

TAX TOPICS

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PROPERTY TAX: THE CAPS

It was the dominant tax issue of the 2005 Legislative Session - - - property tax relief. Caused by double digit increases in property values particularly in southern and western Nevada, legislators were determined to craft a solution that would be effective with the property tax bills sent out in July of 2005 for the fiscal year 2005 - 2006.

At one point there were 21 bills that had been requested to provide relief. While some of the bills were heard, the property tax hearings for the first month and one-half generally were on various concepts that would mitigate the expected increases in property tax liability because of the increases in assessed valuation. Ultimately Legislators chose to “cap” property owners’ tax bills as the way to mitigate the projected increases in property taxes. Referred to as a “partial abatement” in the legislation (AB 489), increases in subsequent years’ tax bills were limited to no more than 8% or twice the CPI, whichever is greater. A secondary cap of 3% was created to provide an abatement to the owner who occupies a single family residence. This cap within a cap was created based on Article 10, section 10 of Nevada’s Constitution which allows the legislature to

“ . . . provide by law for an abatement of the tax upon or an exemption of part of the assessed value of a single-family residence occupied by the owner to the extent necessary to avoid severe economic hardship to the owner of the residence.”

It would appear from the chart on page 3 that the promised relief was delivered. However, that being said, there are still some regarding the distribution of revenue received from property tax.

This issue of *TAX TOPICS* includes an explanation of the caps in addition to various charts that shows the effect of the caps on local government revenue.

A Brief History of Property Tax Relief

1979 - Legislature statutorily reduces to \$3.64 the \$5.00 constitutional limit on property tax. The reduction is made up by replacing revenue lost to local governments from the State’s surplus.

1981 - The year of the Tax Shift. Large increases in assessed value cause Legislators to expand the 1979 relief efforts. The valuation formula for property is changed to provide for depreciation on buildings and includes increasing the rate of sales tax from 3% to 5 3/4% to provide offsetting reductions in property taxes. Restrictions placed on local governments regarding their ability to increase property tax rates including capping property tax revenue to 6% over the prior year (excluding new construction).

1983 - Economic downturn at the end of 1981 continuing through 1983 results in Legislature increasing property tax rate 30 and 3/4¢ per \$100 assessed valuation (state operating - 5¢, school operating - 25¢, indigent accident - 3/4¢).

1985 - The 1981 depreciation factor of 2% is changed to 1½% for 50 years leaving a residual value of 50%.

1991 - The Fair Share Year. Corrections to assessment inequities between counties cause changes in assessment procedures and recalculation and distribution of revenue between certain counties.

2005 - Legislature passes partial abatements to cap increases in property taxes.

THE CAPS: AN EXPLANATION

Beginning with the Fiscal Year 2005-2006 to calculate the cap applied to the property tax bill, the following applies:

For all property in a county including business personal property and centrally assessed property, the cap is calculated as follows:

The average percentage change in the assessed value of a county over the current year plus the previous nine years, or 8%, whichever is less, and then compare that value to twice the increase in the CPI for the previous calendar year. After comparison, the higher percentage between the two is the percentage limit on the increase in property taxes over the previous year.

For the owner-occupied single family residence, the property tax bill cannot exceed an increase of 3%. Excluded from the cap is any increase in the assessed valuation of the property from the prior year which is due to any improvement or change in the actual use of the property. Additionally, the owner of the single family residence who operates a home business out of his residence or has placed the title in a trust for the purpose of estate planning is still entitled to the cap.

For residential rental property the 3% cap also applies if the rent charged does not exceed the fair market rent as most recently published by the United States Department of Housing and Urban Development. Excluded from the cap is any increase in the assessed valuation of the property from the prior year which is due to any improvement or change in the actual use of the property. This cap does not apply to hotels, motels or other transient lodging.

