

MINUTES OF THE  
MEETING OF THE  
JOINT SENATE AND ASSEMBLY  
COMMITTEES ON TAXATION

SIXTY-FIRST SESSION  
NEVADA STATE LEGISLATURE  
March 24, 1981

The Joint Senate and Assembly Committees on Taxation were called to order by Chairman Keith Ashworth, at 2:02 p.m., Tuesday, March 24, 1981, in the Assembly Lounge of the Legislative Building, Carson City, Nevada. Exhibit A is the Meeting Agenda. Exhibit B is the Attendance Roster.

COMMITTEE MEMBERS PRESENT:

Senator Keith Ashworth, Chairman  
Senator Norman D. Glaser, Vice Chairman  
Senator Don Ashworth  
Senator Virgil M. Getto  
Senator James N. Kosinski  
Senator William J. Raggio  
Assemblyman Paul May, Chairman  
Assemblyman Steven A. Coulter, Vice Chairman  
Assemblyman Louis W. Bergevin  
Assemblyman Bill D. Brady  
Assemblyman Patty D. Cafferata  
Assemblyman Robert G. Craddock  
Assemblyman John Marvel  
Assemblyman Robert E. Price  
Assemblyman Robert F. Rusk  
Assemblyman Jan Stewart  
Assemblyman Peggy Westall

COMMITTEE MEMBERS ABSENT:

Senator Floyd R. Lamb

STAFF MEMBERS PRESENT:

Ed Shorr, Deputy Fiscal Analyst  
Dan Miles, Deputy Fiscal Analyst  
Colleen Crum, Committee Secretary

SENATE BILL NO. 411

Mr. Frank Daykin, Legislative Counsel, explained Senate Bill No. 411. The bill fixes limits on the revenues of local

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government. The limits include all revenues, except purely regulatory fees and receipts from municipal enterprises. These exceptions are narrowly defined. Section 2 defines the base for calculating revenues in the year commencing July 1, 1979 and excludes from that base regulatory fees and taxes for the payment of bonded indebtedness. The limit is calculated from that base. The only sources of revenue that can be generated outside that limit are ad valorem taxes for the payment of bonded indebtedness, regulatory fees, and money obtained from any source to support an enterprise fund. Enterprise funds are limited to governmentally owned utilities which provide water, electricity, gas, sewerage, and telephone services as well as airports, cemeteries, convention authorities, golf courses, hospitals, parking garages, swimming pools and transit systems. This limitation prevents, for example, making the municipal court an enterprise fund. The permissible revenue in each year is calculated by multiplying the base amount by 10 percent for each year that has lapsed from July 1, 1979 to July 1 of the year for which the revenue is being calculated. The governing body cannot exceed the revenue limit. The Director of the Department of Taxation will determine the status of any disputed fund and revenues allocable to it. Regulatory fees are those which are collected solely for regulation. Regulatory fees must not exceed the direct cost of regulation plus 12 percent for administrative overhead. Some fees, such as gaming fees, may be imposed for both regulatory and revenue purposes. The regulatory portion of the fee would be determined by taking the direct cost of regulation and adding 12 percent for overhead. The amounts of money that can be held in funds or carried over are also limited. Carry-over funds cannot exceed an average of one-twelfth of the total expenditures from that particular fund during the ending fiscal year. Any money in excess of the one-twelfth average must be dropped from the balance and accounted for in the next year's budget as money available before any revenue can be raised to support that activity. To enforce that limitation, the Department of Taxation will contract for the annual audit of each local government. The contract is made at the expense of the local government. The method of reappraising property for the purpose of taxation is revised. Property will be physically reappraised at least every five years. Between the physical reappraisals, a paper reappraisal

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will be made each year by using factors determined by the Department of Taxation. The tax lien date is changed to July 1 of the current year. This brings property taxes up to the current year. No one loses any taxes. Two features of the bill are in skeleton form. The local school support tax is raised from 1 cent to 1.5 cents and the city-county relief tax is raised from .5 cent to 2.5 cents. This means a combined sales and use tax of 6 cents. This bill does not detail which local governments will be permitted to levy ad valorem taxes for operating purposes. All local governments will levy ad valorem taxes for debt service. Those governments which are not permitted to levy ad valorem taxes for operation will be the beneficiaries of the additional 2-cent city-county relief tax. The schools will receive a flat 50 cents from the ad valorem tax. The schools neither gain nor lose under this plan.

Mr. George Swarts, a certified public accountant from Las Vegas, spoke against the provision to allow the Department of Taxation to contract the auditing of the local budgets. He said the cities and counties hire accountants for more purposes than to audit the budget. He opposed giving broad power and authority to the Department of Taxation in the accounting area.

