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Impacts of the tax shift of 1981: An examination of Nevada local governments

Philip F. Stoeckinger
University of Nevada, Las Vegas

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**IMPACTS OF THE TAX SHIFT OF 1981:
An Examination of Nevada Local Governments**

**PRESENTED BY:
PHILIP F. STOECKINGER
UNIVERSITY OF NEVADA LAS VEGAS**

**A professional paper submitted in partial fulfillment
of the requirements for the degree of
Master of Public Administration**

**Department of Public Administration
University of Nevada Las Vegas**

June, 2005

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Introduction

The 1981 Nevada Legislature reduced property tax rates in what is known as the “Tax Shift”, whereby cities and counties received less property tax revenue and more sales tax revenue. Nevada made this change to mirror California Proposition 13, along with over forty states nationwide. Furthermore, the property tax rates that could be levied by local governments were “capped.” Nevada also became the only state to depreciate improvements (buildings) in determining the value of property (Tax Topics, 2001). In doing the preceding, Nevada moved from basing its revenue structure on a stable revenue source (property tax), to an unstable revenue source (sales tax). Nearly a quarter of a century later, the Nevada Legislature is likely to limit property taxes again, largely due to sizable short-term increases in the values of property in Southern Nevada. Current proposals are similar to existing limitations in Oregon, Washington, Colorado, and California. These states have experienced service delivery and budget crises as a result of these limitations. It is unknown what impacts future property tax limitations will have but a good indicator is an examination of past limitations.

This paper evaluates the financial impacts the tax shift has had over the past number of years for local governmental entities in the State of Nevada. Upon reviewing existing literature, there appears to be a void in the available research with regard to property tax limitations within the State of Nevada. The information in this study will assist researchers to better understand the long-term impacts of policy decisions to adopt tax limitations. The data gathered will provide an assessment of the long-term impact of the tax shift on local governments in Nevada. Finally, this data will help determine whether the Tax Shift of 1981 adversely impacted local governments in Nevada.

Literature Review

There is an interesting literature base with regard to property tax and expenditure limitations and a number of articles about their impacts on local governments. After reviewing the literature, two main questions arose. The first is: what are the main sources of local governmental revenues; and second, what types of property tax and expenditure limitations have taken place and what are their related impacts? It is important to examine these questions both from a nation-wide standpoint as well focusing on what has happened in Nevada.

OVERVIEW OF LOCAL GOVERNMENT REVENUES THROUGHOUT THE UNITED STATES

The three largest sources of local governmental revenues are property taxes, sales taxes, and user charges. Because of difficulty finding historical information on user charges in Nevada, this paper focuses only on tax revenues. This section provides an overview of the two most important tax sources for local governments: property tax and sales tax.

Property Taxes

Property tax revenues are the largest revenue source for local governments. While states only receive 2 percent of their tax revenues from these levies, local governments collect about three-quarters of their tax revenue from it. Schools receive more than 40 percent of all property tax collected; while cities and counties both receive more than 20 percent of property taxes (Mikesell, 1999). Despite the continuing unpopularity of property taxes, property tax collections have outpaced the national economy by growing at a compound rate of almost 8 percent annually from 1980 to 1994; the national economy grew at 6.7 percent over the same period (U.S. Bureau of the Census, 1997).

Components of Property Taxes

The major components in calculating property taxes are the rates, levies, and assessed value. It is important to understand that these three components are interrelated. The levy is the amount each layer of government requires in revenue to balance the operating budget, and to cover costs of servicing debt obligations. It is the total amount of revenue collected from the property tax. The levied amount is derived by multiplying the tax rate times the assessed value of the property subject to tax (Mikesell, 1999).

Assessment of Property

The assessment process is at the heart of the property tax system. Assessment is a technical process, and each system has distinct peculiarities. There are three general techniques of assessment: market-data or comparable-sales approach, the income approach, and the historical cost approach. The first two of these are the most equitable since both techniques allow equal treatment of taxpayers. Depending on the property assessment cycle, however, both the market-data and income approaches can result in equity variances due to timing. The historical cost approach is used to avoid taxing owners out of their homes and assures the predictability of tax payments by property owners (Eckert, 1990). Regardless of which method is utilized, an assessment ratio (assessed value to market value) is applied in calculating property taxes (Mikesell, 1999). In the calculation of property taxes, the assessed value is multiplied times the property tax rate to calculate the amount of taxes paid for a given property.

Strengths of Property Taxes

This statistic underscores the tax evaluation criteria of adequacy. Adequacy is evaluated by three main dimensions: yield, income elasticity, and stability. Since nationwide collections have outpaced the national economy and are the largest revenue source for local government,

property taxes have proved effective at yielding meaningful amounts of revenue for local governments. Also, this trend illustrates income elasticity and stability. Property taxes have more than kept up with growth (income elasticity) and have been relatively stable during periods of economic downturn (Mikesell, 1999).

Disadvantages of Property Taxes

Property taxes are unpopular with politicians and with many citizens. Yet property taxes endure because they produce reliable, stable, and independent revenue for the governments and there is no clearly superior alternative. Property taxes do not fair well compared to most revenue sources in terms of equity. Equity in short means fairness and is typically evaluated by benefit derived and ability to pay principles. To the extent that a greater amount of benefit from government services is typically derived by individuals paying less property tax, the property tax does poorly on the basis of benefit definitions of equity. The horizontal and vertical equity of the property tax are disputed. Both types of equity are affected by assessment practices. For instance, under the historical cost approach, taxes are paid on the basis of what was originally paid for a property. It can result in horizontal equity issues with equal valued homes paying far different amounts of property taxes. Property taxes paid are a reflection of accumulated wealth in terms of property holdings. If reassessment is infrequent, higher value properties tend to have a lower effective rate than do lower value property; and thus property taxes can be vertically regressive (Fisher, 1996).