Exceptions to the cap:

- Any property tax rate imposed by the Legislature is outside the property tax cap.
- Ballot questions that ask the voters for approval of a property tax increase will be outside of the cap, if so stated in the ballot question.
- If an additional tax rate is necessary to satisfy general obligation bonds, the tax rate required is outside the property tax cap.

- If property is subdivided, but part of the property remains as it was in the prior year, the tax for the “remainder” parcel is calculated as “for all other property”.

- If a parcel of property decreases more than 15% from its taxable value on July 1, 2003; or July 1 of the second year immediately preceding the lien date for the current year, whichever is later, and this parcel of property increases by 15% or more after July 1, 2005 from its taxable value for the prior year, the amount of tax which would have been collected without the cap will be levied on the property.

- Net proceeds of mines are taxed at the full property tax rate with no cap applied.

THE EFFECTS OF THE CAPS

The fact that the caps are on the amount of property tax paid and not on the tax rates themselves causes the reduced revenue to be apportioned to each taxing entity in the same proportion as each entity’s rate is to the total rate. This has caused problems with entities that have obligations beyond their share of the proceeds. This method of apportionment generally precludes entities from raising their tax rate since it will further reduce other entities’ portions.

Additionally, counties without increases in assessed valuation are generally at the statutorily imposed tax rate limit of \$3.64 per \$100 of assessed value and are experiencing declining property tax revenues with the imposition of the caps on property tax bills.

ABOUT THE FOLLOWING CHARTS

The charts on the following pages show: the results of the caps; historical changes in assessed values and total property tax revenue generated by the counties and cities; and comparisons of effective tax rates.

The source for assessed values and revenue is the Department of Taxation, Local Government “Red Books” for the reported years. NTA staff has calculated the percentages shown.

Please Note: Assessed value is 35% of taxable value.

THE RESULT OF THE CAPS ON PROPERTY TAX REVENUE

Shown in the chart below are comparisons for FY 2006-2007 of the amount of property tax collected with the caps on property owners' tax bills in place and the amounts that would have been collected without the caps, based on the increases in assessed valuation.

CHART 1			PROPERTY TAX REVENUE COMPARISONS			
COUNTY	FY 2004-05	FY 2005-06	FY 2006-07	F7 2006-07	% CHANGE	% CHANGE
	<u>TOTAL</u>	<u>TOTAL AFTER ABATEMENT</u>	<u>TOTAL AFTER ABATEMENT</u>	<u>AMOUNT OF ABATEMENT</u>	<u>WITH ABATEMENT</u>	<u>WITHOUT ABATEMENT</u>
Carson City	\$30,359,571	\$32,164,047	\$33,044,157	\$8,851,748	2.7	30.3
Churchill	13,018,848	14,886,407	15,795,265	1,084,466	6.1	13.4
Clark ¹	1,545,611,749	1,685,691,515	2,025,401,150	727,553,560	20.1	63.3
Douglas ¹	48,324,172	51,903,313	55,832,300	34,455,315	7.6	74.0
Elko ²	28,448,373	29,194,114	28,974,097	1,167,480	-0.8	3.2
Esmeralda ²	1,150,894	1,083,150	1,232,971	31,872	13.8	16.8
Eureka ²	10,307,476	10,549,186	12,329,760	30,906	16.9	17.2
Humboldt ²	13,661,969	12,832,908	14,254,834	335,366	11.1	13.7
Lander ²	11,133,497	12,256,927	9,838,585	97,531	-24.6	-23.4
Lincoln ¹	3,054,891	3,157,739	4,665,883	141,867	47.8	52.2
Lyon ¹	26,590,290	30,899,669	36,953,471	4,296,239	20.0	33.5
Mineral	2,617,450	2,735,362	2,667,632	91,852	-2.5	-1.1
Nye	33,880,027	36,274,024	39,788,692	2,030,285	9.7	15.3
Pershing	4,659,801	4,859,304	5,184,034	122,805	6.7	9.2
Storey ¹	6,177,718	6,527,938	10,569,981	1,413,622	61.9	83.6
Washoe	389,992,987	424,238,824	447,201,355	23,438,795	5.4	10.9
White Pine ²	4,403,272	4,900,941	8,189,680	452,186	67.1	76.3
TOTAL	\$2,173,392,985	\$2,364,155,368	\$2,751,823,847	\$805,595,895	16.4	50.5

NOTES:

¹ The primary cause of increase is new assessed value added due to new construction.

