

MINUTES OF THE JULY 7, 2022
MEETING OF THE
JOINT INTERIM STANDING COMMITTEE ON REVENUE

Chair Dina Neal called a meeting of the Joint Interim Standing Committee on Revenue (created by Assembly Bill 443 [2021 Legislative Session]) to order at 1:04 p.m. on July 7, 2022, in Room 4401 of the Grant Sawyer Building, 555 East Washington Avenue, Las Vegas, Nevada. The meeting was videoconferenced to Room 4100 of the Legislative Building, 401 South Carson Street, Carson City, Nevada.

COMMITTEE MEMBERS PRESENT:

Senator Dina Neal, Chair
Assemblywoman Lesley Cohen, Vice Chair
Senator Moises Denis
Senator Heidi Seevers Gansert for Senator Don Tatro
Assemblywoman Natha Anderson
Assemblywoman Venicia Considine
Assemblyman Gregory Hafen II
Assemblywoman Heidi Kasama

COMMITTEE MEMBERS ABSENT:

Senator Don Tatro

LEGISLATIVE COUNSEL BUREAU STAFF PRESENT:

Russell Guindon, Chief Principal Deputy Fiscal Analyst, Fiscal Analysis Division
Michael Nakamoto, Chief Principal Deputy Fiscal Analyst, Fiscal Analysis Division
Joe Reel, Deputy Fiscal Analyst, Fiscal Analysis Division
Anna Freeman, Committee Secretary, Fiscal Analysis Division

EXHIBITS:

[Exhibit A:](#) Meeting Packet
[Exhibit B:](#) Agenda Item V - Presentation on Property Taxes. Assessors
[Exhibit C:](#) Agenda Item VI - Potential Options to Generate Additional Funding from Commission on School Funding
[Exhibit D:](#) Agenda Item VII - Property Tax Rates for FY 2023 - Detail by Entity and Tax District Table
[Exhibit E:](#) Agenda Item VII - Property Tax Rates for FY 2023 - Summary Table
[Exhibit F:](#) Actual Property Tax Partial Abatement Cap Factors by County - FY 2006 to FY 2023_REVISED
[Exhibit G:](#) Public Comment - Chris Daly, Nevada State Education Association
[Exhibit H:](#) Public Comment - Kent Ervin, Nevada Faculty Alliance

I. ROLL CALL.

MICHAEL NAKAMOTO, Chief Deputy Fiscal Analyst, Fiscal Analysis Division, Legislative Counsel Bureau (LCB) called roll. All members were present except for Senator Tatro, who was excused.

II. OPENING REMARKS.

CHAIR NEAL provided housekeeping remarks.

III. PUBLIC COMMENT.

CHRIS DALY (Nevada State Education Association) provided public comment for the record ([Exhibit G](#)).

The Nevada State Education Association (NSEA) has been the voice of Nevada educators for over 120 years.

In 2019, hundreds of educators rallied in red in front of the legislative building calling attention to Nevada's woefully underfunded schools, 47th in per-pupil funding at the time. During that session, the NSEA called for new revenue, but Democratic majorities took that off the table. The NSEA supported SJR14 to fix Nevada's property tax structure in 2017. However, it failed to even get a hearing in 2019.

Instead, the legislature passed Senate Bill (S.B.) 543, a new school funding formula with no new revenue. Senate Bill 543 created the Commission on School Funding and charged it with recommending funding targets and identifying revenues to fully fund Nevada schools. In April 2021, the Commission published their *Preliminary Recommendations Regarding Optimal Funding*, proposing to reach "adequate" funding by increasing education investment by \$2 billion per year within the next ten years.

During the special sessions and in 2021, with Nevada dropping to 48th in per-pupil funding, hundreds of educators rallied again and again for new revenue. We supported a bold mining tax proposal in AJR1, several property tax bills, and Senator Neal's S.B. 346 to establish parity for digital goods. Property tax reforms and the digital goods tax were buried. AJR1 failed to even get a hearing, while a back-room deal was cut with mining. Meanwhile, legislators lauded record education funding, as they attempted to cover up the fact that per-pupil funding actually decreased in 2021.

Today, you will hear a presentation from the Commission on School Funding's Chair Guy Hobbs on potential options to generate additional funding from property taxes for K-12 education. Hopefully, you will soon also hear of the Commission's proposal to expand the sales tax to certain services and digital goods. The NSEA has closely followed the work and believes the Commission is sincere in its efforts to raise new revenue. Unfortunately, you may also see political advertisements from the campaigns of both candidates for Governor with the slogan "no new taxes." If recommendations for new revenue are up against a "no new taxes" pledge, then it is unclear why the Commission has been earnestly working on this issue for almost 3 years.

Nevada educators are increasingly frustrated and have been leaving in record numbers. We will no longer tolerate political games and misdirection. Adequate funding for schools is long overdue. Unless state leaders make serious progress, things—unfortunately—

will only continue to get worse.

KENT ERVIN (Nevada Faculty Alliance) provided public comment for the record ([Exhibit H](#)). Under Agenda Item VI, you are scheduled to hear from the Commission on School Funding on various revenue options to fund K-12 education. If Nevada is to fund K-12 education at an optimal or even just an adequate level under the Per-Pupil Funding Plan—without decimating the rest of state government, including higher education—state revenue sources must be broadened and made more stable, regardless of the economic cycle.

Our economist colleagues tell us that the best taxes are low and broadly applied, reducing the pain for any individual transaction, but covering all sectors of the economy.

Currently, only one third of expenditures by the public in Nevada are covered by the sales tax. Broadening the sales tax base would be more fair and more stable. If the sales tax base was expanded to all of the currently exempt categories, it would bring in billions in revenue.

Does it make any sense to tax physical books but not e-books? Is it fair to tax a factory-rebuilt transmission installed in your auto, but not tax the labor for rebuilding your current transmission? Those should be easy decisions but limiting the expansion of the base to just a few categories like digital goods or auto repairs is still targeting relatively small sectors of the overall economy. Including most all services and goods currently exempted could even allow reducing the overall sales tax rate while increasing revenue. Even exempting non-discretionary items usually means also exempting luxury items within those categories, so people who can afford luxuries are not paying their fair share. It could be more efficient and beneficial to broaden the sales tax base but provide subsidies to those in need or else to give back a per-person rebate to make the sales tax less regressive.

You are also hearing today about our peculiar property tax system in Nevada, which creates extra volatility with market cycles because of asymmetric caps, disparities between owners of older homes and owners of new homes due to depreciating buildings, and loopholes for certain large commercial properties. Modernizing the property tax system will also lead to more stable revenues and a fairer tax system.

This committee has the ability to offer bill draft requests to move forward on modernization and rationalization of the Nevada tax system. Please do not kick the can down the road.

IV. APPROVAL OF THE MINUTES OF THE APRIL 20, 2022, MEETING.

ASSEMBLYWOMAN KASAMA MOVED TO APPROVE THE MINUTES OF THE APRIL 20, 2022, MEETING.

VICE CHAIR COHEN SECONDED THE MOTION.

THE MOTION PASSED UNANIMOUSLY.

V. PRESENTATION ON PROPERTY TAXES.

BRIANA JOHNSON (Assessor, Clark County Assessor's Office):

Assessors are required by Nevada law to discover, list, and value all real and personal property within a county for tax purposes (page 2, [Exhibit B](#)). Property tax is governed by *Nevada Revised Statutes* (NRS) 361 and *Nevada Administrative Code* (NAC) 361. Assessors do not make laws but follow the laws and codes in the NRS and NAC.

The secured roll lien date is July 1. Assessors work by fiscal year, meaning July 1, 2021, through June 30, 2022, is fiscal year (FY) 2022 (page 4, [Exhibit B](#)). The unsecured—personal property—roll lien date starts May 1 and closes on April 30, having the same lien date of July 1 and fiscal year as the secured roll.

The statute that governs how assessors determine value is NRS 361.227 (page 5, [Exhibit B](#)). By law, market value may not be exceeded. Vacant land is valued at full cash value. Sales are tracked throughout the year to determine land values and the value of improved land is consistent with the use to which the improvements are being put.

Nevada uses the replacement cost from the Marshall and Swift manual less any applicable depreciation and obsolescence (page 5, [Exhibit B](#)). The calculated depreciation rate is 1.5% per year up to 50 years, with a maximum depreciation of 75%. Land value is based on market by tracking sales (page 6, [Exhibit B](#)). Improvement value is referred to as replacement cost new less depreciation, if applicable. Depreciation does not apply to improvements in the first year they are put onto the tax roll. The land value plus the improvement value equals the total taxable value of a property. The total taxable value is used to test values against the market to ensure that market value is not exceeded. If market value is exceeded, obsolescence is added to the parcels so that the value does not exceed market value.

Once the taxable value has been found and it has been verified that market value has not been exceeded, the taxable value is multiplied by an assessment ratio of 0.35 to find the assessed value (page 7, [Exhibit B](#)). The assessed value times the tax rate equals the taxes as assessed. There are approximately 120 different tax rates in Clark County. Taxes are not calculated based on taxable value, they are calculated based on 35% of the taxable value, which is the assessed value. For example, if the taxable value of a property is \$250,000, and this amount is multiplied by the assessment ratio, it results in an assessed value of \$87,500. That \$87,500 is then sent to the county treasurer, which calculates taxes. The treasurer applies the tax rate to determine the taxes. In this case, the taxes for a home with a taxable value of \$250,000 equates to a tax bill of \$2,868.43, based on the assessed value of \$87,500 and a tax rate of 3.2782 per \$100 of assessed value before any partial abatements are applied.

Residential tax cap abatements can be on owner-occupied properties, or property rented at or below Housing and Urban Development (HUD) rates (page 9, [Exhibit B](#)). That tax

cap is 3%. There is also a tax cap abatement for all other property types, sometimes referred to as the secondary tax cap. That tax cap ranges from 0% to 8%; it changes. Assessors receive the secondary tax cap rate from the Department of Taxation after it has been calculated. There are also economic development abatements and energy abatements.

The tax abatement statutes can be found in NRS 361.471 through NRS 361.4735 (page 10, [Exhibit B](#)). The tax cap, effective FY 2006, limits the amount that property taxes can increase from one year to the next. It is not a cap on value; properties continue to be valued according to NRS 361.227. The cap is not on value; it is on taxes. However, new construction or new value added to the tax roll is not eligible for the tax cap until the following year. A new home is not subject to the tax cap the year it is built and added to the tax roll because the first year sets the base amount; every year after that, it is eligible.

