MINUTES OF THE
SENATE COMMITTEE ON REVENUE AND ECONOMIC DEVELOPMENT

Eighty-first Session
March 30, 2021

The Senate Committee on Revenue and Economic Development was called to order by Chair Dina Neal at 1:01 p.m. on Tuesday, March 30, 2021, Online. Exhibit A is the Agenda. All exhibits are available and on file in the Research Library of the Legislative Counsel Bureau.

COMMITTEE MEMBERS PRESENT:

Senator Dina Neal, Chair
Senator Julia Ratti, Vice Chair
Senator Moises Denis
Senator Ben Kieckhefer
Senator Heidi Seevers Gansert

STAFF MEMBERS PRESENT:

Russell Guindon, Principal Deputy Fiscal Analyst
Joe Reel, Deputy Fiscal Analyst
Michael Nakamoto, Deputy Fiscal Analyst
Alex Polley, Committee Secretary

OTHERS PRESENT:

Melanie Young, Executive Director, Department of Taxation
Steve Aichroth, Administrator, Nevada Housing Division, Department of Business and Industry
David Paull, Nevada HAND
Michael Holliday, Chief Financial Officer, Nevada Housing Division, Department of Business and Industry
David Dazlich, Vegas Chamber
Benjamin Challinor Mendez, Faith in Action Nevada
Barbara Paulsen, Nevadans for Common Good
Eric Novak, Nevada Housing Coalition
Matt Walker, Southern Nevada Home Builders Association
Dawn Christensen, Nevada Resort Association
Phyllis Gurgevich, Nevada Bankers Association
Christine Hess, Executive Director, Nevada Housing Coalition

Marcos Lopez, Americans for Prosperity Nevada
Unknown Speaker
Dagny Stapleton, Nevada Association of Counties
Michael Mears, Assessor, Eureka County
Wesley Harper, Nevada League of Cities and Municipalities
Christopher Rose, Churchill County
Caryne Shea, Vice President, HOPE for Nevada
Hawah Ahmad, Clark County Education Association
Warren Hardy, Urban Consortium
Justin Harrison, Clark County
Jared Luke, City of North Las Vegas
Lindsay Anderson, Washoe County School District
David Gibbs
Thomas Ghidossi
Bob Russo
Al Lasso
Laniqua McCloud
Louis Vega, Concerned Veterans for America
Wiselet Rouzard, Americans for Prosperity
Janine Hansen, Independent American Party of Nevada
Brittany Sheehan
Jonathan Leleu, National Association for Industrial and Office Parks
Mark Stenehjem
Lynn Chapman, State Vice President, Nevada Families for Freedom
Jim DeGraffenreid, Nevada Republican Party
Kelley White
Gina St. Ores
Michael Moeini
Unknown Speaker
Ronald Najarro, Americans for Prosperity Nevada
Eddie Diaz, The LIBRE Initiative Nevada
Cyrus Hojjaty

CHAIR NEAL:
We will begin with a work session for Senate Bill (S.B.) 74.

SENATE BILL 74: Revises provisions relating to the population total used in determining the distribution of certain taxes. (BDR 32-281)

JOE REEL (Deputy Fiscal Analyst):
Senate Bill 74 is on behalf of the Department of Taxation and was heard by the Committee on March 2. The bill is summarized on the work session document (Exhibit B).

CHAIR NEAL:
There are local governments with vested interests in S.B. 74, and there are reasons why amendments to this bill were not accepted.

MELANIE YOUNG (Executive Director, Department of Taxation):
The Department of Taxation has worked with the City of North Las Vegas and has heard its concerns and opposition to S.B. 74.

The State Demographer, Jeff Hardcastle, will be retiring in June. He has been influential in receiving federal funding for Nevada. A new State Demographer will be hired soon. The Department is developing a plan for the new Demographer, which includes local government outreach, 2020 Census information-sharing sessions and redistricting in September. The new Demographer will formulate population estimates in a fair and consistent manner that provides integrity. The Department will soon finalize a data governance structure. In October 2020, the Department published its *Strategic Plan* that specifies the goal to support Department executives and State, local, and national decision makers by providing timely, relevant, accurate data and analysis. The goal is to provide valuable information to guide revenue discussions. We will continue to work with local governments by providing reports, which include population information.

SENATOR SEEVERS GANSERT:
Census data does not have town populations, and this is why the Demographer is utilized. Does the Census provide the details that we need?

CHAIR NEAL:
That is correct. Census data does not have city or town population totals.

MS. YOUNG:
The Census does have counties and cities but not towns and unincorporated towns. The State Demographer provides population estimates for these areas.

SENATOR DENIS MOVED TO DO PASS S.B. 74.

SENATOR RATTI SECONDED THE MOTION.

THE MOTION CARRIED UNANIMOUSLY.

* * * * *

CHAIR NEAL:
I will open the hearing on S.B. 284.

SENATE BILL 284: Revises provisions relating to transferable tax credits for affordable housing. (BDR 32-651)

SENATOR JULIA RATTI (Senatorial District No. 13):
Low-income housing tax credits, at the federal level, are responsible for about 90 percent of subsidized affordable units in Nevada. Federal resources are essential to ensure existing affordable housing continues to be produced and rehabilitated.

Affordable housing projects are done by a niche and small group of developers that have to layer a series of financing tools. Most financing tools are federally funded and capped. When the financing tools are combined to make up only 97 percent of the necessary funding, and the last 3 percent cannot be attained, then projects do not get built. The State level low-income housing tax credit program was established with S.B. No. 448 of the 80th Session to achieve the last 3 percent of necessary funding. The program is potentially powerful because it secures the last 3 percent of funding to build a project. With a relatively small amount of money from the State, the program has the ability to significantly increase the production of subsidized affordable units in Nevada.

