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

Seventy-ninth Session
February 14, 2017

The joint meeting of the Senate Committee on Revenue and Economic Development and the Assembly Committee on Taxation was called to order by Chair Julia Ratti at 4:08 p.m. on Tuesday, February 14, 2017, in Room 4100 of the Legislative Building, Carson City, Nevada. The meeting was videoconferenced to Room 4401 of the Grant Sawyer State Office Building, 555 East Washington Avenue, Las Vegas, Nevada. Exhibit A is the Agenda. Exhibit B is the Attendance Roster. All exhibits are available and on file in the Research Library of the Legislative Counsel Bureau.

SENATE COMMITTEE MEMBERS PRESENT:

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

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

STAFF MEMBERS PRESENT:
Russell Guindon, Principal Deputy Fiscal Analyst
Joe Reel, Deputy Fiscal Analyst
Michael Nakamoto, Deputy Fiscal Analyst
Gina Hall, Assembly Committee Secretary
Olivia Lloyd, Assembly Committee Assistant
Lex Thompson, Committee Secretary
Colleen Lennox, Committee Secretary

OTHERS PRESENT:

Jeremy Aguero, Principal Analyst, Applied Analysis
Yolanda King, County Manager, Clark County

CHAIR RATTI:
I open the meeting. We will not hear any bills today.

Today, if you have specific testimony you want to make or any comments you want to make on any specific bill, you are welcome to do that under public comment, but we will not hear any bills today. It may be more appropriate to hold that testimony for the time when we are hearing specific bills.

Today, we begin a deep dive into our property tax system. Nevada's property tax system is one of the most complex in the Nation. We do some interesting things that only Nevada does. Most of our property tax goes to schools and local government. Nevada's schools and local governments rely on property tax to maintain the expected levels of services. This Joint Committee needs to make sure the system is stable, simple and reliable.

Some folks are wondering if this presentation is about removing the protections provided by statute for when your property value accelerates at a rapid rate. I want to assure everybody this meeting is not about that. There is no conversation, that I am aware of, that removes the protections homeowners and businesses have from accelerated growth and valuation. The purpose of this meeting is to understand the challenges faced by local governments and schools and to search for creative solutions to those problems.

JEREMY AGUERO (Principal Analyst, Applied Analysis):
I am here to provide an overview of Nevada's property tax system. Background for the preparation of this presentation is on Slide 2 (Exhibit C).

Applied Analysis has worked with a local government fiscal working group for the past five years on several issues, including sales tax and property tax. During that time, we have analyzed the property tax and its potential issues. Understanding the property tax and the potential effects of policy on it requires a parcel-by-parcel analysis. We compiled a database of all parcels in Clark County and Washoe County so we could perform a series of analyses, or stress tests, on the property tax system. Concurrent with that, the local government fiscal working group over the past year has evaluated a wide range of issues. My presentation today is at the request of both Committee Chairs and is specific to how the property tax works, its mechanics and the challenges we encounter as a State. This presentation is from that perspective. My presentation has five parts as shown on Slide 3.

Part I is understanding Nevada's ad valorem property tax system. The foundational element of our property tax system is Article 10 of the Nevada State Constitution as noted in the preamble to A.B. No. 489 of the 73rd Session (Exhibit D).

The purpose of Slide 7, Exhibit C, is to start at the beginning of property taxes, which is the beginning of our State. The second clause from Article 10 on Slide 7 may lead some to believe that mining is not subject to tax. Although taxable, mining is under a different section.

From a foundational standpoint, when we think about any source of revenue for Nevada, we think about the tax base, what is subject to the tax and the rate imposed. On Slide 8, you can see the determination of the tax base or value, which has two component parts. One is land, which is at the full cash value based upon land use or potentially used as if it were vacant property. The second is the improvements. Nevada values improvements at replacement cost less a depreciation factor of 1.5 percent per year for up to 50 years. This depreciation factor is unique to Nevada and is one that results in deterioration of our tax base over time. It is also important to note this tax base calculation is not equal to market value, which is the price at which I might sell my home. Sometimes this can get a little confusing, particularly for taxpayers, but it is important. If we think about the assessment rate, there are two different concepts that you will hear out there. One is the taxable value, that is what I just talked about, the cash value of land plus replacement value of improvements. Multiply that number by 35 percent to get taxable value. We get from taxable value to assessed value by multiplying taxable value by 35 percent. That is the base.

Next is the second concept of rates. Rates vary by jurisdiction. The fact that the rate might be higher in one city or lower in some counties is not a violation of uniform and equal. The idea of uniform and equal means that we assess property uniformly and apply rates uniformly in each one of those locations. The legislatively imposed cap is $3.64 per $100 of assessed value, and the constitutionally imposed cap is $5 per $100 of assessed value. Stated differently, the tax rates according to statute can be no higher than $3.64 per $100 of assessed value or 3.64 percent. Notice there is a little asterisk in the printout that I provided showing that. The State does impose an additional 2 cents outside of the cap, making the effective legislative cap $3.66 as opposed to $3.64. I think it is important to point out that the Nevada Constitution, Article 10, section 5, constitutionally limits our property taxes to $5 per $100 of value, or 5 percent. I have just explained the tax base and rates. The logical next step is to work through the calculation for an individual taxpayer. For illustrative purposes, I have used a typical $150,000 single-family residential home. The taxable value of that home is $150,000.

As you can see in Slide 11, we take the $150,000 and multiply it by the assessment ratio of 35 percent. This gives us an assessed value of $52,500. Next, we divide that by 100. In the case of our example of a southern Nevada city, that rate is $2.90 per $100 of assessed value. Take the assessed value, divide it by 100 and multiply it by the tax rate. The property tax due for this particular home is $1,522.

Now, we introduce the concept of effective rates. To calculate the effective rate for our example, we take the bottom line, taxes due, divided by the top line, taxable value. If you divide $1,500 by $150,000, then effective tax rate is 1.1 percent. I will tell you that as we look at effective tax rates in other areas across the United States, we can see that everybody's tax rates are different. Historically, Nevada's effective tax rates have been among the lowest in the

United States. This is a favorable thing, and something we would want to preserve as a State.

On Slide 12 I have taken the example we provided and shown the effective tax rate on the bottom and added a couple of extra lines at the top. Those are cash value of land and the replacement cost of improvements. Land in our hypothetical example is $50,000, and replacement cost of the improvements is $100,000, which gives us the same taxable value of $150,000. I added a new concept here. The third line from the top, the one shown in red, is a subtraction, which is the depreciation factor. That is going to be 1.5 percent per year for up to 50 years and reducing the residual value to about 25 percent of its original total. In Year 2, I have increased the cash value of land and the replacement cost of the improvements by 2.5 percent per year. The depreciation factor in Year 1 is 1.5 percent of the replacement cost of the improvements. Everything else is the same, and holding everything else constant, the resulting tax liability for our taxpayer goes from $1,522 to $1,544 as a result of the fact that their values went up but their depreciation brought it back a little bit.

The effective tax rate drops by a very small margin. The reason for that is the depreciation reduces the full taxable value. We look at Years 3, 4 and 5 and see that as the amount of depreciation increases, so does the amount of the value of our hypothetical property. You will see that the resulting tax liability three lines from the bottom continues to increase in each one of those years. Not surprisingly, our values are continuing to increase and our effective tax rate continues to decline, if only slightly. That is because we are looking at each one of the first five years of our hypothetical house.

ASSEMBLYWOMAN BUSTAMANTE-ADAMS:
Did you say why we put in depreciation to begin with?

MR. AGUERO:
May I defer that question until later in the presentation?

ASSEMBLYWOMAN BUSTAMANTE-ADAMS:
Yes.

