assessing Officers, adopted by reference in section 23 of this regulation.

2. The direct and indirect costs which are deducted from an estimate of probable proceeds in the cost of development method must include:

- (a) Direct costs of site preparation;*
- (b) Utility hookups;*
- (c) Indirect costs; and*
- (d) A reasonable allowance for profit.*

3. The cost of development method should generally be used only when the comparative sales method cannot be used, or in conjunction with other methods.

Sec. 35. *1. The land residual technique must be performed in accordance with the provisions of Property Appraisal and Assessment Administration, 1990 edition, Chapter 12, published by the International Association of Assessing Officers, adopted by reference in section 23 of this regulation.*

2. The land residual technique requires a separate estimate of building market value.

3. For purposes of this section, a building capitalization rate is defined as the rate used in residual techniques or in a band of investment to convert building income into an indication of building value, and is the ratio of building income to building value.

4. The estimate of annual net operating income must be made assuming the highest and best use is obtained.

5. Capitalization rates for the land and building must be market-derived.

Sec. 36. 1. *The value of land derived from regression analysis is based on the principle of contribution to value, in which the major characteristics of site and improvements are analyzed to determine how much each component characteristic contributes to value.*

2. Application of regression analysis must be consistent with the requirements of Section 40.

Sec. 37. 1. *The land and improvements of community units and common elements of a condominium must be valued using the methodologies and techniques available in LCB File No. R166-07, Section 8, NAC 361.118 and 361.119.*

2) In addition to the elements of comparison listed in NAC 361.118 (1)(b) and LCB File No. R166-07(8), the sales prices of properties comparable to the community unit may be adjusted to reflect unique physical characteristics of the common interest community project and the characteristics of ownership, if the adjustments are based on verifiable market data.

The unique physical characteristics include, without limitation:

(a) The relative location of the community unit within the project, including the floor location;

(b) The phase within which the community unit lies;

(c) The nature of and access to, the common elements including parking facilities and open space areas; and

(d) The marketability and appeal of the common interest community project, including the amount and purpose of the owners' association assessment.

Sec. 38. 1. *“Accrued depreciation” for purposes of this section means loss in value of an object relative to its replacement cost, reproduction cost, or original cost and may be subdivided into three types, consisting of physical deterioration, functional obsolescence, and*

economic obsolescence, and is also known as “market” depreciation. Accrued depreciation may be measured by any of the following methods:

- (a) Market extraction method, also known as the sales comparison technique;*
- (b) Economic age-life method, also known as the overall age-life technique; and*
- (c) Observed Condition Breakdown method*

2. The life-expectancy tables provided in Marshall Swift may be used in the economic age-life method.

3. The calculation of accrued depreciation must be performed in accordance with the provisions of Property Appraisal and Assessment Administration, 1990 edition, Chapter 8, published by the International Association of Assessing Officers, adopted by reference in section 23 of this regulation.

4. The use of accrued depreciation is limited to the calculation of market value of improvements for purposes of alternative land valuation methods; or to determine the extent of obsolescence of improvements pursuant to NRS 361.227(5). Accrued depreciation must not be used to determine the taxable value of improvements as that term is used in NRS 361.227(1).

Sec. 39. 1. *Site development activities that prepare land for use, including the construction of off-site improvements to land and the acquisition of pertinent rights that allow land to be put to use, affect the use and development potential of a parcel of land and must:*

- (a) Be considered an influence on land value; and*
- (b) Not be added separately to the total replacement cost new of improvements on the parcel.*

2. Costs associated with the acquisition of pertinent rights that allow land to be put to use include:

(a) Land planning or preliminary concept and layout for large developments, inclusive of entrepreneurial incentives or developer's overhead and profit;

(b) Feasibility studies;

(c) Hazardous material testing and environmental impact studies;

(d) Appraisal, consulting, accounting, legal fees, right-of-way costs, and other costs of assembling land;

(e) Cost of carrying the investment in land and contract payments during construction;

(f) Marketing costs to achieve first stabilized occupancy in a normal market including sales commissions, model or advertising expenses, and leasing or brokers' commissions;

(g) Costs of doing business such as permitting and zoning changes which affect the legal status of land.

