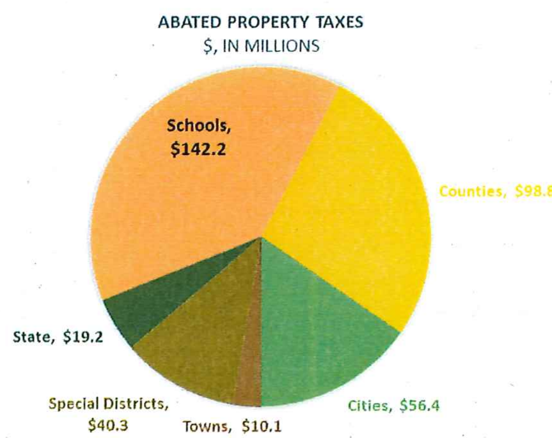
Ad valorem (property) taxes are Nevada's second largest source of state and local government revenue, behind only sales and use tax. Until recently, property taxes were also among the state's most stable sources of revenue. A combination of economic instability and legislative changes have significantly altered the property tax calculus and yield, creating structural challenges that are now affecting nearly every government service provider in the state. This is an acute problem for local governments and school districts, which rely heavily on property taxes and have little ability to augment the revenues they receive each year. Unchecked, Nevada's property tax revenue will not only fail to keep pace with economic growth but it will also lag the cost of maintaining current government services. A summary of selected issues that warrant consideration is provided below.

- **Nevada's property tax is unique for a number of reasons**. Property taxes are calculated based on the cash value of land and the replacement value of assets; this is materially different than "market value." Additionally, Nevada is the only state in the country that applies a depreciation factor when calculating the taxable value of improvements. Finally, starting July 1, 2005, Nevada instituted a three percent cap on owner-occupied residential property tax bills and a cap of up to eight percent on the property tax bills of all other property owners. Combined, these factors limit the productivity of the state's property taxes and, more importantly, create a condition where the property tax not only fails to keep pace with growth but will erode over time.

- **Property tax caps were designed to be a one-way ratchet**. The three and eight percent property tax caps were put into place in response to skyrocketing property values witnessed in 2004 and 2005. Essentially, they limited the amount that a taxpayer's property tax bill can go up each year; however, they provide no limitation as to how rapidly property taxes can decline. Particularly hard hit by the Great Recession, Nevada's property values fell by nearly 66 percent. Property tax collections followed suit. Caps that were intended to prevent taxpayers from sharp increases in property tax collections now work to limit growth in property taxes to between three and eight percent based on their lowest point reached during the economic downturn. Today, property values are recovering, but property tax collections are not keeping pace, costing the state, local governments and schools nearly $370 million in FY2015 alone.



