

Nevada Property Taxes 101

HOW DOES NEVADA'S PROPERTY TAX SYSTEM WORK?

Property tax is defined generally as, “[a] compulsory charge levied by a governmental unit against the property of a person, natural or corporate.” Both real property, which includes land, improvements to land (e.g., buildings), and other immovable attachments to property, and personal property, such as business equipment, amongst others, are subject to taxation in Nevada.

Tax rates are proposed in the yearly budgets submitted by local governments every April. In June, the Nevada Tax Commission certifies the property tax rates, and in so doing, establishes that the tax rate will produce the requisite revenue to meet local governments’ approved budgetary prerogatives. The Nevada Constitution places a rate cap of five cents on one dollar of assessed valuation (i.e., \$5.00 per \$100 of assessed valuation). There is also a statutory cap of \$3.64 per \$100 of assessed valuation.

Local governmental bodies have some discretion in establishing their tax rates, though they must ensure that the rate does not produce revenues that exceed six percent over the prior fiscal year and that the tax rate is not less than that for the prior fiscal year. The tax rate must include a portion for the State, the county, and the school district; may include a portion for one or more special districts; and typically—but not always—will include a portion designated for the jurisdiction in which the property is located.

The county is the administrative focal point for property taxes. It distributes property tax money directly to local governments situated within its borders, which use the revenue to help fund outlays. The county also reserves certain amounts for its own budgetary purposes.

HOW IMPORTANT ARE PROPERTY TAXES TO LOCAL GOVERNMENTS AND THE STATE?

Local governments in Nevada are highly dependent upon property taxes to finance their operations. Jurisdictions throughout the State provide a variety of public services, including law enforcement, hospitals, parks, roads, libraries, and more. School districts rely on property taxes to pay for instruction, salaries, benefits, supplies, transportation, and property, amongst others.

While property taxes do not provide the entire revenue stream for any local government to fund services and their related administrative costs, they do form a significant portion of the total revenues. Nearly \$1 billion in property tax revenues were collected for counties’ Governmental Fund Types and Expendable Trust Funds in FY 2016 to meet budgetary needs.

Property taxes are responsible for about one-quarter to just more than one-third of revenues for most counties in Nevada. For FY 2016, Storey County and Lander County were the most dependent of Nevada’s county jurisdictions on property taxes, at 64.2 percent and 59.7 percent, respectively. Clark County derived just 20.8 percent of its revenue from property taxes. That makes it the least reliant on property taxes of all counties in the State, despite its receipt of the most absolute property tax dollars, relative to other counties, at \$613.6 million.

Most property tax dollars in the State were distributed to school districts, at 40.0 percent, followed by counties (27.2 percent), cities (11.8 percent), special districts (13.0 percent) and towns (2.5 percent). The State received the least amount of property tax money, at just 5.4 percent of all projected property tax revenue for FY 2016.

HOW DID NEVADA'S PROPERTY TAX SYSTEM DEVELOP?

The Nevada Constitution was approved by the State’s voters in 1864. Section 1 of Article X states that, “[t]he Legislature shall provide by law for a uniform and equal rate of assessment and taxation, and shall prescribe such regulations as shall secure a just valuation for taxation of all property, real, personal and possessory, except mines and mining claims.” The concept of “a uniform and equal rate of assessment and taxation” is the bedrock principle of property taxation in Nevada.

In 1979, the statutory limit on property tax rates at \$3.64 per \$100 of assessed valuation was established. A series of legislative measures were passed in 1981, with the goal of affording homeowners additional property tax relief, while maintaining a sufficient source of revenue for local governments. These pieces of legislation, combined, are referred to as the “Tax Shift of 1981.” For the specific purpose of property taxation, the main changes can be summarized as follows: (1) a cap on local governments’ property tax revenues; (2) establishment of the depreciation rate for improvements to land; and (3) property value subsequently not to be based on market value. The consensus is that these changes produced an increased reliance on the sales tax, relative to property taxes, for local governments’ revenues.