County assessors administer property tax cap abatements pursuant to NRS 361.4722, NRS 361.4723, and NRS 361.4724 (page 11, [Exhibit B](#)).

Property tax cap abatements limit the amount that taxes can increase each year to:

- 3% on primary residences.
- 3% on residential dwellings within the HUD rental rates.
- No more than 8% for all other property types.

Page 12 shows a sample of the property tax calculation ([Exhibit B](#)). Assessors calculate property value, and the treasurer calculates tax rates for residential properties. Assessors do not calculate taxes, but this slide has been included to demonstrate how the tax cap works. In year 1, the assessors placed a land value on this parcel of \$64,000. There is an improvement value of \$186,000. Because it is a first-year build, there is no depreciation. The total taxable value of this property is \$250,000. The assessment ratio of 35% is then applied to get the assessed value of \$87,500. The treasurer will then multiply that \$87,500 by the tax rate divided by 100 to get taxes as assessed. The first year, on a new home—because they are not subject to the tax cap—the taxes are considered taxes as assessed.

In year 2, the hypothetical land value has gone up to \$80,000. The improvement value has increased from \$186,000 to \$208,000. Now that it is year 2, the 1.5% depreciation applies. Land value plus improvement value minus depreciation comes to a total taxable value of \$284,880. After multiplying by the 35% assessment ratio, this produces an assessed value of \$99,708. The assessor sends that number to the county treasurer. The treasurer first must calculate taxes as assessed, which comes to \$3,268.63. The treasurer must also recall the taxes paid the previous year: \$2,868.43.

If it is a primary residence and the tax cap is 3%, the amount paid last year is then multiplied by 1.03, which comes to \$2,954.48. The treasurer then looks to see if the taxes as assessed, or the capped taxes primary, is lower. In this case, the property owner in year 2 would receive a tax bill of \$2,954.48 because of the tax cap in place. If it is not a

primary residence, the \$2,868.43 from last year is multiplied by the FY 2022 cap rate of 1.077 to get \$3,060.61. Again, the treasurer will check whether taxes as assessed, or the capped taxes are lower; the lower of the two must be used. Subtracting the taxes as assessed from the capped taxes equals the tax cap abatement, or the savings.

Page 13 shows Clark County historical tax cap rates ([Exhibit B](#)). In FY 2006, when it began, through FY 2011, the 3% and 8% rates were consistent. The Department of Taxation determines the tax cap rate as two times the consumer price index (CPI) or a ten-year rolling average of the assessed values for all Nevada counties. As values started to lower, the Department of Taxation adjusted the secondary tax cap. The most shocking year was FY 2017 when the primary tax cap and the secondary tax cap were both 0.2%. As the market grew, the tax cap for the other property type increased again.

CHAIR NEAL:

What were the circumstances around FY 2017?

DAVID DAWLEY (Assessor, Carson City Assessor's Office):

Those years were based on the CPI times two. The CPI increase was only 0.1%. In most Nevada counties, there was a negative ten-year rolling average, so the two times the increase in the CPI rule was used to determine the partial abatement cap.

MS. JOHNSON:

Each county can vary. Historical tax cap rates for Storey County stayed at 3% and 8% for much longer than Clark County (page 14, [Exhibit B](#)). Even in FY 2017, Storey County was capped at 2.9% when Clark County was at 0.2%. Washoe County was also at 0.2% in FY 2017 (page 15, [Exhibit B](#)). Things are starting to pick up for Washoe: for FY 2022, it was 3% and 6.3%. Not all counties mirror each other in the primary or secondary tax caps due to differences in property values and how the Department of Taxation determines the rate for each county.

Economic development abatements are administered by the Governor's Office of Economic Development (GOED) (page 16, [Exhibit B](#)) and allow a partial abatement of up to 50% of taxes imposed on personal property for one to ten years. The partial abatement is for new and expanded businesses which make a significant capital investment based on the population of the county or city where they will be located.

Energy abatements are administered by the Governor's Office of Energy, which informs assessors of who qualifies (page 17, [Exhibit B](#)). These energy abatements are pursuant to NRS 701A and allow for partial abatement of certain property taxes for certain buildings and structures which meet energy efficient standards. On July 1, 2021, the Green Building Tax Abatement program was discontinued, but there are still ten years remaining for projects that were approved for FY 2023. The Governor's Office of Energy informs the assessors what properties have met eligibility requirements to receive these abatements and the assessors apply the abatement as instructed.

Page 18 shows examples of taxable values for certain energy and economic development abatements by county ([Exhibit B](#)). In FY 2022, Storey County had approximately \$6.9 billion, Washoe County had approximately \$57 million, and Clark County had approximately \$7.7 billion in taxable value of energy and economic abatements.

New value outside of the tax cap was demonstrated (page 12, [Exhibit B](#)) which showed that the property in year 1 did not receive any tax cap abatement because it was new to the tax roll. Value that is added outside of the tax cap—new to the tax roll—is taxed based on value as assessed to set the base for the first year pursuant to NRS 361.4722, NRS 361.4723, NRS 361.4724, and NAC 361.6035. New values include new construction, new subdivision parcels, new personal property accounts, and personal property assets added to the tax roll for the first time.

Page 20 shows the new value outside the tax cap by county for FY 2022 ([Exhibit B](#)):

- Storey County approximately \$1.58 billion.
- Washoe County approximately \$3.3 billion.
- Clark County approximately \$13.6 billion.

This is all new revenue not subject to the tax cap; it is taxes as assessed. That value multiplied by the tax rate will give the amount of taxes due.

CHAIR NEAL:

Will new parcels added to a property in year 2 be subject to an abatement?

Ms. JOHNSON:

Yes, that is correct.

A surviving spouse, the blind, veterans, disabled veterans, and lodges and other charitable organizations are entitled to partial exemptions which reduce total taxable value (page 22, [Exhibit B](#)).

There are full exemptions for properties as shown on (page 23, [Exhibit B](#)). These include:

- State lands.
- Political subdivisions of state.
- School districts and charter schools.
- Pollution control.
- Qualifying low-income housing projects.
- Churches and chapels.

ASSEMBLYWOMAN KASAMA:

When someone gets a permit to make an addition to a home, is that new portion of the house outside of the tax cap for the first year?

Ms. JOHNSON:

Yes, it is. A pool, patio, or any other addition will be outside of the tax cap when it is first added to the tax roll.

ASSEMBLYWOMAN CONSIDINE:

How does one prove that a property is being rented at or below the HUD rate to qualify for the lower tax rate?

Ms. JOHNSON:

When a property sells, the Clark County Assessor's Office sends a card to the property owner. If the box is checked indicating that the property is a rental, the office will send an affidavit. The affidavit shows the number of bedrooms and the price of rent. When the affidavit has been signed, dated, and sent back, the office reviews whether it falls within the HUD guidelines.

ASSEMBLYWOMAN CONSIDINE:

Is a property owner required to sign an affidavit every year or only when the property sells?

Ms. JOHNSON:

The property owner must sign an affidavit every year because the HUD rates change annually.

ASSEMBLYWOMAN CONSIDINE:

Every year the land and improvements are reviewed, and depreciation is taken from the total. A house built in 1985 with the same owner until it is sold in 2019 will have corresponding tax calculations done annually. After the land and improvements are reviewed, the depreciation value is taken from the total value of the property. Is the tax cap calculated from the amount at which the house is sold, or is it calculated based on the land and improvements value from being built in 1985?

Ms. JOHNSON:

The tax cap stays with the property. Even with depreciation on the property, the value of the land would have increased. Over time, the taxable value may have increased but the tax cap stays with the property. The value of that home in today's market is likely significantly more than in 1985. However, the taxes are still capped based on the previous year. Purchasing an older property will not start over with a new tax bill at the assessed amount. The property tax cap from the previous owner will remain with the property for the new owner.

MR. DAWLEY:

To clarify: depreciation is only on structures, not on land. Land is not depreciable. Assessors do not re-base any abatements or depreciation upon the sale of a property.

ASSEMBLYMAN HAFEN:

On the charts for FY 2017 and FY 2018, the primary tax abatements were below 3% even as home values were increasing by 7% to 8%. Please tell the Committee about the history of how the two-times the CPI came about in relation to the 3%.

MR. DAWLEY:

Nevada law states that each year, to determine the alternative cap, the Department of Taxation must look at the ten-year rolling average for each county then compare that rate to the increase in the CPI times two; whichever is higher is the number which is then compared to 8% and the lower of those number is used. In FY 2017, for Carson City, there was a negative ten-year rolling average, so the CPI rate times two was compared to the 8%. The CPI times two was 0.2%, which is less than the 8% limit so the CPI rate times two was used. Because that was done for the alternative capped properties, it also had to be done for the single-family owner-occupied properties. At that point, every property in Carson City was capped at 0.2%. The residential rate is statutorily limited from going above the commercial rate.

RUSSELL GUINDON (Chief Principal Deputy Fiscal Analyst, Fiscal Analysis Division, LCB):
To clarify: the ten-year rolling average used involves growth in assessed property value for the county as a whole. There has been reporting that may lead people to believe that it is based on the ten-year rolling average of the assessed value of an individual property, which is not the case. The ten-year rolling average of growth in assessed value for the county is then compared to two-times the CPI rate, with 0% as the floor and 8% as the ceiling.

ASSEMBLYMAN HAFEN:

For the renewable energy abatements, the Governor's Office of Energy decides the rates. What were the rates last year? Also, what are the tax abatements currently being given to renewable energy fields that are providing energy outside of Nevada?

JANA SEDDON (Assessor, Storey County Assessor's Office):

Renewable energy is not separated from the abatement totals. I believe there are two renewable energy abatements in Storey County, currently at 50%. These apply to real property and personal property, whereas many Governor's Office of Energy abatements only apply to personal property. Renewable energy abatements apply to real property and personal property.

Unfortunately, assessors may not be privy to information regarding whether properties exporting renewable energy outside of the state are eligible for these abatements.

MR. DAWLEY:

That would be a question for the Governor's Office of Energy.

ASSEMBLYWOMAN COHEN:

This year seems to be the first time the public has been vocal about the 3% cap and there was some misinformation. Could you tell the Committee what homeowners can do to ensure the cap is applied to their primary residence?