MR. AGUERO:
Our hypothetical house is a simplified example that looks at the first five years of a single-family residential housing unit. It is important to jump to the end of the depreciation period for a moment. We get to Year 51, and the depreciation for this single-family residential housing unit is complete. The amount of depreciation, shown at the fourth line from the top all the way to the far right hand side, is now over $257,000 and the tax rate has increased from about $1,500 in Year 1 to about $2,600 in Year 51. However, the effective tax rate has dropped down to 0.51 percent. This one thing makes our tax system different from others around the Country. As a property ages, the property taxes have a tendency to decline. We know there is no correlation between the services demanded by an older property versus the services demanded by a newer property. This is a reality of our tax system, and we have to accept the fact that if no growth happens and if our values were to be flat over time, our tax base will deteriorate for exactly this reason.

ASSEMBLYWOMAN SPIEGEL:
Take two houses that were both built at exactly the same time, and one person lives in one of the houses for 51 years. The house next door sells in Year 48 or 49 after a renovation to an entirely new house, excepting the foundation. Would that original depreciation factor still be the same, or does it reset?

MR. AGUERO:
I am going to answer in two ways because there are two possible outcomes. Let us imagine your hypothetical situation where you own a house and I own a house. You live in your house for 25 years, we both have lived in our houses for 25 years, I leave my house, and someone else moves in. The depreciation stays with the house since it travels with the property, not with the taxpayer. I will answer the second half of your question. What happens if I build something onto my property or I have dramatically changed it, and I have torn it down and built something entirely new. There is a provision that states if supplemental or replacement value of my property is in excess of 10 percent in any given year, the assessor must factor that change into the age of my property when calculating the depreciation. There is a possibility that the value of my house in the example you gave, which would be remarkably extreme, could reset. Let us imagine that you kept your house up and I did not. Let us imagine you replaced your flooring, painted your walls, took care of your lawn and did all those things, and I did not. The reality of that is that we would bear similar tax

liabilities because the replacement cost of your house and the replacement cost of mine would be similar. When I sell my house, that would be the same.

Madame Chair, you brought up at the beginning that we do have some things in our tax system that are different from other areas around the Country. One of those is this depreciation factor. On Slide 13, you can see that Nevada is the only state in the United States that applies this depreciation factor and utilizes this method of combined full cash value of land plus the replacement cost of assets to determine taxable value. There are areas that have some type of adjusted valuation based on market value.

We have talked about this concept of the foundation of how Nevada values property and the rates that are applied. We have talked about the calculation for the taxes. The third important concept is the overlapping tax rates. This concept is often confusing to taxpayers because they get a tax bill with several different rates. There are state rates, county rates and special district rates. People get their property tax bills, and they see what they are paying, but it is not always clear how all of these rates work together.

In Slides 15 through 22, I have used the City of Henderson as the example. For a midsized city, it has various property tax rates. Henderson's combined tax rate is $2.90.

The overlapping tax rates fund every level of government relative to the geography in which that property tax is collected. In this case, Clark County has tax rates that apply to folks who live in the City of Henderson. Schools have both a school debt rate and a school maintenance rate or operating rate. The City has its rates. There are special purpose rates, which would be the City's Library district, the Indigent Accident Fund and the Medical Assistance to Indigent Persons rate. Higher education, which is the State Cooperative Extension, has a rate applied. Finally, Nevada has a tax rate of 17 cents. When we add all of those up, we get the tax rate applied in our example here.

Oftentimes, there is some confusion relative to whether the State is in the property tax business. You do not see a big rate here that says State of Nevada. In fact, the bottom of Slide 21 says 17 cents, which is a fraction of the $2.90 combined rate shown at the bottom. However, it is important to note that the State in many ways makes up for shortfalls in property tax. Property tax is part of the calculation for the Distributive School Account, and if property tax is less than expected, the State contributes a portion of that shortfall. The State is tangentially in the property tax business because if property taxes do not come in as expected or if property taxes fail to generate sufficient revenues, the State's General Fund makes up the difference.

On Slide 23, you can see that education is a significant share of the overall total. In fact, roughly 40 cents out of every dollar shown here goes to fund K-12 education. I have shown it here on a pie chart on the left-hand side, which shows schools in gray and then breaks out towns, cities, special districts, counties and State in the other colors. I have also shown a breakdown for every dollar on the right-hand side. This is school district spending for each dollar and how much is from various other pieces. What the Chair indicated in her opening comments is certainly borne out in the analysis shown here. That is, schools are significant relative to property taxes.

We have talked about foundational elements, calculations and overlapping tax rates. Now, we address abatements on Slides 25 through 27.

Abatements are the most discussed property tax issue over the past decade. We will spend a significant amount of time talking about those. Owner-occupied single-family residential housing units have a partial abatement cap of 3 percent. All other property generally believed to be commercial, industrial, hospitality or institutional has a partial abatement cap of 8 percent. To be clear, technically, they both have an 8 percent cap. Due to the emergency language included in the Constitution, the residential cap drops down to 3 percent. It is important that owner-occupied residential is not all residential. If the residence is not owner-occupied, the cap is 8 percent, not 3 percent. If the property is renter-occupied residential, that is to say an apartment complex or condominium, the abatement cap is at 8 percent because it is not owner-occupied residential. However, if the rent is fair market rent as issued by the United States Department of Housing and Urban Development, it can qualify for the 3 percent abatement. My intent is to let you know that these are the abatements understood to be 3 percent and 8 percent. However, as with many things, property tax tends to be more complicated than it looks on the surface.

Slide 26 is the fiscal year (FY) 2016-2017 tax cap factors. These are the final tax caps. I thought it was important to understand that the tax caps are not the same in each jurisdiction around the State. The leftmost column in my chart is each county, and I have put the State at the bottom. Each county has to take into consideration a couple of additional factors. One is the moving average growth rate. The moving average growth rate is the moving average for the last ten years of assessed value. In each one of these rows, you see the average growth in assessed value for the last decade for each county.

For example, look at White Pine County, the second row up from the bottom. For the past ten years, it has had an average growth rate of 1.5 percent. If we look at Clark County, third row from the top, it had an average growth rate over the past ten years of minus 2.7 percent. This resulted from a few years in which property values dropped like a rock. Nevada had one year in which property values dropped by 23 percent, and that drop is bringing down this 10-year average. The second thing each county has to take into consideration is the consumer price index (CPI). This county inflation factor is more complicated than just the CPI alone. It is actually the CPI multiplied by a factor of two. If we look at the chart, we notice that the CPI is the same for every county in Nevada. The reason for that is there is no such thing as a subnational CPI. There is no such thing as the Nevada CPI or one for Humboldt County, so we rely on the CPI, or the inflation rate, reported nationwide. At the end of 2015, which we are using for this data, Nevada was almost in a deflationary condition. Inflation during 2015 was 0.1 percent. Multiply that times two and that is how we get the county inflation factor.

Remember: The tax cap for owner-occupied residential property is 3 percent, the tax cap for all other property is 8 percent, and now I have introduced two other factors, the idea of the moving average growth rate and the idea of the CPI-driven cap. *Nevada Revised Statutes* (NRS) 361 says specifically that the cap is 3 percent for owner-occupied residential and 8 percent for all other property unless the 10-year moving average, or 2 times CPI, is less than 8 percent. In that case, we are required to take the greater of those two. The cap can be no less than zero percent and can never be any greater than 8 percent for commercial property.

For example, if we look at Churchill County, second row from the top in our list, we see the 10-year moving average growth rate is 1.9 percent. The CPI is 0.2 percent and the residential cap and the general cap are 1.9 percent and

1.9 percent. They are not 3 percent and 8 percent since the caps are this lower number.

Now let us go down to Lander County right in the middle of the chart. The moving average for Lander County is 25 percent during the same period. The CPI change is no different at zero. The residential caps are 3 percent and 8 percent because that 10-year moving average is so high and the caps can never be greater than 8 percent. Notice, I was referring to that 10-year average and that CPI as applying to the 8 percent—zero at the floor, 8 percent at the maximum. Written into NRS 361 is that the increase for the commercial cap, or the general cap, as shown here, must never be less than the cap for residential. In the event the general cap drops below 3 percent, the residential cap must also drop below 3 percent. I realize that is not an easy explanation of this, but that is how these caps work. I would like to provide one more example.