Senate Bill No. 448 of the 80th Session approved and allocated $40 million in transferable tax credits (TTC) to the program. The Housing Division of the Department of Business and Industry worked to award the TTCs. However, the pandemic hit. Two months after the program was authorized to start, and with marketplace uncertainty, the Housing Division paused the program. Concerns about development, financing and workforce safety were in play. Once there was some clarity, the Housing Division reopened the low-income housing tax credit program, and we had the first project awarded in September 2020 where the first $3 million in TTCs were reserved.

For TTCs to work, an approved project developer receives TTCs that then finds a Nevada taxpayer who is willing to purchase the tax credit to be used to pay certain taxes in the State. We envisioned that most TTCs would be purchased by large gaming companies because they pay the most taxes in Nevada. Gaming companies have enough of a tax burden for a $3 million tax credit to make sense. There are only a few other taxpayers in the State that have this level of tax burden. The pandemic shutdown lead to inactivity in the tourism economy, and a lot of the gaming companies that have the capacity to purchase tax credits were uninterested in the midst of the pandemic. This was understandable.

The market for the first round of TTCs was hit by a unique pandemic economy. However, developers started talking with banks because banks also pay certain taxes that tax credits could be used for. Banks have a vested interest in affordable housing; they work in this realm for Community Reinvestment Act programs and the like.

Lessons were learned during the process of the first affordable housing tax credits project. There was the need for technical improvements, such as the necessity for a good definition of a "closing"; understanding the proper timing for when TTCs should be awarded based on how other project financing works; and knowing that if a bank is a tax-credit purchaser, some tax credits may need to be transferred to a subsidiary—the same company but a different unit within it.

Senate Bill 284 amends *Nevada Revised Statutes* (NRS) 360.867 and NRS 360.868 based on experiences issuing the first TTCs and learning from the developers, Nevada Housing Division and tax-credit purchaser side. This bill provides technical tweaks so the program can be successful moving forward. The bill also removes the sunset provision in section 14 of chapter 594, *Statutes of Nevada* 2019, page 3766. Last Session, we intended to do a four-year pilot project with $40 million TTCs awarded and reassessed to determine if the project worked. However, if the sunset provision is not removed, then all the hard work of establishing this program is lost, and it would have to be started from scratch in the future.

The bill does not ask for an additional allocation of tax credits; the $40 million allocation will suffice for the pilot period. The bill removes the sunset provision so the tax credit law remains in NRS so a future Legislature could allocate more tax credits if desired.

There is a proposed amendment (Exhibit C) from the Nevada Housing Coalition that we are in agreement with.

SENATOR KIECKHEFER:
Will you discuss awarding the TTCs before a project is completed and why the clawback provision is necessary?

STEVE AICHROTH (Administrator, Nevada Housing Division, Department of Business and Industry):
Reducing the time from when a tax credit is issued to the moment it is used will increase the value of the tax credit for developers. This will increase the value of a tax credit when used as a tool for project financing. The repayment provision allows us to review if tax credits are issued at the beginning of a project or when the certificate of occupancy occurs. This provision is in section 1, subsection 7. We can then determine whether the tax credit exceeded the need at the time it was issued.

SENATOR KIECKHEFER:
Not a lot of developers do this work, but they tend to be pretty stable. Not a lot of developers go out of business in the middle of a project that we would have to clawback tax credits from.

SENATOR RATTI:
That is correct. The clawback provisions we are accustomed to for other tax credit programs are for programs that are not necessarily speculative; however, they do come with less certainty. By the time an affordable housing project is awarded a TTC, the likelihood of the project being completed is very high. The clawback provisions we are familiar with are unnecessary for this situation. By having tax credits awarded at the end of a project, the value of the TTCs are reduced, which causes uncertainty for developers because the credits cannot be sold until the end of a project at occupancy as opposed to the front of the project. A developer will not know the tax credits' value to move forward with its pro forma. David Paull is an affordable housing developer who can speak to how it works.

DAVID PAULL (Nevada HAND):
By the time a tax credit is awarded and financial closing is reached, a development's certainty is nearly 100 percent. This is a very stable industry as Senator Kieckhefer alluded to. Affordable housing developments require many sources of funding, such as federal tax credits. Once financing is secure, the project is likely to go through.

A tax credit today is worth more than a credit in two or three years from now. The present value of money and the certainty of knowing we have a tax credit that can be used is helpful.

Because a tax credit cannot be used by a purchaser until after the project is complete, we have had to bridge the financing. We have had to bridge $3 million for a development until our TTCs were sold, which makes a project more difficult to complete and adds cost with the interest we pay on funds. This loses the State housing units, and potentially whole projects, because of the added costs. It would be beneficial to have TTCs awarded prior to a project's completion. Although the affordable housing industry is stable, providing our own funds to bridge financing until a project's completion is challenging and costly. This leads to fewer companies that utilize TTCs and develop projects.

SENATOR KIECKHEFER:
What is the need for the added language that grants the ability to transfer to "subsidiaries" or "affiliates" in section 1, subsection 6, paragraph (b), subparagraph (3)?

MR. PAULL:
We have sold TTCs to banks that have multiple affiliates with tax liability. For the bank to accept the $3 million tax credit, it would have to spread it across several affiliates. This is the case for a number of financial institutions, and we expect this to be the case with other institutions that have different affiliates with tax liabilities. Allowing transfers to affiliates would be beneficial.

SENATOR KIECKHEFER:
Is the entity that purchases TTCs from a developer able to spread the tax credit between its subsidiaries?

MR. PAULL:
That is correct.