Sales Taxes

Sales taxes are levied by all states except Alaska, Delaware, Montana, New Hampshire, and Oregon. They are the single largest source of tax revenues for state governments, making up

over one-third of their total tax revenue, and a distant second to the property tax for local governments, comprising over ten percent of their tax revenue. (Mikesell, 1999)

Strengths of Sales Taxes

Key advantages of sales taxes include their simplicity, adequacy, and ease of administration. Most states apply sales taxes only to retail purchases and tangible personal property, and only selectively to purchases of services. Only about half the states even tax services (Mikesell, 1999). Despite some narrowing (see below), the sales tax has a broad base which allows it to yield meaningful amounts of revenue at reasonable tax rates.

Disadvantages of Sales Taxes

Principal disadvantages of sales taxes are in their volatility, regressive nature, and narrowing base. Volatility relates to consumer purchasing patterns, fluctuation with economic cycles. Because of these fluctuations, sales tax revenues' adequacy and stability can present budgeting challenges. Sales taxes are vertically regressive, which is a measure of equity, meaning that individuals with higher incomes spend a lesser percentage of their income on taxable goods and services than individuals with lower incomes. Lower income individuals tend to spend a greater percentage of their income on food, clothes, and necessities than do higher income individuals. Because lower income individuals spend a greater proportion of their income on taxable goods, a greater proportion of their income is paid to sales tax.

Research suggests the sales tax base has been narrowing due to a switch in spending patterns from goods to untaxed services. Both the narrowing tax base and income elasticity have had impacts on the adequacy of sales tax revenues (Pommer, 2002). In 1965, 67 percent of purchases came from commodities. By 1996, that share had fallen to 52 percent (Survey of Current Business, 1997). This erosion has been further exacerbated by legislative exemptions

and the growth of remote sales such as e-commerce, catalogue, and telephone sales. Over the course of time, many governmental entities have experienced a loss of sales tax revenues (Pommer, 2002).

User Charges

User charges are divided into three main categories in government: user fees, user charges, and fiscal monopoly or utility revenues. User charges are important, but are not examined as a part of this analysis due to limitations of available data and to keep this research paper to a manageable size.

TYPES OF PROPERTY TAX AND EXPENDITURE LIMITATIONS AND THEIR RELATED IMPACTS

In examining property tax and expenditure limitations and their impacts, it is important to identify types of limitations, areas studied, and the related findings. Research has shown that most local limitations were directed at limiting property tax, though the scope of limitations has widened over the past decades. Some form of local revenue or expenditure limitation exists in 46 states. The nature and degree of constraint imposed on the ability of local governments to increase revenue and limit expenditures are broad and varied. Limitations have impacted local governments to differing degrees, due to differences in government type, size, growth rates, type of taxpayer and expenditure limitation, and type of local economies. Limitations on local property taxes and general expenditures have brought a shift toward non-tax sources of revenues (fees and charges, transfers, and debt) for financing local public services, and created a vertical shift of power and responsibility to the state for local government functions. Limits have also resulted in horizontal shifts of responsibility for local government functions through an increased role of special service and finance districts. Such shifts have been associated with reduced

educational inputs and teacher qualifications and poorer educational performance, and have resulted in poorer quality municipal services (Mullins, 2004).

Brown's (2000) research examined the impacts to local government over the twenty-year period subsequent to property tax limitations and other taxpayer expenditure limitations (TEL's) on municipal governments in the State of Colorado. This study examined if local governments were impacted differently depending on age, size, growth rates, and type of economy. This research also examined the proportion of property tax coming from residential property versus commercial property. The main findings from Brown's research were that commercial properties paid a greater percentage of property taxes over the study period, and the broad-based property tax reduction was not consistently applied and impacted governmental entities in differing manners. Other findings of this study were that the TEL's were successful in reducing government revenues and spending in the short-run, but "new" revenue sources were created over time and property taxes increased over the twenty-year period. Since Nevada has a variety of different types of economies, growth rates, and age of communities, it will be interesting to evaluate if the impacts to Nevada's local governments mirror Brown's research.

Research suggests local governments are not always adversely impacted by taxpayer and expenditure limitations. The story of the tax revolt in Massachusetts is an interesting one. Proposition 2 1/2 was one of the most stringent measures when it was enacted in 1980. This measure not only limited property tax assessment growth to 2.5 percent per year, but also decreased the amount of property tax revenues local governments received compared to the prior year. Yet this measure included proactive steps to ensure local government services were not severely impacted. Among these measures were eliminating unfunded mandates to be passed on to local governments by state government, keeping school property tax funding intact,

elimination of collective bargaining for public safety employees, and allowing voter overrides. General spending per capita fell from 16 percent above the national average in 1977, to 11 percent above the national average in 2000 (Wallin, 2004).

Intriguing research has been conducted on California's Proposition 13, which is the most famous of property tax revenue limiting measures. The three main findings from Hoen's (2004) research were that California local government's reliance on property tax decreased, reliance on sales tax increased slightly, and reliance on user charges and miscellaneous revenues increased greatly over the quarter of a century subsequent to the advent of Proposition 13. In 1977, the percentage of total revenues for each of these revenue sources was 24 percent property tax, 18 percent sales tax, and 21 percent user charges and miscellaneous revenue. By 2002, the percentages had shifted to 17 percent property tax, 20 percent sales tax, and 36 percent user charges and miscellaneous revenue. Nevada lawmakers used California's Proposition 13 as a model during the formation of the tax shift. It will be interesting to see if Hoen's (2004) findings in California will be similar to the findings of this research.