The chairman asked Mr. Swarts if he would feel differently about the audit provision if the state paid for the service. Mr. Swarts replied it would be a waste of money. The cities and counties would still need to hire accountants for other purposes.

The chairman asked Mr. Swarts' opinion of the suggestion to make it mandatory that local governments change auditors every three to five years. Mr. Swarts was opposed to this suggestion.

Senator Raggio stated the purpose of the bill is to create a uniform approach to audits. The state involvement in the audits would improve credibility and insure that entities will be compared in a consistent manner. Mr. Swarts stated a consistent audit would depend on who is hired to do the job, no matter who is doing the hiring. He didn't understand why the Department of Taxation is better qualified to hire auditors

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than the cities and the counties. He said rules for municipal accounting are well established.

Assemblyman Rusk stated the state's involvement in the auditing process is an attempt to bring objectivity into the process.

Assemblyman Price noted accountants for the state presently check the budgets for the state's agencies and have uncovered problems. He said auditors hired by the local entities allow potential problems to slip past them. Mr. Swarts replied stated auditors may not find every problem either.

Assemblyman May questioned the language on page 7, lines 34-35, and page 8, line 1. Mr. Daykin explained the Department of Taxation would contract for the audit. The Tax Commission would maintain a list of eligible auditing firms.

Mr. Swarts stated the bill eliminates the extension period for submission of audit reports. It makes the entity responsible if the state audit is late.

Mr. Ken Kjer, President of the Nevada Association of Counties, presented prepared testimony. (See Exhibit C.)

Senator Raggio asked for an explanation of Mr. Kjer's suggestion that alternate sources of revenue be developed. Mr. Kjer explained he was suggesting that the voters be given an opportunity to develop alternate revenue sources.

The chairman asked if Mr. Kjer was suggesting that the state turn over taxation responsibilities to the county and city governments and put the issue to a vote of the people. Mr. Kjer stated local governments should determine the availability of other funds to replace the ad valorem tax.

Mr. Herb Witt, Vice Chairman of the Douglas County Board of Commissioners, presented a prepared statement. (See Exhibit D.)

Mr. Roy Neighbors, Nye County Manager, suggested that Senate Bill No. 411 be amended to include the factors of population and the Consumer Price Index.

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Mr. Ed Everett, Assistant Manager for Washoe County, stated the county opposed capping both expenditures and revenue as well as the retroactive capping of revenue. He asked the committee to consider exempting encumbrances, self insurance, construction funds, inter-governmental services, debt service funds, and transfers from the ending fund balances.

The chairman stated it was not the intention of the legislature to impose a hardship on the counties in the area of self-insurance liability.

Assemblyman Bergevin explained that entities have abused the property tax by putting it into capital funds when actually the people should have been voting on the issue. This action has created the need for tax reform.

The chairman asked Mr. Everett's opinion of Senate Bill No. 204 of the 60th Session. Mr. Everett stated Washoe County had lower limits than Senate Bill No. 204 allowed because it had anticipated the passage of Question 6 at the polls.

The chairman asked whether Washoe County padded its budget in preparation for the passage of Question 6. Mr. Everett stated Washoe County funded two years worth of money in the capital area in one year in anticipation of the passage of Question 6. The chairman stated the county's action in padding the capital fund reduced the tax reduction the people of Washoe County should have received.

Assemblyman Bergevin and Mr. Everett disagreed over whether Washoe County was increasing or decreasing its budget for the coming year.

Mr. Al Ashley, a certified public accountant testifying as a private citizen, presented a prepared statement. (See Exhibit E.)

Mr. Guy Hobbs, representing Clark County, presented an analysis of the revenue caps based on a hypothetical budget of \$50,000. (See Exhibit F.)

Mr. Patrick Pine, representing Clark County, presented a prepared statement. (See Exhibit G.)



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Assemblyman Bergevin asked if Mr. Hobbs was suggesting that local governments should be allowed to keep up with inflation when the people are not given the same ability. Mr. Hobbs replied cost of labor and services are presently allowed to rise. Assemblyman Bergevin stated government has kept up with inflation better than the people.

The number of roll ups allowed in the bill was debated.

The chairman asked whether a tax reduction should be given to the people if an entity receives a grant for a purpose which taxes would have applied. Mr. Pine stated the ability to receive revenue in the form of grants should not be capped.

The chairman announced a brief recess at 4:26 p.m. The hearing was reconvened at 4:43 p.m.