SENATOR SEEVERS GANSERT:
What is the process in determining how much of a TTC to allocate?

MICHAEL HOLLIDAY (Chief Financial Officer, Nevada Housing Division, Department of Business and Industry):
With underwriting, we do it the same as federal low-income housing tax credits. We use a third-party financial advisor to determine whether it is necessary. Pushback to whether underwriting is necessary is determined with the debt coverage ratio and the amount of funding developers needs to borrow. We calculate the debt coverage ratio for anything a developer will pay interest on. The developer may not need State money or layers of subsidized financing if it has the capacity to pay back debt.

The crux of the issue is a developer's debt coverage ratio and whether the probability of cash flow moving forward the next 15 to 30 years will be sufficient to support a project. This determines the allocation of tax credits. At the end of a project, developers come with a certified cost report that is prepared by an independent certified public accountant. We do not allocate too many tax credits because costs generally go up.

CHAIR NEAL:
What is an example of a person who is "indirectly" in control and classifies as an "affiliate" in section 1, subsection 11, paragraph (a)?

MR. AICHROTH:
An "affiliate" will be an entity that is connected to the overall corporate structure. I cannot talk to the "directly or indirectly" language; this wording was provided by the Legislative Counsel Bureau (LCB).

RUSSELL GUINDON (Principal Deputy Fiscal Analyst):
Language in S.B. 284 met what the Housing Division needed. The definition of "affiliate" is comparable to how it is used throughout NRS. Not being in the field, I am unsure of an example for "directly or indirectly."

MR. PAULL:
Theoretically, an example of "indirectly" could be a financial institution that is partners with another financial institution that cooperate with another entity, which could give indirect control to one of the institutions.

SENATOR RATTI:
We did not want to set a precedent that TTCs could be transferred more than once. That is the intent with this language. It is fine for a business that does not have enough tax burden to disperse the tax credit to subsidiaries, so long as it is truly one unit. We do not want tax credits to become a commodity that are sold from one business to another. The burden for tax credits to be tracked and determined where they will show up against a future State budget is an issue. Legal staff at the LCB may be able to provide clarity.

CHAIR NEAL:
I want to know the threshold for "indirectly." It could potentially be a loose affiliation.

SENATOR RATTI:
I will present the proposed amendment, Exhibit C.

Section 1, subsection 4, paragraph (b) removes "Upon completion of the project," and adds "Not less than 45 days before the project is closed," because "completion of the project" may be too vague.

Four lines down, it now reads "the Division shall complete a review of the project and the project sponsor." The area that talks about the "declaration of restrictive covenants and conditions" now has "will be" instead of "has been."

We are removing "indicated in the certification of costs" from section 1, subsection 6, paragraph (b), subparagraph (1) and sub-subparagraph (I). The amendment adds "or more" to section 1, subsection 6, paragraph (b), subparagraph (3) of S.B. 284. The added "or more" is for if businesses need to spread a tax credit to several subsidiaries.

SENATOR KIECKHEFER:
The bill does not change the total amount of available TTCs and is still $40 million. However, it spreads it out indefinitely. How are these tax credits added to balance sheets for subsequent biennia?

MR. GUINDON:
You are correct in that the $40 million will remain until affordable housing developers use it up. We do not see this changing anything for our tax credits forecasts to the Technical Advisory Committee on Future State Revenues at the Economic Forum. We know the statutory maximum that can be awarded for other tax credit programs in a fiscal year (FY). We evaluate as tax credit programs go forward.

We interact with agencies that are responsible for implementing and administering tax credit programs and have them provide information for what has been approved and which tax credits are believed to be awarded. If credits have been awarded, we communicate with the Department of Taxation or the Gaming Control Board depending on which revenue they were pledged against.

We work with a program's administrating agency to determine which projects are in the pipeline. We have $3 million in tax credits for affordable housing development of FY 2022 and $10 million for FY 2023. We do not anticipate a change in forecasting or tracking for this program. The TTCs could remain indefinitely, but those could be used up in the four-year time frame.

SENATOR KIECKHEFER:
Does anything in S.B. 284 change the $3 million line item for FY 2022?

MR. GUINDON:
No. We will determine in April if expectations for awarding tax credits has changed since November 2020. We are concerned if any tax credits have been removed from FY 2022 and FY 2023.

DAVID DAZLICH (Vegas Chamber):
We were in support of these tax credits last Session, and we support S.B. 284. These tax credits will prove to increase the affordable housing supply in Nevada.

BENJAMIN CHALLINOR MENDEZ (Faith in Action Nevada):
We support this bill. Nevada is in need of additional affordable housing units. According to the National Low Income Housing Coalition, that number is over 80,000 units. These units are for individuals who have extreme low income at or below the poverty level. This bill ensures we will keep the affordable housing

tax credit for the long term. If it works, it will bring more affordable units to the State.

BARBARA PAULSEN (Nevadans for Common Good):
Nevada has ranked poorly with the number of affordable housing units for the extremely low-income population—those who earn 30 percent or less of the area's median income. For a family of four, that is an income of $25,750 or less. Any household of four with one wage earner making less than $12.30 an hour falls under this category. This is 21 percent of Nevada households and is not an insignificant number. Families with children are struggling to find housing they can afford. Where are people who experienced economic impact from the pandemic going to go?

Without stable and affordable housing, families cannot manage critical needs such as food security and health care. We supported S.B. No. 448 of the 80th Legislative Session.

