



AGENDA SUMMARY PAGE
CITY COUNCIL MEETING OF: MARCH 2, 2016

DEPARTMENT: CITY MANAGER
DIRECTOR: ELIZABETHAN FRETWELL

Consent Discussion

SUBJECT:
ADMINISTRATIVE:

Report by Mark Vincent - City of Las Vegas, on the property tax caps for fiscal year 2017 and discussion for possible action regarding direction to staff - All Wards

Fiscal Impact

- No Impact Augmentation Required
 Budget Funds Available

Amount:
Funding Source:
Dept./Division:

PURPOSE/BACKGROUND:

Nevada Revised Statutes 361.4722-.4723 establishes caps on how much property tax bills can increase year over year. Commonly referred to as the 3 percent cap on residential tax bill growth and the 8 percent cap on commercial tax bill growth, under certain circumstances those caps can be much lower. Preliminary data indicates that the cap on both bill types will be 0.2 percent for all property in Clark County, which will have significant budget impacts in fiscal year 2017 for Las Vegas as well as the rest of the county and the state.

RECOMMENDATION:

Accept report, and take any appropriate action.

BACKUP DOCUMENTATION:

Submitted at Meeting - PowerPoint Presentation

Motion made by STAVROS S. ANTHONY to Approve to accept the report

Passed For: 6; Against: 0; Abstain: 0; Did Not Vote: 1; Excused: 0
BOB COFFIN, RICKI Y. BARLOW, LOIS TARKANIAN, STEVEN D. ROSS, STAVROS S. ANTHONY, BOB BEERS; (Against-None); (Abstain-None); (Did Not Vote-CAROLYN G. GOODMAN); (Excused-None)

Minutes:

MARK VINCENT, Chief Financial Officer, provided a PowerPoint presentation on property tax caps and indicated that the City hit a new milestone never experienced before that is having a negative impact on property tax revenues. In anticipation of the budget cycle, each department was asked to prepare for a 2 percent budget decrement. This was done because of a slowdown in the growth rate of consolidated tax revenues. MR. VINCENT explained that Nevada has a

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unique property tax system and in the 2001 tax shift, the City moved away from property tax to sales tax. In that tax shift, a new statutory cap on the overlapping tax rates was created by the State legislature. The 2005 legislative session created the tax bill caps, as a result of the real estate boom, and those caps were intended to prevent excessive taxation on properties that were growing in value, but the owners were not necessarily recognizing that growth and did not have the ability to pay the taxes. That tax bill is a cap on the property tax bill not the assessed value.

MR. VINCENT explained valuation of property, outlining Secured Real Estate, Personal Property and Centrally Assessed. He talked about the tax bill calculation process and used a sample of a 20-year old home with \$200,000 taxable value. MR. VINCENT mentioned that older wards have older properties and the depreciation on the improvements is going to be much higher. Therefore, those wards are not contributing the same tax rate as newer communities. COUNCILMAN BEERS confirmed with MR. VINCENT that the sale of an older property does not reset depreciation nor does it reset the tax bill cap. Older wards need more improvements and maintenance of rights-of-way more than newer communities. MR. VINCENT explained the tax bill cap formula: 8 percent cap for commercial and 3 percent cap for owner occupied residential properties.

COUNCILMAN ANTHONY asked how the lesser percentage get into the formula. MR. VINCENT replied that it was part of the original bill, and at the time no one thought the tax bill would increase. The legislators did not anticipate the recession and the horrific drop on taxable values. The caps were designed to be a trigger to prevent the replacement of land value running away with a large tax bill when it was not supported by what was happening with the CPI (Consumer Price Index). He referred to the state's land value history slide from Fiscal Year 2006 to 2017. The commercial cap stayed at 8 percent until 2012 when it dropped to 6.3 percent.