Interesting research of Oregon's Measure 5, which was adopted in 1990, has been conducted. Measure 5 reduced property taxes and set property tax rate limits for support of local governments and for school districts. Because Measure 5 required the state to replace property tax revenue lost to school districts, responsibility for school spending was largely shifted from local voters to the state legislature. Measure 5 had several expected consequences as well as various unanticipated consequences. The expected consequences included reduced property taxes paid, reduced tax support for public schools, and expenditure limitations for state and local government (Thompson and Green, 2004).

Measure 5 limited the sum of local (nonschool) tax rates that could be imposed to 1 percent of actual market value whereby jurisdictions were to suffer equally. An unanticipated consequence was that Measure 5 caused a shift in property tax burden from commercial properties to residential properties. This is a result of the fact that Oregon utilizes fair market value in the calculation of property taxes for residential property but uses current revenue stream and book value for commercial property. When Measure 5 was implemented, tax rates were reduced and housing prices jumped and so did their assessments, while commercial property was unaffected (Thompson and Green, 2004). Nevada assesses commercial property using different methodology than is utilized for residential property. It will be interesting to examine if Nevada's commercial property or residential property has a higher effective tax rate.

OVERVIEW OF LOCAL GOVERNMENTAL REVENUE IN NEVADA

Pre-shift Tax Structure

Prior to 1979, the Nevada State Constitution capped property tax rates at \$5.00 per \$100 assessed valuation. Assessed value was determined by multiplying the taxable value times the level of assessment (thirty-five percent) as it is today. Taxable value was market or cash value for land and replacement cost for improvements (buildings). Prior to 1981, improvements were not depreciated (Tax Topics, 2001). Local governments could increase property tax rates merely by legislative action. Prior to the tax shift, property tax revenues were the largest revenue source for local governments, with sales tax revenues a distant second. Approximately half of local governments' revenues were derived from property tax with about one-tenth coming from sales tax (Nevada Department of Taxation, 1979). Sales taxes were collected on goods only. Prior to the "tax shift," most counties (13 of 17) received one component of sales tax,

(BCCRT) Basic City County Relief Tax, which was and still is .5 percent of sales. Counties had the option whether or not to impose this sales tax rate.

Post-tax shift Tax Structure

Along with many other states, the 1979 state legislature approved property tax reduction measures to provide tax relief to citizens and businesses. Property tax rates were reduced by the 1979 legislature, and were further reduced by the 1981 legislature. The 1981 legislature required all counties to impose BCCRT, in addition to a new component of sales tax, Supplemental City County Relief Tax (SCCRT), created to partially offset property tax revenue reductions. This component was administered at the county level at the rate of 1.75 percent of sales (NRS 377, 1981). The intent of this legislation was two-fold, to reduce property tax revenues for state and local governments, and provide tax relief for residents and businesses. The Nevada State legislature further capped the property tax rate at \$3.64 per \$100 in 1981 as a result of these changes (NRS 361.453, 2003).

There were three changes during the “tax shift”: property tax rates and the cap were reduced, depreciation of buildings (improvements) was used in the calculation of property taxes, and local governments were given access to additional sales tax revenue.

Property Tax Rates and Cap

During the “tax shift,” the legislature reduced the property tax “cap” to \$3.64 per \$100 assessed valuation. All city and county rates in Nevada were reduced to less than one-third of their previous rate. The cap had remained until the advent of Senate Bill 507, enacted by the 2003 Legislature, added a total of 2 cents outside the statutory rate cap of \$3.64 per \$100 of assessed valuation (Nevada Legislature, 2003). Subsequent to the shift, property tax rates can only be increased by voter approved overrides, legislative overrides, and the creation of special

districts by the legislature. Voter approved overrides were approved by many local governments to provide for greater levels of service for schools, police, fire, and parks & recreation. Prior to the 1993 Nevada Legislature, voter approved overrides could be imposed in perpetuity, unless rescinded by a vote of the people. In 1993, legislation was enacted limiting the term of voter-approved overrides to no more than 30 years duration (NRS 354, 1993).

Depreciation

In Nevada, property tax is levied on both personal and real property. During the “tax shift,” Nevada also became the only state to depreciate improvements (buildings) and personal property in determining property value. Land, however, is valued at market value. As a result, property in Nevada is at “taxable value” and not at “market value.” Depreciation of buildings is 1.5 percent for 50 years (NRS 354, 1981).

Sales Tax

As mentioned previously, another component of sales tax was added during the 1981 tax shift, to offset the reduction of property tax revenues. The statewide sales and use tax rate was increased from 3.5 to 5.75 percent. This 2.25 percentage point increase was comprised of a .5 percentage point increase that went to schools, and a 1.75 percentage point increase, called SCCRT, which is distributed exclusively to cities, counties, towns, and special districts. Prior to the formation of the consolidated tax formula in 1997, both SCCRT and BCCRT were collected and administered at the county level. The allocation of these sales tax revenues was performed on separate formulas utilizing former property tax rates, assessed valuation of each entity, and population. In 1993, the Nevada Legislature passed a sales tax provision that created a guarantee for rural counties; whereby urban counties redistribute a portion of their sales tax revenues to rural counties that tend to have more volatile economies (NRS 377.050-.070, 1981).