In my presentation, Slide 27 has the exact same data just shown, except I have reversed some of the columns and shown it only for Clark County going back to 2006. If we look at Clark County starting in 2006, the residential cap and the commercial cap, for purposes of our conversation today, were 3 percent and 8 percent because the 10-year average was at 12.6 percent. The ten-year average kept everything relatively high. The caps stay at 3 percent and 8 percent because the increase in assessed value was so high it was always higher than that 8 percent, keeping the 8 percent and the 3 percent intact. In 2012, the ten-year average for assessed value starts to drop. Now, for the first time the 10-year average is below 8 percent, meaning the commercial cap drops to 6.3 percent, but the residential cap remains unchanged. When we look at 2017, we see a period in which the 10-year average is negative 2.7 percent. The CPI was extremely low, almost a deflationary condition of 0.1 percent. Now the commercial caps are at 0.2 percent. Residential caps can never be higher than commercial caps, so the residential cap must also be a 0.2 percent.

SENATOR ROBERSON:
I am just googling CPI. "This is monthly data on changes in the prices made by urban consumers for a representative basket of goods and services." Therefore, I look at that, not being an expert, and I say okay, would that not be reflective of the year-over-year increases that a local government would incur? I mean labor is a little different, and we can talk about labor costs separately, but it seems to me that two times CPI might be a good indicator of what local

governments face on a yearly basis as far as increased costs. Would not that be a good way to provide some sort of limitation on what property owners should have to pay as far as increases go from year to year? Does that make sense? Not saying you agree with it, but that is my thinking.

MR. AGUERO:
Yes, the whole idea of including an inflationary measure is to show how rapidly prices are going up for this representative basket of goods. The fundamental question is whether the basket of goods for government is the same as the basket of goods for all urban consumers.

CHAIR RATTI:
I am reflecting on having just moved from being a city council person for local government, and we saw the most cost pressure for local government around health care. Is that a significant outlier?

MR. AGUERO:
Yes. If we look at the government basket of goods, that cost has increased at a higher level for exactly the reason you just mentioned. Senator Roberson said that as well. The cost of providing service and labor has become increasingly expensive. To your point as well, if we look at things like the cost of living index in Nevada, or at least in major metropolitan areas, we know the cost of things in Nevada has increased. You mentioned health care. Over the past few years, the cost of housing has increased, which affects everything, including services. Other things like the cost of groceries, have increased. There are also things that have gone down in price, most notably the cost of gasoline, which is a significant cost for school districts that provide transportation. I know local governments are going to talk about how their costs have increased and changed over the past several years, so I have not added those pieces into my presentation. If you find in your deliberations that some of that information would be helpful, then I will provide supplemental information for you and Senator Roberson.

CHAIR RATTI:
Thinking specifically about schools, one other area where the State experiences this, is whenever there is an inflationary bubble in terms of a building boom, as we have seen in the State. Is it fair to say that the cost of construction and

building maintenance is another significant area where the CPI, if you just look at that industry CPI, does not correlate well with the standard CPI?

MR. AGUERO:
That is going to cut both ways. There was a time when we lost two out of every three construction workers when our economy declined substantially. Bids for things like construction went down dramatically. Schools benefitted significantly from that situation.

CHAIR RATTI:
Yes. That is what I am saying. It rather correlates with the wave of volatility.

MR. AGUERO:
This is not the case anymore.

SENATOR GANSERT:
I need clarification on the moving average growth rate. Is that the growth rate of total property tax received? Is it the price of housing? What is the average growth rate?

MR. AGUERO:
It is all assessed value. It would be inclusive of everything.

SENATOR GANSERT:
Like a county?

MR. AGUERO:
Yes, for the entire county.

CHAIR RATTI:
To take that a step further, does that mean it would be replacement cost for buildings and cash value for land?

MR. AGUERO:
Yes, with the depreciation factor included.

CHAIR RATTI:
Of the 35 percent?

SENATOR GANSERT:
It is the total basket of all values and the ten-year average that slows down or smooths out how this value goes up and down. This is because you are using a ten-year average? It goes down more slowly. It does not drop off a cliff because you have the ten-year average. Picking up, it is the same way. Does it take a long time for it to react?

MR. AGUERO:
Yes. Nevada's property tax system was designed like this for that reason. The problem is we have this real aberration over the past ten years. In terms of value, Nevada went from being the fastest-appreciating state in the United States to the fastest-depreciating state. From an economic standpoint, we refer to that as the Roller Coaster of Doom. To your point, when we are clicking up the roller coaster at this quick pace, those values are now falling off our ten-year average. Then you have only the decline that is included in the ten-year average. This is why all of a sudden in a place like Clark County you can see a ten-year average with a negative value. Normally, it is something that has not been seen.

SENATOR GANSERT:
In the meantime, there has not been a huge reaction because of the smoothing. We saw a decline, but it was gradual.

MR. AGUERO:
Right.

ASSEMBLYWOMAN BENITEZ-THOMPSON:
As we look back historically, with that ten-year average, was there another time when we fell into the red?

MR. AGUERO:
Perhaps, within a one-year time span but not in a ten-year time span, more so in the two urban counties. There have been massive swings up and down in assessed value in rural areas of the State. These swings are particularly

noticeable with significant investment or when a mining operation comes online. These big swings in property value would be seen one way or the other.

SENATOR KIECKHEFER:
Regarding these swings due to the ten-year rolling average, in your estimation are we at the low point and are climbing back up or still on the way down?

MR. AGUERO:
We are going to have a couple of more years in which the assessed value number will fall a little bit more. We have a couple more years in which that 22 percent number is still going to exist, at least in Clark County. I would have to go back and look at each individual county to determine exactly where it would be. In terms of the other portion of the calculation, that is the inflation side; we are trending upward relative to inflation, which has a tendency to bring that portion of the calculation back up for us.

SENATOR KIECKHEFER:
Based on the calculation, a 0.2 percent cap does not equate to actual revenue growth but refers only to the cap itself. We are probably at a low point. Is it going to increase because inflation is going up?

MR. AGUERO:
I would like to believe that is the case. Inflation has been a tricky one over the past several years. Two or three times over the past ten years, the caps have been at or near zero. I expect the Federal Reserve System is doing everything it can to try to bring inflation back up. The trend over the past 12 months has been reflective of healthier rates of inflation than what is reflected here.

ASSEMBLYWOMAN NEAL:
I have a question on Slide 26. I want to dig a bit on the Lander County number, which was 25 percent in average growth rate. I want to talk more about why Lander County was at a higher growth rate than Clark County. I was wondering if you could talk about the countercyclical behavior because my understanding is that Lander County is representative of growth in mining.

MR. AGUERO:
Yes. The reality we are dealing with is that in many of the rural areas of Nevada, the tax base is relatively small. If there is a large investment or a boom

year or something occurs in a relatively small area such as assessed value, then you are going to see exactly these types of numbers. They are significant in terms of new value coming online. The problem is, in an area like Lander County, much of the existing development is older. Because it is older, it reflects a substantial amount of depreciation. This means the value that comes online from the new investment can significantly increase those numbers and lead to a 25 percent 10-year average.

SENATOR ROBERSON:
Just to follow up on the point that Senator Kieckhefer made: In our current estimate for next year, the CPI should be about 1.3 percent. Under this calculation, will the cap be 2.6 percent next year, which is close to the 3 percent cap?

MR. AGUERO:
Yes.

CHAIR RATTI:
Moreover, to follow up on that: Is it close to the 3 percent cap but not so close to the 8 percent cap?