ERIC NOVAK (Nevada Housing Coalition):
We support S.B. 284. This bill removes the sunset provision, which allows more time to use the TTC. The bill makes technical corrections that will make the tax credit more attractive to potential investors in affordable housing, which will result in higher and more reliable pricing. The need for affordable housing has increased since the program first developed last Legislative Session. Based on the National Low Income Housing Coalition "Gap Report: A Shortage of Affordable Rental Homes", Nevada has the least housing per capita in the Country available to both very low-income and extremely low-income households. The TTCs provide gap financing for affordable housing projects to proceed. We know a relatively small amount of public subsidy can leverage a large amount of private funds to produce new affordable housing. The Nevada Housing Division pilot program has resulted in 2,500 affordable units in the last four years. Private investment would not come to Nevada if it were not for this infusion of State subsidy. We estimate this bill will result in another 2,500 affordable units, which are much needed. Senate Bill 284 will make TTCs more usable and effective.

MATT WALKER (Southern Nevada Home Builders Association):
We support S.B. 284. The design resembling federal low-income housing tax credit programs is possible. It makes tax credits predictable and employable for maximum impact.

DAWN CHRISTENSEN (Nevada Resort Association):
Affordable housing is an important issue to the resort industry and our workforce. We support S.B. 284 and the opportunities it will provide.

PHYLLIS GURGEVICH (Nevada Bankers Association):
Our bank members are engaged and committed to increasing financial literacy for Nevadans. Affordable housing options are an important building block. The inability to find housing that costs 30 percent of a budget starts a negative chain reaction. Securing affordable housing provides a solid foundation to build spending plans and roadmaps to meet financial needs and dreams. We support this bill.

CHRISTINE HESS (Executive Director, Nevada Housing Coalition):
We support S.B. 284. We agree with the aforementioned comments concerning the affordable housing crisis. Affordable housing is economic development. Our children struggle to stay or return home to raise their families or pursue careers due to a lack of affordable housing. Hard-working Nevadans face housing insecurity, which impacts their ability to maintain steady employment or consider advancing workforce skills. Our communities are hampered in attracting new businesses when those firms see the inability to accessing affordable housing for their workers. The adjustments in this bill are critical. Tax credits will make a difference for Nevada workers and residents.

MARCOS LOPEZ (Americans for Prosperity Nevada):
Americans for Prosperity does not support S.B. 284. Housing costs are the root of the problem. Zoning and land use regulations drive this problem. This needs to be addressed. The key driver is overregulation of the housing market by State and local governments which limits supply. Overregulation drives up home prices, and this adversely affects low-income individuals—especially those who spend a larger amount of income on housing. There is evidence that removing restrictive zoning regulations will help the housing crisis by encouraging more construction. Tax credits negatively impact revenue collection.

UNKNOWN SPEAKER:
I am neutral to this bill. I do not understand why tax credits are going to banks. The money could go toward helping the poor. Tax credits are taken from someone else.

SENATOR RATTI:
In a basic economic curve, there will be individuals who cannot compete in a market-based economy. For many low-income housing tax credits and the projects that are built with them, the type of folks who are served are senior citizens who have worked their entire lives. They have been able to pay for housing most of their lives but are now on fixed incomes of $1,000 a month from Social Security. The housing market is outstripping their incomes. We have seen property values increase by 20 percent in one year in Washoe County, and a Social Security check does not increase that rapidly. These projects are a safety net to ensure housing for senior citizens or people with disabilities who are on fixed incomes and for people in community college or workforce development programs working toward higher earning power but cannot afford rent right now.

I want to emphasize the need for affordable housing. Nevada is far behind. For every 100 individuals that I just described, we only have 40 units. For every extremely low-income individual, we only have 18 units for every 100 people. I disagree with the sentiments at the end of testimony that these are a handouts and not hand ups. If one cannot take care of housing, it is difficult to take care of one's health, education, workforce training and other necessities to move up the socioeconomic ladder. Some Nevadans will need help whether they are seniors at the end of their working life or people with disabilities who have challenges obtaining work. Senate Bill 284 will allow us to help some of them.

CHAIR NEAL:
We will open the hearing on S.B. 10.

SENATE BILL 10: Revises provisions relating to taxation. (BDR 32-435)

DAGNY STAPLETON (Nevada Association of Counties):
Senate Bill 10 makes a small change to Nevada's property tax calculation. Property taxes are either the primary or secondary source of revenue for all Nevada counties, which makes them critical to the services that are provided. Property taxes are an important source of revenue for schools. *Nevada Revised Statutes* 361.4723 and NRS 361.4724 provide a partial abatement to property taxes through an annual cap on increases to property tax bills. It is understood that the annual caps on property tax bills can increase 3 percent for residential and 8 percent for commercial properties.

Senate Bill 10 fixes a piece of the secondary cap formula that was added prior to the caps in 2005. We believe it has had unintended consequences. In limited instances, the 3 percent and 8 percent caps have dropped below 3 percent, and have gone as low as zero percent. In FY 2017, a year where the economy was strong and property values grew, some county residents had their property taxes capped at 0.2 percent. This significantly reduced tax revenue for that year and lowered the property tax base in future years. Without the fix provided in S.B. 10, this scenario will likely occur again. It will occur in some counties next year to a smaller extent.

This bill removes the ability for the standard 3 percent and 8 percent property tax caps to fall below 3 percent. This change will affect very few property taxpayers next year, and it may have no impact in future years. Senate Bill 10 provides additional stability, predictability and equity for Nevada's local governments, school districts and special districts that rely on property taxes to provide services to Nevadans.

Property taxes are a critical revenue source for all counties by making up anywhere from 20 percent to 60 percent of General Fund revenue. Property taxes are an important revenue source for cities and school districts.

The secondary cap mechanism in the property tax formula allows tax caps to move between zero percent, 3 percent and 8 percent. The formula includes two times the Consumer Price Index (CPI) and the ten-year average growth of assessed valuation of property in each county. Since FY 2006, the caps have dropped under 3 percent in four years with the majority of instances coming in FY 2017 and FY 2018. At that time, the tax cap calculation was heavily influenced by large declines in real estate value during the housing crisis.