MS. JOHNSON:

The Clark County Assessor's Office annually notifies the public about tax caps via social media, mails property tax cap cards to new homeowners, and provides a website for existing homeowners to check their tax cap status. Tax bills mailed annually by the county treasurer also include a notice to contact the Assessor's Office if a primary residence is not receiving the 3% tax cap rate. I believe there was misinformation giving the public the idea that the tax cap rate could not be changed later if it had been recorded incorrectly, which is untrue. There was also confusion between assessed value versus taxes due. A false deadline was also given, which created a frenzy in a short amount of time. The tax cap has been in place since FY 2006, and the Assessor's Office initially sent notifications annually. The treasurer sends notifications annually on tax bills so there was no reason for both the treasurer and the Assessor's Office to duplicate efforts to send out the same notices when, ultimately, the tax cap lies with the treasurer. The Assessor's Office is just the administrator; the Office of the State Treasurer calculates taxes.

MR. DAWLEY:

In both 2005 and 2006, the Carson City Assessor's Office sent out owner-occupancy verification cards to every property owner. There are approximately 20,000 parcels in Carson City. For properties reported as being owner-occupied for the previous two years, the office stopped sending cards until a change of address or sale of property prompted sending additional cards to figure out what was going on with the property. Each year in Nevada, an assessor's office is required to send out assessment notices in November or December; the Carson City Assessor's Office sends the notices in November. On the assessment notice, it says whether the property is receiving the 3% cap or if it is categorized as a rental property. This process has worked well in Carson City. Last week, when Clark County had misinformation spread, the Carson City Assessor's Office was bombarded with calls, many from Clark County residents.

MS. JOHNSON:

Clark County does the same thing: once a property has been listed as a primary residence, only ownership changes or changes on the property prompt sending additional cards. If a property is at the 3% cap and no changes have been made to the property, the 3% tax cap stays with the property.

Carson City has approximately 20,000 parcels; Clark County has approximately 800,000. Because there are so many sales and transactions, when the Clark County Assessor's Office sends out notice of value cards in December, tax cap information is not included. Many properties have been purchased after the lien date. Staff do not want a new property owner to think they are automatically receiving the 3% rate because that is subject to change. The new owner will receive a notice requesting the needed information to determine which tax cap rate applies.

ASSEMBLYWOMAN ANDERSON:

It was mentioned that there are 120 tax rates in Clark County. How are all these tax rates set?

Ms. JOHNSON:

Those are set by the Department of Taxation.

MR. GUINDON:

The combined tax rate—the sum of all individual rates imposed on a property depending on the tax district in which it is located—varies greatly. Some rates are fixed and set by statute, such as the \$0.75 rate for the funding of schools and the \$0.17 state debt rate. Some are imposed by local governments—counties, cities, and towns—based on their statutory authority to set rates. Other rates are imposed by local governments or special districts based on other authority in law to do so. All that information comes to the Department of Taxation to ensure that the maximum \$3.66 rate that may be imposed in Nevada is not surpassed.

ASSEMBLYWOMAN ANDERSON:

The tax cap can have a large impact on local governments. The cap is in statute; is there a designated floor?

Ms. JOHNSON:

No, there is no floor at this time. As seen in the presentation of historical tax caps, the lack of a floor allowed the 0.2% rate in FY 2017.

MR. GUINDON:

Technically, the floor is 0%. That comes through the calculation of the alternative partial abatement cap, which can range between 0% and 8%. Although unlikely, if there were a deflationary period with negative CPI rates and a negative ten-year average growth of assessed value, 0% would be the floor for the alternative partial abatement cap. The alternative cap must not be higher than the primary cap, so if the partial abatement cap were 0%, the rate for owner-occupied single-family homes and qualified rentals would also receive a 0% cap.

ASSEMBLYWOMAN ANDERSON:

Please explain more about the new value outside of the tax cap by county (page 20, [Exhibit B](#)).

Ms. JOHNSON:

Those numbers represent new revenue that is not subject to the tax cap. All existing value is capped in some manner at 3% up to 8%. What is shown on page 20 ([Exhibit B](#)) is truly new revenue added to the tax roll outside of those caps.

MR. DAWLEY:

In Carson City, the tax rate is \$3.57 per \$100 of assessed valuation. For example: if the \$1.585 billion of new value from Storey County in FY 2022 were multiplied by 35% before

then being multiplied by the tax rate, this would be approximately \$2 million of new tax revenue outside of the cap for the first year.

Ms. SEDDON:

This is new revenue outside of the tax cap. However, for Storey County, the vast majority of this new revenue is from the industrial park. Unfortunately, much of this gets abated. These are the taxable values, but abatements are applied on the treasurer's side of things. The vast majority of this value will be subject to GOED abatements.

SENATOR SEEVERS GANSERT:

Assemblyman Hafen asked about the energy facilities and whether that production had to stay within the state. I would like to request follow-up information on that. If an abatement is given to a facility producing renewable energy, does it only qualify if all the energy stays within Nevada?

ANDY HEISER (Assessor, Humboldt County Assessor's Office):

Solar plants need to tie into the grid, so most of the energy produced will likely be purchased by NV Energy, which could then potentially be sold out of state.

SENATOR SEEVERS GANSERT:

Energy gets connected to the transmission system and is sent to different places, but the company can differentiate between the sources from which the energy was produced. That is why there are individuals and companies that can buy renewable energy if they choose. It is important to look at the statute. I scanned through it and could not find any requirements that renewable energy must stay within the state. I would like the Legal Division to follow up.

SENATOR DENIS:

Regarding the discussion of misinformation around the abatement cap; is there a deadline to receive the cap? Is it retroactive or does it apply to the next year?

Ms. JOHNSON:

Changes can be filed at any time for the current year. The deadline is June 30th—the end of the fiscal year—for the previous tax year. When taxpayers receive their tax bills in December, if the tax cap percentage is incorrect, they can call their assessor's office and it will be corrected. The county treasurer would then be notified, and the taxpayer would receive a revised bill.

MR. DAWLEY:

To clarify: changes only affect the current fiscal year. If a taxpayer reported an incorrect tax cap three years ago, that tax cap would not be changed. Only the current year can be corrected.

SENATOR DENIS:

If someone reported an incorrect tax cap today in July, would it be applied retroactively?

MR. DAWLEY:

Yes. If someone who had been taxed at the higher cap sent in a card today, the assessor's office would notify the treasurer who would send out a new, adjusted bill to reflect a 3% tax cap for the current year.

SENATOR DENIS:

Taxpayers are notified of their tax cap rate on their tax bills. Social media was also mentioned—many of my constituents do not utilize social media.

If someone owns a multifamily home and resides in one of the units, how does that affect the tax cap rate?

MR. DAWLEY:

The portion that is owner occupied would get the 3% rate. The questionnaire would be sent out for the second unit if, hypothetically, it is a duplex. If the second unit were not rented under the fair market rental rate set by HUD, that unit would be capped at the higher rate, and there would be a bifurcated property tax cap.

SENATOR DENIS:

Is that consistent throughout all Nevada counties?

MS. JOHNSON:

Yes, it is.

ASSEMBLYWOMAN KASAMA:

With the recent confusion surrounding tax abatements, the assessors have provided clarifying information. It could be emphasized that the county treasurers' websites have tax abatement information regarding the different property types listed under property characteristics for each parcel.

I also want to comment on the abatements that the Office of the Governor provides. The abatements are based on the value that companies are bringing into a county and are not for just one commercial building or industrial site. Abatements are granted to these entities because of all the additional economic benefits they are bringing to the area. Additional housing is created and taxed, and sales tax is brought in. The Office of the Governor does a complete overview of the total economic value before considering granting an abatement.

CHAIR NEAL:

Regarding the mention of NRS 361.0687 and the period of 10 years for abatements: the economic development statute also allows extensions, which could turn these into 20-year abatements. How does that work from an assessor's standpoint when a 10-year abatement becomes a 20-year abatement?

Ms. SEDDON:

An extension does not apply to the same assets to which the original abatement applied. Extensions are given for expansions to a site, almost like a new abatement on additional equipment.

Ms. JOHNSON:

To clarify and correct: when I spoke of different tax rates previously, the correct term would be tax districts. There are approximately 120 tax districts in Clark County, not tax rates.

JEFF MITCHELL (Deputy Director, Division of Local Government Services, Department of Taxation):

Page 26 shows some of the interaction between the county assessors, the various boards and commissions, and the other key players within the property tax system ([Exhibit A](#)). The Nevada Tax Commission is the head of the Department of Taxation, consisting of eight citizens appointed by the Governor; in addition, the Governor is a non-voting member. Each commissioner will serve an initial four-year term and can serve more than one term. The commission is designed to be a group of businesspeople, with various professional backgrounds, who will supervise the overall administration and operations of the Department of Taxation. The Tax Commission meets eight to ten times per year to hear appeals, review, and hold public hearings on regulations, and pursue other actions as necessary for the operation of the Department.

Page 27 lists the statutes and chapters of NRS that govern property tax ([Exhibit A](#)).

Within the department, the Division of Local Government Services deals with a variety of things. Focusing on property tax, these are areas the division handles:

- Valuating centrally assessed property—interstate or intercounty property such as railroads, airline companies, power companies, and gas companies.
- Valuating the net proceeds of minerals—determined by establishing the gross value of mineral or ore as sold less the expenses of mining as outlined by statute.
- Valuating all mining property in the state—much like the county assessors do for locally assessed property—these values are transmitted to the counties to collect.
- Overseeing the annual ratio study—department staff goes to assessors' offices to audit a sample of properties to ensure that valuation is done according to statute and regulation.
- Providing guidance to assessors.
- Reconciling Real Property Transfer Tax—a tax upon the sale of property.
- Reviewing all local government budgets.

- Carrying out performance audits on local governments, assessors, recorders, and county treasurers' offices to ensure policies and standards are consistent throughout the counties.
- Auditing the net proceeds of minerals.

There are approximately 20 publications developed annually by the department that are important to the property tax system (page 29, [Exhibit A](#)). These are all available on the Department of Taxation's website.

The relationship between the Division of Local Government Services and assessors is a requisite for a properly functioning property tax system. County assessors are required to file many reports with the division. The assessors' professionalism, expertise and responsiveness with these reports are critical.