COUNCILMAN BARLOW asked how this can be changed so that this will not happen in the future because it will impact the City's General Fund. MR. VINCENT replied that his intention was to explain what is happening and why it will continue for 2017. The commercial rate will be at 2 percent and the residential rate cannot be more than the commercial rate. The formula has been discussed for the last few years, and in 2013 a local government financial group was formed to study the consolidated tax, and changes were made to make it more stable. In 2015, the group was brought back, and the intent was to educate and make people aware of how the process and system works, as well as to be a resource for people who might want different solutions. MR. VINCENT indicated that the financial community perspective is to continue to study this, but at this time, he does not have a specific solution or changes to offer; this is a reality for 2017.

COUNCILMAN BEERS stated that it would be helpful to see a graph of assessed value against the 10-year average assessed value to explain why suddenly it is turning negative. He asked how many years the 10-year rolling average of assessed value is expected to remain negative. He pointed out that not all counties in the State of Nevada experienced the boom of 2000, and he asked if other counties in the state will have a positive 10-year AV (Assessed Value) growth in 2017 that will not be impacted. MR. VINCENT referred to the City of Las Vegas Operating

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Property Tax Revenues chart to reply to COUNCILMAN BEERS' query and indicated that 2010 through 2013 there was negative AV growth. There are four years of negative AV growth that have not yet amortized out of the 10-year rolling average, and they probably will not for another three to four years.

JEREMY AGUERO, Principal Analyst with Applied Analysis, indicated that different counties in Nevada are seeing different trends, but all communities were negatively impacted by property values. CITY MANAGER ELIZABETH FRETWELL stated that she forwarded the City Council members state-wide data from the Nevada Forum showing those differences.

MR. VINCENT explained that the cap was implemented to prevent the runaway boom from overtaxing the residents. The economy is recovering and value is coming back, but there is no way in the formula to allow the actual tax bill revenues to recover. MR. VINCENT informed COUNCILMAN BARLOW that staff is working on what the City Council members can do, as it relates to the tax cap. Commercial property owners can appeal their tax bill and reset those bills based on income analysis of the property. While there is a recapture provision in the statute for most of those properties, because of the length of the recession there was never any recovery of that, and that new tax bill becomes the new low subject to the caps. MR. AGUERO added that the first step is to start educating the public, state lawmakers and the media that this problem exists, and then start looking at potential abatements.

COUNCILMAN COFFIN remarked that during the 2005 legislative session, AV was growing so fast and local business communities and the tax association did not trust local governments to control their spending, so the legislators were urged to pass this legislation. All legislators were worried that property taxes were increasing, and this is just a side step, because the method of evaluation is still confusing. Theoretically, it was supposed to slow the growth and bring the local governments to a yield, so, now all government entities would have to make changes. The education process has to start now and the media should be informed that if a change is not made, budgets will need to be cut, at a time when service demands are increasing and management has asked departments for potential budget cuts.

COUNCILWOMAN TARKANIAN asked if staff is considering working with the legislature. MR. VINCENT replied that the bill drafted during the last session succumbed to the Governor's urgency tax package, and it never had a hearing. This is a statewide, multi-agency issue. He referred to the overlapping property tax rates, and indicated that the biggest benefactor of the property tax bill is the Clark County School District (CCSD). City of Las Vegas residents pay county-wide taxes for county-wide services and this cap will affect those county-wide services. MR. VINCENT pointed out that the City of Henderson had a similar presentation for its board as well; Clark County produces the lions share of revenue for the state.

COUNCILMAN BEERS stated that the underlying assumption is that property values will increase more than this cap, thus the cap would come into play in an individual property owners tax bill. He commented that Homebuilders Research, a Las Vegas based regular report of data, found that median sale prices of January closings were down 2.8 percent from the previous year.

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Therefore, property values are going down, and this cap may not come into play. In moving forward with an attempt to change the law, the City Council needs to be prepared to explain to constituents why the City requires an increase in revenue bigger than two times the inflation.