The 1997 legislation passed the consolidated tax formula that combined sales tax (both BCCRT and SCCRT) with cigarette, liquor, real property transfer, and government services taxes into one revenue source for distribution. Over 80 percent of consolidated tax is comprised of the two sales tax components. Under this formula allocation, the county, towns, and special districts now share in some of these revenue sources they formerly did not receive. This legislation became effective for fiscal year 1998-99 (NRS 360.600-.740, 1997).

Price Waterhouse-The Urban Institute Study of State and Local Governments in Nevada

In 1988, the State of Nevada paid Price Waterhouse and the Urban Institute a half million dollars to study and evaluate the tax structure of state and local governments in Nevada. Among the findings relating to local governments were that property tax is a less important revenue source in Nevada than it is nationally. The study also found that the property tax base is becoming narrowing over time, with exemptions for various forms of personal and real property. The study recommended decreasing exemptions and assessing property at 100 percent of full market value. The study cited the shift toward sales tax has been successful at holding down property taxes. Findings also included that a shift took place in control of local government revenue policies from elected officials to the state legislature (Price Waterhouse-The Urban Institute, 1988).

Although the Price Waterhouse study had various findings and recommendations for both state and local government, it was largely ignored by the legislature.

Recent Change to Tax Structure

The present tax structure for local governments in Nevada is virtually the same today as immediately after the “tax shift,” with the exception of Assembly Bill 489 passed by the 2005 Nevada Legislature. Assembly Bill 489 will limit property tax revenues that governmental entities can receive to new growth added to the tax rolls, 3 percent for residential properties, and 8 percent for commercial properties. This legislation represents a departure from all previous property tax law in Nevada in that it limits the amount of property taxes paid independent of the taxable and assessed value. In effect, it will artificially set and lower property tax rates. This legislation will become effective July 1, 2005 (AB 489, 2005).

RESEARCH QUESTIONS AND METHODS

This research will examine the impact on local governments of the three primary changes brought about by the Tax Shift of 1981: the property tax cap/rate reductions, depreciation of improvements (buildings), and the shift to sales tax. These three areas are examined because these changes are in the present tax structure and have not been modified in the past quarter of a century. These impacts will be explored using secondary data compiled from annual financial reports and from the State of Nevada. The analysis will include an examination of impacts of the “tax shift” on revenues and rates. I would hypothesize that both rates and revenues were dramatically decreased following the change, but have increased again over time. Another question to be examined is if the “tax shift” had differential impacts on Northern versus Southern Nevada.

Brown’s study (2000) suggests that broad based financial policies may impact entities in differing manners. The first research question is did the Tax Shift of 1981 affect entities in the

same manner? My hypothesis is that the Tax Shift affected entities in a differing manner due to differences in governmental types, age of real property (as it relates to depreciation), sizes, growth rates, and types of economies throughout the State of Nevada.

One change in the Tax Shift to the legal tax structure in Nevada was depreciation of improvements (buildings) at the rate of 1.5 percent per year for fifty years. I hypothesize older and slower growing governmental entities (typically in rural and Northern Nevada) will be affected by depreciation lessening assessed value growth to a greater extent than Southern Nevada, which has doubled in size in the past ten years. If my hypothesis is correct, I would further hypothesize that this would result in slower growth or declines in assessed value and greater increases to the property tax rates than Southern Nevada.

Another change to the legal tax structure that occurred during the Tax Shift was the increase to the sales tax rate to partially offset property tax revenue losses. With 1999 came the inception of the Consolidated Tax formula, which is comprised primarily of sales tax. Under this formula, counties receive a larger share of sales tax revenues. Food, services, tickets, and prescription drugs are exempt from sales taxes in Nevada thus creating a narrow sales tax base. As previously discussed in Pommer's research (2002) the narrowing tax base has had impacts on the adequacy of sales tax revenues. The Survey of Current Business (1997) has shown that spending patterns have shifted away from a goods based society to a service based society that is taxable under Nevada's sales tax structure.

This study examines the impact of these changes to the Nevada tax structure on the two most populous areas of Nevada: Clark County (urban Southern Nevada) and Washoe County (urban Northern Nevada). In addition, it examines the impact on five selected cities: the

Southern Nevada cities of North Las Vegas, Las Vegas, and Henderson and the Northern Nevada cities of Sparks and Reno.

Secondary data, compiled from the Nevada Department of Taxation, was used to assess this impact. Trends in local property tax rates, assessed value, and revenues were observed from 1967 to 2005 to see if there were any changes in trends over that period of time. Typically, incorporated city governments are responsible for different services, such as police, fire, and utilities that county governments are not. Likewise, county governments are responsible for health, transportation, and court programs that are not offered by cities. Therefore, the study presents findings for cities and counties separately. Since the cities and counties vary greatly in size, it is difficult to make meaningful comparisons. To address this issue, the data are reported on a per capita basis when appropriate. Population for each entity was gathered from the Nevada State Demographer's office, with the exception of the 1967 populations, which utilized the 1970 Census information. Both property tax assessed values and revenues were inflation adjusted using the nationwide consumer price index to facilitate comparison of the data gathered.

FINDINGS

The type of government and economy can have an impact on trends. Cities and counties separated information for comparative purposes. Three components of property taxes were examined as part of this analysis: inflation adjusted per capita assessed value, property tax rates, and inflation adjusted per capita property tax revenues. Of these three components, assessed value is the most meaningful, as it has the largest determination on if or how much rates need to be to provide sufficient revenues. Inflation adjusting information by use of the consumer price index (CPI) with the base year of 1967 and using per capita information aids in making meaningful comparisons of information.