Nevada placed certain limitations on year-to-year property tax increases in 2005 through two pieces of legislation that together established provisions for partial abatement of property taxes or caps on year-to-year property tax bill increases. However, legislation in the 79th (2017) Session proposes to amend the calculation of partial abatements, though the primary caps of three percent for owner-occupied single residences and eight percent for all other property, instituted in 2005, would be preserved.

IS THERE VARIATION IN PROPERTY TAXES ACROSS NEVADA'S COUNTIES?

There is demonstrable variation in property taxes across Nevada's counties, with respect to distribution, average tax rates, property tax revenue per capita, and assessed valuation per capita.

Clark County, Elko County, and Lyon County apportion a more substantial percentage of property tax dollars to schools, relative to county apportionment itself; the converse is true for Carson City, Esmeralda County, Lander County, Lincoln County, Mineral County, Storey County, and White Pine County. The distribution (schools versus counties) is relatively even for all other counties in the State. Counties' distribution to the State does not vary widely; most counties apportion property tax dollars in the range of 4.5 percent to 7 percent, with Eureka County as the outlier at 9.6 percent.

There is significant variation in average property tax rates, with the lowest rate of \$1.7782 per \$100 of assessed valuation in Eureka County and \$3.66 per \$100 of assessed valuation in Mineral County and White Pine County for FY 2016. Clark County and Washoe County have similar average property rates of \$3.0806 and \$3.4943, respectively.

Property tax revenue on a per capita basis also differs significantly across Nevada counties. In FY 2016, Lander County (\$3,356), Storey County (\$4,250), and Eureka County (\$7,883) had the highest per capita revenues, while Lyon County (\$743), Churchill County (\$794), and Carson City (\$809) had the lowest per capita revenues. Washoe County's per capita revenue of \$1,040 was higher than the statewide average of \$898, and Clark County's per capita revenue of \$833 was slightly lower than the statewide average.

In FY 2016, Clark County accounted for 70 percent of total assessed valuations. Washoe County was the second largest contributor, with 14 percent of total assessed valuations. The top contributors to assessed valuations, on a per capita basis, were Storey County (\$128,284), Lander County (\$174,433) and Eureka County (\$799,426); Carson City (\$25,111), Lyon County (\$28,422), and Churchill County (\$28,779) had the lowest total assessed valuations per capita.

HOW ARE REVENUES FROM PROPERTY TAXES DISTRIBUTED BY THE STATE?

In general, the property tax money that the State receives is used primarily for the State's bond debt redemption. State debt was serviced through the Consolidated Bond Interest and Redemption Fund and amounted to \$131.7 million in the 2015-2017 biennium, equating to 88.6 percent of all property taxes received by the State for FY 2015 and FY 2016. The remainder of the State's property tax receipts was split between two budget

accounts: Indigent Hospital Care (8.5 percent) and the Renewable Energy Account (2.9 percent).

WHAT IS THE RELATIONSHIP BETWEEN PROPERTY TAXES AND K-12 FUNDING IN NEVADA?

The largest share of property tax money collected statewide in FY 2016 was distributed to school districts (40.0 percent), for a projected total dollar amount just over \$1 billion. While school districts received the most property tax money of all entities in the State, their budgets rely on a variety of funding sources, of which property taxes comprise but a small portion. For FY 2016, school districts' total resources amounted to \$7.04 billion when aggregated statewide. And, \$1.05 billion or 14.9 percent, was realized from property taxes, meaning that 85.1 percent of school district funds in the State were composed of non-property tax resources.

HOW DOES NEVADA'S PROPERTY TAX SYSTEM COMPARE TO OTHER STATES?

Nevada's property tax system is distinguished by certain structural attributes that differentiate it from most other states. Nevada, Delaware, and Ohio are the only states that include statewide classification, limits on assessed value, and circuit breakers but exclude assessment by county and limits on rates/levies. Along with Alaska, Florida, South Dakota, Texas, Washington, and Wyoming, Nevada does not have an individual income tax. This results in greater dependence on sales and property taxes to support the State and local governments. And Nevada is the only state to use depreciation in calculating properties' taxable value.