Reno Councilman Joe McClelland expressed concern that Senate Bill No. 411 reduces the flexibility of local government. He questioned the treatment of building inspection fees, court fees, and developer fees. He asked whether it was the intention to cap revenues from grants and inter-governmental revenues. He also objected to the state hiring of auditors.

Mr. Frank Kastory, Director of Finance and Accounting for the City of Reno, submitted a combined balance sheet for funds and account groups. (See Exhibit H.) He stated irresponsibility in fiscal management can be best addressed at the local governmental level.

Senator Glaser stated the legislature has heard the loudest screams of agony about property tax rates from the homeowners of the City of Reno and Washoe County.

Mr. McClelland suggested creating a standardized audit report which each entity would submit to the Department of Taxation.

Mr. Merton Domonoske, Fallon City Manager, referred to the constitutional right of home rule.

Mr. Ben Bartlett, representing the City of Fallon, questioned the definition of enterprise fund and regulatory fees. He stated over-regulation by the state and federal governments

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increase the cost to local governments. He questioned the treatment of reserve funds, trust funds, and endowment funds.

The chairman stated it was not the legislature's intention to restrict enterprise funds.

Ms. JoAnne McLachlan, Administrative Assistant to the Storey County Commissioners, asked that a population growth factor be included in the bill. She suggested broader consideration be given to enterprise funds. She stated the increased sales tax would not replace revenue lost from the reduction of the ad valorem tax. Storey County would experience a \$520,000 shortfall under the proposed roll up in Senate Bill No. 411.

Assemblyman May asked if net proceeds revenues were projected in Ms. McLachlan's estimates. She stated net proceeds revenues were not included because of uncertainty as to how net proceeds would be handled. Assemblyman May asked if net proceeds revenues would approach the amount of the shortfall. Ms. McLachlan replied the net proceeds revenues would come close to meeting the shortfall, provided the mining industry continues to expand and the price of gold remains near its present level.

Ms. Carol Vilardo submitted statements from the Citizens for Private Enterprise and the North Las Vegas Chamber of Commerce which requested hearings on the tax reform package be held in Las Vegas. (See Exhibits I and J.)

Mr. William Macdonald, District Attorney for Humboldt County, questioned the exclusion of television in the definition of utilities. He explained Humboldt County operates its own television district.

Assemblyman Bergevin stated some of the language used in Senate Bill No. 204 of the 60th Session would be incorporated into Senate Bill No. 411.

Mr. Macdonald said an increased sales tax would not compensate Humboldt County for the loss of revenues from a reduction of the ad valorem tax.

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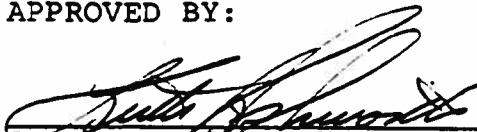
The chairman indicated that the school districts had requested that their testimony be deferred until the next hearing. He stated joint hearings would be held every Tuesday for the duration of the session. The hearings on Senate Bill No. 69 would be postponed until Tuesday, March 31, 1981.

There being no further business, the meeting adjourned at 5:40 p.m.

Respectfully submitted by:

  
Colleen Crum, Secretary

APPROVED BY:

  
Senator Keith Ashworth, Chairman

DATE: 3-30-81



AGENDA

EXHIBIT A

JOINT SENATE AND ASSEMBLY  
COMMITTEE MEETING

AMENDED DATE: 3/17/81

Committee on TAXATION, Room Assembly Lounge.  
Day Tuesday, Date March 24, Time 2:00 p.m.

AMENDED AGENDA

S. B. No. 411--Makes substantial revision in law relating to governmental finance.

S. B. No. 69--Revises factors which may be used in determining full cash value of real property for taxation.

NOTE: The following bills were originally scheduled for a hearing on this date before the Senate Committee on Taxation. These bills have been rescheduled for hearings on March 26, 1981, at 2:00 p.m. in Room 213:

S. B. No. 154--Increases and changes measure of tax on motor vehicle fuel and special fuel.

S. B. No. 374--Increases registration fees and taxes on fuel for motor vehicles.

S. J. R. No. 15--Proposes to amend Nevada constitution to broaden permissible uses of state highway fund.

S. B. No. 262--Increases certain fees for registering and licensing motor vehicles.

SENATE COMMITTEE ON TAXATION

DATE: March 24, 1981

EXHIBIT B

PLEASE PRINT PLEASE PRINT PLEASE PRINT PLEASE PRINT

NAME ORGANIZATION & ADDRESS TELEPHONE

Ken Kiper Association of Counties

Public Utility Douglas County

Joe McPherson F. Keston Reno

Ed Bennett Washoe County

J.M. Washburn Truckee County -

Don Kataway Carson City

Steve K... New Jersey of Cities

Richard... Chairman County Taxation Committee

... IFE 51

... STATE

... Commissioner

Robert Berg Shoshone County Commissioner

... Nevada

MARVIN LOWE City of Fallon

Vytas Vaitkus Carson City

Tom B... Nevada

ED HANSEN ...

