

**MINUTES OF THE JOINT MEETING  
OF THE  
ASSEMBLY COMMITTEE ON TAXATION  
AND THE  
SENATE COMMITTEE ON REVENUE AND ECONOMIC DEVELOPMENT**

**Seventy-Ninth Session  
February 16, 2017**

The joint meeting of the Assembly Committee on Taxation and the Senate Committee on Revenue and Economic Development was called to order by Chair Dina Neal at 4:07 p.m. on Thursday, February 16, 2017, in Room 4100 of the Legislative Building, 401 South Carson Street, Carson City, Nevada. The meeting was videoconferenced to Room 4401 of the Grant Sawyer State Office Building, 555 East Washington Avenue, Las Vegas, Nevada. Copies of the minutes, including the Agenda ([Exhibit A](#)), the Attendance Roster ([Exhibit B](#)), and other substantive exhibits, are available and on file in the Research Library of the Legislative Counsel Bureau and on the Nevada Legislature's website at [www.leg.state.nv.us/App/NELIS/REL/79th2017](http://www.leg.state.nv.us/App/NELIS/REL/79th2017).

**ASSEMBLY COMMITTEE MEMBERS PRESENT:**

Assemblywoman Dina Neal, Chair  
Assemblywoman Irene Bustamante Adams, Vice Chair  
Assemblyman Paul Anderson  
Assemblywoman Teresa Benitez-Thompson  
Assemblywoman Lesley E. Cohen  
Assemblyman Edgar Flores  
Assemblyman Jason Frierson  
Assemblyman Al Kramer  
Assemblyman Jim Marchant  
Assemblyman Keith Pickard  
Assemblywoman Ellen B. Spiegel

**SENATE COMMITTEE MEMBERS PRESENT:**

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



**COMMITTEE MEMBERS ABSENT:**

None

**GUEST LEGISLATORS PRESENT:**

None

**STAFF MEMBERS PRESENT:**

Russell Guindon, Principal Deputy Fiscal Analyst  
Michael Nakamoto, Deputy Fiscal Analyst  
Joe Reel, Deputy Fiscal Analyst  
Tina Nguyen, Committee Manager  
Gina Hall, Committee Secretary  
Colleen Lennox, Committee Secretary  
Lex Thompson, Committee Secretary  
Olivia Lloyd, Committee Assistant

**OTHERS PRESENT:**

Yolanda T. King, County Manager, Clark County  
Katy Simon Holland, Vice President, Board of Trustees, Washoe County  
School District  
Thomas B. Ciesynski, CPA, Chief Financial Officer, Washoe County School District  
Lindsay Anderson, Director, Government Affairs, Washoe County School District  
Nicole Rourke, Associate Superintendent, Community and Government Relations,  
Clark County School District  
Rick Neal, Chief Operating Officer, Operational Services Unit, Clark County  
School District  
Eric P. Johnson, Principal, Tarkanian Middle School, Clark County School District  
Linnea Westwood, Principal, Elise L. Wolff Elementary School, Clark County  
School District  
Stephen W. Driscoll, City Manager, City of Sparks  
Ron Smith, Council Member, Ward 3, City of Sparks  
Jeff Cronk, CPA, Director of Financial Services, City of Sparks  
Daphne Hooper, City Manager, City of Fernley  
Jeff Page, County Manager, Lyon County  
Jeremy Aguero, Principal Analyst, Applied Analysis, Las Vegas, Nevada  
Chris Daly, Deputy Executive Director of Government Relations, Nevada State  
Education Association  
Roy Edgington, Jr., Mayor, City of Fernley

**Chair Neal:**

[Roll was taken and Committee rules and protocol were reviewed.] The order of business today is going to go out of order. We have asked Ms. Yolanda King from Clark County back to the table. She will follow up on some comments made Tuesday, February 14. She will address the county's general fund budget numbers she gave us to clarify the record.

**Yolanda T. King, County Manager, Clark County:**

There were quite a few questions regarding the information presented by Clark County with regard to the property tax trend slide in our presentation on Tuesday, February 14, 2016 ([Exhibit C](#)). There was a question asked about the difference between the property tax revenue reported in the Clark County general fund budget and the increase from fiscal year (FY) 2016 to FY 2017. This showed an actual increase of 4.5 or 4.6 percent in property tax revenues. The slide I presented to you on Tuesday showed an increase of 1.4 percent between FY 2016 and 2017. The difference is that the information presented to you on Tuesday only included one fund of our entire Clark County general fund, which was the general fund. There are various funds in which we receive property taxes in our Clark County budget. In FY 2017, our board of county commissioners shifted about \$8 million. We reduced \$8 million in a non-general fund and increased that \$8 million in the Clark County general fund. In order to give you an accurate figure of what the true property tax revenue increase is, subtracting out that \$8 million, I made an adjustment to the slide. The information you have, the 1.4 percent increase, is the net increase, or the true increase year over year with property tax revenues in the Clark County general fund. This was simply to give you an apples-to-apples comparison and show you what the true increase was, which was the 1.4 percent increase. In reality, if I were to show both of those funds, you would have a 100 percent decrease in the fund where the revenue was decreased, but then there was an increase in the general fund.

To further solidify that increase and to validate what that number is, if you look at our county budget document ([Exhibit D](#)), there is a summary on page 1. On the first line it breaks out the revenues received. This is for the total property taxes received in the county general fund. In 2016, that number was roughly \$613.6 million for all the property taxes received in all of the funds in the Clark County budget. The budgeted amount for 2017 is about \$623.7 million. When you compare the 2016 and 2017 numbers for all the property tax revenues we receive in Clark County, it is a 1.6 percent increase. That solidifies what the overall property tax increase is year over year. I just wanted to make that clarification. We were identifying and looking at only one fund of the general fund. There was an adjustment made simply because we wanted to make sure we showed what the net increase was overall.

**Chair Neal:**

Thank you for the clarification to that issue on the record. Are there any comments or questions from the Committee members for Ms. King? [There were none.] Up next, we are going to hear a presentation from the Washoe County School District.

**Katy Simon Holland, Vice President, Board of Trustees, Washoe County School District:**

I am the Vice President of the Board of Trustees of the Washoe County School District. I was also the Washoe County Manager for 15 years. This is my first time as an elected official sitting before you, so it is nice to be back.

On our first slide [page 2, ([Exhibit E](#))], the important point is that property taxes are critically important to the Washoe County School District. It is our second-largest source of local revenue, generating nearly \$100 million in our operating fund budget. We have absorbed \$120 million in abatements since they were created in 2005. As we go through the process, you will see the significance of that. We are still recovering from the Great Recession, and the property tax cap impacts everything we do in educational services, as well as everything else that is funded from the general fund. As you will see in our presentation, we have done all we can do to operate within the property taxes we have.

If you do not remember anything from our presentation, I hope you remember page 3 ([Exhibit E](#)). Our actual audited property tax revenues in 2007, not inflation adjusted, were the same as they are for us in 2017, ten years later, despite the fact that the Consumer Price Index (CPI) has grown more than 10 percent during the same period. I would argue that this really unintentionally becomes an issue of equity in families and for children because despite our economic growth, children who graduated in 2007 received a disproportionately greater investment in their education from our system of property taxes than our children today or those in the future. We have lost purchasing power in relation to inflation.

Page 4 ([Exhibit E](#)) shows our enrollments. These are not the numbers you see in Clark County, but we have recovered all the enrollment we lost during the Great Recession. We project a 1.7 percent average growth rate annually going forward, which is about 1,300 students per year.

Page 5 ([Exhibit E](#)) shows where our general fund operating budget goes. The area in red reflects the largest part of our budget, which is about 71.3 percent of our expenditure budget. This goes to direct instructional and student support: teachers, counselors, nurses, librarians, and aides who support our students. Our buses traveled 5 million miles last year taking our students to and from school, and student transportation is only 3.3 percent of our budget. You can see that property tax revenue is significant for us. As many of you know, in November the voters in Washoe County passed a 0.54 percent sales tax increase, dedicated specifically to capital construction. None of that money can be used for operations. We wanted to make sure we clarified that point.

Going forward, we are facing a \$28 million structural deficit. This is expected to grow each fiscal year of the next biennium. When we talk about structural deficit, that is when we have accomplished all the reductions we can make before cutting into the actual educational services. When I was on the campaign trail last year, I had many community members ask

me about the shortfalls and what the school district was going to be able to do about them. This is going to continue to grow and be a very difficult challenge for us. The possible cuts we will have to make to close a gap of that magnitude in our budget are severe, things like increasing class sizes for grades 4 through 12. That would mean eliminating 114 teaching positions when we are in desperate need of more teachers to meet the needs of our twenty-first century economy. It will mean potentially reducing other programs and services we know are important, not only to children and their full growth as people, but very important to their parents and their families. We will have to look at non-core programs and operational services. We are going to have the difficult challenge of choosing to make reductions in technology, lab equipment, science and technical support, and educational materials that are so important to our New Nevada [page 6, ([Exhibit E](#))].

Page 7 shows what we had to do during the Great Recession in order to balance the budget. We used or depleted savings of \$134 million over nine years. We also used the following limited-life strategies:

- Increased class sizes in grades 1 through 3, which was approved by the Legislature. We used up \$26 million on that.
- We used up \$16 million over seven years for textbook waivers, also legislatively approved.
- Health premium holidays amounted to \$21 million over four years.
- Employee concessions amounted to \$21 million in furloughs, step freezes, and reduction in contracts.

The district has done its part to be fiscally responsible, and I am very proud that we have an AA bond rating. I also want to emphasize that our students have done their part to keep our school district moving forward. Fifty-two percent of our students received advanced or honors diplomas last year. Our Washoe County students score higher than the national average on the SAT and ACT tests. They score higher than the national average in terms of taking advanced placement (AP) classes and also passing those AP tests. Six of our high schools had 90-plus percent graduation rates in 2016, so our students are working hard too.

We know that property taxes are not in sync with economic growth [page 8, ([Exhibit E](#))]. As stated earlier, our actual property tax dollar revenues are at about the 2007 level. They remain unstable and unpredictable. Our operating costs have increased about \$68 million from 2007 to 2016 [18 percent], without growing property taxes to offset them. We know property taxes are not matching inflation and enrollment growth. The CPI during the same time grew at over 1 percent per year, which means we lost purchasing power of about \$10 million in that same time period. As you all know, school districts are by their nature very labor-intensive. About 90 percent of the budget is dedicated to salaries and benefits, so cutting costs now means providing services with less staff.

Our staff has been able to work with our wonderful employee associations to help contain rising costs. We have signed a four-year teacher contract with zero cost-of-living increases. We have provided increases to teacher starting salaries to put investment into retention efforts. Important information we have received from our staff is that in the 2016-2017 school year, our average teacher salaries in the Washoe County School District were below the statewide average. We know our health care costs will grow about 10 percent. Health insurance overall is expected to grow 9 percent and prescription drugs more than 11 percent. We are working hard with our employees on that. We received an email today that our water service provider is hoping to increase costs 3 percent each of the next two years. Moody's forecasts inflation to increase 2.7 percent in 2018 and 2.8 percent in 2019, so many cost increases are coming our way.

In closing, we need to have property tax revenue that is stable and predictable in order to manage our budgets. We also need property tax revenue that matches our region's significant economic growth—structural cost increases, investments to support twenty-first century education, and we want to have costs that are matching our growing enrollment [page 10, [\(Exhibit E\)](#)]. We would be happy to answer questions.

**Assemblywoman Bustamante Adams:**

With the unemployment rate going down in northern Nevada with the new manufacturing companies, do you have a projected number of how many new students you are going to have?

**Katy Simon Holland:**

The forecast average is about 1.7 percent per year annual growth. It may be bigger than that. We work together in the north. We have a regional consensus forecast we try to do together with the Economic Development Authority of Western Nevada (EDAWN) and other partners. At the EDawn meeting this morning, we were talking about the fact that we are down to about 4 percent unemployment, which is really almost full employment for us. We have a lot of jobs coming our way. We are working hard to train our children to be ready for those jobs. I have a feeling your point is it may be higher than we are forecasting.

**Senator Ratti:**

You talked about the impacts so far. If there is not relief, what do the next round of impacts look like?