MR. AGUERO:
Yes.

ASSEMBLYWOMAN BENITEZ-THOMPSON:
Are we going to see, and anticipate by prudent judgement, an increase in the CPI? When we look at that ten-year average, what does that trend look like in the next five years? Do we see the ten-year average, which is a big crux for the decade considered in the formula, staying in the red, dipping down and then coming back up closer to zero and continuing flat for a while? What does that number look like over the next five years?

MR. AGUERO:
I want to make sure that I distinguish between the two pieces of that calculation. The first is the ten-year average for assessed value. Right?

ASSEMBLYWOMAN BENITEZ-THOMPSON:
Right. That is my question.

MR. AGUERO:
We expect that over the next three years, for Nevada's larger areas, those negatives on the back end of our ten-year average are going to roll off. What we see today will increase the ten-year average, perhaps not all the way up to the full 8 percent but out of the red going forward. Regarding the second half of your question, do we expect that the ten-year average will stabilize on a going forward basis? I sure hope so. Nevada has seen increased stabilization of housing prices. Of course, replacement cost is a different concept relative to the land. Clark County is different from Washoe County. In Washoe County, we see a significant increase in both land and residential cost, which we are keeping an eye on.

CHAIR RATTI:
Could you explain the banking of abatements over time and the fact that there is no floor in the abatement? Take a hypothetical $200,000 house that resets significantly lower in value during a recession. What period does it take to come back up in the abatement process?

MR. AGUERO:
When that hypothetical property sells, the abatement stays with the property, as does the depreciation. Regarding the concept of banking when property values decline: Nothing in the abatement will stop a property value from decreasing to half its value and wiping out the totality of the abatement. However, when the property value goes down, the taxpayers are still paying less than they would if there were no abatement in some circumstances. Therefore, their property taxes could still go up slightly even if their property value is going down because of the banked abatement. The explanation gets technical. In no case would any taxpayer, as currently structured here, ever pay more than the taxpayer would have prior to the existence of the abatement.

CHAIR RATTI:
If in a volatile valuation scenario, like we have had in some of our rural areas and urban counties over the past 10 years, when it drops significantly and the value comes up significantly in a short period of time, then the property tax cannot catch up except at the 3 percent or the 8 percent rates. In this case, because of the 10-year rolling average we have seen the 0.2 percent. Does the valuation not reset even though it happened in a short period?

MR. AGUERO:
Yes. In economics, we refer to this as a one-way ratchet. This means value can drop as fast as it can but can only increase by 3 percent and 8 percent. In the case of Clark County, I am showing you an increase of 0.2 percent per year. For many in the current condition we have, the abatement is getting larger and larger and larger. If the trend we are on is any indicator, we will never catch up. Even if we were imagining normal, straight-line growth, it would take more than a generation to regain value for the properties reduced in value and reset at that lower amount.

CHAIR RATTI:
Even though the need for services has not changed?

MR. AGUERO:
Yes.

Given the amount of time we have, I am just going to breeze over a few other important concepts. The first is real versus personal property. Real property is what we have focused on today. Personal property taxes apply to anything not fixed in place. Things like equipment that a manufacturer might use are subject to personal property tax. This is significant but pales in comparison to real property. Things like railroads and power lines go across county borders. This can make property assessment and taxpaying complicated and involves something called centrally assessed property.

Net proceeds of mines, redevelopment, property tax appeals and property tax collection allowances all exist conceptually in Nevada. When it comes to taxes, mining is its own animal. Redevelopment can create floors and can be significant. The appeals process is incredibly important to taxpayers, and there are other concepts that exist in Nevada law.

Part II of my presentation is how did we get to this point? Please refer to the handout (Exhibit E). I am not going to go through each one of these, but I will highlight a few.

Property tax in Nevada has been a living, breathing evolving source of revenue for the State since 1864. It is easier to find Legislative Sessions with no adjustment than it is to find Legislative Sessions that did adjust it. First and foremost is in 1864 when property taxes became property taxes as we know them. I will skip forward to 1962 when voters approved a privilege tax in place of personal property tax for motor vehicles. I often get the question: Why do I have to pay tax on my motor vehicles when in reality, motor vehicles are personal property subject to personal property tax? Nevadans voted to abolish property tax imposed on vehicles and create an alternative tax, which they have today.

The other question that commonly comes up is: If I have paid retail sales and use tax on a vehicle I purchased, why am I charged motor vehicle privilege tax? These two questions caused confusion for taxpayers. In 1962, voters approved privilege tax in place of personal property tax on motor vehicles. In 1979, the statutory cap on the property tax rate is set at $3.64 per $100 of assessed value and the State property tax levy is eliminated. At this point in Nevada law, the property tax was not at the levels that we know it as today. It was approaching $5 per $100 of assessed value. Property taxes were much higher than they are today. The Nevada Taxpayers Association published a wonderful book called *Nevada TaxFacts* in 2005 or 2006. It showed all the tax rates as they existed in 1979. Almost all of them were approaching $5 per $100 of value. There was something else going on in the late 1970s. Proposition 13 in California had everybody concerned about what would happen there. Prop 13, as it was known, limited the amount property taxes could go up in California. Prop 13 has created its fair share of problems in California. Nevada did not want that to happen. Nevada, also as part of all these changes, was dealing with a surplus. This is something we have not heard in Nevada for quite some time. For those who do not know because they have not been around for more than ten-years, this is when you have more money than expected. The State, in an aggressive move, funded local governments from the surplus.

In 1981, we have the year of the tax shift. This is when we replaced property taxes with sales taxes. It was complicated. Property tax revenues were capped at 4.5 percent annually to local governments. This means that other than new construction, property tax revenue could only go up by 4.5 percent. That would subsequently increase to 6 percent. Buildings depreciate at a rate of 2 percent. The State did not have the concept of depreciation until 1981, and property valuation based on market value stopped. Property tax changed its basis to full cash value of land plus the replacement value of the assets. Notice that depreciation value started out at 2 percent. In 1983, depreciation value lowered when the State realized that some of these things were not working as intended. The State levied a property tax rate of 5 cents per $100 of assessed value for debt service. Property taxes for school operating rate increased from 25 cents to 75 cents, and the depreciation of buildings reduced to 1.5 percent to level it out.

Between 1979 and 1991, the fair-share Legislative Session, we tinkered as a State with almost everything that had to do with property taxes. Nevada made a big tax shift in 1981, and we are constantly trying to tweak it in every Legislative Session to make it work. Local governments became increasingly dependent on sales and use tax. Nevada became a retail sales and use tax state more than we are a sales tax state. Fast-forward to the concept of the Fair Share bill enacted in 1991.

Property taxes play a role here when adjusted, but in this case, we have several taxes in the State. Cigarette Tax, Liquor Tax, motor vehicle privilege tax, Real Property Transfer Tax, Basic City-County Relief Tax and Supplemental City-County Relief Tax, and each is distributed differently. The goal of the Fair Share bill was to allocate the taxes more fairly than the tax shift. For instance, in counties in which two cities existed, one did not get cigarette or liquor taxes but one city did, the tax had to be split 50-50. If you had no cities, all of the tax would go to the county. Exactly why it was that way is a long history of policy development in Legislative Sessions that morphed over time.

Fast-forward to 2005. Property tax abatements were implemented in A.B. No. 489 of the 73rd Session (Exhibit D). We have already talked about how the abatements are structured. I am going to come back to the preamble to that bill. Nevadans had been living with Fair Share for more than a decade. Much like the property tax changes that happened in 1979, we now understand how it played out in terms of the consequences.

In 2007, property tax law was adjusted slightly to make sure the abatement floor cannot go below zero percent nor increase more than 8 percent. A couple of adjustments were made that were technical in nature, but the tax law continues to evolve.