... City of Fallon

J. E. L... City of Fallon

Ken Spittett City of Fallon

... Churchill County

... Commission

... Nevada

... Nevada

... Nevada





EXHIBIT C

TESTIMONY OF KEN KJER, PRESIDENT OF THE NEVADA ASSOCIATION OF COUNTIES, BEFORE THE JOINT MEETING OF THE SENATE TAXATION COMMITTEE AND ASSEMBLY TAXATION COMMITTEE, MARCH 24, 1981.

*President*  
**KENNETH KJER**  
Douglas County

*First Vice President*  
**ALAN BECK**  
Humboldt County

*Second Vice President*  
**THALIA M. DONDERO**  
Clark County

*Secretary/Treasurer*  
**YVONNE BERNARD**  
Douglas County  
Minden, Nevada 89423  
702 732 5176

*Legislative Liaison*  
**BRYCE WILSON**  
Glenbrook, Nevada 89413  
702 749 5667

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HONORABLE COMMITTEE CHAIRMEN KEITH ASHWORTH AND PAUL MAY  
AND MEMBERS OF THE COMMITTEES:

I appear before you today on behalf of the Nevada Association of Counties to give testimony on Senate Bill 411 and Assembly Bill 348. My comments are limited to addressing the concept of tax reform as presented in the proposed legislation.

County government in Nevada has undergone a substantial transition as a result of the State's growth in the decade of the seventies. Further changes are predictable for the coming decade and the magnitude of such change will be impacted by such factors as tourism and the proposed MX project. As such, local government will need to remain viable and flexible to meet the service demands of its constituents while at the same time promote local responsibility in the face of this challenge. Local jurisdictions will not only find it difficult to provide expanded services but, in many instances, it will be difficult to maintain existing buildings, roads, and other facilities. Legislation that would limit the availability of funds to local government to maintain these facilities would only serve to accelerate deterioration and require, in the long term, substantially greater tax dollars to replace or totally reconstruct these facilities.

The proposed concept of tax reform focusing on developing alternate revenue sources to reduce the ad-valorem burden on the homeowner is supported by all county governments. Towards this common goal we pledge our support to your legislative efforts.

However, the proposed legislation appears to impose additional unwarranted controls on our local elected officials in the name of "tax reform". Revenue capping measures, regulatory fee limitations, usurping of local involvement in the audit process, limitations on the scope of enterprise and reserve fund accounting, and increased Department of Taxation authority are among the many restrictions which would appear inconsistent with local rule during a time when our federal government is in the process of returning control and financial responsibility to local government.

The seventeen counties represented by the Nevada Association of Counties worked diligently with the 1979 session of this Legislature to effect tax reforms. The result was a comprehensive tax reform package that reduced ad-valorem tax rates by a minimum of 25% and also imposed expenditure caps which further reduced the tax rate in most jurisdictions. Further reductions in ad-valorem rates are not only desirable but possible by incorporating sales tax or other non ad-valorem revenue within the existing legislation. More equitable and uniform valuations can also be achieved without imposing all of the controls in SB 411 and AB 348.

For the past two years, county governments statewide have revamped their budgetary procedures to effect tax reform. I urge you not to needlessly dismantle existing laws and replace them with more excessive, unwieldy

and unnecessary bureaucratic controls which do not, by themselves, effect savings to the taxpayer. Why not develop alternate revenue sources to augment ad-valorem taxes while at the same time giving voters in each jurisdiction a chance to choose their leadership?

More state administrative involvement in local jurisdictions at a time when the State of Nevada is fighting for the return of control of programs run by the federal government is inconsistent and alarming. What more responsive level of government is there than local government? What other level of government more uniformly represents its' constituencies even during a period of rapid growth?

You will be presented with, and hear testimony from, individual local government jurisdictions on the specifics of the proposed legislation. I urge you to listen carefully and place yourselves in the role of that of a local elected official as you relate to their testimony.