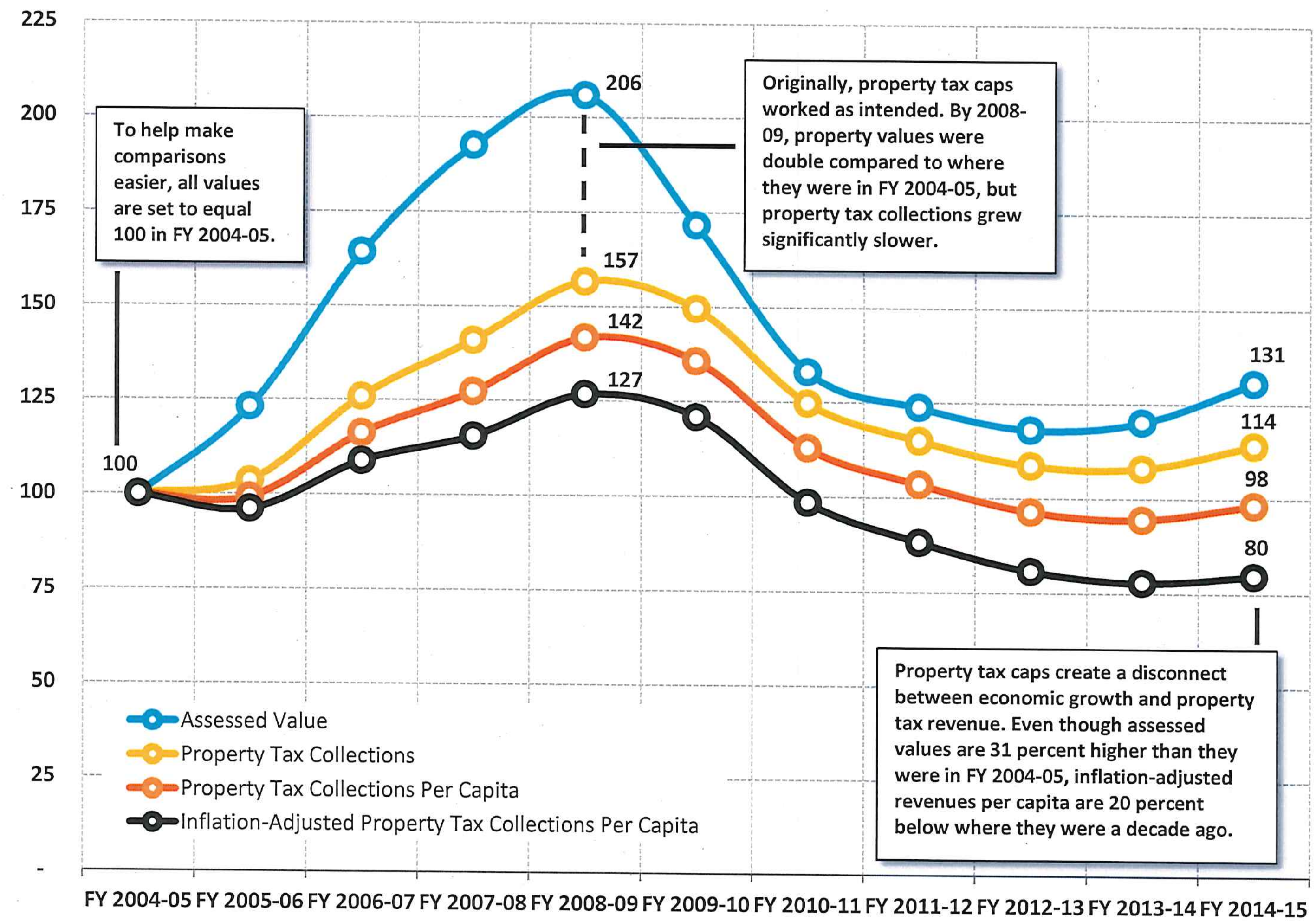
- **Depreciation matters**. Nevada depreciates improved real property at a pace of 1.5 percent per year over 50 years. Thus, a 50 year old property is depreciated 75 percent and the taxpayer incurs liability on the residual value of 25 percent. The problem with this approach is that Nevada's property tax base will naturally decline over time unless there is a significant amount of new construction to offset the depreciation losses. Nevada led the nation in population growth for 20 of 21 consecutive years leading up to the Great Recession. This relatively fast pace of growth helped to mask the fact that existing properties were depreciating. Today, the state is growing at a slower clip, making the depreciation factor a larger issue.

- **Property tax issues will affect Nevada for decades**. The combination of economic challenges and legislative actions translate into significantly less property tax collections for the state and local governments as well as school districts. In real terms – adjusted for both population growth and inflation – Nevada is collecting 20 percent less in property taxes than in FY 2004-05 (the year before the property tax caps were first enacted). This is putting significant stress on government service levels, most notably for schools and local governments. Even assuming a somewhat aggressive capped property tax growth rate of five percent per year, it will take Nevada nearly seven years just to get collections back to peak levels reported in FY 2008-09 (a year in which the property tax caps were in full effect). Slower growth, aging properties with greater depreciation and weaker economic conditions will mean some jurisdictions may take two to three times as long to fully recover.

Nevada Ad Valorem (Property) Taxes

Total Assessed Value, Property Taxes and Property Taxes Per Capita

Indexed Values (FY 2004-05 = 100)



Difference from Peak

Schools: $390MM

Counties: $177MM

Cities: $128MM

Towns: $28MM

Special Districts: $142MM