The table on Slide 3 of the presentation (Exhibit D) is from 2017 and illustrates how the caps are calculated using the secondary cap. There are unknown calculations that allow property tax growth to occasionally be capped below 3 percent and sometimes zero. The general cap column to the right is important to look at. Fiscal year 2017 is when the lowest caps occurred since the formula went into place. There were 9 out of 17 counties that had tax caps below 3 percent. There were six counties at 0.2 percent.

The secondary cap creates issues with predictability and stability. The projected caps for the next fiscal year are announced by the Department of Taxation around March of each year. As counties develop budgets for the next fiscal year, revenue can be suddenly reduced as a result of caps dropping. This has happened in the past.

Senate Bill 10 ensures the annual cap on increases to property taxes cannot fall below 3 percent. It ensures that when property values rise, property tax collections are not artificially limited by a formula. A property owner who experiences a 10 percent property value increase and has a comparable increase in taxes owed would not see their property tax bill capped below 3 percent.

The table on Slide 4 Exhibit D shows what caps have historically been in each county. Years where the cap fell below 3 percent are highlighted in orange. This has not occurred in all counties. In 2011, Mineral County property taxes were capped at 0.3 percent. In 2017, nine counties dropped below 3 percent, and six counties to almost zero percent—including Clark County and Washoe County. In 2018, we saw a similar occurrence. Next year, the cap will be below 3 percent for five rural counties. This table gives some historical context to where the caps have been and may go. In only a few instances would more property tax revenue have been realized.

Over the 16 years since the secondary cap was put in place, the caps have dropped below 3 percent only a few times. However, 2017 was especially impactful. We want to prevent this from happening again with S.B. 10.

Slide 5 of Exhibit D has more detail for the FY 2022 projected caps. Although this bill would not go into effect until FY 2023, there are four counties that are projected to have tax cap factors under 3 percent in FY 2022. White Pine County has been removed from this list. These numbers were based on the projected preliminary cap numbers we received last month.

When a county's tax cap drops below 3 percent, the fiscal impacts are compounded in subsequent years. A lower revenue base in a low cap year reduces the foundation of potential revenue growth even if caps rise to the maximum level the following year.

Slide 6 of Exhibit D is a historical example of Washoe County. The graph shows how the property tax cap varied over the last decade. It has an irregular trajectory, and this impacts the ability to project revenue and associated services. Recession years pull the caps down because of a decrease in assessed values. The secondary cap formula is based on a ten-year average. The cap does not bottom out during a recession but rather in years later during recovery when local governments try to recoup revenues lost during recessions to meet demands of growing services. The graph is a good example of why S.B. 10 is needed. If there were another dip in the housing market, which causes assessed values to decline, a property tax cap decline could happen years later, which is not correlated with decreased economic factors. This would impact local government revenue.

Senate Bill 10 addresses the compounded issues created by tax caps and abatement. This bill does not propose to remove tax caps. The first table on Slide 7 of Exhibit D shows local property tax revenues in green and the abated amount created by the tax caps in gray—the amount taxpayers were not asked to pay. The table to the right shows those abatements over time.

During the Great Recession, housing assessed values dropped dramatically. However, as the economy began to recover, property tax revenue did not recover because of the tax caps on how much property tax bills could increase. Some local governments have not recovered to prerecession revenue or staffing levels. Fiscal year 2017 abatements and secondary cap formula effects amounted to $700 million. Roughly 40 percent of the abated tax payments would have otherwise been distributed to school districts throughout the State. This year, Nevada will abate more than $1 billion in property taxes, and total collections are on par with what was collected a decade ago.

Slide 8 of Exhibit D illustrates the compounding effect of the secondary cap with the 0.2 percent tax cap in FY 2017. In years where property taxes would have grown but were capped at a low level due to the formula, the amount the cap is applied to the following year remains at the same level. Any growth in the next year begins at a lower point. The dark green line shows projected revenue growth over ten years if a $300,000 home were to pay $3,000 in property taxes, and a 3 percent cap was applied. The olive-colored line reflects the effect of the secondary cap dropping to nearly zero percent in 2017, and the compounding impact over the following years. Because of the almost zero percent cap, the tax bill is at approximately $3,000 in 2017 and unable to really grow. If we assume the 3 percent cap is imposed the following years, property tax collections are still lower in subsequent years due to what happened in 2017. The compounding effect means a single year outlier can impact tax collections and provisional services for years. Senate Bill 10 proposes to fix this.

Slide 9 of Exhibit D shows a similar effect of the compounding impact to future years with commercial properties when basing the taxes paid on a tax cap near zero percent.

Depending on the CPI and growth over an average of ten years of assessed value of properties, a county's tax cap in future years could drop below 3 percent. If S.B. 10 were in place, the property tax cap would be kept at 3 percent instead of dropping below that. The impact on taxpayers could be the percentage difference between 3 percent and what the cap dropped to if the caps were below 3 percent in years when property tax revenue would have increased.

The numbers are unknown because it is difficult to predict property tax caps. However, we have a projection on Slide 10 of Exhibit D. The first example on the left is a hypothetical scenario if S.B. 10 had been in place during FY 2017. There was $69 million in additional revenue abated due to the cap dropping below 3 percent in nine counties. We do not want to repeat what happened in FY 2017 where property tax bills were capped at nearly zero percent. A hypothetical on the right of Slide 10 shows if S.B. 10 was implemented in FY 2022. If the projected five counties below 3 percent were instead kept at 3 percent, the effect would be minimal compared to the $7 billion in Statewide property tax collections. The impact to taxpayers would be just over $100,000 spread over five counties. Due to the tax cap dropping below 3 percent in those counties, a compounding issue will occur, and property tax bills will be lower. This is true if in future years the tax caps are back to 3 percent.