**Figure 1. Assessed Value Per Capita - Cities
(Inflation Adjusted Dollars)**

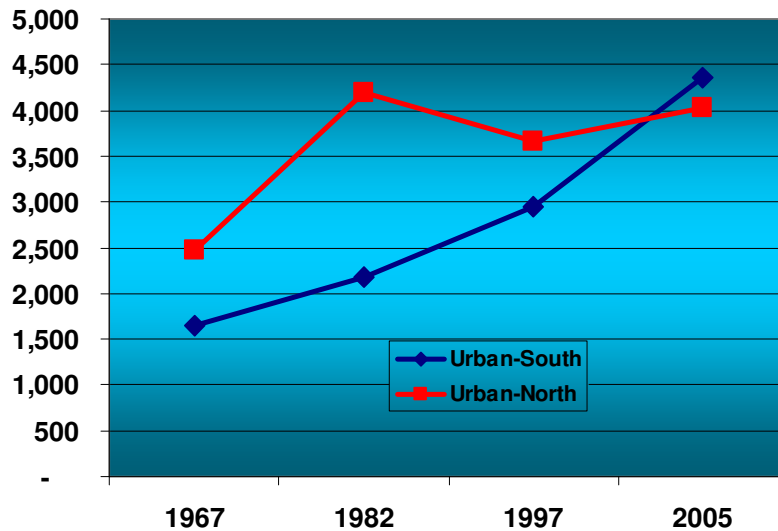


Figure 1. illustrates trends in per capita assessed value for cities by region from 1967 to 2005. Northern urban cities in Washoe County (\$2,464) had a higher assessed value per capita in 1967 than Southern urban cities in Clark County (\$1,640). By 1982, Northern cities' assessed value per capita was nearly double the amount of cities in Clark County. In the period subsequent to this time, Clark County cities have gained ground while per capita assessed value in Northern cities declined and then partially recovered. Today, Clark County cities have a higher per capita assessed value than cities in Washoe County. Although Washoe County cities' assessed value per capita increased from 1997 to 2005, their assessed value is still less on a per capita basis than in 1982 (\$4,027 versus \$4,195). There is no direct data to isolate the role of depreciation on assessed value. The information in Figure 1. supports the theory that slower assessed value growth in Northern Nevada may cause sharper rate increases to offset the slower growth. Property tax rates and revenue growth per capita are examined later in this analysis, to

evaluate if these larger property tax increases in Northern Nevada cities have offset the slower assessed value growth.

Figure 2. Local Property Tax Rates of Cities

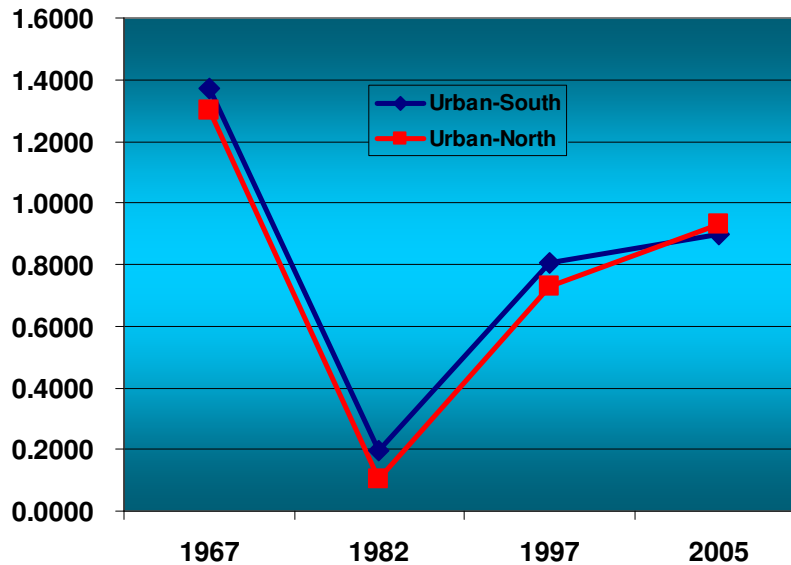


Figure 2., above, compares the local property tax rates for cities by region and illustrates that rate trends in both areas have been similar. It illustrates that in 1967, urban cities in Southern Nevada had a slightly higher average local property tax rate than urban cities in Northern Nevada. In 1982, after the “tax shift,” tax rates in both Northern and Southern cities declined dramatically. Cities in Southern Nevada had rate reductions that left them with nearly twice the average local property tax rates as cities in Northern Nevada. Since then, rates in both areas have gradually increased, but not to previous levels. This supports my hypothesis that rates would be dramatically reduced and would increase again over time.

There are also some differences in the trends for Northern and Southern cities. Cities in Northern Nevada have increased their local property tax rate at a more rapid rate than cities in

Southern Nevada. Today, cities in Southern Nevada have an average local property tax rate lower than their counterparts in Northern Nevada. This information may support hypotheses stated earlier: this lessened assessed value growth may necessitate more rapid rate increases in Northern Nevada compared to Southern Nevada cities. It also supports that decreases in property tax rates would be made up over time. Further examination of assessed value and per capita revenue growth needs to be examined to more effectively evaluate these hypotheses.