# # # # # # # # # # # # # # #





BOARD  
OF  
COUNTY  
COMMISSIONERS

ROBERT S. HADFIELD  
*County Manager*  
(702) 782-5176

COMMISSIONERS  
Kenneth Kjer  
*Chairman*  
Herb P. Witt  
*Vice-Chairman*  
Barbara J. Cook  
M.D. Meyer  
R.A. Oswald

March 24, 1981

Chairman Keith Ashworth  
Chairman Paul May  
and Honorable Senate and Assembly Taxation Committee Members

Douglas County is appearing before the joint Taxation Committee to present testimony highlighting our concern over the proposed regulations contained in Senate Bill 411 and Assembly Bill 348 relating to local governmental finance. Due to the limited response time available prior to this hearing and in recognition of your previously stated position that ample time will be given for further public testimony and input, therefore, our response will focus on a few critical issues.

Douglas County has been operating under the existing budget guidelines adopted by the 1979 Legislature during a period of unprecedented population growth in our community. Under the existing expenditure cap, with careful budget planning, Douglas County has struggled to address the growing service demands and concerns of our constituents. As we interpret the proposed revenue cap formula and the allowable exemptions contained in Section 2 of the proposed legislation, the 1981-82 Douglas County Budget attached for your perusal would have to be reduced to a level lower than the existing 1980-81 allowable expenditures. Such a reduction would not be possible to absorb without a drastic deterioration of existing services. Therefore, it is our firm conviction that any consideration of a revenue cap must include

in addition a factor for population growth and additional exemptions for captial projects and federal monies. As can be seen in our proposed 1981-82 budget Douglas County anticipates substantial contracted federal aid for erosion control at Lake Tahoe as well as the Ridgeview sewer problem, the correction of which is state mandated. Furthermore, it has been our experience over the last two years that such funds are subject to such fluxuation that inclusion under a revenue cap is inconsistant with actual experience and existing budget guidelines. Another example of a needed exemption is our County Construction Fund established to fund a comprehensive building program funded by a \$6,000,000 bond issue and supplemental funds. These projects have by public commitment been and continue to be allocated for the three to four year program.

Section 3 relating to regulatory fees has also caused Douglas County considerable concern and much confusion. Our confusion focuses on the need for a cap and definition of regulatory fees which according to our legal counsel could include such fees as court fines and room tax. Further, budgeting for the cost of regulation is a serious problem which defies traditional local government accounting. In addition our County has been and continues to be subject to drastic internal influences on construction and other activities beyond our control which could drastically alter regulatory demands and costs, the result of which would not diminish our overall legal responsibility for providing such services. Given the apparent overall ad valorem replacement revenue concept which serves as the focal point of this legislation this provision appears to redundant.

Section 4 which provides Interim Finance Committee relief from the revenue cap and regulatory fees completely ignores new services which may become necessary or mandating such as the Ridgeview problem alluded to earlier in this text. As such there appears

to be no flexibility to address the problems of a growing County such as ours.

Much of the public discussion on tax reform has focused on the ending fund balance regulations contained in Section 5 of this bill and in existing local government regulations. It should be stated for the record that Douglas County has consistently applied excess ending fund balances as revenue for the following year through the formal budget preparation process. It is inherent that for good fiscal responsibility certain reserve funds be maintained for such functions as fire equipment purchases, self-insurance programs and Regional Transportation programs, which by their nature will not be consistent with the ending fund balances allowable in Section 5. As an example it is not possible for a growing County such as Douglas County to annually budget for the purchase of needed fire equipment or the construction of roads without spreading the costs through the use of reserve funds. These examples reiterate our position that reserve funds should be excluded from the capping mechanism. We also feel strongly that any decision of the Department of Taxation should be subject to an appeal to a higher authority.

Section 7 providing for Enterprise Funds is too restrictive limiting their application to a specific number and type of functions and activities. We feel that the definition should be expanded but not limited to include our ambulance operation and other functions such as refuse collection, weed control and intergovernmental service activities which are supported by user fees. The utilization of user fees to charge the cost of providing specific services to those who benefit from the service is consistent with the philosophy of this Legislature and mandated tax reform.

Section 14 providing for State Department of Taxation contracted audits of local jurisdictions would serve to remove the direct involvement of local elected officials from the audit process. Our existing auditors not only provide for compliance with State regulation according to accepted accounting principals but also serve as financial consultants. Such financial services can be utilized in the daily operation of our County and the millions of dollars we must manage. The proposed process would not result in any qualitative improvements in the auditing function. Douglas County's audits are a matter of public record and the Department of Taxation has complete access to our financial records.