A uniform and equal rate of assessment and taxation, valuation of property, and exceptions and exemptions are all under Section 1 of the Nevada Constitution, Article 10 (page 31, [Exhibit A](#)). The Legislature shall provide by law for a uniform and equal rate of assessment and shall prescribe such regulations as shall secure a just valuation for taxation of all property—real, personal, and possessory. This establishes what is taxed in Nevada and is further backed by statute.

Section 2 of Article 10 of the Nevada Constitution establishes the tax rate (page 32, [Exhibit A](#)). The total tax levy for all public purposes shall not exceed 5 cents on \$1, which is \$5 per \$100 of value. As mentioned in the assessors' presentation, the current statutory cap is \$3.66 per \$100 of value.

There are exceptions to the rule, but NRS 361.453 sets the cap at \$3.64 on each \$100 of assessed valuation (page 33, [Exhibit A](#)). The state debt rate allows 2 cents outside of that \$3.64 cap. Exceptions in NRS 354.705 deal with local government entities that may fall into severe financial emergency.

Another limitation is established in NRS 354.59811 (page 34, [Exhibit A](#)). Tax rates are submitted to the Department of Taxation to ensure that they qualify by statute before approval. One of the limitations is that, when applied to the current fiscal year's assessed valuation of all property on the preceding fiscal year's assessment roll, the rate must not exceed 106% of the maximum revenue allowable from taxes ad valorem for the preceding fiscal year. Local governments may face this revenue limitation when establishing rates. The Division of Local Government Services works with entities to ensure the proposed rate does not exceed the statutory rate established or 106% of revenue generation.

As mentioned in the previous presentation, all property subject to taxation must be assessed at 35% of its taxable value (page 35, [Exhibit A](#)). The taxable value is established and then the assessed value is 35% of that taxable value. How value is assessed is established in NRS 361.227: full cash value of land plus the replacement cost new with improvements less the statutorily defined depreciation.

As mentioned in the Nevada Constitution and in statute, all property is taxable but there are exceptions to the rule. These exceptions are referred to as exemptions or abatements.

Full exemption means that when value is established, no tax rate is applied to that value. A few examples are (page 38, [Exhibit A](#)):

- State lands.
- Business inventories and consumables.
- Household goods and furniture.
- Irrigation systems.
- Property used for pollution control.
- Qualifying low-income housing projects.
- Churches and chapels.

Partial exemptions do not apply to the full value of a property but instead apply to a certain percentage or fixed dollar amount (page 40, [Exhibit A](#)).

Appendix I of Nevada Property Tax: Elements and Applications and the Tax Expenditure Report released every two years—both easily found on the Department of Taxation’s website—include exemptions, abatements, and estimates of associated dollar amounts.

There is an important difference between exemptions and abatements (page 42, [Exhibit A](#)). Assessors establish the value of all property. Exemptions alter this assessed value. Abatements come later in the formula; abatements of taxes do not affect the valuation of the property.

Historically, the tax cap or property tax formula was simple: assessed valuation times the rate equaled the property taxes due. Now, an assessor must identify various aspects of that property and determine if it is:

- Rental property meeting HUD qualifications.
- New property.
- Annexed property in a different tax district.

A variety of property functions apply to the tax cap in different ways.

The tax cap factors by county for FY 2023 are listed on page 45 ([Exhibit A](#)). The moving average growth rate is a ten-year moving average of the change-over-change percentage of assessed valuation from the current year and the nine previous fiscal years. For example: the moving average growth rate in Carson City for FY 2023 was 5.7%. As mentioned, the CPI rate has been high, currently at 4.7% year-over-year change. Two times the CPI rate equals 9.4%. Of the moving average growth rate and two times the CPI rate, the greater number is compared to the general cap of 8%. The lesser of the greater of the average growth rate and two times the CPI rate, and the general cap, is used to establish the tax cap. Because two times the CPI rate equaled 9.4%, even in

Lander County which had a negative moving average growth rate, the general cap was established at 8% for this year.

Recapture is a function of the property tax abatement (page 46, [Exhibit A](#)). This includes situations where there is a surprise or drastic drop in valuation from one year to the next. If a property declines in value 15% or more from its taxable value in the second year, then recovers in the third year, there are provisions within statute and regulations that allow the recapture of that value so that it is not abated at the lower value in perpetuity.

ASSEMBLYWOMAN CONSIDINE:

Public schools and charter schools are both eligible for full exemptions. This makes sense for public school districts because they are government entities using government property. For charter schools, does this mean the property owner of wherever a charter school is located is exempt from property tax? For example: an out-of-state real estate firm may own an office building and lease a portion of that building to a charter school. Is that firm exempt from property tax on that building because there is a charter school there?

MR. MITCHELL:

If the property containing the charter school qualifies for the exemption, yes, it is exempt from property taxes.

ASSEMBLYWOMAN CONSIDINE:

Regarding Real Property Transfer Tax: are the annual reports from the Department of Taxation publicly available?

MR. MITCHELL:

Yes, they are available on the department's website. Under the Publications tab, there is a Local Government Services tab. There are quarterly reports on the reconciliation of the Real Property Transfer Tax as well as annual updates.

ASSEMBLYWOMAN CONSIDINE:

To learn more about that tax, people should look to local agencies rather than to the Department of Taxation, correct?

MR. MITCHELL:

That depends on the type of questions regarding the Real Property Transfer Tax. Some may be appropriate for the department, but many would likely be more appropriate for county recorders.

ASSEMBLYWOMAN ANDERSON:

You said that, if applicable, school district and charter school properties are exempt from property tax. Would the exemption apply to the percentage of a building being utilized as a school? How is that verified? Please give more information on how charter schools qualify for this exemption.

MR. MITCHELL:

That exemption is under NRS 361.065 which states all lots, buildings, and other school property owned by any legally created school district or charter school in the state which are devoted to public school purposes are exempt from taxation. The property would need to be devoted to public school purposes, so it would depend on how certain charter schools are established as to whether they would meet that criterion.

MR. DAWLEY:

There is a number of exemptions verified on a yearly basis; this is one of them. The property owner is responsible for applying for the exemption and the exemption only applies to the portion of the property occupied by the charter school. The rest of the building would be taxable. Each year, the assessor's office sends out a questionnaire asking what percentage of the building is occupied by the charter school—it often changes. Low-income housing is handled similarly; the assessor's office receives rent rolls every April to determine how many housing units within a property fall under the low-income requirements. Assessors verify that information annually.

ASSEMBLYWOMAN ANDERSON:

It was mentioned that the amount must not exceed \$3.64, but there is an addition of 2 cents. Could you explain that more?

MR. MITCHELL:

Of that \$3.64, a 15-cent rate is devoted to capital projects, referred to as the state debt rate. Outside of the \$3.64 limit, a 2-cent rate that must be authorized each legislative session is also part of the state debt rate.

There was no further discussion on this agenda item.

VI. PRESENTATION ON POTENTIAL OPTIONS TO GENERATE ADDITIONAL FUNDING FROM PROPERTY TAXES FOR K-12 EDUCATION BASED ON RECOMMENDATIONS FROM THE COMMISSION ON SCHOOL FUNDING.

GUY HOBBS (Chair, Commission on School Funding):

Senate Bill 543 (2019 Legislative Session) established the Commission on School Funding and defined its tasks and deliverables. The first task with which the Commission was charged was monitoring the implementation of the Pupil-Centered Funding Plan, which took approximately two years. This was a significant transformation in the way funds are allocated for education in Nevada. The Commission was also charged with identifying optimal funding for education in Nevada. Many people on the Commission come from the education world, some from other disciplines. One can imagine the ensuing discussion trying to define "optimal" and to apply a value to it. If optimal funding is identified, the Commission is to provide the State of Nevada with identification of funding sources that could achieve optimal funding over a ten-year period. The ten-year period is important to bear in mind because some of these numbers may seem stunning. The Commission brings forward these potential funding sources with a full

understanding of what it is talking about. It is uncomfortable to talk about taxes, modifying taxes, and creating new revenue; these are not popular topics of discussion.

In identifying optimal funding for education, robust discussions ensued but there was not widespread agreement on what is optimal. The Commission looked to see how education funding in Nevada lines up against other metrics. The chart on page 2 identifies where Nevada lies on a per-pupil spending basis ([Exhibit C](#)). Part of the Commission's objective was to nail down this number and compare it to the national average. The other metric used is the subject matter expert recommendation from Augenblick, Palaich, and Associates (APA) Consulting, which has done a lot of education consulting with the State of Nevada. This chart shows where Nevada currently is, where the state would need to go to achieve the national average, and—even beyond that—where it would need to go to achieve the APA recommended levels of funding. These metrics have been updated recently (page 3, [Exhibit C](#)). The numbers are largely the same in how they compare to each other, but all the numbers have grown. The updated values on the bottom of page 3 ([Exhibit C](#)) are currently used by the Commission.

Page 4 shows the projected funding per pupil for the next 10 years on an annual basis without intervention ([Exhibit C](#)). The lighter blue section on page 5 ([Exhibit C](#)) represents the amount of additional funding needed in each of those years to reach the national average by the tenth year. This shows a phased-in approach to reaching the objective; the national average would not be reached until the tenth year.

The chart on page 6 represents the incremental shortfall of funding Nevada would need to reach the national average ([Exhibit C](#)). These are the amounts from the light blue portion of the chart on page 5 quantified each year into the additional revenue needed to achieve the national average by the tenth year. Page 7 shows an aggregate of the yearly totals. In other words, to achieve the national average, there is a need for \$2.3 billion in additional funding by 2032. This is a significant and staggering amount of money.

To reach the subject matter experts recommended level of funding, the gap is larger (page 9, [Exhibit C](#)). The incremental shortfall is shown on page 10. The aggregate shortfall is \$3.2 billion by the tenth year to achieve the subject matter experts recommended level of funding (page 11). The Commission is looking at a funding need between \$2.3 billion and \$3.2 billion. Revenue sources are needed to fill these gaps to achieve the funding levels recommended by subject matter experts or the national average.