**Figure 3. Per Capita Property Tax Revenues -
Cities by Geographical Groups
(Inflation Adjusted Dollars)**

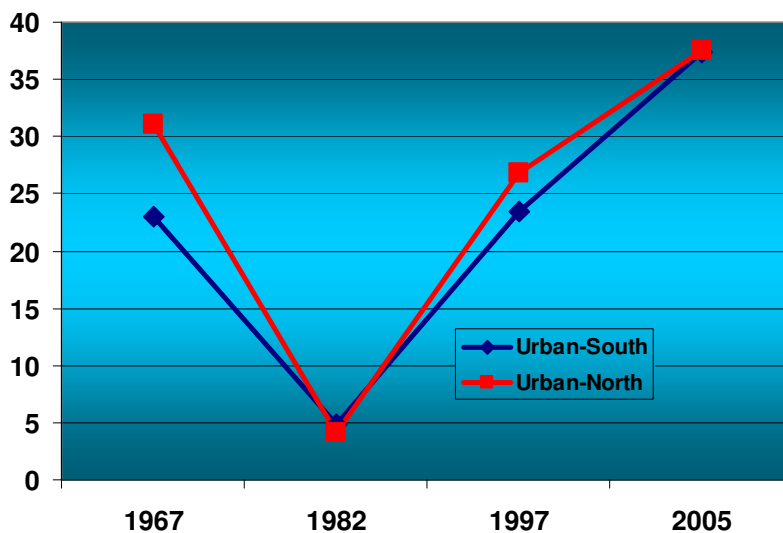


Figure 3. is a graph depicting property tax revenue for cities by geographical region from 1967 to 2005. This graph illustrates that property tax revenues of cities for all regions have been very similar over the entire period. General trends include sharp reductions in revenues after the “tax shift” and increases in per capita revenues that have exceeded the levels prior to the shift. A couple of interesting trends are noteworthy. In 1982, property tax revenues for Northern cities were reduced to a greater extent than Southern cities. The Northern cities declined from \$31 per

capita in 1967 to \$4 per capita in 1982. This only somewhat supports my hypothesis that policy changes impact entities in a differing manner. Meanwhile, urban Southern Nevada declined over the same period from \$23 per capita in 1967 to \$5 in 1982. From 1982 to present, per capita property tax revenues in both Southern and Northern Nevada urban areas have grown by about the same amount. Per capita revenues are virtually the same in each area, and they exceed levels prior to the shift. The information on this graph illustrates larger increases in property tax rates for Northern Nevada urban cities have offset some of the impacts of a decline in per capita assessed value. Figure 3. illustrates property tax revenues that decreased dramatically as part of the “tax shift” now far exceed revenue levels before this change; supporting my earlier hypothesis.

**Figure 4. Assessed Value Per Capita - Counties
(Inflation Adjusted Dollars)**

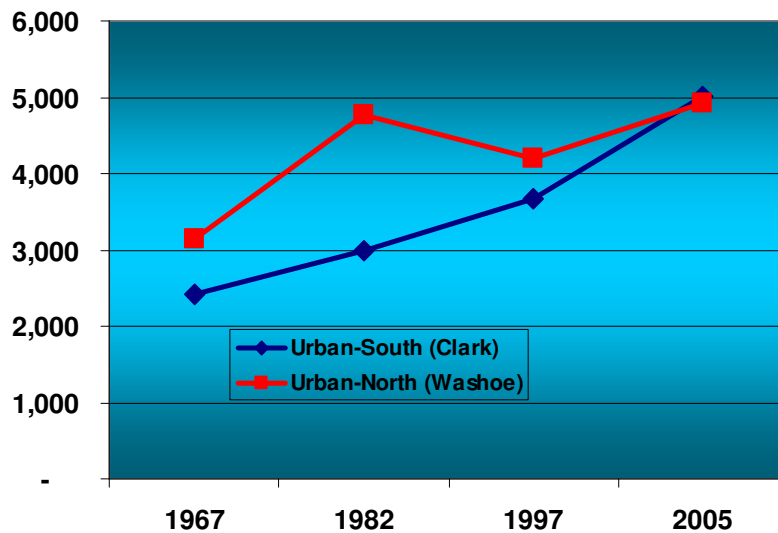
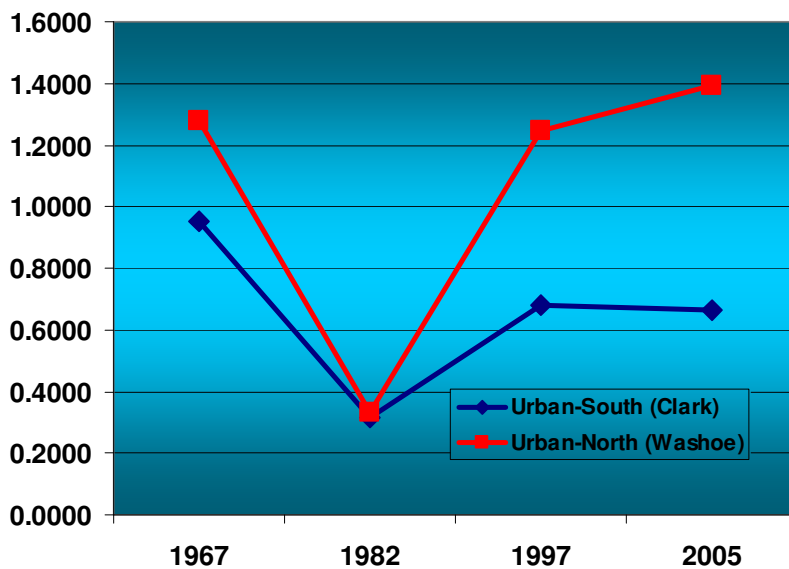