**Katy Simon Holland:**

Again, we have about a \$27-million to \$28-million deficit this year we will be looking at to resolve with Band-Aids, holding vacancies, and recouping savings from our vacancies. We will be making very difficult choices because so much has already been reduced. I will let our chief financial officer, Mr. Ciesynski, speak to that.

**Thomas B. Ciesynski, CPA, Chief Financial Officer, Washoe County School District:**

We will be having a budget workshop on March 16, 2017, to look at the structural deficit we are operating in for 2017, and looking at that in relation to what FY 2018 looks like. We will be discussing what those shortfalls look like versus the things we are going to have to do to balance the budget we have talked about today. Increasing class sizes by two students will be one recommendation. We will prioritize all of our cuts. The cuts that impact the classroom will obviously be down near the bottom. Some of those have shown up in lists we have had from prior years, but now we are entering the time where we are going to have to start touching those areas. We are in the process of compiling that list for the Board of Trustees as we speak. Class size is certainly one consideration. When looking at transportation, walk zones could be another consideration. Our ability to purchase school buses, which our school district does out of our general fund, will be another thing we have to take a look at. Those are three items for your consideration.

**Katy Simon Holland:**

We have asked all departments to develop cost-saving suggestions. We will be going through every single department, every school, and every line item of the budget, but \$28 million is a huge gap to close for us.

**Senator Gansert:**

How much of the budget is funded by property tax?

**Katy Simon Holland:**

It is about 21 percent.

**Senator Gansert:**

Maybe Washoe County could provide some numbers on the growth of the property tax base. It is starting to recover, and we have a lot of construction going on. With all the expansion with businesses and people moving to the area, it would be interesting to see what that trend is, as far as the expansion of the base.

**Assemblyman Frierson:**

I wanted to ask a question about career and technical schools. It is my understanding that the model is different in Washoe County than in Clark County. I am curious what the cost would be in Washoe County to build a new career and technical school, and the impact that would have on any wait list or any of the needs the Washoe County School District is currently experiencing.

**Katy Simon Holland:**

We do have a very robust plan of capital improvements and school construction. One of the schools that will be replaced is Hug High School. One of the discussion points has been the building of a career and technical education center there. We do have very active career and technical education, and it is something that exists now. We have construction dollars. It is the funding of the teachers and the operation of the school that would be difficult for us.

**Lindsay Anderson, Director, Government Affairs, Washoe County School District:**

We know the building of a traditional high school is part of our capital construction program. It is in the neighborhood of \$120 million. We are talking about repurposing an existing school; it would be a smaller footprint. In terms of demand, we do it a bit differently in Washoe County, from a career and technical standpoint. We embed career-tech programs within our comprehensive high schools. Our entire school district feeds into one stand-alone career and technical academy. It has a waiting list and is difficult to get into. There has been a lot of discussion about making regional centers similar to what is done in Clark County. We have seen the success Clark County has had with those. However, it is not part of the building program we are considering for the funds from our recent ballot question, but I would agree the demand is there.

**Assemblyman Frierson:**

Considering your model is somewhat different, I think you are talking about schools within schools for the current technical schools. Can you address how you would go about expanding access to those existing schools within schools for career and technical, to the extent that it would meet your needs, and how much that would cost?

**Lindsay Anderson:**

There are a lot of things we need to do. The big barrier for us is transportation: figuring out the right way to provide transportation to students who may live in the very northern part of Reno who want to attend a program in the very southern part of Reno. That has been a big challenge for us. We have looked at the model from the Clark County School District, sort of the hub-and-spoke model. I cannot remember the price tag on that but I know it is something that we have considered, expanding in some areas in which we have the resources. Mr. Ciesynski, do you remember how much that would cost?

**Tom Ciesynski:**

Unfortunately I do not have that number with me. I would be happy to get that information to the Committees.

**Chair Neal:**

I have questions on property taxes not in sync with economic growth [page 8, ([Exhibit E](#))]. I would like you to further discuss the overall operating costs having increased approximately \$68 million, or an 18 percent increase, without growing property taxes to offset them. What in particular is affecting the growth? The way I see it is that costs are increasing but there is this mythical wall preventing you from seeing or capturing revenue on one side of the wall.

**Katy Simon Holland:**

We recognize that property taxes are 21 percent of our budget. They are not the entire picture. There are other revenue sources that have grown differently than property taxes. As we talk about transportation costs, our county is 6,900 square miles of geography. Fuel costs have gone down for now, but as you know, they fluctuate over time. We have

utilities, the price of textbooks, and the price of all our computer equipment—the technology, all of those things cost a great deal. We have added staff to be able to keep up with our enrollment because of our class size reductions, and feel very strongly about that. It takes a lot more money each year, as costs increase for everything else, just like the operation of the Legislature.

**Tom Ciesynski:**

I would add to that, as the property taxes have been slow growing or flat, we utilize the tools the Legislature provided us—the increase in class sizes in grades 1, 2, and 3 and the ability to not purchase textbooks. Those helped stabilize our funding in difficult years. We also utilized our own tools such as premium holidays for health insurance to stabilize some of our funding. These tools have either gone fully or partially away, and now we are left with the inability to have revenues to support these growing costs.

**Chair Neal:**

With those going partially away or gone, what is in your current tool set to deal with the issue?

**Tom Ciesynski:**

As stated earlier, we are working with our departments to see what they can come up with, with budget reductions in the current operating year, to see what savings we can replenish our budget with. As a finance officer I find it very difficult to budget on savings, and we have been budgeting on savings, or Band-Aids. That is a term we have bantered around our office. The Band-Aids are falling off and we are running out of Band-Aids to balance the budget. We need stable revenue sources to offset our existing expenses; alternatively, we have to cut those expenses to match the revenues.

**Chair Neal:**

On the same slide, [page 8, ([Exhibit E](#))], the statement was made about the CPI growing at over 1 percent in the last ten years, resulting in lost purchasing power of more than \$10 million. Can you flesh that out a little bit more in terms of the purchasing power, or things you are apparently unable to purchase? What are those things? Can you give at least two examples?

**Tom Ciesynski:**

Basically what we did was used the inflation rate for those given years and applied it against the actual property tax numbers. Inflation was growing in the last ten years over 1 percent, but we used the minimal approach of saying over 1 percent per year, and applied 1 percent to our property taxes which are around \$100 million, to come up with \$10 million. That is how we came up with the calculation.

In terms of what impacts or what we cannot pay for, we balanced our budget for FY 2017 but we utilized savings from the last two fiscal years to balance that budget. The challenge for me as the finance officer is to replicate those savings into the next year. If those savings are

gone and I cannot replicate them, that means I have to cut an expense or ask other departments to take reductions in their budgets in order to come up with offsets to balance the budget.

**Chair Neal:**

That was very interesting and I appreciate your explanation. Are there any further questions?

**Senator Kieckhefer:**

When you are talking about savings, is it savings that are actualized in the previous year, or is it sort of long-term reserves you have built up over a long period of time? If it is savings that is realized just in one year, is it vacancy savings? Where does it come from?

**Tom Ciesynski:**

It is a combination of those things. Vacancy savings is one mechanism. The \$28 million we are dealing with here was savings over two fiscal years, so about \$14 million in FY 2015 and \$14 million in FY 2014 that we had set aside. Most governments attempt to get a fund balance of about 10 percent, if they can get it. We are fortunate that we have been able to build up our reserves over time, but those savings are going away. I will not be able to replicate those savings. That is the frustration or the difficulty.

**Senator Kieckhefer:**

Where did the \$14 million per year come from in savings? You had a lot of substitutes rather than full-time teachers. I assume that is a big piece of it.

**Tom Ciesynski:**

It was a combination of vacancy savings, in terms of not being able to fill a full-time teacher position and having to fill it with a long-term substitute. That was certainly a big portion of our savings: just being frugal and reminding all our departments to make sure that when they are expending funds, they are necessary expenditures; having a strong leadership team and superintendent who listen to their finance team, working collectively; and us reminding them that we are still dealing with difficult economic times. We have certainly benefited greatly from vacancy savings, people being wise with their purchases in each of their respective departments, utility savings, and gas prices having come down these last several years, but those things can go back up, as we all know.

Ms. Anderson reminded me we have a freeze committee. We have reviewed equipment expenditures, have utilized that, and implemented that freeze committee as we get ready for FY 2018. As Ms. Holland said, we are combing through our budgets right now, trying to replicate as much savings as we possibly can to prepare for FY 2018. I can honestly tell you we will not get \$28 million in savings in FY 2017 for FY 2018.

**Assemblywoman Cohen:**

You mentioned asking the departments to save funds. I am sure that is not something new you are asking of them. How many years have you been asking these departments to save?

**Tom Ciesynski:**

For too many years. We have been doing this throughout the Great Recession, and even after the Great Recession ended, we continued to ask our departments to be frugal. When you use the term "structural deficit," it means you have more expenses than revenues. You are dealing with a difficult financial situation. We are very proud of the fact that we have managed our funds well. We have good bond ratings, as Ms. Holland has said, but you are continually asking departments to do more with less, and our leadership in our schools and in our operation departments continue to listen to us and support us in our efforts.

**Katy Simon Holland:**

We are also dealing with a broad range of other folks in the community we serve. Yesterday I toured our alternative schools, meeting some of the adults who are going back for high school proficiency, and going back for diplomas. We have severely behaviorally disturbed youth, refugees, and many others in our community who are served by the school district, and that number has grown. There are about 1,500 people we are serving in our adult education, and we serve them from our general fund. Parents of students in our district have expressed their dissatisfaction to me about the unavailability of technology for their children—the long wait times students in the elementary schools have to use a computer. It is not preparing our children for the New Nevada.

**Tom Ciesynski:**

One of things we have frozen throughout this period is overtime. We constantly tell our staff they cannot have overtime without approval. Obviously for positions like school police at athletic events, we have to have a safety presence there, so we do not deny overtime in those instances, but for the poor school secretaries, who are some of the hardest-working people in our schools, we have to deny them overtime and ask them to stay within the boundaries. As a finance officer, it breaks my heart to have to tell a school secretary who gives 150 percent every day that he or she cannot work overtime.

**Senator Ratti:**

Thank you for explaining that. The piece I would like to dig into more is the sustainability long-term. You would expect the conversations we have been having here in 2007 to 2010, but we are recovering now and are in 2017 with this still happening. You say it is \$28 million now. You are doing all of this today, but what does it look like in 2018, 2019, 2020, et cetera?

**Katy Simon Holland:**

This was a huge issue to me coming from my background. I was an assistant county administrator for finance before I was the county manager for 15 years; I came through the Great Recession with Washoe County. Sustainability is a huge issue for us in local government, and a huge issue in the school district. We are looking at 50,000 new jobs coming into our region and we now have resources to build schools; however, we do not have the funds to pay the teachers, the principals, the school counselors, the nurses, the aides

to serve those children. So that question of sustainability keeps me awake at night. I can assure you, Senator Ratti, it is very frustrating. I do not know how we are going to make all of that balance.

**Tom Ciesynski:**

We are looking at getting \$126 per pupil in the State Distributive School Account (DSA). I know we are not talking DSA today, but it is our primary general fund source. The \$126 for the Washoe County School District will get pared down a little bit because of the "wealth factor." We will get about \$122 per pupil, which equates to about \$7.7 million. We are starting with a hole of \$28 million and that \$7.7 million is committed to paying for things like inflation costs on existing salary contracts, other forms of inflation we have pointed out, utilities, and things of that nature. We are very appreciative of what the Governor and the Legislature are doing to address our funding needs, but \$7.7 million will not help me overcome \$28 million.

**Chair Neal:**

Thank you for your presentation today. I will ask the Clark County School District to come to the table. I want to point out that today's goal is to talk about the different impacts to different entities, some local governments and school districts. We did a representative sampling to get a picture of the impacts around property tax and hear their stories.

**Nicole Rourke, Associate Superintendent, Community and Government Relations,  
Clark County School District:**

With me today is Rick Neal, our chief operating officer, and in Las Vegas are two principals who are going to give you a picture of what could happen at their schools with the property tax revenue.