The funding levels set forth the targets at this point—using those values as a proxy for optimal funding. Many educators would likely say that optimal funding runs beyond the proxies the Commission is currently using. The Commission is tasked with looking at ways to fill this funding gap over a ten-year period and alternative revenue sources have been discussed at length. One of the first things to recognize is that Nevada's education system has traditionally been largely funded through property tax and sales tax. There is a 75-cent property tax rate devoted to education within each county. The Local School Support Tax (LSST) portion of the sales tax, under the Nevada Plan, was a local revenue

source within each county—now put into the State Education Fund. Other revenues that support education include the recently passed mining tax increase and a portion of the Room Tax that now goes into the State Education Fund, but a substantive portion of traditional education funding in Nevada has come from property and sales taxes. As demonstrated in the previous presentations, delving into the world of property tax is multifaceted and is often a considerable endeavor to fully understand.

The aggregate shortfall to achieve the national average does not include consideration of the value of the mining tax, which will go into the State Education Fund next biennium (page 7, [Exhibit C](#)). The estimated education revenue from the mining tax is approximately \$80 million per year. Looking at 2032, the ten-year accumulated value of the Mining tax would be approximately \$800 million. Deducting \$800 million from the total of \$2.3 billion still leaves \$1.5 billion to be funded over the ten-year period. Much of that gap is yet to be closed.

The Commission is statutorily set to end after September 2022 and is required to file a report at that time including the target amounts identified as well as different options the Legislature might consider for a ten-year funding plan to reach those targets. This resembles a case study in applying some of the principles from presentations and discussions here today.

There have been many changes in property taxes in Nevada since the tax shift in 1981 that laid much of the groundwork about which Mr. Mitchell spoke. There are not just caps on property tax bills but also caps on ad valorem revenue, which is essentially the tax rate which can be imposed by counties, cities, towns, and other local governments throughout the state. The statutory change in the combined tax rate referred to earlier—\$3.64 plus 2 cents—and the difference between taxable and assessed valuation are some of the many components that comprise property tax. There has been much discussion over the years of elements of the property tax system and how sensible they may be. For example: Nevada is the only state that uses a depreciation factor against the improvements to real property. When depreciation is applied against replacement value for improvements—which is what Nevada does—the resulting taxable valuation will not mimic market value.

Depreciation, rebasing taxable valuation upon the sale of a property, the method of valuation, and the \$3.66 cap have all been brought up over the years. Many counties are at the \$3.66 cap today and cannot increase or add property tax rates due to the cap. As Mr. Mitchell noted, the constitutional cap is \$5. In the early 1980s, it was \$5, not \$3.64 or \$3.66. All these components are worth a review but changing any of them would be problematic because of the abatements in place.

If the Legislature modified the state's approach to applied depreciation, that may bring Nevada more in line with the rest of the country in terms of property assessment. However, because of the abatement caps, it would not generate any additional revenue. Many states have changed their method of valuation, and there is economic rationale for doing so. However, with current abatements in place, it would not generate any additional revenue. The idea of raising the \$3.66 cap is a sensitive issue. Recently, ballot initiatives

with the intent to generate additional revenue have needed to be clear that proposed rates are outside of the abatement cap. The issue has become complex and constraining. Having worked around government tax and finance for many years, I understand how sensitive these topics are, but abatements are at the top of the food chain.

Little revenue movement can occur without dealing with abatements. In one sense, abatements are one's friends. The public has learned to embrace the topic of abatements due to the information recently shared regarding property tax abatements. However, there is a low level of public understanding around abatements and how they work. It has become a cumbersome and complex system that constrains revenue, which is where abatements depart from being one's friends. Tax rate maintenance for the taxpayer is hugely important; that is agreed upon. Abatements become one's enemies because they constrain the ability to generate additional revenue over time.

When abatements were originally proposed to the Legislature, they were not the only proposed way to control property taxes for individuals; changing the set tax rate was also an option. It cannot be known with certainty what counties and local governments would have done to adjust rates while assessed valuations spiked upward. However, having spent 15 years as Chief Financial Officer for Clark County, it is reasonable to say the rates would have been adjusted downward to compensate for the increase in assessed valuation. Rates would also be adjusted downward due to the maturity of debt. Abatements are not the only way to attack the problem. The fact remains that abatements act as a constraint against the ability to raise future revenue.

Regarding the 3% cap set for residential property tax growth rates: the initial proposal was more than 3%. This compromise implies presumption that 3% growth in residential property tax revenue would compensate for the growth in costs of services over time. In times like this, when price indexes are running 2.5 times higher than that, it is apparent that 3% growth in revenue does not always cover the rising costs of services. When the tax growth rate was capped at 0.2% in FY 2018, the cost of providing education and local government services definitely grew more than 0.2%.

To be transparent, the Commission is looking at what can be done to abatements over a ten-year period to allow for additional revenue growth without losing the good side—the capping mechanism on accrued abatements. The current level of accrued abatement statewide is over \$1 billion. If abatements were not applied, there could theoretically be that much additional revenue. However, that is accumulated over a period of time, it is not an annualized number. Modification of abatements is not a panacea for funding problems, but some revenue capacity likely lies in the reevaluation of abatements and how they accrue over time. The Commission is looking at the possibility of capping, phasing, or reducing combined property tax rates and absorbing a portion of that abatement to allow additional cap room under the \$3.66 cap. Mathematically, that will work. However, there may be challenges given that it may have differing impacts on different types of properties; that is being evaluated at this time.

There are a number of other facets of the property tax system to consider such as depreciation, combined rates, method of valuation, and the use of 35% of taxable value for assessed value. The Commission will look at these facets, but unless there is additional capacity provided within the abatement system, these other facets will not provide additional revenue or help with the current education funding issues.

The LSST portion of the sales tax is also a primary funder of education. The easy thing to do when looking at sales tax is to look at the rate; that has been done for many years. The sales tax rate in 1981—before the tax shift— was 3.5% in Nevada. Currently in Clark County, is it 8.35%. The rate has grown, but what has happened on the base side? This is the side on which the Commission continues to focus. The sales tax base has been narrowed over that same period, mostly by the addition of a number of exemptions that are encoded within the NRS. The economy has also shifted away from tangible goods sold at retail to nontangible items that are thus not taxable under the current sales tax regime in this state. The Commission is looking at the other areas of trade which effectively account for the 65% of the overall economy that is not taxable through the Sales and Use Tax as currently applied. It may be beneficial to look at extending some other form of excise tax to something in that remaining 65% of the economy.

One of the first things to come up in discussions of sales tax—and rightfully so—is regressivity. Under Nevada’s existing system, there are many explicit exemptions that exist to reduce regressivity. Food purchased in grocery stores, pharmaceuticals, and other items that are necessities of life are explicitly exempted to reduce regressivity. However, there may be items not currently sold at retail and not tangible—which is the definition of items to be taxed under current Nevada sales tax laws—that could be looked at as a revenue source without increasing regressivity. A book purchased in a store is taxed but an electronic book purchased online is not; they are essentially the same product. Often, fiscal systems are challenged to keep up with changes in technology. The Commission is looking at ways that the taxable base could be expanded and an excise tax applied. Simply including certain new transactions into the existing sales tax regime—which is not as simple as it sounds—would only provide a small amount of benefit to education. Only the LSST portion would go toward education. The Basic and Supplemental City/County Relief Tax, the state portion, and the other optional taxes would continue to go elsewhere. This would not be the best way to optimize the opportunity to enhance education funding. Another way to enhance education funding would be to apply a separate rate to some of the areas not taxed under the existing Sales and Use Tax regime, allowing for 100% of that to go to funding education. These are concepts on which the Commission is working; they are not formalized recommendations. However, there are three remaining meetings in which the Commission must finish the analytical work, create a report, and form recommendations for legislative consideration.

ASSEMBLYMAN HAFEN:

The calculations shown for per-pupil funding do not include the new mining tax and the projected numbers will increase by approximately \$800 million over the ten-year period, is that correct?

MR. HOBBS:

An addition of approximately \$800 million is the Commission's assumption at this point. It is correct that the numbers shown do not include the mining tax increase.

ASSEMBLYMAN HAFEN:

There has been conflicting information on where the state stands in the nation for per-pupil spending. What is Nevada's ranking?

MR. HOBBS:

The Guinn Center made a presentation to the Commission regarding all the various rankings. The best comparison is how Nevada lines up with the national average of funding. Nevada is certainly not at the higher end of funding on any sort of ranking basis.

Regarding the mining tax: if \$80 million were taken away from each funding shortfall for each year, the result would be the remaining value still needing to be funded to reach the national average by the tenth year (page 6, [Exhibit C](#)).

ASSEMBLYMAN HAFEN:

Using \$80 million per year for the mining tax revenue does not factor in any growth in the value of the mines or any CPI adjustment, correct?

MR. HOBBS:

The Commission has used an \$80 million average because mining taxes are highly volatile over time. It may be too optimistic to factor in a growth factor without also considering what a downturn may do to those taxes over time. There has been notable volatility over the years.

ASSEMBLYWOMAN KASAMA:

Looking at the 2021 per-pupil funding of \$9,742: is that strictly the state funding? There is also county and local municipality funding going toward education.

MR. HOBBS:

The local revenues that go toward supporting education are included in that value since they go through the state to be appropriated out to the school districts.

ASSEMBLYWOMAN ANDERSON:

There are significant abatements currently in place. Has there been discussion with county officials on how abatement changes will impact funding at the county level?

MR. HOBBS:

That is not part of the charge of the Commission. However, I have ongoing interactions with people at the local and state level about the types of things the Commission is considering. The Commission is staffed by the Department of Education, and the Office of the Attorney General has a staff member assigned as well. Having worked as the Chief Financial Officer of a large governmental entity in the state, I recognize that

changes in abatements or anything to do with the excise tax base could have broader impacts outside of education.

ASSEMBLYWOMAN ANDERSON:

Regarding the national average of per-pupil funding: many states are currently considering investing more in education. Do the projections reflect potential increases in education funding that other states are currently considering, or do they reflect what is currently in place and assumptions that things will continue in the same way?

MR. HOBBS:

The Commission anticipated that the national average would grow. A recommendation likely to be included in the Commission's report is to continue something similar to what the Commission is already doing and to update these values on an annual basis as they change. It is the Commission's best assessment of how the future might look. Many states are facing the same issues Nevada is.

SENATOR DENIS:

Creating the Commission was important in anticipation of the new funding formula as the Commission allows legislators to be aware of these issues and adjust. Previously, education funding was only discussed during the 120-day legislative session or during special studies. It is important to have this discussion to talk about what it costs to educate Nevada's children and some of the options to get funding to the necessary levels. The Commission is similar to the Economic Forum in that it allows legislators to see where the state is and where it needs to be. This report today has been beneficial in preparing for the upcoming legislative session. It is an important topic and there is not always opportunity to have these discussions.