Figure 4. depicts assessed value per capita growth by region for counties from 1967 to 2005. It illustrates that Clark County’s assessed value per capita has increased steadily over this

period. In 1967, Washoe County's assessed value was \$3,149 per capita; more than twenty percent higher than Clark County's \$2,415. Clark County's assessed value per capita was roughly 75 percent of Washoe County's in both 1967 and 1982. From 1982 to 2005, Clark County's assessed value per capita caught and now exceeds that of Washoe County. Washoe County's assessed value declined from 1982 to 1997 and has increased from 1997 to 2005. The recent upturn in Northern Nevada may be the result of increases in land prices. These trends may support the theory that depreciation has had a greater impact on Northern Nevada. This is a possible explanation only as there is no direct data available to measure the impacts of depreciation. It also supports the hypothesis that tax policies can affect entities in differing manners.

Figure 5. Local Property Tax Rates - Counties



The comparison of local property rates for counties in Figure 5. depicts several trends.

In 1967, Washoe County had a much higher property tax rate (\$1.2770) than Clark County

(.9537). In 1982, after the “tax shift,” the local rates in Clark and Washoe Counties were much closer .3134 to .3328 per \$100 assessed value. From 1982 to present, Washoe County’s local property tax rate has increased much more rapidly than Clark County. Washoe County’s local property tax rate now exceeds the 1967 rate. Even more interesting, Clark County has decreased its local rate from 1997 to 2005. These slower rate increases for Clark County may be evidence to support my hypothesis that the depreciation change that was part of the “tax shift” has had a greater impact on Northern communities that tend to be older. The impact of depreciation may possibly have been responsible for the larger increases in rates.

**Figure 6. Per Capita Property Tax Revenues - Counties
(Inflation Adjusted Dollars)**

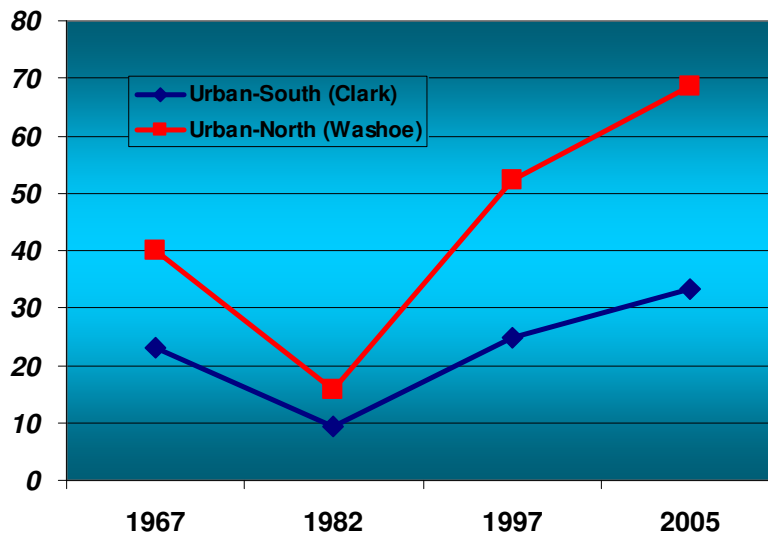


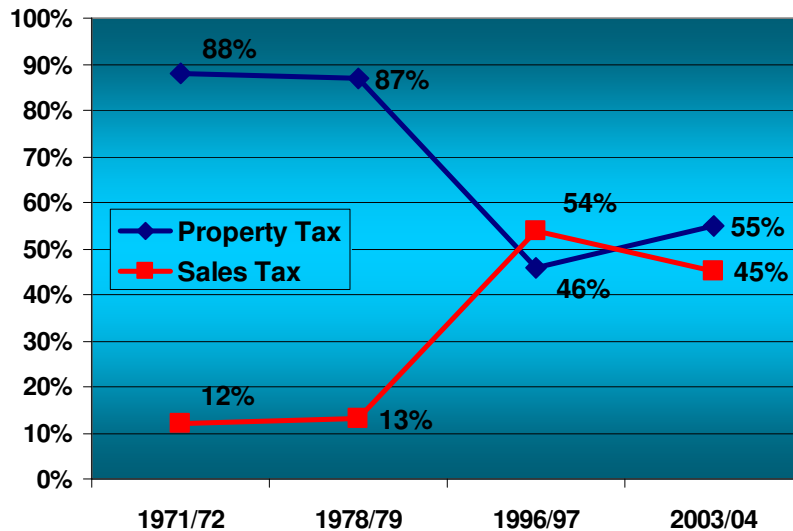
Figure 6. illustrates some intriguing trends. For the entire period 1967 to 2005, Washoe County received greater per capita property tax revenue than Clark County. During the “tax shift” both county’s property tax revenues declined sharply. From 1982 to present, both Clark and Washoe County’s per capita property tax revenues have increased in excess of three-fold,

with Washoe County increasing in excess of four times. A closer examination of rates earlier, shows that Washoe County's property tax rate increased in excess of four times over the same period. Clark County's rate doubled over the same period. The higher property tax revenue for urban Northern Nevada appeared to be caused by the higher property rates than Southern Nevada. The revenue growth in Figure 6. does support my earlier hypothesis that revenues decreased as part of the "tax shift" would grow over time.

SALES TAX

One of the major changes during the "tax shift," was the shifting of revenues from property tax to sales tax. This was accomplished when the sales tax rate for BCCRT was required and when SCCRT was created. Figure 7. below illustrates the percentage of sales tax versus property tax revenues collected for all counties for the periods 1972 to 1979, and 1997 to 2004. Unfortunately a gap exists in the availability of information for the periods 1980 to 1996.