² Significant changes in the amount of Net Proceeds of Mines are the primary cause of increases/decreases.

COMPARISON OF COUNTIES ASSESSED VALUATION AND REVENUE

The following charts show the changes by county in total assessed valuation and total property tax revenue generated.

CHART 2

<u>COUNTY</u>	ASSESSED VALUATION BY COUNTY					CUMULATIVE % CHG
	<u>FY 2002-2003</u>	<u>FY 2003-2004</u>	<u>FY 2004- 2005</u>	<u>FY 2005- 2006</u>	<u>FY 2006-2007</u>	
	(ADD 000)					
Carson City	\$1,055,965	\$1,069,002	\$1,125,818	\$1,204,396	\$1,433,304	35.7
Churchill	429,460	435,004	441,487	488,297	570,368	32.8
Clark	40,649,295	44,679,769	50,157,588	64,498,993	89,520,975	120.2
Douglas	1,737,265	1,858,254	2,000,190	2,437,685	3,039,633	75.0
Elko ¹	941,951	934,467	969,494	965,348	994,053	0.1
Esmeralda	43,950	38,453	38,122	35,913	42,058	-4.5
Eureka ¹	323,422	415,127	578,937	539,003	632,108	95.4
Humboldt ¹	531,507	473,582	524,678	489,951	569,231	7.1
Lander ¹	331,470	327,452	330,892	341,608	297,629	-11.4
Lincoln	106,618	111,897	105,111	110,323	155,710	46.0
Lyon	762,494	810,879	897,681	1,053,093	1,364,618	79.0
Mineral	77,455	73,109	71,515	73,359	76,709	-1.0
Nye	854,071	871,287	997,110	1,089,560	1,330,090	55.7
Pershing	168,869	160,388	150,100	149,903	175,348	3.8
Storey	167,824	161,418	174,823	186,716	321,272	91.4
Washoe	9,461,964	10,408,837	11,016,258	11,979,349	13,745,319	45.3
White Pine ¹	125,152	129,930	120,308	132,852	230,741	84.4
TOTALS	\$57,768,732	\$62,958,855	\$69,700,112	\$85,776,349	\$114,499,166	98.2

CHART 3

<u>COUNTY</u>	PROPERTY TAX REVENUE BY COUNTY ²					CUMULATIVE % CHG
	<u>FY2002-2003</u>	<u>FY 2003-2004</u>	<u>FY 2004-2005</u>	<u>FY 2005-2006</u>	<u>FY2006-2007</u>	
	(ADD 000)					
Carson City	\$27,815	\$28,694	\$30,360	\$32,164	\$33,044	18.8
Churchill	12,539	12,790	13,019	14,887	15,795	26.0
Clark	1,232,517	1,370,615	1,545,612	1,685,692	2,025,301	64.3
Douglas	41,045	44,493	48,324	51,903	55,832	36.0
Elko ¹	26,882	27,183	28,448	29,194	28,974	7.8
Esmeralda	1,237	1,090	1,151	1,083	1,233	0.0
Eureka ¹	5,717	7,413	10,307	10,549	12,330	156.7
Humboldt ¹	12,227	11,566	13,662	12,833	14,255	16.6
Lander ¹	10,455	11,017	11,133	12,256	9,839	-6.3
Lincoln	3,062	3,237	3,055	3,158	4,666	52.4
Lyon	21,509	23,827	26,590	30,900	36,953	71.8
Mineral	2,819	2,676	2,617	2,735	2,668	-5.7
Nye	28,635	29,320	33,880	36,274	39,789	39.0
Pershing	5,203	4,971	4,660	4,859	5,184	-0.4
Storey	4,649	4,830	6,178	6,528	10,570	127.4
Washoe	336,008	370,516	389,993	424,239	447,201	33.1
White Pine ¹	4,556	4,755	4,403	4,901	8,190	79.8
TOTALS	\$1,776,876	\$1,958,994	\$2,173,393	\$2,364,155	\$2,751,824	54.9