It is likely that the cap will not be pulled below 3 percent if there are years where averaged assessed property values decline. It is possible that S.B. 10 has no impact on future years. However, the fear of another recession drives the need for this bill. If assessed values drop, there is the potential that tax caps could get close to zero percent which could destabilize local governments and services.

The secondary cap formula creates uncertainty and abatements in years when it is unnecessary. This affects counties' ability to rebuild revenue lost during recessions. Senate Bill 10 does not increase the tax rate nor does it remove the standard 3 percent and 8 percent tax caps that protect taxpayers from property tax increases. This is a minor fix to the property tax formula. This is an important first step to protect and stabilize local governments' property tax revenues and eliminate the potential to repeat what happened in 2017.

MICHAEL MEARS (Assessor, Eureka County):
We were involved in language considerations with the Nevada Association of Counties. I was at the Legislature in 2005 when A.B. No. 489 of the 73rd Session was created. That bill established the property tax caps S.B. 10 is addressing. At that time, property values were increasing. There were concerns property owners, particularly seniors on fixed incomes, were going to be taxed out of their homes. The 3 percent residential and 8 percent commercial caps were established. Senate Bill 10 establishes a floor that property tax caps cannot go below. The caps are on property taxes and are not on assessed value of properties. There are counties with a 2.4 percent cap this year, and S.B. 10 would have an effect. Eureka County would have an additional $63,000 in tax revenue, which could cover an employee's salary. This could be the case in other counties.

When we have a tax cap that drops below 3 percent, and the caps rebound to 3 percent and 8 percent, revenue only grows based on the prior year cap that was below 3 percent. We never catch up on the lost property tax revenue. A 3 percent floor stabilizes State and local government revenue projections. This bill does not dramatically impact property taxpayers. Eureka County supports S.B. 10.

WESLEY HARPER (Nevada League of Cities and Municipalities):
We support S.B. 10. This bill provides a needed adjustment to property tax law. There is not a consistent, stable or predictable source of revenue for counties, municipalities, school districts and special districts. This bill helps. However, it only addresses one part of the problem. This bill does not increase tax rates or remove tax caps to property tax increases. It creates a floor for more stable revenue. There is a need to study present, expected and emerging revenue sources. An analysis is necessary to determine if Nevada's overall tax policy is optimal.

CHRISTOPHER ROSE (Churchill County):
Churchill County supports S.B. 10. The changes provided by the bill do not increase tax rates. It does not remove the 3 percent and 8 percent tax caps that

protect taxpayers from property tax increases. The bill protects and stabilizes property tax revenue for local governments.

CARYNE SHEA (Vice President, HOPE for Nevada):
Public schools are still not funded at prerecession levels. If this is not addressed, it will compound to millions of dollars in lost revenue for student support and municipality resources. Although this bill does not provide substantial revenue, it will provide better predictability for forecasts. We support S.B. 10 as a means to provide stability for funding schools.

HAWAH AHMAD (Clark County Education Association):
The Education Association is partners with the Clark County School District. We are the largest independent teachers union in the Country and Nevada. We engage in bipartisan advocacy for advancing public education in Nevada. The K-12 education system is key to economic development, diversification and workforce development. We support S.B. 10.

With an economy dependent on a regressive sales tax to fund schools and services and a median home price of over $400,000, we must ask why we are the only State with a depreciating property tax. This bill addresses the out-of-date property tax calculation. This is the beginning, and the tax structure must be reevaluated. We must take the burden off people with hardships and place it on people who can afford it. Homes are not bought without taxes in mind. Although there is an affordable housing crisis, we cannot provide the services and schools that new buyers expect. This will impact counties responsible for services. If the tax structure is not reformed, services will be compromised.

WARREN HARDY (Urban Consortium):
We believe S.B. 10 is incremental but an important step to making corrections to the tax cap system. We need to conduct a study of Nevada's revenue system. This has not been done since the 1980s. We support this bill.

JUSTIN HARRISON (Clark County):
We support S.B. 10. This bill prohibits the standard 3 percent and 8 percent property tax caps from dropping below 3 percent. It will provide stability and predictability for local governments.

JARED LUKE (City of North Las Vegas):
This bill will add stability for municipalities to predict forecasts and provide essential services. We support S.B. 10.

LINDSAY ANDERSON (Washoe County School District):
Washoe County School District is in support of S.B. 10. School districts are the primary beneficiaries of property taxes. This is a commonsense approach to ensure a stable source of revenue. This bill is important as we move toward a Pupil Centered Funding Plan, which no longer guarantees revenues to districts. This will help meet the needs of students during economic hardships. Schools play a role in providing basic needs for students.

MR. CHALLINOR MENDEZ:
We support this bill. This bill will add stability to rural counties and local governments. We must look at long-term revenue sources to ensure we provide a reliable revenue source for education, mental health services and other social services.

DAVID GIBBS:
I oppose S.B. 10. It is noteworthy that the people who spoke in favor of the bill use tax revenues. Property taxes decline during recessions. Homeowners do not have a stable or predictable income during recessions. Homeowners face the same revenue uncertainties as local governments. Prohibiting tax caps from falling below 3 percent does not help people during hard times. People are still recouping from recessions. There is a moratorium on rents and mortgages because the Covid-19 pandemic has made employment and paying bills difficult. People will have the catch up after the moratorium ends, which will be difficult. Tax increases complicate things.