Figure 7. Percent of Sales Tax vs. Property Tax Revenues for Fiscal Years (1972-2004)



The information above in Figure 7. illustrates some very interesting trends. From 1972 to 1979, the percentage of sales tax to property tax revenues remained virtually the same in spite of 13 of the 17 counties imposing the optional BCCRT sales tax in 1979, as opposed to 10 of the 17 counties in 1972. The percentage of property tax to sale tax revenues was over 6 to 1. During the “tax shift,” property tax rates were reduced and a new sales tax was enacted to partially offset the reduction in property tax revenues, called SCCRT. In 1997, sales tax had replaced property tax revenues as the largest revenue source for local governments, with 54 percent of revenue mix coming from sales tax compared to 46 percent from property tax. From 1997 to 2004, an interesting significant change has taken place; this mix has reversed with 55 percent of the revenue mix coming from property tax with 45 percent coming from sales tax.

CONCLUSION

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Two research questions examined in this study were to determine if the Tax Shift of 1981 affected Nevada governmental entities in differing manners and reduced rates and revenues governmental entities received. The study examined the cross-generalizability of Brown’s research in Colorado. In addition, this study examined the impacts of Nevada being the only state to depreciate improvements (buildings) and partially offsetting property tax revenue reductions with a new component of sales tax. This study tested my hypothesis that older communities would be impacted to a greater extent since the depreciation rate is 1.5 percent for 50 years.

Examination of quantitative secondary information supports Brown’s (2000) research by showing that Nevada cities and counties:

1. Were impacted in differing manners from the Tax Shift of 1981

2. Had property tax rate and revenue reductions that increased again over the past twenty years
3. Were replaced, in most cases, with revenues that exceed the consumer price index

The examination of property tax and sales tax revenues using secondary information has shown:

1. Northern Nevada (older areas) property tax rates have increased in excess of twice the rate of Southern Nevada; perhaps partially due to depreciation
2. Inflation adjusted per capita property tax revenues in Northern Nevada has remained relatively stable since the “tax shift.” During the same period, Clark County and Southern Nevada cities’ inflation adjusted per capita property tax revenues have nearly doubled. This may illustrate the impacts of depreciation on Northern Nevada.
3. Nearly half (8 of 17) of Nevada’s counties assessed value has declined over the past five years and four of these assessed values have declined over the past ten years
4. The percentage of sales tax revenues compared to property tax revenues has declined from 54 percent in 1997 to 45 percent in 2004.

The Tax Shift of 1981, which limited property tax revenues, paralleled over forty other states nearly a quarter of a century ago. In the past two years, California, Texas, and Oregon have again introduced or passed legislation limiting property tax revenues in a “second wave” of taxpayer expenditure limitations. The contribution of this research offers an examination of Nevada local governmental entities that supports the findings of previous research that legislation can have differing and lasting impacts. This research also illustrates that legislatures

need to be aware the broad based tax policy is nearly impossible to be administered in a uniform and equal manner. In short, one size usually doesn't fit all.

During the last legislative session, another property tax limitation initiative due to an outcry was passed, the result of skyrocketing land prices in Southern Nevada. The long-term impacts of this change are not known at this time. Hopefully, they will not create a long-term fix to a short-term anomaly. All of Nevada has a great deal of stake in the outcome: our future.

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Appendix

Figure 1. Assessed Value Per Capita - Cities (Inflation Adjusted Dollars)

| | 1967 | 1982 | 1997 | 2005 |
|-------------|-------|-------|-------|-------|
| Urban-South | 1,640 | 2,182 | 2,950 | 4,355 |
| Urban-North | 2,464 | 4,195 | 3,660 | 4,027 |

Figure 2. Local Property Tax Rates of Cities

| | 1967 | 1982 | 1997 | 2005 |
|-------------|--------|--------|--------|--------|
| Urban-South | 1.3691 | 0.1969 | 0.8071 | 0.8962 |
| Urban-North | 1.3027 | 0.1038 | 0.7303 | 0.9309 |

Figure 3. Per Capita Property Tax Revenues - Cities by Geographical Groups (Inflation Adjusted Dollars)

| | 1967 | 1982 | 1997 | 2005 |
|-------------|------|------|------|------|
| Urban-South | 23 | 5 | 24 | 37 |
| Urban-North | 31 | 4 | 27 | 38 |

Figure 4. Assessed Value Per Capita - Counties (Inflation Adjusted Dollars)

| | 1967 | 1982 | 1997 | 2005 |
|----------------------|-------|-------|-------|-------|
| Urban-South (Clark) | 2,415 | 2,997 | 3,663 | 5,016 |
| Urban-North (Washoe) | 3,149 | 4,771 | 4,202 | 4,928 |

Figure 5. Local Property Tax Rates – Counties

| | 1967 | 1982 | 1997 | 2005 |
|----------------------|--------|--------|--------|--------|
| Urban-South (Clark) | 0.9537 | 0.3134 | 0.6785 | 0.6652 |
| Urban-North (Washoe) | 1.2770 | 0.3328 | 1.2443 | 1.3917 |

Figure 6. Per Capita Tax Revenues- Counties (Inflation Adjusted Dollars)

| | 1967 | 1982 | 1997 | 2005 |
|----------------------|------|------|------|------|
| Urban-South (Clark) | 23 | 9 | 25 | 33 |
| Urban-North (Washoe) | 40 | 16 | 52 | 69 |