NOTES:

¹ Significant changes in the amount of Net Proceeds of Mines are the primary cause of increases/decreases.

² Includes revenue received by the County, Cities, School District, Special Districts and the State.

COMPARISON OF CITIES ASSESSED VALUATION AND REVENUE

The following charts show the changes by city in total assessed valuation and total property tax revenue generated.

CHART 4

ASSESSED VALUATION BY CITY						
(ADD 000)						
<u>CITY</u>	<u>FY 2002-2003</u>	<u>FY 2003-2004</u>	<u>FY 2004-2005</u>	<u>FY 2005-2006</u>	<u>FY 2006-2007</u>	<u>Cumulative % Chg</u>
Fallon	\$114,289	\$112,911	\$117,009	\$126,556	\$146,201	27.9
Las Vegas	10,601,484	11,479,811	12,717,379	16,477,557	22,028,940	107.8
North Las Vegas	2,377,557	2,734,445	3,318,379	4,749,826	6,912,114	190.7
Henderson	5,937,443	6,803,230	7,567,062	9,934,624	13,818,632	132.7
Boulder City	459,500	466,198	491,677	563,511	679,606	47.9
Mesquite	307,363	333,498	357,603	419,313	572,523	86.3
Carlin	21,367	20,888	20,473	20,337	22,749	6.5
City of Elko	288,781	297,634	296,208	296,770	312,817	8.3
Wells	16,319	16,969	16,245	15,931	18,419	12.9
West Wendover	89,407	85,813	93,601	93,325	110,775	23.9
Winnemucca	118,377	113,199	115,698	117,348	132,491	11.9
Caliente	8,404	8,546	8,712	9,294	10,322	22.8
Fernley	246,640	279,453	303,180	377,743	511,155	107.2
Yerington	41,803	41,832	41,425	42,627	52,378	25.3
Lovelock	18,567	17,290	17,373	17,171	21,189	14.1
Reno	4,501,165	4,757,490	5,105,374	5,596,976	6,437,305	43.0
Sparks	1,524,638	1,604,846	1,741,369	1,952,351	2,359,317	54.7
Ely	44,408	44,381	45,877	48,439	50,455	13.6
TOTALS	\$26,717,512	\$29,218,434	\$32,374,644	\$40,859,699	\$54,197,388	102.9