Thank you for the opportunity to present our thoughts on the property tax revenue. I will start off by telling you about our strategic plan [page 2, ([Exhibit F](#))]. Our board set some strategic imperatives; academic excellence, engagement, school support, and clarity and focus. These support and lay the groundwork for our Pledge of Achievement Strategic Plan that has six goals: read by grade 3, reduce achievement gaps, increase graduation rate, increase family engagement, student safety and happiness, and college and career readiness.

For those who are not as familiar with the Clark County School District, we are the fifth-largest school district in the country. We currently have 351 schools, although we are building again. We have over 322,000 students in kindergarten through grade 12 (K-12). Seventy-five percent of the students live in Clark County, and through the Clark County School District, we serve them with more than 41,800 employees. We are also the largest public employer in the state. We are proud to say our graduation rate has increased over 25 percent, by 15 points, and our most recent class of 2016 with a rate of 74.88 percent.

We have nationally recognized magnet schools and career and technical academies. We do have regional career and technical academies, as well as numerous magnet schools, that address choice within our district. We also have the largest fine arts program in the nation [page 3, [\(Exhibit F\)](#)].

As an overview of the property tax situation, K-12 is the largest beneficiary of the property tax, and for Clark County it comes in two parts: the operations side and funds that go to our capital projects. The impact when our revenues do not come in is felt by students and teachers in our classrooms and our schools, and by all who work with the Clark County School District. For 2017, we currently project a \$15 million to \$20 million loss of revenues that have not been realized. Because of that we have deferred maintenance and increased long-term costs. It is having a real impact at schools [page 4, [\(Exhibit F\)](#)]. I will now have Mr. Neal review some of the charts.

**Rick Neal, Chief Operating Officer, Operational Services Unit, Clark County School District:**

I will start with the chart that shows the relationship between our enrollment and property tax collections. As you can see [page 5, [\(Exhibit F\)](#)], around 2010 is when it became an inverse relationship between the demand for our services and the amount of revenue coming in for those services. You can see that in approximately 2012, there was a little bit more of a dip when the secondary caps kicked in.

The next slide [page 6, [\(Exhibit F\)](#)] shows how this actually affects our general operating fund over time. As you can see for 2016-2017, we showed no growth as far as the projection. Looking back, you can see that we are close to the 2006 numbers; however, as the Washoe County School District pointed out, the buying power of those dollars is not quite the same.

Page 7 [\(Exhibit F\)](#) shows what makes up our revenues. As you can see, property tax makes up about 20 percent of our overall revenues. It is also important to note that the DSA combined with property tax is better than half of the revenue stream coming in for the Clark County School District. The reason I point that out is in this current biennium, we received a net \$47 per-pupil increase, which is the lowest we have had over the entire decade. The two revenue streams [DSA and property tax] are actually constrained and coming together at a time that is causing a significant impact to the Clark County School District. If you look at the previous biennium, we had an approximate increase of \$270 per pupil, so when you look at better than 50 percent of our revenue sources both constrained at the same time, that complicates the matter and creates a larger context for this discussion [page 8, [\(Exhibit F\)](#)].

No matter what business you are in, you will always be resource-constrained, and as Ms. Rourke mentioned, with the constraints we face, we have to make some tough decisions. The two examples on this slide [page 9, [\(Exhibit F\)](#)] are part of a larger effort to balance our budget, much like the Washoe County School District. Deferred maintenance and

administrative reductions will always be vulnerable for cuts because we do our best to keep from impacting those programs and assets directly in the schools and immediately impacting children; however, all of this will eventually impact the schools. The deferred maintenance, as you are well aware, does not get any smaller. It will continue to grow, and there is an overall long-term cost for deferring maintenance. When we talk about the maintenance, Ms. Rourke mentioned the bonding comes in two pieces: the general fund portion and the capital portion.

I would like to talk about the capital portion and some of the impacts. I am not saying all these things were cut just because of the property tax. What I want to point out in the next couple of slides is what we could have done if we had the revenue we projected for originally. We could have added classroom additions to two elementary schools or performed a major modernization at an elementary or middle school. Right now, our projected growth is about 0.50 percent per year. It is down a little from what it was before, based on competition. It was about 1 percent per year growth, so we had projected out. There is a savings associated with that; however, the cost of educating the children is still going up [page 10, ([Exhibit F](#))].

Other items include replacing heating and air conditioning (HVAC). We have some very old HVAC systems in our schools, and during the summer, those things will shut a school down. We have a serious backlog on the playground units for all of our schools, as well as chillers, and upgrades to electrical [page 11, ([Exhibit F](#))]. In the 78th Session, this body approved a bond rollover that will produce approximately \$4.1 million over ten years, and we are really appreciative of that, but even when the Clark County School District received that, we knew we had about a \$4.1 million to \$4.2 million deficit on top of that, and we still have requirements that are not going to be met. With the increased property tax revenues, we probably could address some of that in a small way. We are aggressively using the \$4.1 million, trying to address the capacity issues we are having. We have over one million square feet in construction right now, and one million square feet in design for the next phase. We appreciate what you have already done. We are just demonstrating there is still a larger requirement out there for us to address.

I would like to let you know how we came up with the per-pupil rate. We divided what we projected as far as property tax income and then used an average school enrollment. For an elementary school, it was about 700 students; for a middle school, it was about 1,200 students; and for a high school, it was about 3,000 students. That is where we came up with the numbers on the slides [page 12, ([Exhibit F](#))]. We presented those numbers to the principals, who are currently working on their school plans with their operational teams, and asked them if we had been able to put this money into their budget to give them the flexibility to make some real choices about what is done in their buildings to make it better for the children, what would they have done. I would like to invite Eric Johnson in Las Vegas to the table. He is the principal at Tarkanian Middle School. He will provide you with some of the impacts that could have happened if we had a per-pupil rate.

**Eric P. Johnson, Principal, Tarkanian Middle School, Clark County School District:**

I am honored and privileged to hold this title, and I take it very seriously. Our school opened 11 years ago with about 900 students, and we are fast approaching 1,900 students for this next school year. When I was asked what I would be able to do with an extra \$30,000, I got excited because at first I thought they were actually offering it. My first thought was technology.

I want to paint a picture of what we have at Tarkanian Middle School. It is a beautiful facility but we are 11 years in, and I have two sixth-grade computer literacy classrooms that have 40 computers in each of them. Those computers are 11 years old. They were probably purchased on a plan where they were already a couple years old when purchased. My first thought was if I had the money I would love to replace some of those computers. Obviously, \$30,000 is not going to allow me to replace all 40 in either classroom. I thought \$30,000 one year and \$30,000 the next. I want you to think about what our current computers look like. They are the old cathode-ray tube monitors. The central processing units and the processors are dated. We are able to function, but it is not twenty-first century technology.

After replacing those old computers over time, I would not get rid of them. I would repurpose them to cover state testing. I have 1,900 students, and to test in this new environment of online testing takes a lot of time. In the old way, I could have done all the state testing in about a week and a half because I would have had every student with a pencil and a paper booklet. Now I am looking at seven to eight weeks of testing—half days, every morning for seven or eight weeks.

If I had a full complement of computers [I am talking about one-third of the school, so just one grade level] I could probably get the testing done in four weeks. In order to do that, I would take those old computers out of the computer literacy classrooms and put them in a makeshift testing lab.

I have had conversations with my school organizational team about other things that are coming up. We have photocopy machines that need replacing. I have three large ones in my graphic arts room at a cost of \$13,000 each to replace; they are starting to age out. In addition, I also had to upgrade our security camera system this year out of my general fund budget. I spent \$18,000 just to add a few more security cameras, and I am going to need many more. That is an ongoing cost. I figure it will be about \$40,000 next year. Other items include LCD projectors and document cameras. In addition, every year I have about an \$80,000 budget for textbooks for mathematics and English language arts. With that \$30,000, I have a lot of dreams and a lot of things I would like to do.

**Senator Ford:**

Mr. Johnson, it is good to see you. As you know, my son goes to Tarkanian Middle School. He is in sixth grade. He just finished computer literacy class you were talking about, on 11-year-old computers. He is 11, so your testimony is hitting home in more than one way. We are going to continue to look at this property tax issue as a way to affect that.

**Linnea Westwood, Principal, Elise L. Wolff Elementary School, Clark County School District:**

We are located in Seven Hills, in the southeast area. We have 900 students from kindergarten through fifth grade. It is a wonderful school. It is my first year there. I am grateful to have the opportunity to speak to you today. This is a well-timed conversation in that we are all working on our budgets right now. I just presented to my own school organizational team, talking to them about the realities of adding up all of the costs we have in the upcoming year and falling very short of what we would like to do.

What I wanted to talk to you about today was my own wish of what I would do with approximately \$17,000. At the elementary school level, I personally believe that instruction is really important, and a lot of that important instruction comes from people. I would love to hire a new teacher, to make my class sizes smaller, but \$17,000 is not going to get me that. It would, however, get me a certified temporary tutor, which is something we have used in the past—someone who can come in and work with small groups of students.

I want to paint you a picture of what that looks like in an elementary school. My kindergarten classes have about 25 students each. My first- and second-grade classes range from about 18 to 25 students, and my fourth- and fifth-grade classes are at 35 students. With respect to reading, in a first-grade classroom today our kids are ranging from pre-primer level, meaning they cannot read, to almost a fourth-grade level, all in one classroom. An example of a fourth-grade class I have, we have students reading at a second-grade level all the way through a twelfth-grade level. One of the things we need to do in elementary schools, getting the foundations strong, is to make sure all of our students are growing. Because of the Read by Grade 3 legislation [Senate Bill 391 of the 78th Session], we obviously want to make sure we are reaching all students who are below grade level, and make sure they are at grade level by third grade. In order to do this, it takes intensive instruction and time, and students need small group instruction. If the classroom teacher spends all of his or her time with that small group, there are 20-plus other students who also need that attention. Having an extra person to assist those students is helpful to everyone.

We also want to make sure we are meeting the needs of our higher-learning students. We do not want to stay stagnant. At my school, we had very successful Smarter Balanced Assessment Consortium test scores. Our reading scores were in the 80th percentile and our math scores were in the 70s. We do well, but we have a belief that we need to push all of our students.

We have students who come to us who we think may need extra support through special education. In order to make sure we have done everything we can for them, we have to prove we have provided an extra 30 to 60 minutes of intensive instruction in a small group outside of the classroom. To have one classroom teacher be able to meet all the needs is a lot to ask. Our teachers are amazing and wonderful, and they do everything they can. They are

expected to differentiate instruction, but with growing class sizes and changing populations, it is so valuable and useful to have as many people in the building as possible who can give that close attention to our students.

**Senator Ford:**

Two of my sons went to Wolff Elementary School. I no longer live in the area. I believe my colleague, Senator Roberson, represents your district now. Your testimony is very compelling. Thank you for coming forward and letting us know how fixing the property tax system can assist your school.

**Assemblyman Pickard:**

I appreciate the presentations you have made. I know it is terribly difficult to budget for such a large group. As we talk about the revenue side and step back and look at the broader budgetary considerations, how many of these issues could be changed by revisiting the priorities of the district, by the simple decision to move more of the resources down to the schools so these two administrators could have what they need versus what we spend on other things? I am not advocating for anything in particular, but I am sure you go through that. Could you share with us what you have done to look at non-school-level expenditures that could be reduced and why the obstacles are what they are?

**Rick Neal:**

That is a very good point. There have been many cuts prior to us getting to this point. As many of you may be aware, we are going through a reorganization in the Clark County School District. One of the key tenets is to ensure the majority of the resources or the maximum amount of resources, goes to the schools. The resources are supposed to follow the responsibility for the outcomes, and that is what we are going through right now. There are a number of things we address through changing those priorities. It is a cultural, as well as a physical, change for the district. For the issues these schools are dealing with and the amount of money we are talking about, what we want to do is make sure we can give them money that allows them to make a meaningful change, to make a decision that actually influences what is going on in the district. Quite frankly, just like most organizations, the majority of our costs are personnel costs.

One of the things we did not talk about is the high schools; \$75,000 for the high schools is about \$6,000 short for an allocation for one full-time equivalent (FTE) in each school. We have about 49 high schools. When I talked to the principal at Coronado High School, that was the first thing he said to me. He would hire another teacher.