Section 33 dealing with the appraisal process proposes major changes which deserve comment from the operational standpoint of our Assessor. Our first concern is the six month time frame for appraising or reappraising property. We feel that this process should be extended to cover the calendar year and not be limited to a six month period. Regarding paragraph 3, factoring, it is essential that in the development of a factoring appraisal process that the Department of Taxation be responsible for determining the factors to be used. However, it is recommended that the factoring be deferred until the 1981-82 roll to enable the County to complete the computer programing factoring process and prepare bills to enable the local jurisdictions to operate. It should also be noted that Douglas County expended in excess of \$300,000 to reappraise state mandated properties in addition to the normal operation of the Assessor's Office. While we have no estimate of the cost of implementing the factoring program we can assume based on our previous experience that the program will be a major cost to the County.

While we are in support of developing alternate revenue sources such as the City County Relief Tax, more commonly referred to as the sales tax, to implement ad valorem tax reform we are unable to determine its impact on Douglas County without a distribution method. The proposed increases do not address the distribution of additional sales taxes and whether or not the pass through to other local entities fall within the proposed revenue cap. The existing pass through cap has not only proved to be detrimental to our fiscal planning but also penalizes entities which serve as collection agents for other local jurisdictions. These few comments regarding the City County Relief provisions contained in Sections 48 through 50 do not make judgement on the amount of increases proposed and how it will impact on our residents. It should be noted however that while Douglas County enjoys substantial sales tax revenue from Tahoe tourism we have no major retail shopping center, therefore, we export the more stable retail sales tax to adjoining jurisdictions. In the long run these tourism related revenues cannot be expected to increase relative to our population growth due in part to the state and federal regulations applying to the Tahoe Basin portion of Douglas County.

This Joint Committee should also be aware that Section 58 is a retroactive provision which if implemented would conflict with previous Department of Taxation approved budget augmentations. As referenced earlier in the brief discussion of Section 5, Douglas County already complies with the intent of this provision by adjusting the opening fund balances by larger than anticipated ending fund balance resources. In any event if this provision were enacted, Douglas County would not have the funds to place in a new opening fund balance due to the previously state approved and legal budget augmentation.

As can be seen we have limited our comments to specific concerns on the contents of the proposed legislation. In doing so we feel strongly that such a comprehensive and important piece of legislation cannot be effectively discussed and reviewed within the time constraints of this hearing. We have additional concerns and therefore respectfully request that Douglas County, the Local Government Advisory Committee as well as other local jurisdictions be invited to participate with you in further discussions or workshops where more specific and detailed discussions can take place. Douglas County has always strived to work within the framework of the law and we have consistently worked with the Nevada Legislature to streamline government so as to eliminate duplication where possible and to place the control of government closest to the people. Some if not the majority of the provisions of this legislation appear to place greater emphasis on state control rather than local control by placing restrictions on non property tax revenues, elimination of local government jurisdiction involvement in audit procedures and giving the Department of Taxation final authority in most budget activities without administrative remedy.

We, as local elected officials responsible for the administration of our local jurisdictions have long supported and advocated tax reform. In Douglas County we have utilized the Ad Valorem tax only as a last resort. We have been in part able to reduce the burden on the homeowners by developing alternate revenue sources to meet the impact of growth. In our opinion the existing expenditure cap mechanism adhered to by Douglas County over the last two years can be amended to address the stated legislative concerns related to ending fund balances as well as Enterprise and Reserve Funds. Such amendments combined with the provision for additional Sales Tax revenues can objectively and effectively provide for further tax reform while maintaining control of local



service capabilities at the level of government closest to the people. Such a proposal would take advantage of the exhaustive and credible work of the 1979 Legislature while permitting additional Ad Valorem tax reform. The Douglas Board of Commissioners and our staff stand ready to assist you in this most important matter of mutual concern.

Respectfully submitted by the Douglas County Board of Commissioners

EXHIBIT E

SB 411 & AB 348  
(SELECTED SECTIONS)

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Al Ashley  
Alexander Grant & Company  
March 24, 1981

SB 411 & AB 348  
(SELECTED SECTIONS)

Section Summary

Observations & Comments

Section 2

1. Base year revenue cap:

1978-1979 actual revenue  
Less: AV taxes for debt serv  
Less: Regulatory fees

Equals base year revenue cap

1(c) Listing of allowable enterprise funds.

2. Maximum level of permissible revenue -  
base year revenue plus 10% per year.

- . The word "Revenue" is not defined.
- . "Entitled to Receive" is not defined.
- . Other revenue pledged for retirement of bonds and short-term loans should also be excluded from computation.
- . Capital construction funds should be excluded.
- . Enterprise fund activities excluded:
  - .. Garbage operation
  - .. Self supported recreation
  - .. Ambulance operations
  - .. Weed abatement
- . 10% is not compounded.
- . Number of years from 7-1-79 to 7-1-81 is "2".