CHART 5

PROPERTY TAX REVENUE BY CITY ¹						
<u>CITY</u>	<u>FY 2002-2003</u>	<u>FY 2003-2004</u>	<u>FY 2004-2005</u>	<u>FY 2005-2006 ²</u>	<u>FY 2006-2007 ²</u>	<u>Cumulative % Chg</u>
Fallon	\$968,145	\$956,466	\$956,079	\$1,046,118	\$1,238,215	27.9
Las Vegas	82,786,989	89,496,610	99,093,813	108,937,748	124,208,752	50.0
North Las Vegas	28,499,771	32,777,798	39,777,411	48,414,812	58,754,132	106.0
Henderson	42,203,348	53,037,982	53,786,676	59,978,866	71,785,848	70.0
Boulder City	936,460	950,112	1,002,037	992,961	1,004,650	70.0
Mesquite	928,238	1,007,162	1,973,969	1,965,877	2,304,453	148.0
Carlin	248,666	239,819	235,053	213,274	252,204	7.2
City of Elko	1,992,586	2,142,962	2,428,903	2,437,168	2,778,800	39.5
Wells	156,741	162,989	156,030	137,438	170,775	8.9
West Wendover	687,006	672,003	750,958	765,237	995,498	44.9
Winnemucca	1,148,256	1,098,027	1,122,267	1,160,087	1,239,138	7.9
Caliente	77,798	78,972	80,510	82,852	91,902	18.1
Fernley	376,867	427,004	463,259	585,675	924,855	145.4
Yerington	169,052	169,169	167,523	172,384	211,818	25.3
Lovelock	116,746	108,720	109,244	109,351	113,870	-2.5
Reno	42,563,014	44,986,826	48,276,418	53,551,151	55,393,689	30.1
Sparks	14,272,132	14,701,998	15,952,680	18,104,343	19,669,125	37.8
Ely ²	0	0	0	0	0	0
TOTALS	\$218,131,815	\$243,014,619	\$266,332,830	\$298,657,347	\$341,139,730	56.4

NOTES:

¹ Revenue for individual cities within a county not available. Estimates made by NTA Staff by apportioning between cities within a county based on assessed value.

² Ely does not have a property tax operating rate.

PROPERTY TAX COMPARISONS BY GOVERNMENTAL UNIT

The following chart compares the percentage increase from FY 2003-2004 to FY 2006-2007 in property tax revenue generated with and without the property tax bill caps for schools, counties, cities, towns, special districts and the State. As shown below, the impact of the property tax bill caps is different for each entity and varies by year.

The true impact of the property tax bill caps is best shown by the changes in State property tax revenue since the State rate is applied to the total assessed valuation of each county and the rate remained constant at 17¢ per \$100 of assessed value from FY 2003-04 through FY 2006-07.

The revenue increases shown are primarily reflective of: (1) increases in assessed value due to new properties coming on-line; and (2) counties and school districts which receive the net proceeds of minerals (which is not subject to the cap).

CHART 6

PERCENT INCREASE PER YEAR IN PROPERTY TAX REVENUE						
ENTITY	FY 2003-2004	FY 2004-2005	FY 2005-2006		FY 2006-2007	
	PROPERTY TAX REVENUE	% INCREASE	% INCREASE WITH CAPS	% INCREASE W/O CAPS	% INCREASE WITH CAPS	% INCREASE W/O CAPS
Schools (K-12)	\$791,061,558	10.8	8.9	23.6	16.2	32.6
Counties	\$512,954,524	11.9	9.7	19.3	12.7	28.8
Cities	\$238,333,996	11.7	12.1	26.2	14.2	31.4
Towns	\$49,016,382	11.5	8.1	24.0	20.7	38.9
Special Districts	\$260,597,103	8.8	12.5	24.1	12.2	36.8
State of Nevada	\$107,030,055	10.7	9.7	23.1	21.6	40.3

WHY PROPERTY VALUES CHANGE

REAL PROPERTY - The assessed value can change because of an increase in the taxable value, a boundary change, new construction, a change in use, a mandatory five-year reappraisal, factoring in years a reappraisal is not done, inflation, or any combination of these factors.

❖ Taxable value increases when market values increase. The assessed value is 35% of the taxable value.

❖ Boundary changes occur when old parcels are either divided or combined.

❖ New construction includes new buildings, additions, remodeling, etc.

❖ Changes in use ... such as from residential use to office or retail use or from agricultural use to residential use.

❖ Reappraisal of property, which is done at least once every five years. Improvements are recalculated to current cost of replacement, less depreciation and land is revalued.

❖ Factoring to keep values current with changes in individual properties and local and neighborhood trends. In a non-reappraisal year the prior assessed value of the improvement is multiplied by a factor approved by the Nevada Tax Commission. Land values are also factored to stay current.

❖ Any combination of the above.