I am responsible for the operational services unit, which is basically all of the non-educational functions in the school district, and we are going back through to give them choice. Perhaps some of the services we provide are not the services we should provide or we cannot provide them in the most economical way. We need to make sure they have the

choice, the opportunity, and the funding to go out and get those services elsewhere. Those are the drills we are going through right now. We also face a deficit, just like the Washoe County School District. We will work through that; the important part is that we are able to project and that the funding sources we have are stable. We are changing our priorities, making sure they are aligned with the strategic imperatives and the mission our board has set out for us and the superintendent is leading us through. We need to make sure we can project properly.

**Assemblyman Pickard:**

You raise a great point. Are you confident you will be able to meet the basic needs of the children with the resources you currently have, or are you saying that when all is said and done, you are not going to get enough no matter how that reorganization turns out?

**Rick Neal:**

Failure is not an option on this. We will meet those needs. There will be some significant, hard choices. There are things coming to the table now that have not been there before. I think the Washoe County School District mentioned that as well. We try not to increase class size. The board has already agreed to look at the ending fund balance to make sure we could meet the needs of the students. The goal was 2 percent, but the needs of the students will always be primary.

**Assemblywoman Bustamante Adams:**

The Clark County School District set up a group of business owners to work with you regarding efficiency. Could you talk about where you are in that process?

**Rick Neal:**

That was a return on investment committee. The work we are doing now started with that committee. Some of the programs being evaluated for their efficiency and efficacy came out of the return on investment committee. There were three elements: school effectiveness, program effectiveness, and department effectiveness. Every department has gone through at least one of the reviews. We have created some efficiencies, but they have been relatively small. We are having to go to bigger ones. You have to evaluate whether a department is doing what it needs to do, whether it is value-added writ large, and whether it is worth the cost. That work has been ongoing. I will admit it has been somewhat diffused as we started the reorganization, simply because we had to have a level of focus on getting the school organizational teams and everything else ready to go, but that work has not stopped.

**Assemblywoman Bustamante Adams:**

Will there be a time when it stops, then you implement, and then you go back in maybe three to five years and do it again, or is this just a continuing process throughout?

**Rick Neal:**

It is a continual process. It is the new way of doing business in the school district. All programs and all departments are constantly evaluated for their efficiency. There may be a time where the return on investment committee is disbanded. The committee chairs were primarily from the business community but the personnel, the actual working committees inside the school district, still exist and will exist in perpetuity.

**Senator Ratti:**

Did you say you have a 2 percent ending fund balance?

**Rick Neal:**

No. I was saying that was the goal for the school district; that was always an aspirational goal. Right now it is not 2 percent.

**Senator Ratti:**

What is your ending fund balance?

**Rick Neal:**

It is 1.75 percent.

**Senator Ratti:**

I would like you to answer the same question I asked the Washoe County School District team. There are the challenges you are facing today, but what I am really interested in is the long-term sustainability and the cumulative effect. What happens in 2018, 2019, 2020, as you move forward with the disconnect between growth and the revenue stream?

**Rick Neal:**

My answer is much like the Washoe County School District. We have to start making tougher decisions on some programs that were actually protected. They were somewhat fenced off from the discussion. That is really the only way. There is no way to create an additional revenue source within the district that we have not already touched upon. It is going to be tough choices to get the chief financial officer and the financial department to move forward.

**Assemblyman Frierson:**

I asked the Washoe County School District a question about career and technical academies. Recognizing that the Clark County School District operates differently, what would it take to expand those options in Clark County? What impact would it have on Clark County students?

**Nicole Rourke:**

We have a thriving choice program of career and technical academies and a number of other magnet schools. They are all considered magnet schools because of the application process. In this past year, we had over 17,000 applications overall from students to attend

a magnet school. That is not just the career and technical academies. It is for 9,700 seats. We have a well-established need. It is like that every year. In some schools the ratio is higher than others, and some programs are within schools.

We do have a system where we do regional transportation for our career and technical academies. This helps us cut down the costs, but certainly that would be an increased operating cost if we were to add another school to help meet that need. The capital cost would be about \$165 million. Those schools are smaller, so they would serve around 1,700 to 1,800 students. They have highly technical equipment to help students learn and achieve certificates. Students work toward a certificate that they carry out the door with them, along with a diploma.

**Assemblyman Frierson:**

There being some 6,000-plus students who apply and do not get in, would you be able to facilitate staffing a new school if there were a new career and technical school built? Could you comment? I know you could not necessarily put twelfth-graders in it, so how many students would it accommodate in those programs?

**Nicole Rourke:**

When we open a new school, whether it be a comprehensive high school or a career and technical academy, we typically start with a freshman class going in, and in a comprehensive school we would start with a freshman or sophomore class. We start with a freshman class in a career and technical academy because of the certificate programs. Sometimes we can add sophomores. It sort of depends on the programming that is selected. We want to ensure they have the full opportunity to complete the number of courses required for that certificate. Depending on whether they choose web design, engineering, or something like that, that would determine how many students initially get in. Obviously, it would eventually serve grades 9 through 12.

**Assemblyman Frierson:**

Approximately how many students would that be once it has gone through a full matriculation cycle? How many students would be attending a career and technical school?

**Nicole Rourke:**

About 1,800 students, which is smaller than our comprehensive high schools at around 3,000 students. They need the additional space to accommodate the programming.

**Assemblyman Frierson:**

About one-third of the number of students who are not able to get in right now, you would be able to cut down that number by about one-third?

**Nicole Rourke:**

That is correct.

**Senator Kieckhefer:**

I would like to go back to the chart where you outlined your property tax revenue that showed flat at \$425 million [page 6, ([Exhibit F](#))]. Since 2016 is closed and we are in 2017 already, I will assume that 2016 is final and 2017 is budgeted. Why is it totally flat? That would show no new growth, and even in Clark County's presentation they showed some growth. Why is there zero in your growth?

**Rick Neal:**

You are right, Senator Kieckhefer. It would probably be around \$426 million. What you see is our projecting totally flat based on what we found out as far as the caps went. We took a conservative route because right now we are already facing a bit of a deficit. We could not afford to be aggressive on that one.

**Senator Kieckhefer:**

It makes total sense to me to budget conservatively. I totally agree with that. Was the \$425 million a final number out of 2016?

**Rick Neal:**

Yes.

**Senator Ratti:**

I know there has been some growth, but your property tax growth does not typically get recorded in the same year. You are getting that growth the next year. Is that the point, too, because of the secondary calculation?

**Rick Neal:**

Yes.

**Senator Ratti:**

Is the projected property tax growth for your county 0.02 percent?

**Rick Neal:**

Yes.

**Chair Neal:**

Why do the 2006 number of \$427 million and the numbers for 2016 and 2017 matter? They are close in number but there is a significance to drawing the correlation or the distinction between a 2006 average and then a 2016 and 2017 average [page 6, ([Exhibit F](#))].

**Rick Neal:**

The reason I was pointing that out is the value of the dollar we have right now, and the enrollment difference we have right now. We have dollars that are buying less and we have more students than we did back in 2006. It is showing that while it may look like it is equal, there is actually a bigger gap.

**Chair Neal:**

Roughly what percent of your budget goes to wages and salaries?

**Rick Neal:**

Approximately 87 percent.

**Chair Neal:**

How many additional students have you been able to put into each classroom to balance your budget?

**Rick Neal:**

I honestly do not have a good answer for you on that one. I would have to get back to you. I do not want to give you inaccurate information.

**Chair Neal:**

Are there any further questions from the members? [There were none.] We appreciate your presentation. You have helped to tell the story from north to south, in terms of what is happening in the school districts. We will now hear the presentation from the City of Sparks.

**Stephen W. Driscoll, City Manager, City of Sparks:**

Today I have with me Mayor Pro Tempore, Ron Smith, and our finance director, Jeff Cronk. Also in the audience I have our lobbying team: Adam Mayberry, our community/government relations manager, and Rocky Finseth. You will see Jenny Reese, who is not with us today, from time to time as well. I wanted to thank you for the invitation to share our thoughts on this very complex issue.

I would like to share with you the challenges the City of Sparks continues to face resulting from the insufficient fiscal resources available to meet our citizens' service needs, particularly as they relate to property tax revenues. The graph ([Exhibit G](#)) represents property tax information from FY 2001 through FY 2016, and our current estimates for FY 2017. The blue bars in the background represent the assessed value of all parcels within Sparks. The red line shows the amount of property tax revenue received. The black dotted line shows the current value of property tax revenues looking back to prior years. Similar to what you have heard today, that black line reflects the city is projecting to receive property revenues in FY 2017 similar to those received ten years ago, in FY 2007.

As the Committee is aware, property tax is made up of two components—assessed value for current parcels and the new values for improved parcels. The city has suffered from the loss in valuation in existing city parcels due to the Great Recession, and loss of new growth assessment from economic development within the city. While some areas of the state have seen a resurgence in new growth, the City of Sparks has experienced slow growth since the recession.

During FY 2006, before the Great Recession, the city processed close to 6,300 building permits valued at nearly \$400 million of new taxable value. As with other areas in the state, the building activity in the city dropped to its lowest point in FY 2011, with approximately 1,700 permits, with a value under \$125 million of taxable value. The city's permitting activity in FY 2016 was at 3,700 permits, with a valuation of just over \$225 million. This newest level of building activity is very similar to the prerecession levels, but at a much slower pace. Our builders in the Sparks area are building at a pace of sell a house and then build a new house.

As a result of the corresponding property tax revenue reduction since FY 2007, the city's service delivery has been challenged. I will provide a few examples. In the Sparks Police Department, if you were to use the national measure of officers per 1,000 residents, the city is 20-plus officers and support personnel behind the effective and efficient ability to react to calls for service in our community. The level of policing personnel, sworn and non-sworn, has remained about the same over the last ten years, while calls for services and the city's population have increased significantly. Priority 1 calls, for instance [life threatening, personal injury, domestic violence, or DUI], are seeing minor delays in response; however, Priority 2 calls [crimes against property which are in progress or motor vehicle crashes without injury] are seeing moderate to significant delays in response. In the City of Sparks, Priority 3 through Priority 5 calls [events that have already happened and there is no current emergency action needed] are no longer being responded to by police officers. They are requiring citizens to file police reports to start action on those events. Officers on the street are moving from call to call on a frequent and regular basis, leaving almost no time for community policing, which was a very positive policing activity in our city prerecession.

The Sparks Fire Department has two trucks and five engine companies active in the city on a daily basis. In FY 2008, the city was able to begin the year with each of the seven companies staffed up to four persons per shift. During FY 2008, due to the recession, the city was forced to reduce its workforce to three-person engine companies to maintain the daily operation of all seven of those companies. While three-person companies are safe, especially for the type of operations within the city, four-person companies provide for a more efficient ground operation and help assure better outcomes for our citizens whether on a medical, fire, or rescue call.

For the city's code enforcement function, prerecession the city had six code enforcement officers, and were able to not only respond to citizen complaints but were able to initiate actions based on driving around and looking for ways to improve the quality of life within the city. Today the city has three code enforcement officers and are restricted to only being able to respond to citizen complaints. The City's public works maintenance staff is maintaining an ever-increasing amount of infrastructure with a staff complement that still remains 35 percent less in FY 2017 than the number of full-time equivalents (FTE) in FY 2007, before the recession. The city's demand for services and user population have not gone down in this period, and the amount of work per FTE has increased.

Therefore, infrastructure and maintenance work is being delayed or neglected. Currently the city maintains 731 lane miles of roadway, 357 miles of sanitary sewer lines, 256 miles of storm drainage, and treats on average of 27 million gallons of sewage per day; and last year we treated over 5.3 million square feet of parks space and roadway medians for weeds.

The city's parks system has been the heaviest hit. The mowing of our over 640 acres of grass is accomplished on a 10- to 14-day schedule now. There were 430-plus acres being mowed a minimum of weekly in FY 2006. Park trash collection has suffered proportionally as well. The city has had to stop its forestry program and resort to repairs or replacements only. The trimming of shrubbery is on an as-needed basis and planting of flowers is a luxury of the past. The city is seeing some volunteer activity in our parks system, but the small number of groups is making only a minor difference in the quality of the city's parks system as a whole.