SB 411 & AB 348  
(SELECTED SECTIONS)Section SummaryObservations & CommentsSection 3

1. Regulatory Fee - A charge imposed by a local government to defray the cost of regulating any kind or class of enterprise or person.
  
  
  
  
  
  
  
  
  
  
2. Regulatory fees to be equal to the estimated direct cost of regulation for the year plus 12% of the costs.
  
  
  
  
  
  
  
  
  
  
3. Department of Taxation shall disapprove any budget not in compliance.

- . Assume the following fees are included:
  - .. Building permits
  - .. Zone variance application fees
  - .. Work permits
  - .. Foodhandler permits
  - .. Business licenses
  
- . May also include:
  - .. Justice Court fines
  - .. Special Use permits
  - .. Local Gaming licenses
  - .. Library book fines
  - .. Liquor licenses
  - .. Clerk fees
  - .. Sheriff fees
  - .. Recorder fees
  
- . Indirect costs not allowed
  - .. Rent
  - .. Depreciation
  - .. Utilities
  - .. Accounting
  - .. Administration
  
- . Some local governments have not established a separate department to regulate for each type of fee (Sheriff - Business Licenses).

SB 411 & AB 348  
(SELECTED SECTIONS)

Section Summary

4. If the aggregate of all estimated regulatory fees exceed the amount permitted, fees shall be reduced as nearly equal as possible.
5. If the actual receipts from all regulatory fees exceed the amount permissible by this section, the excess can not be expended in the fiscal year of receipt. The excess must be used to reduce revenue in the next succeeding F/Y.

Section 4

1. Interim finance committees may approve exceptions to Section 2 & 3, but for no more than 2 years.
2. Funds may be allocated to local governments from the State Contingency Fund.
3. Requests for exception to Section 2 & 3 can be made, after reviewing local governments budget, if:
  - (a) services are in danger of deteriorating due to financial hardship
  - (b) no other resources are available to the local government.

Observations & Comments

- . Some regulatory fees are set by statute - therefore, a local government can not reduce them.
- . Roller-coaster effect from year-to-year.
- . This section could lead to abuse and manipulation.
- . Why is Section 3 necessary? General cap on revenue should suffice.
- . What is a local government to do after 2 years?
- . What is the size of the State's Contingency Fund? Will it be adequate?
- . What additional data, other than the budget, is to be reviewed for purposes of this section?
- . Exceptions needed for relief in cases of mandated services (i.e. EPA - Garbage dumps).

SB 411 & AB 348  
(SELECTED SECTIONS)

Section Summary

4. The local government and the Department of Taxation will be notified of the Interim Finance Committee decision.

Section 5

1. Ending fund balances - excess over 1/12 of total actual expenditures for all funds, except enterprise funds, to be placed in separate account and used to reduce taxes in following year.

Observations & Comments

- . Does this section allow for any additional input by the local government (i.e. testimony, other financial analysis)?
  
- . Need to consider definition of "Fund Balance" -- it can (and usually does) include:
  - .. Reserve for encumbrances
  - .. Reserve for inventory
  - .. Reserve for advances to Internal service funds
  - .. Designated for subsequent year's expenditures
  
- . What is the definition of fund balance for an Internal Service Fund?
  
- . Debt Service Funds and Debt Reserve Funds also have a fund balance limitation (1/12) -- this may be in conflict with most existing bond ordinances.
  
- . Regional Street and Highway Fund should be excluded.
  
- . Current practice requires that a fund balance be automatically rebudgeted in a following year.



SB 411 & AB 348  
(SELECTED SECTIONS)

Section Summary

2. Only Exceptions to this section are enterprise funds as listed in (a) and (b).
3. The Executive Director, who's decision is final, shall determine the status of any disputed funds.

Section 7

Makes changes to the definition of an enterprise fund and lists only those activities which meet the definition.

Observations & Comments

- . An ending fund balance restriction encourages spending just to get rid of the money.
- . Self Insurance Funds, Capital Projects Funds and other similar types of funds have a need different than a General Fund or Special Revenue Fund.
- . Grant funds, Capital Project Funds, Internal Service Funds, etc. need to be excluded.
- . What is the definition of a "Reserve Fund"? Not defined in NRS or GAAFR.
- . A local government should have recourse to a higher authority
- . Unable to understand what subsection 3(b) (1) and (2) means. There may be an error in drafting.
- . Definition is obsolete and is not in accordance with "Generally Recognized Principles of Governmental Accounting".
- . Listing is not all-inclusive and needs to be.