In 2015, a constitutional amendment was requested by Senate Joint Resolution (S.J.R) 13 of the 78th Session to change the valuation of property from taxable value to cash value or market value. This measure must be approved again by the 2017 Legislature before it can be placed on the 2018 general election ballot. There have been a number of tax law changes as we have worked through from the base to rate and application.

SENATE JOINT RESOLUTION 13 OF THE 78TH SESSION: Proposes to amend the Nevada Constitution to limit the total amount of certain property taxes that may be levied on real property. (BDR C-1004)

Most notable to the discussion of A.B. No. 489 of the 73rd Session is the preamble or section 1 (Exhibit D). It is important to understand the construction of property tax caps, as they were as intended to react to a situation that existed in 2005. Section 1, subsection 9 reads, "A new property tax system must be considered which will allow relief to the residents whose property tax values have increased to such an extent as to jeopardize their ability to continue to live in their homes … " This was the reality in 2005. The increases in value were about 60 percent in some years. This massive increase was dramatic for individual taxpayers. Subsection 11 reads,

> The provisions in this act are necessary to ensure that property of owners of this State are protected from severely spiking property tax bills which would otherwise threaten their ability to continue living in their homes during the next 2 years while the Legislature studies our current property tax statutes to determine the appropriate remedy to the current property tax crisis.

The 2005 Legislature recognized that a spike in property taxes would require a temporary measure allowing Legislators to come back to study and consider how taxes might be reformed long term. Jumping back to subsection 11 of A.B. No. 489 of the 73rd Session is germane to our understanding, and there is a wonderful quote. I will paraphrase from one of the Nevada Taxpayers Association briefings from that time which said tax change should not create a windfall for either taxpayers or governments. This is something reflected in section 1, subsection 7 of the bill. State and local governments provide critical services to residents of the State. They "must be assured of sufficient revenue to fund such services, including, without limitation, police and fire protection, welfare services, education services and facilities."

ASSEMBLYMAN PICKARD:
A statement you just made intrigues me, and I want to make sure that it was intentional. Are you suggesting A.B. No. 489 of the 73rd Session in 2005 was intended to be a temporary measure?

MR. AGUERO:
I am not going to substitute my judgment for that of the Legislators. However, the idea that they recognized the spiking in values and the idea that they recognized there could be a potential disconnect between the revenues generated and the needs of local government suggests to me that they would study and come back with broader reforms to the property tax system.

ASSEMBLYMAN PICKARD:
To your knowledge, was that study, that contemplation, ever really done?

MR. AGUERO:
Legislators started to work through it, but it was extremely complicated. If you look at the Legislative Counsel Bureau's information online, you will see that there were some discussions and some meetings held. Did that become a study? No.

Part III addresses where we are now. We have talked about how the system works and the labyrinth that brought us here. Understanding the practical implications of what the property tax system is doing and producing and how all these pieces and parts come together is worth some of our discussion.

Madame Chair, Slide 44 is specific to the question you asked regarding how the abatements are working versus how the property taxes are working. This Slide explores how the property tax has played out and how the abatements have played out for the State. Blue columns represent the property taxes that are collected, and gray columns represent the amount of the abatement. Between 2005 and 2009 is the boom period. Assessed value increased by 106 percent, which includes new construction and increases in value. Property taxes increased by only 57 percent. The total amount of property taxes abated during that time was $3.3 billion, and the abatements worked exactly as intended. They limited how much property taxes could go up for individual taxpayers. They limited the increase of property taxes during the period where, by almost every measure, Nevada was the most prolific economy in the United States.

Nevada added more population, more employment and constructed more housing units. All of those things happened when our economy was overheated. The property tax system did not increase and the property tax collections did not increase as much as the growth rate. The system performed exactly as intended.

Fast-forward 2010 to 2014, the bust. This is the other side of the roller coaster where we had been the fastest-appreciating market in the United States to the fastest-depreciating market in the United States. The State lost roughly one out of every six private sector employees and become ground zero for the national foreclosure crisis. In Nevada's case, you see assessed value decreases by 43 percent and property taxes decrease by 31 percent. Property values decrease, and we burn through almost all of the abatement by the time we get to 2013. During this period, we abate a little less than $1 billion across the State.

CHAIR RATTI:
Go back to the intent of not wanting to pressure families during highly-escalating valuation periods. Was it ever the intent that we would still be abating taxes when property assessed value was dropping by 43 percent?

MR. AGUERO
No. Much of that abatement came from properties that utilized the income approach to reset their values at very low levels. Resetting values had an overwhelming effect by the time we got to 2014. Do I believe that was the intent? No. I think the intent was that as those values dropped, we would work through the abatement. The intent was to protect, as section 1 of A.B. No. 489 of the 73rd Session says, property taxpayers from the spiking of property values, not to reset all values at the lowest level in a generation and then have them increase by that rate.

SENATOR KIECKHEFER:
That is exactly what Slide 44 shows in Exhibit C because the abatement grows as the property values grow. Then as property values go down, we get calls, as Legislators, asking how can my property value go down and my tax bill go up? Is it because we are eating up that abatement? In 2011, 2012 and 2013, for most residential property owners and those businesses that did not use the

income value, they are getting much closer to their actual assessed value under the calculation during 2011, 2012 and 2013. Correct?

MR. AGUERO:
Correct. That is a feature of the abatement, not a mistake.

From 2014 to 2017, we have a normal period. We had the boom, we had the bust, then we had growth that is more normal. During that 4-year period, assessed value increased by about 26 percent and property taxes increased by only 12 percent. We are in a period in which population, employment and incomes are growing again. Now we have created a disconnect because of the structure the abatements created in 2005. We have reset values at their lowest point in 2013 and 2014 and only allowed them to increase by 3 percent or 8 percent. If my assertion is correct, the protections to taxpayers intended to avoid any spikes in property taxes are used for recovery in property taxes. Depending on your view, that may be a very good thing, but from a property tax recovery standpoint, it has created a disconnect between the growth in our economy and the growth in our property taxes.

CHAIR RATTI:
During the Nevada State of the State Address, Governor Brian Sandoval was talking about how wonderful it is that the State economy has rebounded, that we were back as well as were State revenues because they are not dependent on property taxes. Does this mean the State government structure and the funding available for government structure is back? However, for local governments and schools, they do not necessarily see the same kind of recovery because of the abatements, right?

MR. AGUERO:
Yes. In Nevada, we were committed to the idea that we had an economic problem first and a fiscal problem second. As our economy has recovered, our fiscal system lags behind that recovery.

ASSEMBLYWOMAN SPIEGEL:
Following that line, would it be safe to say that, absent any change to our tax structure, the only way to increase revenue significantly for our local governments and schools is to go back to hypergrowth?

MR. AGUERO:
No, I do not think that is the case. There are some situations where we had hypergrowth where construction-related activity in Nevada would add new property coming online at full-assessed value and because construction materials, subject to retail sales and use tax in Nevada, would add to that. If we had a period of hypergrowth, that may mask the situation for a couple of years, but it would exacerbate the problem rather than improve it. The State would be lulled into a false sense of security.

For example, at the peak of our State's economy, construction represented 11.5 percent of our workforce. The national average is about 4 percent. We had construction workers whose job it was to build houses for other construction workers. That, by definition, is unsustainable. If we get into that hypergrowth, which I really hope we do not, it would lead to problems. I would come back to the answer I gave the Chair, which is for the past eight years this Legislature and the Governor have been hyperfocused on resolving our State's economic issues first and our fiscal issues second. Economic diversification absent fiscal diversification leads to structural problems in our fiscal system. If we do have a period of hypergrowth, it may mask this issue for a little while, but it will rear its ugly head over time.

If we look at the chart on Slide 45 and look at where the property taxes are today, this problem is statewide versus where it was historically.

Today, we are approaching 2007 levels in terms of property tax collections. The blue bars represent that. To the question that was asked a few minutes ago, has it worked, do we have a balance? Yes. What we are seeing is that now,during a normal period of recovery as opposed to a period of spiking, that property tax abatement is increasing. This chart explains it as well as any in terms of the disconnect that has been created.