Without the current property tax abatement of an estimated \$4.6 million, the city would, through the Sparks City Council's strong, policy-driven budgeting process, be able to address a majority of the issues I have identified. A more stable property tax revenue base, as was contemplated with the legislation in the 2005 Session [Assembly Bill 489 of the 73rd Session], which created the caps equaling 3 percent for owner-occupied residential and 8 percent for other properties, would meet the intent of the protections for our citizens and still be providing for the services they deserve. I am available to answer any questions [read from ([Exhibit H](#))].

**Senator Ratti:**

I am sure many folks know that immediately prior to this session, I was a city council member for the City of Sparks, so I am relatively familiar with the efforts that were made to manage costs over the last eight years. Would you take a moment to go through what the City of Sparks has done to manage costs?

**Stephen Driscoll:**

The first unfortunate thing that had to be done at the beginning of the recession was to reduce our staff by 37 percent. That was not across the board. The public safety realms were not reduced as much. We used turnover and retirements to manage them. Since that point in time, we are clearly not sustainable. Our ending fund balances were much higher than they are now, so we have had to look at every program. We have taken services that can be done by others and used those. Mainly we have managed our service delivery. There are services that were no longer accomplished or services that were having to be done at a much lesser level. The tree program is a primary one. We are a Tree City USA community, with over 14,000 trees. We no longer have a tree farm. We buy the stock we need and replace and repair only if we have to; our parks are suffering from this standpoint. Playground facilities are being looked at and replaced only on an absolute as-needed basis. In some cases, we are taking them out and they are not being replaced for several years. We are driving trucks and cars in our fleet two and three years beyond their useful life, especially our fire equipment and some of our equipment we use for excavation. Those are some of the things we

have done. Also, we are in a 60-year-old city hall building, and we have delayed an HVAC system in that building for more than seven years. We have gotten by with fans in the summer and space heaters in the winter. We are seeing that same problem now in our 25-year-old police building, which also needs to expand. I think that hits the high points.

**Assemblyman Flores:**

I am looking at the conversation regarding law enforcement and fire. Do you have a multijurisdictional agreement now to fulfill some of those needs? In other words, I know sometimes fire from different jurisdictions would come on board to help alleviate some of the needs, but that is not true in all jurisdictions. I want to know if you have agreements with surrounding jurisdictions in that arena. Is the same thing true for law enforcement?

Talk to me about your volunteer forces, if you have any. I know unincorporated organizations will sometimes use an umbrella arrangement where they will have firefighters and also have some type of volunteer force overseen by them. I know volunteers are a way of sometimes alleviating some of those pressures and constraints we put on some of our firefighters and law enforcement. Could you break all that down for me?

**Stephen Driscoll:**

The Sparks Fire Department has very aggressive and active automatic aid and mutual aid agreements. We partner with the Truckee Meadows Fire Protection District to our north and to our east, and to the City of Reno to our west. The agreements between these three agencies work very well. We are in each other's territory on a regular basis, based on call volume. Since we only have three-person engine companies, for 14 to 17 people to go to an actual structure fire would take all our complement, then the Reno Fire Department and Truckee Meadows Fire Protection District fill in behind us. Eighty percent of our normal calls are for medical, and those medical calls are still coming in while we are responding to a fire. Those agreements have worked very well. This was something we worked very hard to maintain.

We are also increasing our medical service capabilities to paramedic service, to equal the Reno Fire Department's and the Truckee Meadows Fire Protection District's service, so when we are called to help them, we can provide the same level of service.

We do not use any volunteers. That was one of the things when we went from four-person to three-person engine companies, was to maintain the same number of apparatuses to cover the city, and its theoretical segmented circles we all hear about for fire. We do help provide training to the Truckee Meadows Fire Protection District, which does use volunteers, both training at Truckee Meadows Community College and with volunteer services. When we back up, many times the backup is from other professionals, and then they are being backed up by volunteers. This is an active program; we are just not using it because of our geographical area.

Our police department also has automatic and mutual aid agreements, so when we need help, they can come in. We also participate in a lot of regional teams, repeat offender programs, a gang unit, and other programs of that sort. We are able to use and bring those resources into our jurisdiction when there is a problem. We have a robust relationship with Washoe County. We partner where we can and provide assistance where we can.

**Assemblyman Flores:**

I did not mean to imply that we cover our deficits with volunteer forces. I am always curious to see how creative we are when it comes to fire and police departments.

**Stephen Driscoll:**

One place we do use a lot of volunteers is in our police department. We have a senior volunteer program that does a lot of the heavy lifting in our records management. They also go out and help with parking enforcement, especially for handicapped parking violations. There are between 50 and 75 people who help us on a rotating basis. We use volunteers where it is practical.

**Senator Ratti:**

I appreciate you, highlighting those facts. There have been many conversations about personnel costs, and we know cities and schools are personnel intensive. A 37 percent reduction in staff translates to a 37 percent reduction in services. I served with Mr. Cronk and the Mayor Pro Tempore, Mr. Smith, on probably the most fiscally conservative council in the north, no question. I would like them to talk more about the city's fiscal policies and how you approach them. I want to make the point of how fiscally responsible you have been. In terms of the long-term sustainability question I have asked everyone else, how do you address that deficit?

**Ron Smith, Council Member, Ward 3, City of Sparks:**

I believe we worked together for eight years, and even though we were on the opposite sides of the spectrum, we came together on the issues that were important to the City of Sparks. What is important to the city is providing services and protecting our citizens. What we had to decide as a council is what kinds of services we could supply to the city with the money we have. That was always a struggle for us. We start work on our budget in October for July 1. We hash it out and do what we think is the best for the city. I think we did a good job with that, politics aside.

**Senator Ratti:**

Mr. Cronk, would you talk about your policy process?

**Jeff Cronk, Director of Financial Services, City of Sparks:**

We realized when the recession hit that we had to move very quickly. We realized there was going to be a long-term problem, so we implemented a series of six policies we have leaned on heavily. I believe in Mr. Driscoll's testimony he mentioned the policy-driven budget process we use, and we rely on that quite heavily. As Mr. Smith mentioned, we do start in

October, hammering out what those policies are, especially during a recession. Those were almost six months to one year at a time, and here we are more than ten years later, finding ourselves in the same position.

These policies are quite basic to the concept that fiscal stability is what we are trying to achieve—long-term sustainability. We realized we were going to have a long-term problem so we had to address these kinds of issues: what kind of an ending fund balance do we want to maintain this fiscal year and beyond; what percentage of revenues should be budgeted for personnel costs; how do we have a balanced spending plan; and how much do we fund capital improvements. Although we have made a lot of cuts in our capital improvement program and are continuing to do so, we cannot ignore that forever. You have to address those issues, so we knew we had to make an investment or those would get more expensive over time. We have certainly seen that. We try to keep it simple and easy to communicate, with the council's strong leadership and support of those policies and adjustment to those policies as needed. That is sort of the process we follow.

**Chair Neal:**

Are there any additional questions? [There were none.] We appreciate your testimony and telling us your story. It is unique.

**Daphne Hooper, City Manager, City of Fernley:**

Today I have with me Denise Lewis, our City Treasurer, and Mayor Roy Edgington in the audience. The population of the City of Fernley is about 19,000, and today we will focus on the challenges of roads that we face with regard to property taxes. The City of Fernley updated its pavement management program in 2015. A pavement management program is designed to provide objective information and useful data for analysis, allowing the city to make more consistent, cost-effective decisions relating to the preservation of our pavement network.

The City of Fernley is responsible for the repair and maintenance of approximately 96 miles of paved streets. According to the 2015 pavement management program update, approximately 29.7 percent of the city's streets are in good to poor condition, while 5.4 percent of the city's streets are in very poor condition. The cost to repair and maintain a road depends on its current condition. Treatments are typically applied before pavement deterioration has become severe. Current estimated costs are approximately \$4.05 per square yard for slurry seals and \$1.25 per linear foot for crack sealing. These treatments are intended to be proactive and applied to roads before concentrated distress appears, which is a cost-effective way of extending the life of the pavement. Pavement with conditions as poor to very poor can cost an estimated \$40.50 per square yard to upwards of \$75.85 per square yard.

As we all know, you either pay now or pay more later. Streets that once cost an estimated \$4.05 per square yard to seal may soon cost as much as \$75.85 per square yard to reconstruct, which is about 18 times more expensive. Unfortunately, the City of Fernley is left with

no choice. The city has been forced to postpone much-needed repair projects due to the lack of property tax revenue, specifically abatements. If the city continues with the current projected funding level of approximately \$500,000 to \$1.2 million in tax revenue dedicated to the streets program, the condition of the roads will soon decline. Without sufficient property tax revenue, preventive road maintenance will be postponed. Deferred maintenance will increase from \$20 million to \$31 million.

When sufficient property tax funding is unavailable for street maintenance and repair, the average street condition is expected to decrease and the deferred maintenance will increase. More capital-intensive treatments such as reconstruction will be required and less expensive treatments such as surface seals or overlays will no longer be feasible or effective.

Property tax revenue is about 36 percent of our general fund revenue, about \$2.4 million of the total general fund revenue of \$6.7 million. In 2015, the total property tax that we should have received was \$3.9 million. Abatements were 40.8 percent, or \$1.6 million, so the actual property tax revenue we received was \$2.1 million. In 2016, the total property tax was \$4.9 million. The abatements were 46 percent, or \$2 million. The actual property tax revenue we received was \$2.4 million. In 2017, the total property tax was \$3.9 million. Abatements were 41.2 percent, or \$1.6 million, so the actual property tax revenue we received was \$2.3 million.

The streets program accounts for a large portion of the expenditures out of our general fund budget. With increasing abatements, the funding to repair and maintain the roads is challenging. This forces the city to put off much-needed repairs, resulting in deteriorating infrastructure that costs much more to replace. If you look at the graphs we provided, ([Exhibit I](#)), the blue line shows the city's current budget, which is the second line from the bottom. The red line shows what would happen if the city is unable to complete any projects, which is challenging without any review. The purple line on the top is where we should be to keep our roads going. In the bottom chart, the blue bar shows our current budget, and the green bar shows what is needed to maintain those roads at a good level under our pavement index. I am available for any questions [read from ([Exhibit J](#))].

**Assemblywoman Spiegel:**

As you are talking about the roads, I remember when you had that really big flood. Are you still feeling the aftereffects of that, and how has that impacted your current situation?

**Daphne Hooper:**

The flood occurred at a time when the city was just growing, so we did not have as much money then. We still do not have the money to repair the roads specifically, so yes, there is some impact. I think with the growth we are anticipating, it is challenging, but the infrastructure challenges we face as a result of that are harmful.

**Chair Neal:**

You said your total property tax was \$4.9 million, and then the abatements were about 46 percent, which was \$2 million. Is your general fund \$6.7 million in 2016?

**Daphne Hooper:**

Yes.

**Chair Neal:**

So when I saw this chart, the first thing I thought was you are really poor. In looking at the purple line and your current city budget, there is a huge gap. I am trying to figure out how you are sustaining yourself. There must be a lot of prayer going on in the city. Talk to us a little more about what is happening.

**Daphne Hooper:**

Yes, we are very poor. We serve a population of about 19,000 on a general fund budget of about \$6 million to \$7 million per year. Property tax is a large portion of our revenue. We work on fees and other sources of revenue, but we do not have a lot of income coming in. Our streets budget runs about \$3 million to \$4 million out of that general fund, so we are left with about \$3 million to provide other programs and services. We operate on a full staff of about 61 employees, so our streets department has 4 people; it is the same with our other departments.

**Chair Neal:**

What is the average age of homes in Fernley?

**Daphne Hooper:**

It varies. We have a lot of older homes. Before the city was incorporated, we were a small town of about 7,000 or so; we are now a population of 20,000. There has been a lot of growth during the boom, with a lot of homes included, so it varies.

**Chair Neal:**

I was asking that question to try to find out if you have properties that were aging out and in addition to the abatements, you were also having the depreciation factor at work in your area. This is really good information, and I appreciate your testimony. Do the members have any additional questions? [There were none.] We will now hear from Lyon County.