SENATOR SEEVERS GANSERT:

There were many spending categories such as transportation, disabilities, and textbooks under the previous basic support number. Some educational funding such as transportation is still outside of the new Pupil-Centered Funding Plan. Is transportation spending included in the per-pupil spending amounts in the presentation today? Also, when looking at funding for traditional public schools versus charter schools, there is funding spent on capital that may not be included. For example, charter schools do not receive transportation or construction funding.

When looking at LSST from an operational standpoint, it is included. However, the funds going toward construction may not be included. Are there funds outside of the Pupil-Centered Funding Plan on an individual basis that are different for regular schools versus charter schools? Are there capital funds anywhere in the numbers presented? Capital funds are locally derived, but they are not operating expenses. In comparing funding year to year, it is important to line up the different funding formulas as much as possible.

MR. HOBBS:

That is something with which the Commission contended in comparing Nevada's per-pupil spending to the national average and to the subject matter expert recommended level. The Commission wanted to ensure those amounts were all on a parity basis and it believes that they are.

Capital is significantly different between school districts around the state. The numbers displayed today do not include capital. This presents a separate challenge, particularly in those counties that have the combined \$3.66 cap rate constraining their ability to present ballot initiatives. That is quite problematic for some of Nevada's smaller school districts. On the other hand, Clark County has a 55-cent debt rate approved by voters to be locked in over time for capital. That does not put them on a parity basis—and that is within the state.

The comparison shown between the national average and Nevada's per-pupil spending is on a parity basis exclusive of capital. Some states also have grant funding that is not reflected in these numbers.

SENATOR SEEVERS GANSERT:

Clarifying that capital expenses are not included in these amounts is helpful. Capital is a large local contribution. Operating expenses and capital funds are separate. Is funding for transportation and disability services included in the Pupil-Centered Funding Plan? Do the amounts shown for per-pupil spending include funds outside of the Pupil-Centered Funding Plan?

MR. HOBBS:

The weighted categories such as services for English-Language Learners, Special Education, Gifted and Talented Education, and Students at Risk are all included and are on a parity basis with the comparison to the national average and the recommended levels of funding.

Hopefully if recommendations were presented, legislators would ask: if Nevada were to spend at levels similar to the national average or to the subject matter experts recommended levels, how would those monies be deployed and what programs would benefit? That is a question the Commission is posing to all district superintendents right now. One of the deficient areas is reaching each of the recommended weight levels for the programs mentioned. Those all appear to be underfunded on a recommended level.

SENATOR SEEVERS GANSERT:

It is good to know that those programs are included. They are fundamental to the Pupil-Centered Funding Plan. However, there may still be other funding not captured. Please follow up with more information on that.

CHAIR NEAL:

With per-pupil funding need continuing to grow over a ten-year period, in what way is population reduction or growth factored? Are there population growth measurements

used in the Commission's revenue need projections? There is a shift in migration due to water shortages. What is currently projected may vary vastly over the ten-year period in both student population and the way in which revenue is generated.

MR. HOBBS:

That is one of the challenges in creating projections like this. The projections that the Commission is using as a baseline include what could be referred to as normal growth in student population. There is need to continue to monitor and recalibrate each year. These models were developed with the hope that they will be updated each year. Currently, the projections are based on past growth rates. If this comes forward for legislative consideration, one might ask for different iterations of these projections using different population growth rate assumptions.

CHAIR NEAL:

That is important to know. Currently, the funding model is to wait for crisis before addressing revenue needs. In order to plan proactively, multiple models should be built to include varying assumptions of the factors that are likely to come into play. The structure of the revenue matters. The current model is based on a growth pattern that may not continue. Decisions should not be made based on unjustifiably projected funding.

MR. HOBBS:

The Commission has discussed principles of taxation such as sufficiency, stability, predictability, equity, and ease of administration. Given the magnitude of education funding needed, sufficiency was determined to be a high priority along with predictability and stability. When investing in something as important as education, it is imperative to know that the revenue sources are stable and reliable and that the level of programming will not need to be adjusted in the future because of volatility in key revenue sources. Property tax was previously assumed to be a virtually 100% reliable revenue source, pre-abatement. It was understood what a penny of property tax would generate, and it would be generated each successive year. As more assessed valuation came in, there was growth. The calculation of pre- and post-abatement was unnecessary. This limited funding potential for many services throughout the state, including education.

Regarding sales tax: it has become apparent in the last 10 to 15 years that there can be a lot of volatility in taxable sales, particularly considering a county like Clark that is 20% reliant on eating and drinking establishments and tourism; the effects of recessions and pandemics create a lot of volatility in this area.

It makes sense to model a number of different scenarios. The presented projections are a baseline. More conservative and more optimistic models could be created. Hypothetically, there could be a two-year recession in 2030 and 2031: how would that affect revenues? These models can be created. It is something that should be considered when putting together a portfolio of revenue to support state services, particularly education. Revenue streams should be stable, reliable, and predictable over time.

SENATOR DENIS:

To clarify Senator Seevers Gansert's comments: transportation costs are not included in the per-pupil funding because they vary greatly between rural and metropolitan areas. Capital costs were already addressed; each county has the ability to raise its own. The only other exclusion is nutrition services. All other revenue set aside for education is included. There is not a bunch of other little things excluded from the funding. Nevada is now able to compare itself to the national average with all the costs it takes to educate, outside of nutrition and transportation. Those costs vary and there is no way to compare those from state to state.

There was no further discussion on this agenda item.

VII. PRESENTATION ON HYPOTHETICAL AND ACTUAL INFORMATION ON PROPERTY TAXES REGARDING THE VALUATION AND TAXATION OF PROPERTY.

Agenda Item VII was taken out of order.

RUSSELL GUINDON (Chief Principal Deputy Fiscal Analyst, Fiscal Analysis Division, LCB): The tables beginning on page 51 address some of the functional elements of the current property tax system ([Exhibit A](#)). The Commission may make recommendations for potential changes to the property tax structure; thus, these tables could be a topic of discussion during the 2023 Legislative Session. These tables use hypotheticals. Because of all the functional elements of the property tax system, it is difficult to find real world examples that demonstrate the points being made here.

The simplified hypothetical example in Table 1 is from FY 2005, the fiscal year prior to the legislatively approved property tax partial abatements going into effect (page 51, [Exhibit A](#)). There are seven houses: 50 years old, 40 years old, 30 years old, 20 years old, 10 years old, 1 year old, and a new house that came onto the property tax roll in FY 2005. Shaded in grey is the land value for all seven houses, which is the same at \$70,000. The replacement cost is the same for all houses at \$150,000 for the improvements on the land. The next line is the depreciation percentage: 1.5% times the age of the improvements, with a 75% maximum. The 50-year-old house has a depreciation factor of 75%. The more recent improvements have a lower depreciation factor. The depreciation factor times the replacement cost of \$150,000 gives the amount of depreciation. The amount of depreciation is then subtracted from the replacement cost to get what is referred to in statute as the taxable value of improvements. The taxable value of all the houses before depreciation is \$220,000. After depreciation, the taxable value differs based on the age of the home. This is how taxable value is calculated based on current statutory provisions.

The next block on the table is the assessed value: 35% of the taxable value (page 51, [Exhibit A](#)). This is the number to which the tax rate is applied to determine the taxes due. The green area shows the taxes due in FY 2005 before depreciation (page 51, [Exhibit A](#)). Every house has the same amount of taxes due: \$2,818. The orange area shows the

taxes due after depreciation. The taxes due for the new house remain at \$2,818 because there is no depreciation. However, the taxes due for the older houses go down based on the assessed value after depreciation. This was the property tax system in place through FY 2005, and the table on page 51 demonstrates how homes of different ages with the same land value and the same replacement cost have differing tax liabilities due to depreciation.

A statement was made that Nevada is the only state that has depreciation. Nevada may be the only state with a statutory construct of 1.5% depreciation per year times the age of improvements. However, every state has a construct for depreciation or obsolescence because these naturally occur on properties. The 1.5% depreciation rate in Nevada was put into place during the 1983 Legislative Session. Prior to that, Nevada property tax was based on full cash value, or market value.

There were still provisions in the law stating that assessors had to look at the value of land—even at full cash value—and the improvements but must subtract the amount of depreciation or obsolescence based on the age of improvements. Depreciation is not a new thing in Nevada law for property, and it will likely be seen across all states because property depreciates. Particularly for properties that are not well kept, assessors may need to visit properties to assess obsolescence or depreciation. Nevada is likely the only state that has a fixed rate of 1.5% for depreciation by law.

The lower block of Table 1 shows the effective tax rates (page 51, [Exhibit A](#)). When filing federal income taxes, wage income and other incomes are added to get to total income before deductions or credits are applied to get the net tax. The total income divided by the net tax paid is the effective tax, which is generally less than the statutory tax rate. Someone in a 20% tax bracket generally has an effective tax rate of less than 20% due to deductions and credits.

The effective tax rate per \$100 of assessed value after depreciation is the same as the tax rate: \$3.66. Depending on the age of the house, the effective tax rate goes down once depreciation is excluded. The tax rate also goes down when based on the taxable value rather than the assessed value. In the example in Table 1 (page 51, [Exhibit A](#)), the new house has an effective tax rate of \$1.28 per \$100 of taxable value, which is the value the assessor gives to the home and land before any depreciation and before multiplying by 35% to get the assessed value. Compare that to the 50-year-old house that has an effective tax rate of \$0.63 per \$100 of taxable value before depreciation.

Table 2 shows the same houses in FY 2006, the first year the partial abatements were included (page 52, [Exhibit A](#)). Each house is one year older in this example and there is an addition of House 8 as a new house added to the roll. To control the structural elements of this example, it is assumed that the land and replacement costs for each house increased 5% from FY 2005 to FY 2006. The land and replacement costs are still equal for each house. The 51-year-old house does not gain any more depreciation because it was already at the maximum of 75%. The depreciation goes up by 1.5% for Houses 2 through 7.

Again, multiplying by 35% gives the assessed value.

The green block on page 52 shows the taxes due before depreciation, both before and after taking into account a partial abatement of 3% for single-family owner-occupied homes ([Exhibit A](#)).