MR. AGUERO continued with the PowerPoint presentation and indicated that the property tax, the largest source of revenue for the entire State of Nevada, generates \$3.1 billion a year to fund schools, public safety and local and state services. It has been the most reliable source of revenue the State of Nevada has had, but it is more complicated and more difficult to work through. He referred to a slide about the Nevada Property Tax Collection Trend for Fiscal Years 2005 to 2016 showing how the situation evolved. Since the property tax caps were created in Fiscal Year 2005, total assessed value has increased by 42 percent, while property taxes have increased by only 19 percent. MR. AGUERO referred to the commercial property tax cap calculation, and pointed out the percentage differences of 2006 at 8 percent to projection in 2017 of 0.2 percent. This is due to a near deflationary environment, combined with the largest decrease in property values in the State of Nevada's modern history.

COUNCILMAN BARLOW opined that this seems like a never-recession. MR. AGUERO explained that it is a lingering effect of the recession, making the formula that was an unintended consequence. No one expected to see a decrease in property values, and now the 10-year average is built into a formula that is looking back a decade and saying that that percentage must be used. In the next year, that residential component, which represents about 65 percent of the assessed value, instead of going up by 3 percent will decrease by 0.2 percent.

MR. VINCENT showed a visual of percentages from four negative years and stated the 10-year AV growth rate will stay negative for at least two more years or more. COUNCILMAN BEERS remarked that this will get worse and remain negative for some time. All of this is predicated upon underlining growth and property values. MR. VINCENT stated that improvements are not valued at market value, but are valued at replacement costs. COUNCILMAN BEERS asked if the replacement value piece is considered in the year an addition is made to a home. MR. AGUERO responded that it is valued at that point in time and a built addition must come on as a supplemental value and added to the tax rolls.

In reply to COUNCILMAN BARLOW'S comment regarding the concept of compounding, MR. AGUERO stated that one important thing to consider is that the compounding effect will work against the City, at least in the near future. If there is a normal growth, it will take the City a decade to catch up.

MR. VINCENT remarked that this complicated system is not as predictable because the abatements are not in aggregate but rather a per-parcel basis. Depreciation and abatement will continue to have an impact on the stable revenue source. The intent is to work with all stakeholders to make changes. FY 2017 will be a difficult budget year, and he hopes the 2 percent budget decrements from each department will be enough to mitigate the sales tax and revenue tax.

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COUNCILMAN ROSS stated that when he was the President of the Nevada League of Cities, a similar discussion was held on tax reform, and he believes this will finally evolve because of the property tax cap. He would like more in-depth information on how this happened, because a former lawmaker said that the local governments went to the legislature begging for help, but he is having a hard time believing this because revenues were going well. In fact, the City of Las Vegas was very fortunate to have CITY MANAGER FRETWELLS team to help get through the recession. MR. VINCENT responded that the caps were intended to protect the taxpayers from the bubble, and the caps reacted as expected. The problem was that another combination of events did not occur as expected. However, the good news is that staff can analyze and make recommendations about potential changes that will continue to protect taxpayers, but not create an issue with local governments' ability to provide services. COUNCILMAN ROSS noted that this issue has received the attention of all Southern Nevada mayors and their leadership is going to be demonstrated by making significant changes.

TED OLIVAS, Chief of Staff, indicated that he represented the City of Las Vegas during the legislative session and local governments did not ask for the property tax caps. He did his best to be engaged in that process and provide appropriate input.

COUNCILMAN COFFIN stated that legislators were caught in a difficult position because all this money was coming in and they could not speak from a high position that somehow it should not be done. He questioned if the budget agreement will affect collective bargaining units. COUNCILMAN BEERS added that he was there during that legislative session, and he agreed with MR. OLIVAS that cities and Clark County did not ask for the tax cap. COUNCILMAN ROSS stated that all government employees are aware of this, and the City must be as transparent as possible. He is looking forward to real tax changes for Nevada during the upcoming legislative session.