**Jeff Page, County Manager, Lyon County:**

Unlike some of the larger areas, I am it. You can see that Fernley and I sat together. We actually get along. We work very well together, contrary to what you may see in the media. Fernley's issues are not unlike the rest of Lyon County. To give you a bit of background, I have been with Lyon County now for 31 years. I am a third-generation Lyon County resident, so I have an extensive history of what Lyon County has been, where it has come from, and where we are heading at this point in time.

Prior to 2007, Lyon County was a relatively small, growing county. With the boom things started to change. From 2000 to 2010, we had a 50 percent-plus increase in population in Lyon County. There has been a shift in the population; the majority of our population is north of the Carson River. What is interesting about Lyon County as compared with the surrounding counties, they have to provide services in only one location. In order to get services to the people, we have to do it times four: in Fernley, Silver Springs, Dayton, and Yerington. That is a huge challenge for us. I testified in a previous session when Assemblyman Livermore mastered the definition of "windshield time": driving from point A to point B to provide services. We have a great deal of windshield time in Lyon County.

Prior to 2011, we paid the state approximately \$155,000 for services. That has increased by 541 percent. Currently, we pay almost \$1 million to the state for services. I am not complaining; it is just where we are with the fiscal impact of the state's budget woes from 2011 to where we are today. We have seen relatively little increase in our property taxes. Last year, FY 2016, we received one-half of 1 percent less than we did the year before. Our consolidated tax distribution went up 3.6 percent last year. I do not know what is projected for this year. To be quite honest with you, between the Legislature and dealing with the flooding issues in Lyon County, I have not had the chance to meet with my comptroller to find out where we are with budget preparation.

In 2007, we had 415 full-time-equivalent (FTE) employees in Lyon County. Today we have 323. We have approximately \$32 million worth of roads that need to be improved, based upon our most recent pavement analysis and road analysis. We also have an additional \$5 million on top of that because of recent flooding events that occurred in central Lyon County, from Carson City to Churchill County line.

We currently have 24 parks in Lyon County, with two people who maintain those parks. We went from a staff of about 10 to 12, full time and part time, down to 2 people. We have had to brown out three of those parks. We fully shut them down, turned off the water, and let the grass go to seed. We work with community members and organizations to help with the maintenance for the rest of them. We do the heavy lifting. They pick up the trash, and if there is a broken sprinkler head, they let us know, those types of things.

We have four community centers in Lyon County, three of which are now managed by nonprofit organizations. They have a lease. They give us \$1 per year. They maintain it. Again, we do the heavy lifting, so if a heater goes out or something like that, we take care of it. Otherwise, they are taking care of the routine, everyday maintenance, the scheduling of the facility, and cleaning the facility.

In 2009, we came the Legislature to talk about the condition of Lyon County. At that time, our poverty level was 11 percent. Our poverty level in Lyon County is now 16.5 percent. I believe we had a 110 percent increase in homelessness just in the City of Fernley from last year. We are starting to see some of the changes that happen when you get population; some

of that urban impact. Not that Lyon County is urban, but we have never experienced a real homeless issue. We have had a few here and there, but we have never had what we are seeing today.

Regarding public safety, Lyon County is unique compared with your larger urban counties. As an example, we do not have a fire department. We have four separate fire protection districts [authorized by *Nevada Revised Statutes* (NRS) Chapter 474], which are combination departments, meaning part paid and part volunteer. Smith Valley is the only exception, which is located at the very southern end of our county. It is an all-volunteer department of about 12 to 13 people. We know, based on what has happened with the property tax, they have not been able to add enough staff to deal with the issues. Volunteers in fire service have decreased mainly because of training requirements. The majority of Lyon County is still a bedroom community for Reno, Sparks, Washoe County, and Carson City. Monday through Friday, from about 6 a.m. to 6 p.m., our population travels to neighboring counties to go to work, and then comes back.

In 2009, our unemployment rate was at 16-plus percent. It is now about 6.3 percent, so things are starting to improve and starting to change. We have hope on the horizon with USA Parkway being completed, giving us access to the Tahoe-Reno Industrial Center. Folks are working up there already, and hopefully there will be more jobs coming down that pike. It is not all doom and gloom. The challenge for us is trying to get from flat revenues to being able to replace the number of positions we lost to take care of services. Since 1986, whether they realize it or not, the board of county commissioners has made a policy statement every budget year. The sheriff's budget has never significantly been impacted by any of the cuts. They have lost a few positions through attrition that we did not replace, but they had no significant layoffs. During 2011 and 2012, the Lyon County Employees' Association gave two years of concessions—no pay increases. In 2012, the sheriff's employees gave concessions. In 2012, the board of county commissioners froze all wages for employees who were not eligible to be members of the associations. This resulted in litigation from two elected officials against the county. The judge ruled the district attorney did not have the authority to sue the county, so we never got the question answered as to whether the board of county commissioners actually had the authority to freeze those salaries.

We went through a number of challenges to get there. The good news is we also came up with some creative ways to deal with the issues. The best and worst thing to happen to Lyon County was the fall in the economy. We learned some lessons the hard way, as to where we need to put staffing, and what we need to be doing. The challenge now is with every budget year, as we fall short, how many more hours do we reduce the libraries and which senior center are we going to shut down? As you can imagine, politically speaking, shutting down a senior center is not a real popular discussion item. I think we are beyond that point this next fiscal year. We will not be having those discussions.

The challenge we face today is our population is starting to take off again. We are seeing more and more developers looking at not only residential, but commercial industrial developments. As our population increases, how are we going to provide services for those new people coming in, whether it be businesses or homes? The board has directed me to work with the University of Nevada, Reno (UNR) to develop a five-year plan on how we are going to deal with these issues. All our department heads are meeting with UNR to start working on a strategic planning process, have it completed by June after it being out to the public and to the board, to come up with a plan on how we are going to deal with these issues moving forward, trying to avoid how it was done in the late 1990s, early 2000s: by a wing and a prayer.

We have also had to get creative. In some instances we can no longer compete with Carson City, Douglas County, and Washoe County, and their local governments for wages and benefits for some of our key positions. The engineering, surveying, and community development are now contracted out to a company called Far West Engineering because the county cannot compete and keep people. We can hire someone, but within six months they are going to be working for Washoe County, Carson City, or Douglas County. Far West Engineering is doing a majority of our community development work, as well as the engineering and surveying.

The sheriff's office has also gotten creative. I believe it was Assemblyman Flores who asked about volunteers. The sheriff has a large component of what he calls "volunteers in policing," and they do a number of things for the sheriff so the patrol does not have to. First off, they patrol. They drive around. If there is a problem, they radio dispatch and they will send a uniformed officer to deal with the issue. Unlike a police department, the sheriff's office is also responsible for serving civil process. They serve a great deal of civil processes so the deputies are not tied up with that operation. They do home checks and vacation checks for people who are out or leaving. They do door checks in the evening hours and graveyard hours to make sure the business doors are still locked or windows have not been broken; those kinds of things. If they are, they would contact a uniformed patrol member to deal with it. That has helped the sheriff immensely in dealing with his law enforcement issues.

Another challenge is we never seem to make the news for anything good. We have had a rapid increase in the last three to four years of major homicides. Lyon County had its first-ever capital homicide case, in which a gentleman murdered five people. It cost us well over \$1 million to prosecute and defend that case. We are still waiting for the final bills to come in through the appellate process. It was a felony case, and he was convicted and sentenced to death. We are seeing more and more drug and street gang activity. They are coming in, doing their business, then going back to Washoe County and Carson City. These are challenges we have never had before. I spent 21 years of my 31 years with Lyon County working for the sheriff's office. The calls for service they receive today are much more complex than they were even ten years ago. As we move forward, things are getting better in

some aspects, but in others they are getting significantly worse. Our biggest challenge is dealing with the flat revenue structure we currently have. I will entertain any questions or concerns you may have.

**Assemblywoman Cohen:**

Do you think the residents of the Lyon County are getting the connection between the loss of services and the property taxes?

**Jeff Page:**

Yes. As an example, in 2013 the board of county commissioners raised the tax rate to the cap at 6.43 cents. I think this generated a whopping \$90,000 for us at that time. Lyon County is a very conservative Republican county. There are maybe 10 percent who are anything but conservative. It cost a couple of commissioners their jobs; but now, and especially right after the flood, the citizens are asking for a general improvement district in the Highway 50 corridor with the tax rate to do a flood control. They are starting to see that because they have been so long without services. One of the comments made today at our board meeting from citizens complaining about the flood is they very rarely see a deputy sheriff and they never see a grader come by to grade their road. We maintain 544 miles of road and have 400 miles of road that we do not maintain. The people who are complaining are on the roads we do not maintain. They will not see a grader on those gravel roads until the board changes that policy. We have changed our grading cycle from four times per year to twice a year, and on some roads once a year. I have ten workers for 544 miles. So yes, they are starting to see the impacts. They are talking to us about how do we do this. They always ask where the money goes. That is a hard question for them to ask and is even harder for us to explain how that process works.

**Assemblywoman Cohen:**

Do you have any idea about numbers, about the financial impact of not grading those roads, the impact to the economy, to the county?

**Jeff Page:**

When we did our review last year with our engineer on the roads, we identified some nonmaintained roads that needed to be put on the maintained list because they are going to be adjacent to commercial industrial sites, so we are working through that process. On the residential side, we have not seen a whole lot of impact as far as the economy goes. Some of those roads in Mound House, portions of Silver Springs and Stagecoach, and specifically around the airport in Silver Springs, those roads will have to be upgraded and dealt with, so the people who want to do commercial industrial development because of USA Parkway will be able to do so.

**Assemblywoman Bustamante Adams:**

My question is on the demographics of the population. Can you tell me how many residents are over the age of 65 and the number of young adults you have within your county?

**Jeff Page:**

Residents who are 65 years of age or older in Lyon County is at 20-plus percent right now, and that has gone up significantly over the last ten years. We continue to see that grow as people move from other portions of the state or from other states. They are at their retirement age. In my mind, they are looking for someplace that is not the Bay Area, is not Boston, is not Chicago, but services are still somewhat available. We are starting to see that increase. If you talk to fire and emergency medical services, they have seen a significant shift in their calls over the last ten years from traumas and those type of things to cardiac events, cerebrovascular accidents, or strokes. There is a big uptick in the senior population. What is also interesting is we have seen an increase in our disabled population below the age of 65 to about 14 to 15 percent now, where a few years ago we were at about 4 or 5 percent.

**Assemblyman Flores:**

I think sometimes we take for granted how creative some of our cities or counties get. So we can put this in perspective, I would appreciate you, giving me a breakdown on what those volunteer hours would equate to in dollars if you had to hire somebody.

**Jeff Page:**

I can tell you that a deputy sheriff with wages and benefits, full package, no overtime, earns \$85,000 per year. I have about 20 volunteers in policing out on a regular basis. Take 20 times \$85,000 and that is what it would be costing the county.

**Chair Neal:**

Are there any additional questions? [There were none.] We appreciate your presentation. It has been helpful to hear your story. I will now call Jeremy Aguero to the table. He will do a wrap-up from Tuesday and talk about the solutions out there for what these entities are facing.

**Jeremy Aguero, Principal Analyst, Applied Analysis, Las Vegas, Nevada:**

May I spend three minutes cleaning up some items from the last time I was here? Senator Gansert, you had asked me specifically for the impact by land use over time. We are still working on this. With your permission, I would like to work with your fiscal staff, Mr. Guindon. We will get that finished and get it over to you.

Assemblywoman Spiegel asked about the connection between private sector and public sector, sort of community management. I did request some individual jurisdictions to get that information. I am going to try to get that back and see if I can balance it. It was not an easy one to circle back on.

Assemblywoman Bustamante Adams asked me during the last meeting about some of the history in terms of why we had depreciation, or why we went to market value. I do not think I quite answered her questions. I would like to go through a little bit of that history, to try to make sure I circle back on the question I probably did not answer completely last time.

Our property tax, as we know it today, came to be in the late 1970s, at the end of the Carter Administration. Inflation rates were remarkably high. We were talking about double-digit inflation. Most of us today probably cannot conceptualize how difficult that was. As a result, property values in Nevada were going through the roof. In response, across the entire United States, there were initiatives put in place to try to cap property taxes. The most notable one for us was Proposition 13 in California.