In my presentation on Slide 46, you can see that since 2007 Nevada's population has increased by 15.2 percent. Since 2007, we have added back all of the jobs we lost in the State. Employment is up by a little less than 1 percent. Personal income is up 25.3 percent, and K-12 enrollment is up by 12 percent. During this same period, from 2007 to today, property taxes are down 3.5 percent. The State, local governments and school districts are providing services to greater levels of population with less property tax.

When I examine this connection, I often hear the concept that incomes have declined, therefore property taxes should also decline. Slide 47 shows that since 2000, personal income has grown by 102 percent while property tax collections have increased by 87 percent. Personal income has outstripped property taxes. If you look at the middle of my chart, you see a bubble during this period of hypergrowth. After the recovery, the system created a disconnect since 2005.

I have just drawn a red line on Slide 48 from 2005 property tax collections to 2017 property tax collections. Since 2005, property taxes have grown by 21.4 percent. That is significant during that period.

If we examine the chart on the left of Slide 49, property tax collections are in blue against property tax collections in red just keeping pace with inflation and population growth. We see that Nevada is $272 million short of keeping pace with inflation and population growth. This is an important point. If we take out the boom, take out the bust and only look at the red line, which assumes that since 2005 property taxes would keep pace with inflation and population growth, the State is $270 million short of keeping pace with inflation.

The chart on the right shows the percentage growth rates and, from an analyst perspective, it is an amazing chart. I hope, in the balance of my career, I never have to come up and talk about a chart like this one. That boom … just look at those property tax collections. The blue represents what we actually did. Increases by 20 percent followed by a decrease of 20 percent. If we go through history, our highest rate of increase and our lowest rate of increase are within five years of each other. How do you manage that as a Legislature? How do you manage that as a school district or a local government? I have no idea.

That is the Roller Coaster of Doom. This is what we see today. You can see this recovery on the right-hand chart where we have created a disconnect. My point here is: Look at how our economy is growing and compare it relative to how property taxes are performing. These two things are now disconnected from one another, and it is a challenge for us as a State.

To show that differently, on Slide 50 two charts represent property taxes per capita that are adjusted for inflation between 2000 and 2016. Shown is per capita Clark County on the left and Washoe County on the right. This shows how much revenue the State has for every man, woman and child who lives in

Clark County and Washoe County. If you look at Slides 51 and 52, we ask the questions: What if we do not look at it on a per capita basis? What if we look at it based upon housing units? What if we do not look at it in terms of housing units, but rather we look at it on a per pupil basis? Admittedly, this computation is all property taxes divided by all students. After all, if our student body and caseloads are growing, but our revenues are not, we have created a structural hole in the budgets of the State, school districts and local governments as a result.

Go to Slide 53. The charts put into perspective the historical property tax collections and the total historical property tax abatements. I have taken it back to 2000, and I have taken the blue and the gray columns from our previous chart and separated them into two charts. I want to talk about this disconnect. In 2017, property tax collections will go up by about 2.3 percent. That is higher than the 0.2 percent because of new construction and some other factors. During that same period, the amount abated will go up 27.4 percent. You can see that the recovery is disconnected relative to the abatements.

Part IV asks how much is the State abating today? In fiscal year 2017, the total amount of the abatement is $700 million. I want to make sure that I am perfectly clear. This is $700 million in abated taxes that otherwise would be paid by households, businesses, hospitals, hotels, office buildings and vacant land owners. This tax savings generated is to the benefit of the taxpayer. This is saved, used and spent in our economy or reinvested. That is important. This is a benefit to the taxpayer in terms of reinvestment through either sales activity, consumption or reinvestment.

On Slide 57 we see the flip side of that, which is $700 million that no longer goes to local governments, State government or, particularly, to school districts. Assembly Bill No. 489 of the 73rd Session contemplated this tradeoff in section 1. That number has been increasing. We expect it will continue to increase. What will the abatement be next year? I expect it to be from $800 million to $850 million. By the time we get to 2020 or 2021, it will easily be over $1 billion. It is hard to think about something in terms of a tax increase versus abatement. I would suggest to you that, as a concept, what we are focused on here is the abatement that is being generated on behalf of taxpayers at the expense of services that would otherwise be provided.

Going to Slide 58, I explore questions we received from some of you. Applied Analysis has gone through dozens of hypotheticals to examine how various changes might affect individual property taxpayers. For purposes of understanding the abatement today, a hypothetical single-family household receives an abatement of about $610 in 2017. That is a 25 percent reduction in their property taxes. The result of the abatement is a reduction in property taxes that would otherwise be due of about 25 percent.

As seen on Slide 59, there have been substantial reductions in property values for hotels and casinos along the Las Vegas Strip. Many of these properties utilize an alternative based on the income approach to lower their values. Some reductions are significant.

Slides 60 and 61 are intended to make sure that everyone understands reality. This is not an abatement that solely benefits our resorts and casinos. Resorts and casinos account for 20.3 percent of Clark County's tax collections.

These entities represent 19.6 percent of the abatements. Had we been talking about this in 2013, these numbers would be dramatically different. In that year, hotels and casinos along The Strip were receiving 60 percent of the abatement. As the economy continues to recover, particularly now that the abatements are providing a greater level for residential consumers, we have seen an alignment of these two factors.

In closing, with Part V on Slide 65, we ask the question: Where do we go from here? When I think about where we go from here, I have identified a few key takeaways. The amount of the abatement will continue to increase. This will continue to place strain on the State's tax systems and acutely affect programs such as education and public safety. These programs are dependent on property taxes. State and local governments will be required to do more with less. This means increasing class sizes and leaves education to find alternative revenue sources such as sales taxes. We often look at the resources we have or new sources of revenue like the commerce tax rather than reduce public services. Considering the State's tax history, it is my contention that we are in the second major tax shift in Nevada's modern history.

A case in point on Slide 66 shows the 2015 revenue reforms. Look at the revenue enhancements approved by the Legislature for the 2015-2017 biennium. When Applied Analysis looked at the fiscal appropriations report, that number was $1.2 billion. If we look at the right-hand side of the column at the total amount of the property tax abated for the same time, it is also $1.2 billion. I do not want to leave you with the impression that this is an apples-to-apples comparison because it is not. However, if it feels like you are taking two steps forward and one step back, if it feels like you are pouring revenue into the top of the bucket but you are just not getting as far forward as you might have expected, that is because there is a leak in the bottom of the bucket. The State is balancing revenues with abatements. Some allocation differences are important, but the amount of the dollars abated versus the amount of dollars generated match each other very closely.

CHAIR RATTI:
Where those revenues went, though, is very different. For schools you might be able to make an argument that the $1.2 billion in revenue enhancements approved by the last Legislature ultimately came back and went to those schools. However, for local governments, that $1.2 billion in revenue enhancements stayed at the State and did not make it to local governments.

MR. AGUERO:
Yes.

CHAIR RATTI:
I would suggest that we put it in a different bucket.

MR. AGUERO:
I would not argue with your contention. However, will you allow me to expand that metaphor for a moment? I think there are a couple of buckets.

CHAIR RATTI:
And they all have holes in them?

MR. AGUERO:
They all have holes. The holes may be what we are pouring into the top, and what is falling out of the bottom is different in those two buckets. Many Legislators have expressed to local governments, and me also, that it feels like we are attempting to make strides forward, yet we still do not get ahead. While this explains part of it, it may not explain all of it. It is an important trend.

CHAIR RATTI:
I appreciate that.