The orange block shows the taxes due after depreciation, both before and after the partial abatement. The taxes due for a new home is the full rate at the full value: \$2,959. Before partial abatement, the tax amount goes down with the older houses due to depreciation. After partial abatements, the new house does not change because it is not eligible for partial abatements. Because of the partial abatement, the taxes due for each house cannot rise more than 3%—rather than the 5% growth in this example. The amount of partial abatement is shown for each house.

The effective tax rates are shown across the age of the homes.

Table 3 shows the amounts for each house based on a 5% growth each year until FY 2010 (page 53, [Exhibit A](#)). The amount of partial abatements are getting larger. The cumulative amount of partial abatements from FY 2006 to FY 2010 is also shown. House 9 has been added as a new home in FY 2010, paying the full rate times the assessed value because it is ineligible for depreciation or partial abatement.

Table 4 shows the tenth year of partial abatements, FY 2015 (page 54, [Exhibit A](#)). Again—for the example—land and replacement costs have grown 5% each year for every home. House 2 is now 50 years old and has reached its maximum depreciation.

Table 5 shows the fifteenth year of partial abatements, FY 2020 (page 55, [Exhibit A](#)). The same assumptions are used to keep identical land value and replacement costs for each house in the example. The factor driving the difference in taxable value is depreciation. The factor driving the difference in taxes due is the partial abatements. The cumulative level and the magnitude of the partial abatement increases are seen here.

Tables 1 through 5 ([Exhibit A](#)) show the mechanics or the functional elements of the property tax system for homes of different ages.

The Commission on School Funding is an entity doing a study on property taxes and some potential changes that could be made to the property tax structure under current statute. Depreciation is a statutory construct; the Legislature could choose to change the depreciation factor from 1.5% to 0%, for example. Table 5A depicts FY 2020 with 0% depreciation (page 56, [Exhibit A](#)). The replacement costs and the improvements become the same for all the houses due to the elimination of the depreciation factor.

Table 6A shows the difference between the results in Table 5A and the results in Table 5 (page 57, [Exhibit A](#)). Because of the change in depreciation, there is change in the taxable value. Assessment value is 35% times the taxable value, so the assessment value changes too. The taxes due before depreciation have no difference but there are

changes in the taxes due after depreciation. The taxes before partial abatements increase with the elimination of depreciation. As would be expected, the older homes have a much larger increase in tax liability because 75% of the value is added back. If the 1.5% depreciation factor were eliminated without changing the construct of how assessors determine taxable value, and with taxable value unable to exceed market value, there may be need for many assessors to add obsolescence to some properties to avoid taxable value exceeding market value. One might think of this added obsolescence as a type of depreciation, but it would no longer be the statutory 1.5% per year.

The taxes due after partial abatement and after removing the depreciation factor did not change between Table 5 and Table 5A ([Exhibit A](#)). This is the point Mr. Hobbs made about making changes to the value side of the property tax system; it will result in no increase in taxes if the abatements remain in place. If a property is already receiving the maximum abatement—either the 3% or the alternative abatement—increasing the value of the property will just increase the amount of partial abatements; it will not increase tax liability.

Table 5B changes the 35% factor for assessed value to 40% (page 58, [Exhibit A](#)). Table 6B shows the difference between Table 5B and Table 5 (page 59, [Exhibit A](#)). Depreciation is unmodified, so there is no change in taxable value. The changes occur in the assessed value. With the change from 35% to 40%, before the partial abatement, taxes due would increase. However, there is no increase in taxes after the partial abatement is applied. Every one of these homes is already receiving the 3% abatement so any increase in value makes no difference in taxes after the partial abatement is applied.

Table 5C increases the tax rate by 10 cents per \$100 of assessed value (page 60, [Exhibit A](#)). The tax rate goes from \$3.66 to \$3.76 per \$100 of assessed value. This could apply with a new rate or with an increase in an existing rate inside the partial abatement.

Table 6C shows the difference between Table 5C and Table 5 (page 61, [Exhibit A](#)). There are no changes in taxable value or assessed value. In this case, there is no change in what the assessors must do. Increasing the tax rate by 10 cents increases the taxes due before partial abatement. Tax rates go up more for newer homes than for older homes because there is more value when there has been less depreciation. However, there is still no change in taxes due after the partial abatement is applied.

These three examples demonstrate that changing depreciation, changing the factor for converting taxable value to assessed value, and changing the tax rate create no change in taxes collected as long as the partial abatement is in place.

Table 5D assumes an increase in the abatement cap from 3% to 6% with no other changes from Table 5 (page 62, [Exhibit A](#)).

Table 6D shows the difference between Table 5D and Table 5 (page 63, [Exhibit A](#)). There are no changes in the taxes before partial abatement; valuation, depreciation, and tax

rates remain the same. However, there is finally an increase in the taxes due after partial abatement.

A change in valuation, depreciation, or tax rate would pick up some revenue from properties that are not receiving the partial abatement cap rate, but there would be no increase in taxes for properties already receiving the cap. The houses in these examples are all receiving a partial abatement cap rate of 3%.

An increased partial abatement cap rate does not change the taxes due for the new home. The new home already pays the full rate on the full value. The additional revenue is from properties that were on the tax roll in the prior tax year. When looking through these tables, keep in mind the distribution of the effects for each of these scenarios. These scenarios can affect existing homes differently than new homes. Within the existing homes category, the scenarios can affect older or newer homes differently in terms of the magnitude of change in potential tax liability. Again, to gain revenue of any magnitude, consideration must be given to changing the partial abatement factor.

Chart 1 shows the total taxable value—land and replacement costs before depreciation (page 65, [Exhibit A](#)). The value is the same for all the homes, increasing equally over time. The scale on the left side of Charts 1 through 3 remains the same for reference. Chart 2 shows the assessed value before depreciation by multiplying the taxable value by 35% (page 66). This visual aids in understanding the order of magnitude in reducing the taxable value to assessed value. Chart 3 includes depreciation—the value is lower for older homes (page 67). Starting at taxable value—full cash value for land and replacement costs for home improvements—then multiplying by 35% to get assessed value, then including depreciation drastically changes the value to which a tax rate is applied.

Chart 4 graphs the tax due on assessed value after depreciation but before the 3% partial abatement (page 68, [Exhibit A](#)). Chart 5 includes the partial abatement (page 69). To visualize the effect of the partial abatements, Chart 6 shows the tax due after partial abatement as a percent of the tax due before partial abatement (page 70). Chart 7 shows the effective tax rates per \$100 after depreciation (page 71). Chart 8 shows the effective tax rates per \$100 before depreciation (page 72). Chart 9 shows the effective tax rate per \$100 of taxable value before accounting for depreciation (page 73). Currently, the \$3.66 rate is the maximum rate imposed per \$100 of assessed value. This chart shows the effective tax rate using taxable value before depreciation as the tax base.

Chart 10 demonstrates these scenarios applied to FY 2020 (page 74, [Exhibit A](#)). The first block shows taxes due by the age of the home after depreciation but before the partial abatement. The second block shows FY 2020 after depreciation and after the partial abatement. The reduction occurring due to the partial abatements is apparent. The third block shows what the taxes would be if depreciation were eliminated while retaining the partial abatement. As shown in previous tables, there is no difference. Because these homes are already receiving the maximum abatement, a change in how value is determined does not change the tax due. The third block shows FY 2020 with elimination

of depreciation and the partial abatements. This change would require statutory changes because depreciation and partial abatements are statutory constructs. This would equalize the taxes for all the homes, but the order of change in the amount of taxes due for House 1 is large. The fifth block is included because resetting depreciation and partial abatement upon sale has come up in conversation; the Commission on School Funding may look at this as an option. It was included in SJR14 (2017 Legislative Session) and was back on the list of bills for the 2019 Legislative Session. This change would require a constitutional amendment. The fourth block would be regardless of sale. The fifth block would be dependent upon sale of a home. This tax increase would apply only to homes sold. If House 1 were sold in FY 2020, the taxes for the new owner would be significantly higher than those paid by the previous owner.

The current property tax system is tied to the property and the value of the property regardless of when the property was taken into possession by the current owner. One may not like the differential in taxes occurring between properties based on age with identical land value and improvement values before depreciation. Depreciation and the partial abatements play a role. Resetting depreciation and partial abatements upon sale would equalize the tax due for homes that sell. However, tying the property tax system to the owner and when the owner took possession—resetting the value and the taxes—would create significant differences in taxes due for homes of the same age. A neighborhood with homes all built in the same year would have different tax liabilities based on how many times and when the homes were sold. Resetting the depreciation and partial abatements upon sale could equalize the taxes due between differently aged, similarly valued homes over time but could create inequality in taxes due in similarly valued homes of the same age. The Legislature would also need to define sale and transfer. With provisions stating that sale of a home from parents to children is not considered a sale, there could be taxpayers with similar demographic and economic characteristics that buy neighboring homes of the same age, but one would have a tax increase and the other would not. The home purchased from the owner's parents would have vastly different tax liability than the home next door.

This is important information on the current property tax system, current statute, possible changes, and the concept of reset on sale. If someone does not like the variation in tax liability due to the age of the home under current statute, it is important to keep in mind that resetting depreciation and partial abatement upon sale could create variation in similarly aged homes due to when and how often a property is sold.

The other tables show information on property taxes for potential use during the 2021-22 Interim. The Commission is looking into proposals to make changes to property taxes. Thus, it could be an issue in the 2023 Legislative Session. The table on page 75 is an actual home, not a hypothetical ([Exhibit A](#)). It allows the reader to see real-world data for land value, replacement costs, depreciation, taxes, and—starting in FY 2006—partial abatements. In FY 2011 through FY 2013, the land value and improvements decreased. The taxable value and the assessed value decreased, but the taxes due after partial abatement still went up 3%. This is another element to keep in

mind: the partial abatements stabilize a property owners tax liability somewhat, but they also stabilize the amount of revenue.

There are times that the partial abatement stops the tax liability from increasing by more than 3% and there are times when it stops the tax liability from decreasing. The real-world example also shows that variation in the combined property tax rate may not generate additional taxes, depending on the value of the property and whether it is above or below the abatement cap.

Table 1 shows the partial abatement cap factor for a single-family owner-occupied or qualified rental and the alternative cap for each county for every year the partial abatement has been in place (page 77, [Exhibit A](#)). Years where the partial abatement cap was below 3% are highlighted in orange. Thus, both caps—the single-family owner-occupied and the alternative—were below 3%. The years where the alternative cap was at the maximum 8% are highlighted in green.