Sec. 40. 1. *The development of mass appraisal model building and calibration to explain or predict the market value of properties from real estate data must be performed in accordance with the provisions of the Standard on Automated Valuation Models (AVM), September, 2003, adopted by reference in section 22 and the Property Appraisal and Assessment Administration, Chapters 14 and 15, published by the International Association of Assessing Officers, adopted by reference in section 23 of this regulation.*

Sec. 41. 1. *Any value derived for purposes of determining the existence of obsolescence pursuant to NRS 361.227(5) or when one or more alternative land valuation methods are used to estimate the value of land, must be examined through a reconciliation process. The assessor must:*

- (a) Examine the sufficiency and quantity of the data used to derive a value;*
- (b) Examine the reliability and accuracy of the data and the adjustments made to each comparable property;*
- (c) Consider the strengths and weaknesses of each comparable sale;*
- (d) Evaluate the number and magnitude of adjustments, or in the alternative, why no adjustments were made;*
- (e) Evaluate the importance of individual elements of comparison; and*
- (f) Determine whether the valuation approach is appropriate to the type of property being valued*

2. If the available data is verified and considered reliable for each indicator of value, the assessor may express a final opinion of value as a point estimate within a range of value if more than one indicator of value was estimated. The point estimate is the most probable number reflecting the value of the subject.

3. The final value opinion must not be an average of the different value indications derived but must reflect the proper application of appraisal techniques and appraisal judgment.

4. In the alternative, the reconciliation process may indicate that more research is needed or that a new analysis must be performed.

Sec. 42. *1. The Department shall periodically conduct performance audits of selected accounts and other records of responsible county officials to determine one or any combination of the following:*

- (a) Whether the appraisals of the county assessor comply with all applicable laws and regulations governing the assessment of property taxes;*

(b) Whether any county process related to the property tax system, including but not limited to, assessment, exemptions, billing, collection, apportionment, and redemption/sales, complies with all applicable laws and regulations governing such processes;

(c) The honesty and integrity of fiscal affairs, the accuracy and reliability of information and reports, and the effectiveness of the system of management controls of the auditee; and

(d) Whether control by management and the system of information provide an adequate system of records and accounting.

2. Every officer and employee in the responsible county official's office shall aid and assist the Department at such times as required in the inspection, examination and audit of any books, accounts and records in their possession.

3. Department employees conducting performance audits pursuant to 1(a) must be knowledgeable about the principles and concepts of the appraisal of property.

Sec. 43. *Upon the request of the Department, all officers and employees of the responsible county official's office, shall make available to the Department all their books, accounts, claims, reports, or other records of information, confidential or otherwise, necessary, irrespective of their form or location in performing authorized audits or investigations. The confidentiality of information provided to the Department shall be maintained under the terms and conditions required by law pursuant to NRS 360.250(2)(e).*

Sec. 44. *1. The Department shall furnish a copy of the preliminary report of the audit to the auditee and discuss the report with him or her. The auditee shall submit to the Department, within 10 days after the discussion, his or her written statement of explanation or rebuttal concerning any of the findings, and the Department shall include in the final report the auditee's explanation or rebuttal to any of the findings contained in the final report.*

2. The Department shall present a final written report of each audit to the Nevada Tax Commission and the State Board of Equalization and furnish copies to each member, other appropriate state officers, the county board of commissioners and the auditee.