THOMAS GHIDOSSI:
I am a retired senior citizen and farmer. This bill is confusing. We have a tax cap of 3 percent on increases to property taxes. This is to prevent runaway property taxes. Prior to the tax caps, property taxes were doubled. The 3 percent tax cap is nice, and it is based on inflation and assessed property values. This bill removes this. The recipients of revenue will receive a 3 percent increase every year. The tax cap is a good thing. Eliminating the formula will be wrong. Constant tax and service increases may force us to sell our homes. Senior citizens need more protection to limit tax increases. I do not support S.B. 10.

BOB RUSSO:
I oppose S.B. 10. An increase to the property tax cap is not a good idea considering the rough economic times. Many people have lost jobs and have reduced hours at work. Many businesses have closed due to shutdowns. Inflation may occur, which would be challenging for everyone. An increase in commercial property taxes will be passed on to Nevada consumers with price increases. This will hurt lower-income Nevadans and senior citizens on fixed incomes. Small businesses may close if they cannot pay higher taxes. Property owners are having trouble paying mortgages during this time. More taxes could force people out of their homes. Increased taxes slow down the economy because people have less disposable income. People spend less when they have less. Higher taxes discourage new investments. The risk is too great to take.

AL LASSO:
I have been a Nevada citizen for the past 30 years. We elect representatives to pass legislation with everyone's interests in mind. We are coming out of the Covid-19 pandemic, and Nevada was one of the hardest hit states in the Country. We have one of the highest unemployment rates in the U.S. The Las Vegas Strip was shut down for months. There are over 10 percent of people whose mortgage is 30 days past due. The moratorium on renters prohibits property owners from paying their taxes. The State budget is in better shape than is described. The Governor is proposing to spend $9.2 billion over the next two years.

In 2019, the Legislature approved $8.8 billion in spending. We are spending more now than before the pandemic. Nevada has been allocated $1.5 billion from the Coronavirus Aid, Relief, and Economic Security Act. Raising property taxes while people are suffering economic hardship from the pandemic, while spending more, is punishing the citizens. We should cut some spending during downturns similarly to businesses and people. We cut back on things until the economy gets better. This bill put another burden on people who are suffering from the shutdowns. I oppose S.B. 10.

LANIQUA MCCLOUD:
I oppose this S.B. 10. This is not beneficial for future home buyers considering the current market. You do not have the right to appraise a house.

LOUIS VEGA (Concerned Veterans for America):
I oppose S.B. 10. There are over 300,000 veterans in Nevada. They come to the State for low property taxes and less regulation. This bill will drive veterans, businesses and potential residents away from the State. The property tax structure is common sense. This bill hikes up property taxes at the worst time possible. More taxes are a burden that inhibits economic growth. We should cut wasteful spending.

WISELET ROUZARD (Americans for Prosperity):
I oppose this bill. The Raider's stadium was not going to be built by taxpayers. There was $11 million used last year. If there was not a room tax to cover the costs, then taxpayers in the Clark County would have to cover costs. Counties should not engage in wasteful spending. There was a hockey arena approved in the midst of a pandemic. We need to address wasteful spending first.

JANINE HANSEN (Independent American Party of Nevada):
We oppose S.B. 10 which will increase property taxes. This bill puts homeowner's property taxes at a 3 percent cap and commercial and rental property at an 8 percent cap. Because of the pandemic, some people have already lost their homes and businesses. According to the Institute for Policy Innovation in the U.S., the total U.S. tax burden, including federal, State, local and hidden taxes is equal to 56 percent of a person's annual spending. This includes 19 percent in State taxes and 13 percent in local taxes. This is more than a person spends on housing, food, health care, transportation, education and recreation combined. Businesses do not pay taxes, and they pass them on to consumers in the price of goods and services. Businesses will pass the increased property taxes on to consumers.

My brother had a roofing company in Sparks. He would tell people that the roof would cost $10,000, and half of the costs were taxes, fees and regulations. The State of Nevada received $4.5 billion in Covid-19 relief money. Use that money instead of raising taxes. Nevada was one of the hardest hit states and suffered up to 30 percent unemployment. Consider not increasing property taxes.

BRITTANY SHEEHAN:
Nevada's economy is still hurt from the pandemic. Schools have done less for students in the past year than in any other time in our lives. Clark County School District has a multibillion dollar budget, and the State received

$4.5 billion in Covid-19 relief. Senate Bill 10 is not appropriate at this time. We should not try to financially capitalize off the influx of new residents in Nevada. We should encourage the new residents. I oppose this bill.

JONATHAN LELEU (National Association for Industrial and Office Parks):
Nevada's tax system is antiquated, cumbersome and hurts citizens. There was a presentation on Nevada's tax system in 2017 that members of this Committee attended. National Association for Industrial and Office Parks was the only association that was in support of S.J.R. No. 14 of the 79th Session. It was supported on the condition that comprehensive discussions on property tax reform were going to take place. There were no local governments or trade associations that would discuss reform with us during the interim. We were neutral during the 80th Session. In 2017, A.B. No. 43 of the 79th Session provided a floor on property tax caps, and we opposed it because it was only a partial fix. Senate Bill 10 is similar. Local governments are facing revenue deficiencies. We agree the property tax system is broken. We agree with the intent of this bill, but Nevada deserves comprehensive tax reform.

MARK STENEHJEM:
I oppose S.B. 10. We need to reevaluate administrative costs and the taxes that are collected.