In 1978, a constitutional petition initiative (Question 6) seeking to essentially cap property taxes in the state of Nevada was approved by voters, and ultimately came before the Legislature in 1979. In 1979 the Legislature decided to do something about this because how it was structured, it was going to be very onerous on state, local governments, and school districts. The Legislature decided they were going to find a solution. That went on in 1979 and again in 1981. I will not go through all those details but there was a lot of discussion. A legislator by the name of Robert Price brought forward an amendment that recognized if someone lives in a house for a longer period of time, that person would age. They wanted to be able to provide some tax relief for older Nevadans. Also, as a property continues to age, legislators wanted property owners to have some leftover money in order to be able to reinvest and keep up their property. Before this 1979 to 1981 shift, the state of Nevada was at market value.

We shifted over to this concept of full cash value of land and replacement value of the assets during that same time. There is a fair amount of testimony about a single house that was actually located on what is now the Las Vegas Strip. If you can imagine, there was actually a single-family residential home that was in very close proximity to the Las Vegas Strip. The Strip as we know it today started with Mr. Wynn's opening of the Mirage in 1989, so we are talking about well before the modern era of the Strip. Even during that time, the value of that underlying property on the Strip was remarkably high for a house. If someone was going to look at what the market value was of that particular home, legislators were very concerned that it would be out of whack and that it would be problematic. They came up with this idea to have the full cash value of land and the replacement cost of the assets in order to be a way of moderating the rate at which property values would increase, in light of the incredible rate of inflation that was out there. That is just some history about how we got to where we are.

I was asked to talk about property tax alternatives today. I have created a spectrum for you ([Exhibit K](#)). It is from the least extensive to the most extensive, going from left to right.

On the far left is status quo—take no action. We continue on the current pace, using the current structure. We have talked about what that is doing today and what it is likely to do into the future.

On the bottom left is the second alternative ([Exhibit K](#)), which is to increase the secondary calculation floor above 0 percent. The secondary calculation to the partial abatement cap effectively limits growth to the greater of two times the Consumer Price Index, or the

ten-year average growth in assessed value, but not less than 0 percent and not greater than 8 percent. An alternative here would be to simply create a floor that was something greater than 0 percent. The idea behind a concept like this would be to not let what happened in 2017 happen again. You would never be able to drop all the way to a 0.2 percent growth rate in a period when we have 0.2 percent in terms of how much something can go up, and abatements are going up somewhere in the order of 25 percent. Please note: all the factors matter. These continue to depend on things like inflation, and inflation is unpredictable. To be sure, this alternative and probably others could have no effect on property taxes for an individual taxpayer or could have a negative effect. It could actually go down as a result of doing some things like this.

Going back to the top of the chart ([Exhibit K](#)), the next alternative is to eliminate or phase out the secondary calculation. This would theoretically generate more revenue. The secondary calculation that is dependent on inflation and the ten-year average would essentially go away. Three percent and 8 percent under this scenario would just be 3 percent and 8 percent. There would not be any secondary calculation. This is something that has been discussed somewhat.

Back to the bottom of the chart ([Exhibit K](#)), the next option is to reduce the depreciation factor. Improvements are currently depreciated at 1.5 percent per year for up to 50 years, taking the property down to a residual value of 25 percent for purposes of assessment. The factor could be reduced to a lower level. As a matter of fact, this happened. The Legislature originally imposed a depreciation rate of 2 percent in 1981 and reduced it to 1.5 percent in 1983. I just put the example here of 1 percent. It could be reduced over time or phased out. There are many options. As you heard from testimony today, slower-growing areas or aging areas deal with an increasing impact of depreciation. This would limit that impact, or slow it over time.

Back to the top ([Exhibit K](#)), next is to allow limited rate increases outside the partial abatement cap and outside the \$3.64 legislative cap. Today there are two property tax caps in the state of Nevada. One is a \$3.64 cap, which actually has an effective \$3.66 rate, that is legislatively imposed. There is also a \$5-per-\$100 constitutional cap. The idea here would be that you would essentially take some portion of that tax rate and move it outside of the abatement. Mr. Page just testified that Lyon County increased its tax rate but generated almost no revenue. I think Ms. King offered testimony that 1 cent of property tax in Clark County, if raised and implemented today, would generate around \$600,000 worth of revenue, where if it was outside the abatement cap, it would generate somewhere between \$7 million and \$8 million in revenue. The idea here would be simply to take a portion of that rate, move it outside the cap, and either give the Legislature or a local body the ability to implement that rate. This would be very similar to what the state has done in terms of the retail sales and use tax. We have a state retail sales and use tax, and we have built other

pieces on top of that: the basic city-county relief tax and the supplemental city-county relief tax. I would note, however, that there are a number of local governments around the state that are already at the \$3.64 property tax cap. In order to make this effective, you probably have to also allow that cap to be made higher.

Next is the income approach limitation ([Exhibit K](#)). For properties where values are reduced using the income approach, the state could limit the term for which that revaluation remains in force. As was discussed on Tuesday, a number of nonresidential property owners question their respective governments about their property value dropping. They are making no money, and as a matter of fact are losing money, and since they are losing money, the value of their asset that is generating that money must therefore be lower, based on something called the income approach. That is absolutely true and those property owners can do that. The problem is, when the economy recovers and their revenues come back up, there is a one-year mechanism to allow them to essentially recover on the back end. What we have seen is that many of those declines, because of the length of our economic downturn, have stuck with us and still do today. They are significant. We could theoretically limit it to say one or two years, at which point they would just be subject to the cap, just like every other property would have been otherwise. I think this one would probably have to be going forward, as opposed to being retroactive, just based on the way it would ultimately work, but it would certainly prevent some of the problems we have today.

The third option on the bottom is to cap the abatement ([Exhibit K](#)). As was discussed on Tuesday, approximately \$700 million would be abated in 2017. This option would limit the rate at which the abatement could increase, setting a maximum total. It would be something like what it is today, \$700 million or \$800 million. We are putting an upper end cap on the total property tax that an individual taxpayer could abate. Say that the abatement could be no more than 15, 20, 30, or 50 percent of the taxes that an individual taxpayer can abate. Complicated? Certainly, but the expectation is that the amount of abatement is likely to increase significantly over the next several years. By essentially limiting the amount at which taxes are abated, you would essentially increase the amount of revenue being generated by the property tax.

The fourth option on the bottom is to increase and align the partial abatement cap growth factors ([Exhibit K](#)). Currently the partial abatement cap growth factors are at 3 percent for single-family, owner-occupied residences or qualifying residential rental dwelling and 8 percent for all other property types, and this alternative would essentially align them. It would make everything subject to 3 and 3, or 4 and 4, or 5 and 5 ([Exhibit K](#)). I offer these as examples. It could be anything that the Legislature might ultimately think of, but that would also be something that would prevent a situation like what happened this year. Just so we are clear from a technical standpoint, the actual abatement cap is 8 percent on all property. The 3 percent that is applied to owner-occupied residential property is the result of Article 10, Section 1, Subsection 10 of the *Nevada Constitution*, that allows for a lower rate as a result of an emergency condition for only single-family residential.

The fifth alternative on the top is to convert to market value ([Exhibit K](#)). This comes up a fair amount so I wanted to make sure I included it here. The idea is expanding on the answer to Assemblywoman Bustamante Adams' question earlier, the idea of getting away from the full cash value of land and replacement cost of assets less depreciation, and essentially just say whatever that house is worth or whatever that office building is worth, that is the value on which the taxes are going to be assessed. This alternative would tax property based on its market value. However, market value is significantly higher than what taxable value is today, so in doing this, if the partial abatement caps are not adjusted, the only practical effect that this change would have would be to increase the amount of taxes that are abated every single year.

Back on the bottom row, the second from the right is to reset the abatement on sale ([Exhibit K](#)). This one seems to come up a fair amount. The idea is when I sell my property, my taxes should just reset. This is what happens in California. In Nevada, we have this abatement concept, and so why would we not just say when you sell your property, the abatement does not travel with you. One thing that we have to remember is that the *Nevada Constitution* requires uniform and equal taxation of properties, not uniform and equal taxation to taxpayers. Those things tend to have to travel with the property and not with the taxpayer. I believe something like this would require a constitutional change, not unlike Senate Joint Resolution 13 of the 78th Session that I will talk about in just a moment.

Third from the top right is a one-time abatement reset ([Exhibit K](#)). The idea would be if there was about \$700 million being abated to property taxpayers today, the Legislature could theoretically essentially recapture some of that money just at one time. We discussed in the Tuesday meeting the fact that property taxes are not keeping pace with inflation and population growth combined. One idea could theoretically be to just recapture that and then reset it. What would essentially happen, if nothing else was changed, is there would be a one-time reset of whatever that value was, and then the 3 percent and 8 percent caps as they currently exist would continue to exist going into perpetuity.

Second from the right on the top is the elimination or phase-out of the partial abatement caps ([Exhibit K](#)). This would be a relatively aggressive stance overall. Removing the 3 percent and 8 percent partial abatement caps would essentially remove \$700 million in abatements. It would essentially repeal the caps as imposed by Assembly Bill 489 of the 73rd Session.

The second to the last of my alternatives here is S.J.R. 13 of the 78th Session ([Exhibit K](#)), which will likely continue to be part of the discussion going forward. It would essentially say that property taxes are limited to 1.25 percent of a concept called base value. It would limit annual increases to 3 percent. It would reset all values on sale. This would be a concept that requires a constitutional amendment, thus the structure of S.J.R. 13 of the 78th Session. It is at the far right of my timeline because as it is currently structured, it would likely result in a significant increase in taxes for many taxpayers. The fundamental question that we have to ask is how would S.J.R. 13 of the 78th Session interact with the existing abatement structure? In my opinion that is unclear. It could have almost no effect

because the cap structure would stay in place, or it could result in a fairly significant increase in taxes for many taxpayers because 1.25 percent of base value, as defined, is much higher than many taxpayers are paying today.

On the far right side ([Exhibit K](#)), the very last of my alternatives is property tax reform. This is essentially to take a look at everything that is on this list—the rates, the bases, those types of things—and essentially rethink the state's property tax from the ground up and ask ourselves the question, if we had to do it all over again, would we do it as it is today?

I appreciate the opportunity to be here and to go through this list. I am happy to answer any questions that you may have.

**Assemblywoman Spiegel:**

Could you please explain what base value is?

**Jeremy Aguero:**

I believe it is the taxable value as identified in FY 2018-2019 for that individual taxpayer. I will double-check and get back to you. [Page 2, lines 12 through 14 read, ". . . the base value of real property is the property's taxable value from which the assessed value for the fiscal year 2017-2018 was calculated."]

**Senator Farley:**

The whole idea of the property tax structure as it is today is to somewhat protect the property owners from the ups and downs. We have had some radical ups and downs in our market, and the system worked. We only went to 2017. Do you see this correcting itself? Is the policy good and we are just seeing the system recover itself? Is it going to be two or three years? Maybe we should be looking elsewhere and leave something that was meant to protect people in place, or are we reacting to a moment in time?

**Jeremy Aguero:**

At the beginning of your question you said that the property tax, as it is currently structured, is to essentially stop taxpayers from dealing with the roller coaster—the ride up and the ride down. I think that the structure as it currently exists is to protect taxpayers from it going up fast. To be clear, property taxes can fall under just about any scenario we can imagine property values can decline, because in no case can we tax individuals more than what the value of that property is. The tax structures that currently exist protect taxpayers from spikes. It does not insulate them or governments in terms of the decline significantly.

The second piece of your question, are we thinking about a long-term solution to a short-term problem, if you are asking me relative to the 0.2 percent we experienced last year that got everybody anxious, my answer would be yes. That is a short-term aberration. I do not expect it is going to happen any time in the near future; at least I hope it will not. In about

three or four years, I would expect that the ten-year average for assessed value will become the dominant factor in that calculation, making the question of inflation less significant, which is the more volatile piece of that.

If we look over the longer-term history of the state of Nevada, property tax has been the most stable and predictable source of revenue we have had. I think we have done things to tinker with it so it no longer is. To me, the fact that it is now disconnected from our economic growth suggests that while some of the policies may ultimately be good ones, we may have taken it a few steps too far, to the point at which property tax and the economy are no longer linked. I think that is an economic and a fiscal problem for us.