Table 2 shows how the alternative partial abatement cap factor was determined for each year by county based on the ten-year moving average and assessed value, or twice the CPI rate (page 78, [Exhibit A](#)). The alternative abatement cap is based on the greater of those two, but not to exceed 8%. Again, the floor is 0%. The primary abatement cap for single-family owner-occupied homes was 3% except for those years in which the alternative abatement cap was below 3%.

There are additional reports available on the legislative website:

- Agenda Item VII – Property Tax Rates for FY 2023 – Detail by Entity and Tax District Table ([Exhibit D](#)).
- Agenda Item VII – Property Tax Rates for FY 2023 – Summary Table ([Exhibit E](#)).
- Actual Property Tax Partial Abatement Cap Factors by County – FY 2006 to FY 2023_REVISSED ([Exhibit F](#)).

The Summary Table ([Exhibit E](#)) shows the property tax rates for the various taxing entities within a county. When the property tax rates are at the maximum of \$3.66, they are highlighted in red. The table shows the number of districts at each rate and the difference when they are below the \$3.66 cap. For the tax districts already at the \$3.66 cap, even if there were an entity with room to raise its individual rate, it cannot. Once the rate in a tax district hits \$3.66, no rates can be raised. As Mr. Hobbs referenced, that would need to be reconsidered. For example: if the Legislature were to raise the \$0.75 school rate to \$0.85 to generate revenue, it would need to be excluded from the partial abatements. The Legislature would then need to give consideration as to whether to put the additional \$0.10 outside of the \$3.66 cap or to raise the current statutory rate of \$3.64. Remember, there is a \$0.02 state debt rate that was approved in the 2003 Legislative Session that is excluded from the \$3.64 cap.

The detailed table ([Exhibit E](#)) shows information extracted from what is called the “Red Book,” a detailed document prepared by the Department of Taxation showing the tax rates for each tax district in each county. It shows the state rate, the school district rate, the city rate, the county rate, and any special district rates. In the Clark County section, it shows all the tax districts to which Ms. Johnson referred and all the rates that make up the combined rate.

As Chair Neal stated, it is important to have an understanding of the current property tax system if the Legislature is to give consideration to proposed changes. There are many elements to the functional structure of the state’s valuation and taxation of property.

ASSEMBLYWOMAN KASAMA:

The reset does not work. Two similar houses in a community would pay completely separate tax rates. This has been an issue in California.

If Nevada makes the taxable value the same as market value, depreciation and obsolescence are taken into account. If there are two 50-year-old homes, one kept up and one dilapidated, market value will show the improvements even though the age is the same. The taxable rate and the tax rates can be changed but it seems the Legislature does not need to address depreciation or obsolescence if market value is used.

MR. GUINDON:

The assessors may be able to address this better. Prior to 1981, the statutory construct for property tax used the full cash value of a property. Statutory provisions allowed for account of depreciation and obsolescence on improvements. Currently, only the full cash value of land is used to determine taxable value. Previously, assessors were tasked with accounting for depreciation or obsolescence. If the depreciation factor were to be removed while keeping the current taxable value construct of improvements at replacement cost, obsolescence would still need to be considered for some homes.

Moving to a market value formula would drastically increase taxes due, so lowering the tax rate may be considered simultaneously. For FY 2023, the taxable value before depreciation of the actual house in the table ([Exhibit F](#)) is approximately \$428,000. The Zestimate for this house on Zillow is approximately \$240,000 more. This gives an idea of the differential possible between what may be considered market value versus taxable value under current statute.

DAVE DAWLEY (Assessor, Carson City Assessor’s Office):

Mr. Guindon is correct that if the market value were to be used, obsolescence would more than likely need to be factored to lower the value based on the actual condition of the property. Using market value brings in issues that other states have experienced.

Idaho uses market value but uses a replacement cost process to add new properties to the tax roll. There is a lot of debate on property tax in Idaho now regarding how to fix this issue. California uses market value but factors in new improvements based on replacement cost. It is important to keep in mind the multitude of property types and

transfers. Corporations sell shares of a company; if less than 51% is sold, the property tax is not rebased on market value because it is not the majority of the property. Switching to a market value system would cause more problems here in Nevada. It would be less fair and equitable for taxpayers, both residential and commercial.

ASSEMBLYMAN HAFEN:

Removing the depreciation factor without changing the partial abatement would make no difference in tax revenue today. What would happen 20 to 30 years from now if depreciation were removed now? Would this create more tax revenue in the future versus keeping the depreciation factor?

MR. GUINDON:

It would depend on each parcel and the improvements made on that parcel in terms of the land and its value. If depreciation were reset to zero, there would be a one-time significant increase in value and then go forward afterward. Most likely, it would just result in increases of partial abatements for many properties. Some properties may see an increase in taxes depending on how an assessor determines the value, particularly if there is a downturn cycle with values coming down. Properties at the secondary partial abatement cap of 8% could potentially see more sustained increases in property taxes due. It would likely increase the amount in partial abatements more than it would increase revenue in near term and possibly in the intermediate and longer terms. This is particularly true for the older homes already at the cap that would see a dramatic increase in value without any increase in taxes.

MR. DAWLEY:

It would cause a big problem. New construction goes on the tax roll with no abatements but resetting the partial abatement would cause a drastic increase in partial abatements for homes over 50 years old.

MR. GUINDON:

For one- or two-year-old homes, removing the depreciation would not result in a significant increase in value. Older homes would see drastic changes in taxable value. The value of a newer home may increase 1% when depreciation is factored and 10% when depreciation is excluded. The property's taxes, however, would only increase from 1% to 3%—the cap. The value of an older home may increase 1% when depreciation is factored and 75% when depreciation is excluded. This property's taxes would also only increase from 1% to 3%—the cap. The bulk of the increase in value for the older home becomes partial abatements.

CHAIR NEAL:

What would the effect be for new construction if the abatement were delayed for three to five years? Could counties receive the benefit of the full value for five years?

MR. GUINDON:

The results would be vastly different across the 17 Nevada counties. The tax districts that have a lot of new construction would receive new revenue. Tax districts in the same

county without new construction would not be affected. It would have a distortional effect on the amount of revenue generated. It would create more difference in property taxes due between properties of similar value.

MR. DAWLEY:

There seems to be an assumption that there will be an abatement in the second year; there may not be an abatement. Most of the abatements seen now on new construction are on the land itself; the improvements are not getting abated because they do not typically increase by more than 3% each year. On down years, there would automatically be no abatement for the next year.

CHAIR NEAL:

This has been a helpful and thought-provoking conversation. Legislation will likely be introduced regarding Nevada's property tax and Legislators will need to determine what is best. It is better to think through some challenges and issues now before it comes up in a bill.

There was no further discussion on this agenda item.

VIII. PRESENTATION ON THE EXEMPTION ALLOWED FOR A PORTION OF THE VALUE OF PROPERTY OF QUALIFIED LOW-INCOME HOUSING PROJECTS FROM THE PROPERTY TAX.

Agenda Item VIII was taken out of order.

STEVE AICHROTH (Administrator, Nevada Housing Division, Department of Business and Industry):

In order to better understand the need for the property tax exemption on affordable housing, this is a comparison on the development of an affordable property versus that of a market-rate property.

The five Ls of construction are land, labor, lumber, laws, and loans. The combination of these determines the cost to build and the cost to operate. Based on those numbers, one must recoup costs, create reserves, make a profit, and respond to the market to determine rental rates. For this example, \$1,500 per month is the rental rate for a one-bedroom apartment.

To build affordable developments, there must be someone who is a little bit magnanimous and benevolent, even without considering the compliance and regulatory burdens placed on the developer, just focusing on the financial component. The tenants will be restricted to those making 60% or less of the area median income. The five Ls are still in effect, and they are not necessarily any cheaper when building an affordable property. Construction costs still need to be recouped, reserves must be created, staff must be paid, and financial stability of the development must be ensured, but only those making 60% or less of the area median income can be tenants. Market-rate rents cannot be collected. The owner is contractually bound to rent at a lower rate—for simple math,

approximately 60% of market rate is assumed here. Instead of \$1,500 for a one-bedroom apartment, \$900 will be collected. For a 100-unit complex, this is a \$60,000 deficit per month—\$720,000 annually. This results in an unsustainable financial structure.

This is where the Nevada Housing Division comes in. The low-income housing tax credit program is a private-public partnership provided through the federal government and administered by the division. With this tax credit program, equity is created that will significantly reduce the cost of lending. Effectively, by reducing the loan cost, equity replaces debt, and the developer does not need to borrow as much money. This immediately results in the project becoming more sustainable. Other layers of subsidy can then be brought in such as affordable housing trust funds or federal home loan bank grants. This will ultimately result in what some people call lasagna financing, enabling these projects to pencil. This helps in the construction of the project but does not help in operations.

For the 30-year affordability period, the burden on the developer must be reduced. One way to assist in this endeavor is to lower the property tax burden. Qualified low-income housing projects have property tax exemptions under NRS 361.082. This is specifically done through HUD-provided home funds via the Cranston Gonzalez National Affordable Housing Act. Annually, the state and the local jurisdictions of Clark County, Henderson, Las Vegas, and Reno receive HOME Investment Partnerships Program (HOME) funds directly. For Federal Fiscal Year 2022, that amount statewide is \$12.5 million.

In the lasagna financing described, a small amount of HOME funds is distributed, either with the local jurisdiction's knowledge or directly by the local jurisdiction. For a typical property, this results in annual savings of approximately \$350,000 for each year of the affordability period. Ultimately, it makes these projects more financially sound, lowers the risk profile, and enables them to be affordable for 30 years. Typically, it is a small but critical component in the capital layer of lasagna financing. It is particularly important in Nevada because it trips the property tax exemption.

There was no further discussion on this agenda item.

IX. SCHEDULING OF FUTURE MEETINGS.

The next meeting of the Joint Interim Standing Committee on Revenue was not scheduled.

X. PUBLIC COMMENT.

There was no additional public comment.

XI. ADJOURNMENT.

Chair Neal adjourned the meeting at 5:03 p.m.

Respectfully submitted,

Tom Weber, Committee Secretary

APPROVED:

Senator Dina Neal, Chair

Date