LYNN CHAPMAN (State Vice President, Nevada Families for Freedom):
If we are concerned about affordable housing, we should be wary of property tax increases. The 3 percent adds up in a few years. People who are disabled, retired people, single parents, young families and lower-income people need affordable housing. Higher property taxes hurt these people—renters and homeowners alike. Investors may be deterred from investing. First-time home buyers may be discouraged. Banks may not loan to private customers. People have to pay property taxes on top of mortgages. A burden is created when taxes go up each year, especially for those who rely on affordable housing. Families and renters could lose their homes when values increase. Rental property owners pass the property tax increases on to renters. Retired people are taxed out of their homes during the last part of their lives. This is not the time to raise taxes. I oppose S.B. 10.

JIM DEGRAFFENREID (Nevada Republican Party):
We are in opposition to this bill. Nevada residents are not undertaxed, and State government is not overfunded. The budget crisis is a result of overspending and

mismanagement. The pandemic shutdown has exacerbated this issue. Raising the tax cap floor from zero percent to 3 percent is a tax increase. Many businesses and people have not recovered from the pandemic. The Economic Forum projected revenues to be reduced by $400 million the next biennium. The Governor's proposal contains no new taxes and a reduction of $187 million in spending. Nevada is receiving $4.1 billion in Covid-19 relief. The State will receive $2.95 billion, and county governments will receive $597 million. That is enough money to replenish the Rainy Day Fund, budget shortfalls and school budget reductions.

KELLEY WHITE:
I oppose S.B. 10. The effect on renters is not being considered.

GINA ST. ORES:
I oppose S.B. 10. The cost of living in Nevada has gone up tremendously. My food budget has nearly doubled. Proposing a tax increase during an economic crisis does not make sense to me. Gasoline has gone up 45 cents per gallon. I am unsure how I am supposed to afford to live here. There are companies leaving Silicon Valley because of California taxes. The cost of living is getting too high. This bill does not promote stability; rather, it is a burden. Half of California voters are considering moving out of the State because taxes are too high, according to the University of California, Berkeley, Institute of Governmental Studies. Nevada should not be like California. Things are more expensive than a year ago. Retailers will pass the taxes on to consumers.

MICHAEL MOEINI:
I have had to take on a third job to maintain my housing and tuition for my daughter. I am not the only person who has had to work more. I have cut costs, expenses and extracurriculars. Nevada is one of the hardest hit states by the pandemic. Why would we be discussing these matters if it is not going to make much of a difference? It is regulations like this bill that drive people to need affordable housing.

MR. LOPEZ:
In 2019, there were not many calls about revenue when some collective bargaining agreements were passed, which are expected to increase spending over $1 billion by the end of the year. We overpay 40 percent for construction. This could be done more efficiently. I oppose S.B. 10.

UNKNOWN SPEAKER:
Landlords have to sell properties or charge tenants more with new property taxes. I have a property, and when I get hit with a new tax, I have to pass the cost on to the renter. I do not want to raise rent costs. Local governments need to budget differently.

RONALD NAJARRO (Americans for Prosperity Nevada):
I oppose this bill because it will hinder economic growth and hurt Nevadans. This is not an appropriate time for this bill. Local governments waste money by overpaying for public works. An 8 percent tax increase year after year is unacceptable. We need to engage in a tax system overhaul.

EDDIE DIAZ (The LIBRE Initiative Nevada):
People in the Hispanic community have taken a big hit because of the pandemic. People have had to cut back spending, and government should do the same. More taxes is not the answer. I oppose this bill.

CYRUS HOJJATY:
This bill will accelerate a real estate collapse. Nevada has a regressive tax system. Other tax sources should be considered, such as gaming.

SENATOR RATTI:
Is there anything in S.B. 10 that removes the 3 percent cap on residential property taxes?

MS. STAPLETON:
No, this bill does not remove property tax caps. Property taxes will remain capped if S.B. 10 were to pass. There is a 3 percent cap on residential and an 8 percent cap on commercial property taxes. This bill does not remove the secondary cap formula that allows the commercial tax cap to drop below 8 percent. Senate Bill 10 ensures that tax caps cannot go below 3 percent. This bill does not raise the tax rate at all or make any other changes to the Nevada's property tax system. It ensures the tax caps cannot go to zero percent.

SENATOR RATTI:
Is there anything in this bill that forces property taxes to rise 3 percent? There was testimony that property taxes will continue to go up 3 percent. If there are

no abatements in play and a property does not depreciate by 3 percent, will property taxes go up 3 percent?

MS. STAPLETON:
No, it does not. The caps only apply if property tax bills were to increase. There are years when property taxes could decrease based on the formula. Senate Bill 10 only applies to caps in years when property taxes increase and to prevent the caps from falling to zero percent.

SENATOR RATTI:
Do the majority of property taxes go to the State?

MS. STAPLETON:
No, the majority of property taxes go to local governments—counties, cities, special districts and school districts.

SENATOR RATTI:
This bill will not really benefit the State budget. A little bit from capital projects, but most property taxes go toward schools and local governments.

Is there anything in S.B. 10 that changes how we assess the valuation of people's homes?

MS. STAPLETON:
There is nothing in this bill that changes the way we assess or value property. It would not change depreciation or the formula. The bill makes a small change to the calculations for how much a property tax bill can increase.

CHAIR NEAL:
Seeing no public comment, the meeting is adjourned at 3:41 p.m.

RESPECTFULLY SUBMITTED:

____
Alex Polley,
Committee Secretary

APPROVED BY:

____
Senator Dina Neal, Chair

DATE:______________________________

EXHIBIT SUMMARY				
Bill	**Exhibit Letter**	**Begins on Page**	**Witness / Entity**	**Description**
	A	1		Agenda
S.B. 74	B	1	Joe Reel	Work Session Document
S.B. 284	C	1	Senator Julia Ratti / Nevada Housing Coalition	Proposed Amendment
S.B. 10	D	3	Dagny Stapleton	Presentation