Sec. 45. *1. The Commission shall notify an auditee of its acceptance of a final written report of an audit by the Department that concerns the auditee and contains any recommendations for corrective action. Within 60 working days after the receipt of notification, if corrective action is recommended, the auditee shall submit a plan for corrective action to the Department and a copy of the plan to the board of county commissioners.*

2. The Department shall notify the Commission of any failure to submit a plan pursuant to subsection 1.

Sec. 46. *1. Each auditee who submits a plan pursuant to Section 45 shall, within 6 months after submission of the plan, submit to the Department a report specifying the extent to which the recommendations of the Department have been carried out, the extent to which the recommendations have not been carried out and the reasons for any failure to carry out the recommendations.*

2. The Department shall submit each report received pursuant to Sections 45 and 46(1) to the Commission, State Board of Equalization, and board of county commissioners. The Commission may review the reports and conduct hearings to examine any justification for a failure to carry out the recommendations of the Department.

3. The Department shall notify the Commission, State Board of Equalization, and board of county commissioners of any failure to submit a report pursuant to subsection 1 or 2.

Sec. 47. NAC 360.190 is hereby amended to read as follows:

NAC 360.190 Petitions: Form; contents. ([NRS 360.090](#))

1. Any person may petition for an advisory opinion concerning matters within the jurisdiction of the Department or Commission.

2. The commission may accept requests for advice with respect to compliance with the Nevada Administrative Code, Chapters 361, 361A, or 362 from the State Board of Equalization.

3. All petitions must be in writing, be addressed to the Director and set forth at least the following:

- (a) A statement that an advisory opinion is requested;
- (b) A succinct statement of all the facts and circumstances necessary to dispose of the petition;
- (c) A clear, simple statement of the issue or question to be resolved;
- (d) A statement of all statutes, rules, agency decisions or other authorities which the petitioner believes may be relevant in disposing of the petition; and
- (e) A statement with supporting arguments and authorities of the petitioner's opinion of a proper disposition of the petition.

Sec. 48. NAC 361.109 is hereby amended as follows:

NAC 361.109 “Allocation method” defined. ([NRS 360.090](#), [360.250](#)) “Allocation method” means a method used to value land, in the absence of *a sufficient number of* sales of vacant land, by estimating, from sales of comparable improved properties, a typical ratio of land to total value and applying that ratio to the improved property being analyzed to determine the value that the land contributes to the total value of the property. *The method is also known as the land ratio method.*

Sec. 49. NAC 361.014 is hereby amended as follows:

NAC 361.014 ~~["Cost of replacement"]~~ **"Replacement cost new" defined.** ~~["Cost of replacement"]~~ **"Replacement Cost New"** means the ~~[estimated cost to construct an improvement with utility similar to the improvement being appraised, using modern materials and current standards, design and layout.]~~ *total cost of construction required to replace the subject improvement with a substitute of like or equal utility using current standards of materials and design. These costs include labor, materials, supervision, contractors' profit and overhead, architects' plans and specifications, sales taxes and insurance. Replacement cost new is based on the principle of substitution in which a property's market value tends to be set by the cost of acquiring an equally desirable and valuable substitute property, assuming that no costly delay is encountered in making the substitution.*

Sec. 50. NAC 361.016 is hereby amended as follows:

NAC 361.016 "Depreciation" defined. "Depreciation" means, except as otherwise provided in NAC 361.266, a loss in the value of ~~[real]~~ **improvements** or personal property from any cause.

Sec. 51. NAC 361.018 is hereby amended as follows.

NAC 361.018 "Improvements" defined. ~~["Improvement"]~~ **"Improvements"** means all ~~[appurtenances],~~ **buildings, fixtures and structures** erected upon or affixed to the land, including, without limitation, those improvements listed in paragraphs (a) and (b) of subsection 1 of NRS 361.035. *The term does not include:*

(a) Modifications to the character of the land itself whose contribution to the value of the land is not subject to wear and tear or exhaustion, such as, but not limited to, site preparation, excavation, and earthwork;

(a) Appurtenant rights that allow land to be put to use; and

(b) Off-site improvements.

Sec. 52. NAC 361.113 is hereby amended as follows:

NAC 361.113 “Improved land” defined. “Improved land” means land on which there ~~is~~**are** ~~an~~ improvements sufficient to allow the identification of or establish **current** actual use.

