**Flawed Tax Structure Drives School Capital Needs Mar 16, 2016**

In November, voters will be asked to support an increase in sales taxes to fund the capital needs of our schools. This should come as no surprise to anyone with kids in schools, those involved in education or those who have remained informed. The overcrowding we are experiencing is a result of years of neglect and the failure to address our infrastructure needs in a timely manner. It is also the consequence of a broken tax system.

The fact is that our schools are overcrowded **now**, long before the first Tesla employee was hired at the Gigafactory and before the coming historic growth is even felt. Additionally, the funding needed to maintain almost 100 schools and build 15 new schools is not available, is not in the budget and is not part of the recent legislation to fund education, as that funding is restricted to school operations and programs. How did we get in this position? Our schools are 40 years old on average, no new schools have been built in almost 10 years, and almost $800M is needed just to catch up to meet our school infrastructure needs.

There is a long list of reasons for the current situation: failure to act, failed funding initiatives and the historic recession are a few that I commonly hear. In my view, the real culprit is a flawed and archaic system of taxation that has had a disastrous impact on property tax revenue. Unlike other counties in the state, property taxes are the only source of revenue used in Washoe County to bond against to maintain and build our schools.

Property taxes are supposed to be a reliable source of revenue that grows as the economy grows and adjusts for inflation. The expectation is that as the capital needs of the school district go up, (the maintenances and repair costs of the existing schools and the funding for new schools) the revenue generated by property taxes goes up and the schools’ capital needs are met. ***Unfortunately, that is not the case in Nevada!*** Our tax laws have two fatal flaws that together doom our schools to failure and cripple our local governments, which are also dependent on property taxes, but to a lesser degree: the property tax cap; and the depreciation of property taxes.

Let’s start with the property tax cap, a “great” idea that was hatched during the peak of the housing bubble when housing prices were skyrocketing. Just over 10 years old, this change limited the increase in property taxes for housing to **up to** 3% a year ***with no lower limit for a property valuation decreases***. The increase for 2017 is projected to be less than 1%. On the surface capping property tax made perfect sense, that is, unless you view this cap as if it was imposed on your personal income.

If you are getting paid $50,000 a year and your employment contract promises you up to a 3% pay raise every year, based on the prior year’s pay, you would most likely be happy with that. Then the recession hits and the unexpected happens; your pay gets cut 30% to enable the employer to avoid laying you and other employees off. So you struggle through the recession on $35,000 and finally your company starts to recover and even does well. Unfortunately, the pay cap kicks in and your pay for the next year is just $36,050 ($35,000 plus a 3% pay raise). You just get the 3% increase on the prior year’s pay, ***just like our school district.*** Yet, you still have the same bills as you had before the recession. In fact, with inflation kicking in, everything is actually more expensive and for the school district, the schools are now 10 years older.

The other fatal flaw in our tax system is our depreciation for property tax calculation. Nevada is ***the only state in the nation*** that allows for real property deprecation! Our current laws determine valuation for taxes as the market value of the land plus the cost of the home, less depreciation at 1.5% per year up to 50 years. To demonstrate how unfair this is, imagine that you are purchasing a new home at the current median housing price of $300,000. Your property taxes in Washoe County will be around $2,800 a year. Yet a house purchased on the same day as yours in the old Southwest, with a purchase price of one million dollars, has **lower property tax** than your $300,000 home – their property taxes are approximately $2,550, assuming their house was built before 1966. This depreciation of real property causes the slow erosion of revenue generated by our property taxes and directly impacts on the funding available to repair and build our schools.

Clearly our property tax system is broken. Given this systematic reduction in property tax revenue, our schools are now overcrowded to the point where the school district will soon be forced to implement ***double sessions***, two shifts of students in the same school - one from 6 am to noon and the other from noon to 6 pm. As you evaluate the upcoming tax question in November, consider that these property tax flaws will not be fixed anytime soon and the impending double sessions will have an adverse impact on our ability to attract quality companies and the needed talent to the region in the years ahead.