PERSONAL PROPERTY- The assessed value of personal property can change because of depreciation, the addition or deletion of personal property and the yearly change in cost factors. That new value when multiplied by the property tax rate may change the property tax due.

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PROPERTY TAX: EFFECTIVE TAX RATES/COMPARISONS

The definition of “effective tax rate” is the relationship between net property tax revenue received and the true market value of the property. Different states use different methods of valuing property, including assessment ratios of various percentages and partial exemptions. Using effective tax rates is the best way to show a valid comparison of property tax rates among the 50 states. The effective tax rate is calculated by dividing the total revenue collected by the total full cash value. In Nevada, “taxable value” is used instead of “full cash value”, the assessed value is 35% of the taxable value and the tax rate is per \$100 of assessed value. To calculate the effective tax rate:

Divide Total Assessed Value by 35%, take the result and divide it into Total Property Tax Revenue
and multiply that result by 100 to determine the Effective Tax Rate

The table below compares Nevada’s state-wide effective tax rates for FY 2002-2003 through FY 2006-2007. The decrease in the effective tax rate beginning with the Fiscal Year 2005-2006 coincides with the caps on property owners’ tax bills that were enacted by the 2005 Legislature. If the full cash value of property continues to increase, the effective tax rate will be reduced each year by the caps on the amount of property taxes paid.

CHART 7

COMPARISON OF EFFECTIVE TAX RATES IN NEVADA				
YEAR	TOTAL ASSESSED VALUATION (ADD 000)	TOTAL PROPERTY TAXES PAID	STATE-WIDE AVERAGE TAX RATE	EFFECTIVE TAX RATE AS A % OF FULL CASH VALUE
2002-03	\$57,768,733	\$1,776,875,597	\$3.08	\$1.08
2003-04	62,958,855	1,958,993,618	\$3.11	\$1.09
2004-05	69,700,112	2,173,392,984	\$3.12	\$1.09
2005-06	85,776,349	2,364,155,368	\$3.11	\$0.96
2006-07	114,499,166	2,751,823,847	\$3.14	\$0.84

Nevada applies the same property tax rate to all classes of property within a county. Many states tax urban, rural, commercial, industrial and residential property at different tax rates within a county. In order to make a meaningful comparison between states, we have chosen to compare urban residential property tax rates. The following data is from the 50-State Property Tax Comparison Study - 2005 compiled by the Minnesota Taxpayers Association and produced cooperatively by member states of the National Taxpayers Conference (NTC). The Nevada Taxpayers Association is a member of the NTC. The data is based on a median market value of the residential property. You will note that the data does not take into account the caps placed on the property owners’ tax bills in FY 2005-2006 in Nevada.

CHART 8

COMPARISON OF EFFECTIVE TAX RATES IN SELECTED STATES		
STATE	EFFECTIVE TAX RATE	U.S. RANKING
New Jersey	\$2.171	1
Oregon	\$1.238	27
California	\$1.139	32
Nevada	\$1.132	33
Arizona	\$1.041	39
Utah	\$0.798	47
U.S. Average	\$1.390	--

QUESTIONS ABOUT

Property Valuation

You will receive a notice of valuation from your County Assessor by December 18.

If you wish to question your assessment, contact your County Assessor.

To appeal your assessment, you will need to file an appeal form by January 15 with your County Assessor. The form is also available from the Assessor.

The Tax Bill Cap

If you believe the incorrect cap has been applied to your property, contact your County Tax Receiver (normally the Treasurer).

If you disagree with the decision of the Tax Receiver you can appeal to the Nevada Department of Taxation. A hearing officer will be assigned to your case. If you disagree with the hearing officer's decision you can appeal to the Nevada Tax Commission.

For Other Questions - Visit:

www.nevadataxpayers.org - Scroll down to "Publications" and open "Understanding Nevada's Property Tax System."

www.tax.state.nv.us - Scroll down to "Property Tax"

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