**Senator Farley:**

I would like to know what it looks like after 2017. We have done a lot with economic development; we have given a lot of abatements. In my opinion, we are not quite seeing the growth we thought we were going to. We have given a lot of things away. Are there other contributing factors, other strategies that were meant well, that are very good, and just have not paid off yet? Are those things contributing and now what we are doing is looking at property taxes, raising one to offset something else? I would like to know the details on that answer. For me, to make this not a moment-in-time discussion, I would like to see how this plays out over time. I cannot imagine, with the complexity of the structure when they put this property tax in place, that they did not model for scenarios like this, but I could be wrong. That is what is making me pause and ask if we are just focusing on a today problem.

**Jeremy Aguero:**

I am going to answer the end piece first. I can assure you that in 2005, this particular scenario was not modeled for, where we had an essentially unprecedented decline in property values and near-deflationary conditions. I would love to tell you it was, but the way the secondary calculation came in was at the eleventh hour. There was really no time to think it all the way through. To be honest with you, even if we had had the time to go all the way through something like that, it just was historically unprecedented. It was just like you said earlier, just kind of an aberration, a short-term kind of fluke.

The first part of your question, I think, deals with a question of economic development. I do not want to put words in your mouth, so if I am saying this wrong, stop me. Some of the carve-outs that we have put into our property tax, they are out there. They are material. We think about things like economic development and redevelopment, and some of the other incentives we have provided. I am not going to suggest to you that those will massively move any of those numbers, but they are significant, and I do not think they should be given short shrift. However, if we look at economic development in terms of the Governor's Office of Economic Development, EDAWN, the Las Vegas Convention and Visitors Authority, and all of these companies that are assisted by those groups, those are some of the ones that hit the headlines, and they are remarkably important to our state for any number of reasons in terms of changing perception.

Let us say there are roughly 150 businesses that have gone through that process; since 2011, Nevada has added 10,000 businesses. In Clark County alone, over the past year, we have added 2,400 new businesses. We talk so much about economic diversification, which I think of as businesses moving in. I tend not to think about economic development, which is existing businesses and their ability to expand. I would argue that the state of Nevada right now still has some signs of the economic downturn, and I think we see that particularly in construction-related trades. We see some of that particularly for people who lost their jobs and may not have had transferable skills.

Our economy today is doing so much better. We are the second- or third-fastest-growing state in the United States in terms of population. We have added back all the jobs that we have lost. We have added more than 2,000 businesses over the past year. Visitor volume is at its highest level. We are recovering home equity. So my point is that if we look at the economy as a whole, in terms of what it is doing, we would expect the property tax, which is a function of both investment and increases in aggregate value of property, to keep pace, and it is not.

**Senator Farley:**

You know we are having a minimum wage discussion because 25 percent of our workforce does not make enough to not access welfare. We are one of the top six fastest-growing states accessing the Supplemental Nutrition Assistance Program and other benefits for people who are working. With all the businesses coming in, I just do not know the material effect. You cannot expect something to happen overnight, and maybe it just takes a little time. I would like some more answers.

**Assemblyman Kramer:**

I believe I am probably the oldest one up here. All of us have people in our districts who are over the age of 65, retired, and living on fixed incomes. If we take away this cap, readjust the way some of these options indicate, are we going to create real hardships? We have seen years when an increase in Social Security benefits, an increase in pension and real income get wiped out completely by the Medicare increase. They are then stuck with less than they had before. If we go through and do some of these things, it is going to be a real hardship on a fairly large segment of our population.

We are going to have to find a way that somehow these are protected, without relying upon a give-back of property tax. I know there is a state program for people who have an income under a certain amount, and I do not think that is going to work because the first thing that happened when we entered our recession was that went away for several years, and it was not there for people to rely on. I recognize there are some fairly dramatic changes that need to be made. I am hoping this is something that is considered in how we protect that element of our community.

**Senator Ratti:**

I really do appreciate the comments. I want to make sure that as we framed it at the beginning and will frame it here toward the end, that these were just presented as a series of options that people are talking about. We wanted people to get an education on all the options on the table. Nothing in today's presentation was intended to advocate for any specific option, just really to lay out all the possibilities.

There were a couple of options you described that because of the abatements would not affect any existing property owners, but would impact new growth. Anything new coming on line would be affected; then you do not have to deal so much with the issue Assemblyman Kramer mentioned because the abatements protect the folks who are currently in the system, but then the same problem is not applied moving forward. I just wanted to mention that and thank you for the comment, because it is something we need to be sensitive to.

**Chair Neal:**

I was reading the historical information on the tax shift from 1981 [[Senate Bill 69 of the 61st Session](#)]. What stuck in my head was a statement that the incentive during the tax shift of 1981 was to provide additional property tax relief to homeowners while still providing an adequate source of revenue for local governments. I feel we are at that same question now. Although we are protecting homeowners from an increase in their rates, which happened in 2005, and that is good, what we are missing is that the wall of protection we created does not allow for this revenue to drop off into local governments. When we look at the north, the counties are very different. We need to talk about how we make sure the balance occurs. You said on Tuesday this could be another tax shift, and what is interesting is how that statement from 1981 echoes where we are right now. I want to hear your viewpoint because I think at the end of the day we want to make sure that, statewide, all of our counties and cities can provide services.

**Jeremy Aguero:**

I am not 100 percent sure of the best way to answer your question, only because I think you provided the answer in the question itself. The problems the Legislature faced in 1979 and 1981 are very similar to the ones the Legislature faced in 2005 and ultimately today. It is amazing how close they mirror each other. As you said, the idea of the tax shift in 1981 was we are going to shift from property taxes over to retail sales-and-use taxes, and we are going to try to keep everybody whole. The Legislature came back in 1981, 1985, 1987, and essentially fixed what they did in 1981, ultimately getting to 1991 where they have this whole concept of fair share because the distributions that happened during that period were resulting not only in insufficient revenue, which they had to deal with during almost every session, but inequitable distribution of that revenue.

It was not only a question of sufficiency, having enough revenue for local governments to do their job, but it was also a question of appropriateness and distribution. The tax policy side

had issues, so the Legislature came back in every one of those years, ultimately trying to get it fixed. They ultimately did in 1998, with the whole fair-share concept. The same thing happened in 2005. The Legislature faced very similar problems to what they faced in 1997 and 2001. To the Legislature's credit, we made it ten years without having to address some of the shortcomings of what the Legislature did in 2005 because it worked. The Legislature was thoughtful in terms of how it was constructed and because the economic realities were a little bit different. The Legislature contemplated the same thing in Assembly Bill 489 of the 73rd Session because at least as part of all of those challenges they had after those 1979 and 1981 adjustments, there is a reason why they talked about a two-year spike. They knew that this was an abnormality. It was something that was not likely to happen, and could not possibly continue into perpetuity. You cannot have 50 percent increases in property taxes on and on and on. They talked about having a study, going back and looking at it because they knew broad reform was going to be necessary. They were essentially putting a short-term fix on a long-term problem. They understood the balance between the needs of the taxpayer and the needs of the service providers, and that is why they talked about exactly what you said during the tax shift. What you read was almost exactly what was in Assembly Bill 489 of the 73rd Session, dealing with the fact that governments have to be able to build roads, have police and fire protection, and educate kids. That disconnect, I think, is existing today. I think your question is a fair one, and yes, we are repeating history, although I would like to believe we got a little bit more out of the change in 2005.

**Chair Neal:**

I think this has been a good discussion. Our goal was to educate you on property taxes so that going forward you had a somewhat solid foundation to work from. I will now open it up for public comment. I am going to limit you to about two minutes.

**Chris Daly, Deputy Executive Director of Government Relations, Nevada State Education Association:**

The state of education funding, as we heard from both Washoe and Clark County School Districts, is still in crisis. Despite the good effort by the Governor to increase funding in the DSA and expand worthy programs like special education, Zoom schools, and Victory schools, the average per-pupil funding from this year to next is only going up about \$150 per pupil. That is about 1.5 percent. We know this does not keep up with the increased costs of doing business, thus the discussion of even more belt-tightening across our school districts—never mind the hope of providing the funding necessary for the responsible implementation of the weighted funding formula. This is not good enough. Public education needs more revenue.

We get it. Nobody likes raising taxes. However, when presented with the question to increase taxes to fund something that people really care about, this negative sentiment often fades away. Last month, *The Nevada Independent* commissioned a poll by The Mellman Group that surveyed 600 likely voters across the state.

I will read you question 8:

"In 2015, a state law was passed that increased state taxes to fund education programs and changes to Nevada's K through 12 public education system. Do you think this new law was a step in the right direction or wrong direction in improving Nevada's public school system?" Sixty percent answered right direction. Twenty-six percent answered wrong direction.

This question, of course, was in reference to the Governor's commerce tax, not property taxes. Addressing the issue of the property tax cap is the most likely revenue source to increase funding for our schools, other than the proposed marijuana tax. We hope you will consider doing the right thing. Many Nevadans, especially those voting in tough Republican primaries, are not going to love it, but most will understand and appreciate the necessity.

**Roy Edgington, Jr., Mayor, City of Fernley:**

I know everyone wants to go home, but there is one pet peeve I would like to talk about. In Lyon County, we are capped. In the south and the north, there is still 6 cents left on the books. The City of Fernley decided to ask for a portion of that with the fire district last year. When the formula came back from the Department of Taxation, which was a long and complicated formula, we received 1/900 of a cent. I understand there was a cap. I cannot believe that the legislators, whether it is you or your predecessors, would have a formula that would figure out to 1/900 of a cent. Three thousand dollars; that was their increase. It is a fluke and I understand that.

Last night we had a meeting. The city treasurer came to me in a panic because we received 1/900 of a cent two years in a row. I cannot believe somebody could not come up with something reasonable, such as if it goes below that, you get one-third of a cent. If there is money on the books, you can ask for that.

I understand tax is complicated. I have spent six years trying to figure it out and still have no clue, but 1/900 of a cent is just ridiculous. I know the system does not work because we are working with it and we are not getting ahead. We are floundering. I appreciate your time. I know it is tough, I am glad I do not have your job.

**Chair Neal:**

Thank you for your testimony. Seeing no further business, we are adjourned [at 6:48 p.m.].

RESPECTFULLY SUBMITTED:

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Gina Hall  
Committee Secretary

APPROVED BY:

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Assemblywoman Dina Neal, Chair

DATE: \_\_\_\_\_

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Senator Julia Ratti, Chair

DATE: \_\_\_\_\_

## **EXHIBITS**

[Exhibit A](#) is the Agenda.

[Exhibit B](#) is the Attendance Roster.

[Exhibit C](#) is a copy of page 8 from a PowerPoint presentation titled "Clark County Property Taxes Overview," dated February 14, 2017, presented by Yolanda T. King, County Manager, Clark County.

[Exhibit D](#) is a copy of page 1 from a document titled "Final Budget, County of Clark, FY 2016-17," presented by Yolanda T. King, County Manager, Clark County.

[Exhibit E](#) is a copy of a PowerPoint presentation titled "Washoe County School District, Property Tax Impacts," presented by Katy Simon Holland, Vice President, Board of Trustees, Washoe County School District.

[Exhibit F](#) is a copy of a PowerPoint presentation titled "Property Tax Revenue," dated February 16, 2017, presented by Nicole Rourke, Associate Superintendent, Community and Government Relations, Clark County School District.

[Exhibit G](#) is a document titled "City of Sparks Property Tax Receipts Compared to Assessed Valuation," presented by Stephen W. Driscoll, City Manager, City of Sparks.

[Exhibit H](#) is written testimony, dated February 16, 2017, presented by Stephen W. Driscoll, City Manager, City of Sparks.

[Exhibit I](#) is a document titled "City of Fernley Presentation," dated February 16, 2017, presented by Daphne Hooper, City Manager, City of Fernley.

[Exhibit J](#) is written testimony, dated February 16, 2017, presented by Daphne Hooper, City Manager, City of Fernley.

[Exhibit K](#) is a document titled "Property Tax Alternatives," presented by Jeremy Agüero, Principal Analyst, Applied Analysis, Las Vegas, Nevada.