MR. AGUERO:
As you can see on Slide 67, the Las Vegas Metropolitan Police Department (LVMPD) was increased in size by A.B. No. 1 of the 29th Special Session. Sales taxes increased by 0.1 percent generated $35 million and put another 300 officers on the street. If we look at the cost of those abatements related to the LVMPD, we see that $36 million increased the Department by 310 officers. This is not a perfect analogy, but as this abatement gets bigger, the Legislature will have to look for ways to fill the shortfalls as they increase. If our population, employment base and the number of kids in our schools continue to grow but revenue does not keep pace, that will be a very difficult structural problem for the State.

In closing, I understand that any tax policy is difficult. In this presentation are the pieces of the puzzle that I have put up in every presentation since I worked for the Governor's Task Force on Tax Policy in Nevada in 2001. Many things must be considered relative to tax policy, including but not limited to property tax. The reality that political viability and the ability to think through, in good times and bad, what is possible, practical and what would work for Nevada is ultimately important to me. As Carole Vilardo once said, "There is no such thing as a perfect tax or a perfect tax system."

CHAIR RATTI:
Mr. Aguero will be back on Thursday. If there are additional questions for him, you will have an opportunity to ask at that time. We have invited Clark County to share with us what this looks like for them.

YOLANDA KING (County Manager, Clark County)
Clark County represents what occurs in many of our urban, rural and regional governments that provide services. To give you an idea of the vast area the County provides services to, I will describe the County boundaries. They start at the Utah state line north of Mesquite and go to Laughlin. The boundary then goes to the California state line at Primm. From there it goes to the Nye County line at Pahrump. Clark County has its well-known urban areas but also includes a vast rural area. We provide services for this entire region. What occurs in Clark County occurs throughout the State and all of our local governments.

I would like to point out that property tax law has had unintended consequences for local governments and school districts throughout the State, as seen on Slide 2 of my presentation (Exhibit F). This was the purpose of the Nevada Association of Counties Assembly Bill 43. This problem exists in all 17 counties. Property tax is not keeping pace with the cost of maintaining increased public services. In rural areas, and in the larger cities and counties, public services provided by those local governments are threatened. Clark County has maintained its expenses to stay in line with available revenue. Consequently, some services cannot be provided in a timely manner. Reduction in service by local governments results from operating within their means to prevent entering structural deficit. The property tax abatement does not allow us to collect the full amount of property taxes that could be available if the abatement did not stay in place.

ASSEMBLY BILL 43: Revises provisions governing the partial abatement of taxes levied on residential and other property. (BDR 32-441)

An overview of Clark County structure is on Slide 3. The County provides regional services. Public services are provided to all residents within the County whether they live in an incorporated city or unincorporated Clark County. Services such as air quality management, social services, family services, court services and University Medical Center of Southern Nevada are examples of services provided to all residents within Clark County. In Nevada, some cities are incorporated. Unincorporated areas become the responsibility of the county in which they are located. The County provides to unincorporated areas city-like services, such as fire and police protection, road maintenance, parks and recreation, planning and development, and code enforcement.

On Slide 4 is an organizational overview of Clark County. To the left of that organization chart are all the regional departments in Clark County that provide services. These departments provide services to all residents within Clark County. To the right are town services. These are the types of services provided to the various cities and in unincorporated Clark County.

The population, listed on Slide 5, for unincorporated Clark County is 913,000 residents, which represents 44 percent of the total County population. If you go back to Slide 4, the services listed on the town organization chart represent services provided for 913,000 residents. Regional services, on the left side of the chart, are provided for the County population of 2.8 million residents. Please note Clark County has seven urban towns and seven rural areas. Those rural areas range from the Moapa Valley area, the Overton area and Laughlin to the outskirts of Sandy Valley. In a number of rural areas, we provide much different services than we do in urban areas.

The chart on Slide 7 represents Clark County's assessed valuation. When you look at the increase of assessed valuation from FY 2015-2016, you see a 10 percent increase in assessed valuation. In FY 2016-2017, there is a 7.6 percent increase. The County has an assessed valuation of all properties of $74.6 billion.

The chart on Slide 8 demonstrates the property taxes trend. Before the abatements, it was simple to calculate the anticipated property tax revenue for local government. There was a predictive correlation between growth in assessed valuation and revenue. If assessed valuation grew by 4 percent, then property tax revenue would grow by 4 percent. Property tax abatements have made this prediction unavailable to local governments. A great example of this is in assessed valuation for FYs 2014-2015, 2015-2016 and 2016-2017. Assessed valuation was growing at 10 percent and at 7.6 percent, but property tax was not growing at that same rate. That growth was 3.7 percent, and from FY 2015-2016 to FY 2016-2017, growth was 1.4 percent. The only other thing I would like to point out in this chart is to look at the FY 2016-2017 budget. The budget for property tax revenue was $275.2 million. Go across to the left, looking at the red line, and notice this is about the same amount of property tax collected back in 2006.

SENATOR KIECKHEFER:
I just pulled up Clark County's general fund budget before we came, and the numbers are just different from the numbers for the final budget, approved recently. If you look at the $271 million number, the correlating number is $283 million not $275 million. It is a 4.3 percent increase rather than the 1.4 percent on this chart. It may just be a matter of which numbers were used when assembling this chart. If you could get back to me with it and we discuss it, that would be fine. There is a discrepancy between what is in here and what is in your budget document.

MS. KING:
I would be happy to talk to you about it. I will get back to you about our process.

On Slide 9, I have an example that compares a 1-cent increase to the County tax rate with and without abatements. A 1-cent increase would generate $600,000 with abatements. That number may continue to decline as you have more and more properties pushed into the property tax abatements. If property tax abatements were not in place and there was an increase to the property tax rate of 1 cent, close to $7.5 million would be generated. To point out the correlation for assessed valuation, look at the previous chart where I had the assessed valuation trend. Assessed valuation for Clark County was $74.6 billion. A 1-cent increase without tax abatement yields $7.4 million.

The general fund trend for Clark County is on Slide 10. This supports my earlier statement regarding Clark County operating within the revenue or resources available. We are spending $1.3 billion from the general fund. These expenditures are slightly higher than our expenditures in FY 2006-2007.

I want to give you an idea of what Clark County has strived for since 2005. On Slide 11, you see a snapshot of new positions in Clark County. Within a local government agency, the State or the school district resources are added. People are added to address demands for services. The red box highlights the recession years from 2010 to 2014. We had a period when no new positions were added and the County had a 22 percent reduction in workforce. That reduction equates to 1,200 positions. In 2015, we added 40 positions. There are 4,500 positions within the general fund. In 2015 and 2016, we added 1 percent of those positions back to the general fund. If we keep this rate, adding 1 percent a year, it would take us to fiscal year 2034 to regain the peak of the number of positions we had in 2009. That is not our intent. Our goal is to get back to that previous number of positions.

Enduring a recession has caused Clark County, as well as many other government agencies, to examine what and how we provide services and how to provide them differently. We have had an opportunity to comb through our government to see how we can do more with less money.

On Slide 12 you can see different metrics for emergency medical services. These services are provided for all constituents. Your Assembly and Senate Districts cover all of our commission districts. They cover all of Clark County, all the cities and the rural and urban areas throughout Nevada. They are all our constituents. Listed are public safety-related, high-level services that affect constituents within our jurisdiction. Emergency medical services are provided by the fire department. Emergency medical and fire suppression service is provided to residents and 43 million visitors to Clark County annually.

The County did not add any new fire stations between 2010 and 2016. If you look at the population on Slide 6 from 2010 to 2016, you can see that growth compared with no growth at all in resources. We added no fire stations but had a 25.1 percent increase in total emergency incident responses. The goal for response time to emergency calls is within 7 minutes 90 percent of the time. From 2010 to 2016, that percentage declined 17.3 percent to 7 minutes 9 seconds. In 2016, the time increased to 8 minutes and 29 seconds, an increase of 18.6 percent. These metrics indicate that additional emergency responses are necessary to address the increasing response times. As the abatements continue to grow, it becomes difficult for us to provide resources for increasing demands.