Sec. 53. NAC 361.122 is hereby amended to read as follows:

NAC 361.122 Improved land. ([NRS 360.090](#), [360.250](#), [361.227](#))

~~1.~~ If improved land is being put to a use ~~not~~ **that is:**

1. Consistent with the zoning of the land or with the general use of land in the surrounding area, the value of the improved land must be established ~~by considering the value of land that~~ *using comparable sales from a stratum or market area with similar zoning and location in accordance with NAC 361.118, section 8 of LCB File No. R166-07, or if appropriate, NAC 361.119; or*

2. Not consistent with the zoning of the land or with the general use of land in the surrounding area:

(a) *The value of the improved land must be established, in accordance with NAC 361.118 or section 8 of LCB File No. R166-07 or, if appropriate, NAC 361.119, by using comparable sales from a stratum or market area that:*

~~(a)~~ **I.** Is most comparable to the improved land;

~~(b)~~ **II.** Has the same or a similar use; and

~~(c)~~ **III.** Is affected by the same or similar restrictions.

~~2.~~ **3.** The area of land to be valued according to the use of the improvements is the area actually covered by the improvement, plus the surrounding area necessary to **support** the use of the improvement ***determined by its current zoning or other legally enforceable land use***

restrictions. Any ~~additional~~ *excess or surplus* land must be valued as if vacant *in accordance with NAC 361.118 or section 8 of LCB File No. R166-07 or, if appropriate, NAC 361.119.*

Sec. 54. NAC 361.127 is hereby amended to read as follows:

NAC 361.127 Improvement: Replacement. ([NRS 360.090](#), [360.250](#), [361.227](#), [361.229](#))

1. If the use or quality of an existing improvement is changed by a replacement, the county assessor shall revalue the improvement according to the new use or quality as of the time the replacement occurs.

2. Each county assessor who determines the percentage of the replacement made to an improvement:

(a) May use the “Breakdown of Base Cost by Percentage,” as published in the manuals of the Marshall and Swift Publication Company as they existed on ~~October 1~~ *JANUARY 1* of the year preceding the ~~current assessment year~~ *LIEN DATE*, if the Executive Director approves it for use by county assessors in determining the value of improvements, or other breakdowns of improvement costs adopted or approved annually by the Nevada Tax Commission.

(b) Must consider the total replacements made to an improvement which have been accumulated since its construction or the last computation of replacement if one has been made.

3. As used in this section, the term “replacement” includes items of remodeling or renovation which extend the useful life of an improvement, other than those items excluded by the provisions of NRS 361.229.

4. The Executive Director shall review the “Breakdown of Base Cost by Percentage” as soon as practicable after each manual is published to determine its suitability for use by county assessors. If he finds the manual to be suitable, the Executive Director shall approve its use and notify each county assessor of that approval.

Sec. 55. NAC 361.128 is hereby amended to read as follows:

NAC 361.128 Improvement and replacement of improvement: Determination of costs.

(NRS 360.090, 360.250, 361.227, 361.229)

1. ~~The cost of replacement of an improvement must include all costs for labor, materials, supervision, contractor's profit and overhead, architect's plans and specifications, sales taxes, and insurance~~ *Replacement cost new for improvements must be established using the standards and modifiers of local costs published in the Residential Cost Handbook, Marshall Valuation Service, or Residential Or Commercial Estimator software, as appropriate, published by Marshall And Swift, and adopted by reference in sections 24, 25, and 26, of this regulation, as they existed on January 1 of the year preceding the lien date.*

2. *Other computer programs for determining cost which are based on costs published by the Marshall And Swift publication company may be used with the prior approval of the executive director.*

3. ~~In determining the costs of an improvement, the county assessor shall:~~

~~—(a) For rural buildings, use the standards in the manual entitled Rural Building Costs adopted by the Commission.~~