Nevada's property tax revenue per capita of \$953 is below the U.S. average of \$1,455, and well below the highest-ranked of all, the District of Columbia, which had a property tax revenue per capita of \$3,139 in 2014. Of all states and the District of Columbia, Nevada ranks in the bottom third, or 39th, with a property tax revenue per capita that places it in similar company with two other Intermountain West states—Arizona (34th; \$986 per capita) and Utah (37th; \$969 per capita). Among Intermountain West states, Nevadans enjoy the second-lowest property tax burden, with only New Mexico coming in lower, with a ranking of 48th (\$731 per capita).

WHAT ARE THE DIMENSIONS OF A "GOOD" PROPERTY TAX STRUCTURE?

"Good" property taxes should account for both the needs of the taxpayers and provide sufficient revenue-generating streams for local governments. But there is an inherent tension between financing local governments while not imposing undue burdens on property owners.

Local governments recently have argued, though, that certain policy interventions—particularly, the partial abatements—have

undercut their ability to conduct business. Budgets are becoming more stressed, with the long-term shift over time from the more stable property tax to the more volatile sales tax as the primary revenue source for local governments.

Short-Term Solutions

Certain short-term solutions—adjustments to the calculation of partial abatements and changes to the application of the depreciation factor—have been proposed to address the issue of property taxes and their impact on local government financing.

Senate Bill (SB) 425 was introduced in the 79th (2017) Session to amend the way in which partial abatements are calculated. The bill would maintain the primary caps of three percent for owner-occupied single family residences and eight percent for all other property. However, it would eliminate the possibility of lower caps, as the current system permits. (Lower caps mean greater reductions in property tax bills but less money for local governments.) For FY 2016, local governments lost \$549.4 million in total to partial abatements. Proponents of such legislation argue that it would help slow the rate at which property tax abatements are expected to increase over time, while opponents believe it could result in economic hardship for some property owners.

Legislation introduced in the 77th (2013) Session, Assembly Bill (AB) 26, would have reduced the depreciation rate from 1.5 percent per year to 1.0 percent per year. As with partial abatements, supporters argued that the change would bring in critical revenue for local governments, and opponents asserted that it was a tax hike for property owners. Ultimately, no action was taken on AB 26. Legislation in the 79th (2017) Session, Senate Joint Resolution (SJR) 14, proposes a Constitutional amendment would reset the depreciation factor upon the sale or transfer of real property. While proponents have asserted that the legislation would help bring in much-needed revenue to pay for services, others have observed that the potential property tax increases would effectively penalize purchasers of used homes.

A Long-Term Solution?

The term most often used to characterize Nevada's property tax system is "complex." The complexity lies not only in its various elements, requirements, and structures, but the fact that each legislative change has been layered atop previous policy interventions, creating a patchwork of existing laws that contradict, rather than buttress one another.

To that end, we recommend the formation of a study committee that would reevaluate the property tax system in its entirety. Such a committee should consider all the dimensions of the system as a complete unit, rather than disparate elements in isolation of one another. It should assess the manner in which each policy choice thus far has acted as a band-aid with reverberation effects throughout the system. Moreover, it should

acknowledge that any change to the system would be situated in a particular economic context, rather than a vacuum.

Two pieces of legislation in the 79th (2017) Session—one from each the Assembly and the Senate—propose such studies. Assembly Concurrent Resolution (ACR) 7 would direct the Legislative Commission to appoint a committee to conduct an interim study on property taxes; it designates six legislators to serve on the committee and requires transmittal to the 80th meeting of the Legislature (i.e., in 2019). SB 489 also directs the Legislative Commission to conduct an interim study regarding property taxes and differs from ACR 7 only in the proposed composition of committee members.

The establishment of a study committee would put Nevada in good company with other states that have recently reexamined their property tax systems, such as Nebraska, New York, North Dakota, and Vermont, amongst others. If there is any national property tax trend, it is the formation of studies, task forces, and commissions to assess improvements to these systems.

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