A lot of this is due to population increase. It will be difficult for us to provide those services in a timely manner. In 2017, Clark County added one fire unit to address the response times in the southwest area of Clark County. The last time we were able to add a fire unit response was 2008. I have made note of those response times in southwest Clark County. The response times can go up to 10 minutes 38 seconds. This is crucial when providing emergency services. Depending on the medical episode a person is having, seconds can make a difference if you are having a heart attack or stroke. Arriving sooner rather than later makes all the difference to the person receiving that service.

Child Protective Services (CPS), a division in the Department of Family Services, is the focus of Slide 13. This agency is responsible for protecting children from abuse or neglect. Listed are types of services provided through a hotline where folks can call in to report child abuse. Services include investigations, child protection, case management and adoption as well as foster home licensing. You can see the increases from 2011 to 2016. There has been a 20 percent increase in calls received and a 53.7 percent increase in CPS investigations. The

County's priorities, relative to initiating investigations, have gone down a little bit and the number of new children coming on to our CPS caseloads has increased 63.5 percent over that time. As the abatements continue to grow, it becomes difficult for us to provide the resources to address increases in caseload growth in a timely manner.

Slide 14 shows the emergency and nonemergency call dispatch services. These are our 911 and 311 calls to Las Vegas Metropolitan Police Department for Clark County and the City of Las Vegas. The County pays for 60 percent of the LVMPD budget, and the City of Las Vegas pays 40 percent. A portion of the budget is paid through property taxes. Our partners from LVMPD tell us they see a tremendous spike in the number of calls and other services, which affects the amount paid by the County and City. These dollars come from the Clark County general fund. It is the same with Clark County Detention Center. The County pays 100 percent of expenses for the Detention Center. We also subsidize University Medical Center. Other entities outside Clark County are also funded by the general fund. An issue raised by LVMPD regarding dispatch services is 911 calls. These are paid for by a .5-cent property tax levy. The No. 1 complaint LVMPD receives concerning these services is about the 311 calls. These are nonemergency calls. The LVMPD goal response time is for 90 percent of 911 calls to be answered within 10 seconds; for 311 calls, the goal is to answer 80 percent within 20 seconds. I would like to make note that LVMPD provides police services, and the City of Las Vegas provides dispatch call service on the fire side for the County and City of Las Vegas. Clark County pays 51 percent of expenses for fire calls that are dispatched.

The charts on Slide 15 show Dispatch Services performance metrics. Notice the change in percentage of the growth in 911 emergencies over a period of time. Most important, I would like to point out the metrics for 311 nonemergency calls. Las Vegas Metropolitan Police Department has made a request for FY 2017-2018 to increase the number of employees for the dispatch center. The number of 311 calls between 2011 and 2016 has increased by 80.9 percent. The 311 average hold time in seconds was 25 seconds in 2011. In 2016, it is 50 seconds. That is a 100 percent increase in hold times. Look at the times 311 callers spend on hold. The maximum hold time in 2011 was 11 minutes 37 seconds. In 2016, the hold time for those calls was 45 minutes 57 seconds. To address these concerns, LVMPD is seeking additional funding for FY 2017-2018 to add to the dispatch group.

Public Response Office metrics are on Slide 16. Listed here are some of the provided services related to code violations. This includes illegal storage of vehicles, unkempt properties, lot usage, illegal sign placement, graffiti and trash removal. This chart shows increases from 2011 to 2016. Most important to note is the time for initial inspections. The County's goal is to respond within four days. In 2016, the response time is 8 days. Metrics for a variety of other services provided by Clark County are on Slide 17.

ASSEMBLYWOMAN COHEN:
On Slide 13, look at the new children on CPS caseload. Can you explain that number? A 63.5 percent raise in caseload is astronomical.

MS. KING:
In terms of the caseload?

ASSEMBLYWOMAN COHEN:
Right. To go up 63.5 percent in 5 years.

CHAIR RATTI:
Is your question what is driving the growth?

ASSEMBLYWOMAN COHEN:
Right. How did it go up so fast when the population did not go up that high?

MS. KING:
It does not necessarily correlate with the population. If the population increased by this percentage, then the caseload would not go up by the same amount. Population contributes to that, but I will have to get back to you with more detail on what is driving that number up.

CHAIR RATTI:
Miss King, could you bring that back to us on Thursday?

MS. KING:
Yes.

SENATOR GANSERT:
I have a data request for Mr. Aguero. I was wondering if we could get the year-to-year residential taxable value and the year-to-year commercial taxable value? Everything we have is the basket of everything all together. We need the abatements for residential and the abatements for commercial in dollars instead of percentages year to year. When a property gets a change in taxable value, based upon the income approach, is it not abated? The properties get a reset on their values and that is not abatement, correct?

MR. AGUERO:
That sounds like two different ways of saying the same thing. If I use the income approach to bring my value down from $200,000 to $100,000, then that becomes my new value. If in the next year I am now selling more of my product, then my value goes back up because of the income approach. There is a limitation on the way back up. If your point is that if I start at $200,000, then it drops to $100,000 because of the income approach and my business never picks back up, then you are right. That is just the new value of my business. However, if my business recovers, the property taxes never would.

SENATOR GANSERT:
Once a property converts to the income approach, is there a way to convert back to the original approach?

MR. AGUERO:
Every year that property is assessed, the assessor goes through the same process. However, in the event that your property value goes up because the economy recovers, your starting point is where the income approach placed you in that historical time frame in which you used it to reduce your value.

SENATOR GANSERT:
Is there a choice for commercial property to convert to the income approach on an annual basis?

MR. AGUERO:
In any year, a commercial or nonresidential owner can challenge the property valuation based on the income approach.

CHAIR RATTI:
Mr. Aguero and Senator Gansert, I want to clarify your data request because you couched it in terms of residential and commercial. If that is the distinction you are looking for, that is fine. However, there are 8 percent cap residential properties because a landlord owns them. Are you looking for the folks considered under the 8 percent cap and folks who are under the 3 percent cap, or are you only looking for residential versus commercial/industrial properties?

SENATOR GANSERT:
I am not sure. I saw your slide stating that in 2010, there were major properties that switched to the income approach and valuations were reduced 39 percent to 95 percent. I am not sure how much of that is commercial. Is that 90 percent of all commercial?

MR. AGUERO:
Maybe the starting point is with a slide that looks at last year and this year, at changes in assessed value, changes in the amount of abatement and total property value and total abatement for every major land use. Residential, commercial and retail property, for example, in 2010. Doing that same thing will require a parcel-by-parcel analysis to get there. Perhaps we could start with looking at how assessed value is allocated and how abatement is allocated. I thought this was your primary question. If we need to analyze this for individual property types, then my staff will do that.

SENATOR GANSERT:
I do not think we need to get into the weeds, but it is commercial versus residential, and I want to go up to 2010 because I wanted to see how that worked. My sense is that commercial had a much greater percentage of property valuations and now it does not.

MR. AGUERO:
We will get back to you with that.

CHAIR RATTI:
We are adjourned at 6:15 p.m.

RESPECTFULLY SUBMITTED:

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Colleen Lennox,
Committee Secretary

APPROVED BY:

____
Senator Julia Ratti, Chair

DATE:______________________________

____
Assemblywoman Dina Neal, Chair

DATE:______________________________

EXHIBIT SUMMARY				
Bill	**Exhibit / # of pages**		**Witness / Entity**	**Description**
	A	1		Agenda
	B	4		Attendance Roster
	C	69	Jeremy Aguero	Slide presentation, "Property Taxes in Nevada, A Review and Analysis"
	D	1	Jeremy Aguero	A.B. No. 489 of the 73rd Session Preamble
	E	1	Jeremy Aguero	Nevada Property Tax History Timeline
	F	17	Yolanda King/Clark County	Slide presentation, "Clark County Property Taxes Overview"