~~—(b) For other improvements, use the standards in the cost manuals, including modifiers of local costs, published through or furnished by the Marshall and Swift Publication Company, as they existed on [October 1] of the year preceding the [closure of the roll for the appropriate assessment year] if the Executive Director approves it for use by county assessors in determining the costs of improvements. A computer program for determining cost furnished by the Marshall and Swift Publication Company may also be used. Other computer programs for determining~~

~~cost which are based on costs published by the Marshall and Swift Publication Company may be used with the prior approval of the Executive Director.]~~

Replacement cost new for farm buildings, sheds and other rustic structures may be calculated using the rural building cost manual adopted by the commission if the farm buildings, sheds and other rustic structures do not conform to a building code adopted by the local governing body; or are built with non-professional labor.

4. The replacement cost new for farm buildings, sheds and other rustic structures built with professional labor must be calculated:

(a) Using the standards and modifiers of local costs published in the Residential Cost Handbook, Marshall Valuation Service, or Residential or Commercial Estimator Software, as appropriate, published by Marshall and Swift; or

(b) If the Rural Building Manual is used, the costs therein must be adjusted upward 33%.

5. For purposes of this section, “non-professional labor” means work performed by persons who do not regularly perform construction work and do not earn a substantial portion of income as a licensed contractor.

6. If a person acts as a general contractor who would otherwise be considered “non-professional labor” and the actual construction is performed by a licensed contractor, the labor must be considered professional for purposes of subsection 3.

~~[3.]~~ 7. If the manuals described in subsection ~~[2]~~ *I* do not apply to improvements of a particular occupancy or construction type, the county assessor may apply to the Executive Director for permission to use alternative recognized cost manuals, cost determinations or subscription services. If the Executive Director finds that the manuals described in subsection ~~[2]~~ *I* do not apply to such improvements and that the alternative recognized cost manuals, cost

determinations or subscription services are suitable, the Executive Director shall, within 30 days after receiving an application pursuant to this subsection, approve the use of the alternative recognized cost manuals, cost determinations or subscription services and notify each county assessor of that approval. The Executive Director shall submit to the Commission annually a list of the alternative recognized cost manuals, cost determinations and subscription services that the Executive Director has approved for use.

~~[4.]~~ 8. The Executive Director shall review the standards and modifiers published or furnished by the Marshall and Swift Publication Company as soon as practicable after they become available, to determine their suitability for use by county assessors. If he finds it to be suitable, the Executive Director shall approve the use of the standard or modifier and notify each county assessor of that approval.

Sec. 56. NAC 361.154 is hereby amended to read as follows:

NAC 361.154 Assessment roll: Filing; order of entries. ([NRS 360.090](#), [360.250](#), [361.390](#))

1. The assessment roll filed with the Secretary of the State Board of Equalization must include:

- (a) The parcel number of each property;
- (b) The name of the owner of each property;
- (c) A *land use* code for each property designating its *current actual or authorized use*

~~[category]~~ as prescribed by the Department;

(d) The year of the last physical reappraisal of each property at which time the taxable value of the property was determined; and

- (e) The assessed value of the land, improvements and personal property, separately stated.

2. When feasible and appropriate, the entries on the assessment roll must be in order by parcel number, not alphabetically by the name of the owner.

3. The land use code prescribed by the department, at a minimum, shall contain the following primary categories: vacant land, single family residential land, multi-residential land, commercial land, industrial land, rural land, and utilities.

4. The land use code prescribed by the department may contain secondary categories for each primary category.

5. The department will annually publish a list of land use codes that must be used by each county assessor on the assessment roll filed pursuant to subsection(1)(c) of this regulation and any other reports requiring the use of a land use code. The department will consider the recommendations of any county assessor with regard to changes in the land use code. If a recommendation is denied, the department will inform all county assessors as to the reasons for the denial.

Sec. 57. 1. Sections 42, 43, 44, 45, and 46 are effective upon adoption.

2. All other sections are effective beginning with the 2012-2013 tax year.