SB 411 & AB 348  
(SELECTED SECTIONS)

Section Summary

Observations & Comments

Section 9

1. NRS 354.5985 provides that the Nevada Tax Commission shall provide by regulation for reasonable balances to be on hand at the end of the fiscal year and for reasonable contingency funds.

. This provision which is in the present law is adequate to control fund balances.

Section 10

Permissible revenues may not be increased to comply with an increase in revenue or expenditures that are mandated by the legislature.

. These two provisions are obviously in conflict with each other.

Section 11

Identifies types of funds which may be established by a local government.

. Listing is obsolete and is not in accordance with "Generally Recognized Principles of Governmental Accounting".

Section 12

A local government can only establish enterprise funds as defined by NRS 354.517.

. Not reasonable - A local government may wish to establish another type of enterprise activity, even if it could not be excluded from the revenue cap.

SB 411 & AB 348  
(SELECTED SECTIONS)Section SummaryObservations & CommentsSection 13

Budgets may be augmented for unbudgeted resources, but only to the extent of the revenue cap.

- . This provision is in conflict with the ending fund balances provision of Section 5 of the act.

Section 14

1. Provides for the selection of independent auditors by the Department of Taxation. Eliminates granting an extension of time to submit the audit reports.

- . Destroys client-CPA relationship
- . Probably will cause a local government to engage another CPA to provide additional services (budget assistance, accounting advice and even a duplicate audit).
- . These changes could lead to possible favoritism in the selection of auditors.
- . It suggests that neither the auditor nor the local government can be trusted.
- . Many local governments need an audited financial statement (Comprehensive General Purpose Financial Statement) for use by the financial community in connection with the sale of bonds (GO & revenue bonds).

SB 411 & AB 348  
(SELECTED SECTIONS)Section Summary

2. The audit report is to be submitted by the auditor direct to the Department of Taxation and not to the local government.

Observations & Comments

- . The "Preamble" to the rules of professional conduct adopted by the Nevada State Board of Accountancy (a State Regulatory Agency) reads:

"The reliance of the public and the business community on sound financial reporting and advice on business affairs imposes on the accounting profession an obligation to maintain high standards of technical competence, morality and integrity. To this end, a permit holder shall at all times maintain independence of thought and action, hold the affairs of his client in strict confidence, strive continuously to improve his professional skills, observe generally accepted auditing standards, promote sound and informative financial reporting, uphold the dignity and honor of the accounting profession, and maintain high standards of personal conduct."

- . It is very likely that some of the auditor's findings and the comments contained in the audit report may be in error due to a misunderstanding. Unfortunately, because the report would go first to the Department of Taxation, the opportunity to resolve any errors made by the auditor would be lost.

SB 411 & AB 348  
(SELECTED SECTIONS)

Section Summary

Observations & Comments

Section 17

NRS 244A.063 - Restricts use of reserve funds to the payment of principal and interest on bonds.

. What will happen when the bonds are paid in full and there is an ending fund balance?

. A related section (NRS 244A.061) suggests that regulatory fees may be used to secure bonded indebtedness. This conflicts with Section 3.

Section 38

1. Maximum tax rate \$3.64 - rate could be higher if needed for the payment of bonded indebtedness and short-term obligations issued prior to 7-1-81.
2. AV taxes may be used for the following purposes:
  - . Bonded & S/T debt existing as of 7-1-81.
  - . Bonded & S/T debt if approved by voters or the Nevada Tax Commission
  - . Capital construction if approved by the voters or Legislative Commission
3. AV taxes may also be used for debt retirement or capital construction if approved by the interim finance committee. Approval good for only two years.

. Language in paragraph 2(a) suggests that Nevada Tax Commission can approve the issue of general obligation bonds.

. AV taxes should also be allowed for other programs if approved by the voters.

. A two year limitation would not be realistic in the case of bonded indebtedness or short-term debt.

SB 411 & AB 348  
(SELECTED SECTIONS)

Section Summary

Observations & Comments

Section 48

Describes how the increase in the city/  
county relief tax will be distributed

- . If the amount of revenue distributed to the county treasurer is greater than can be used (limitation from Section 3 of this act), what will be required?
- . If the revenue is less than needed (a shortfall), what then?
- . Will a time-lag occur between budget adoption, levy of tax (AV tax or city/county relief) and/or approvals by Nevada Tax Commission - Legislative Commission - Interim Finance Committee?

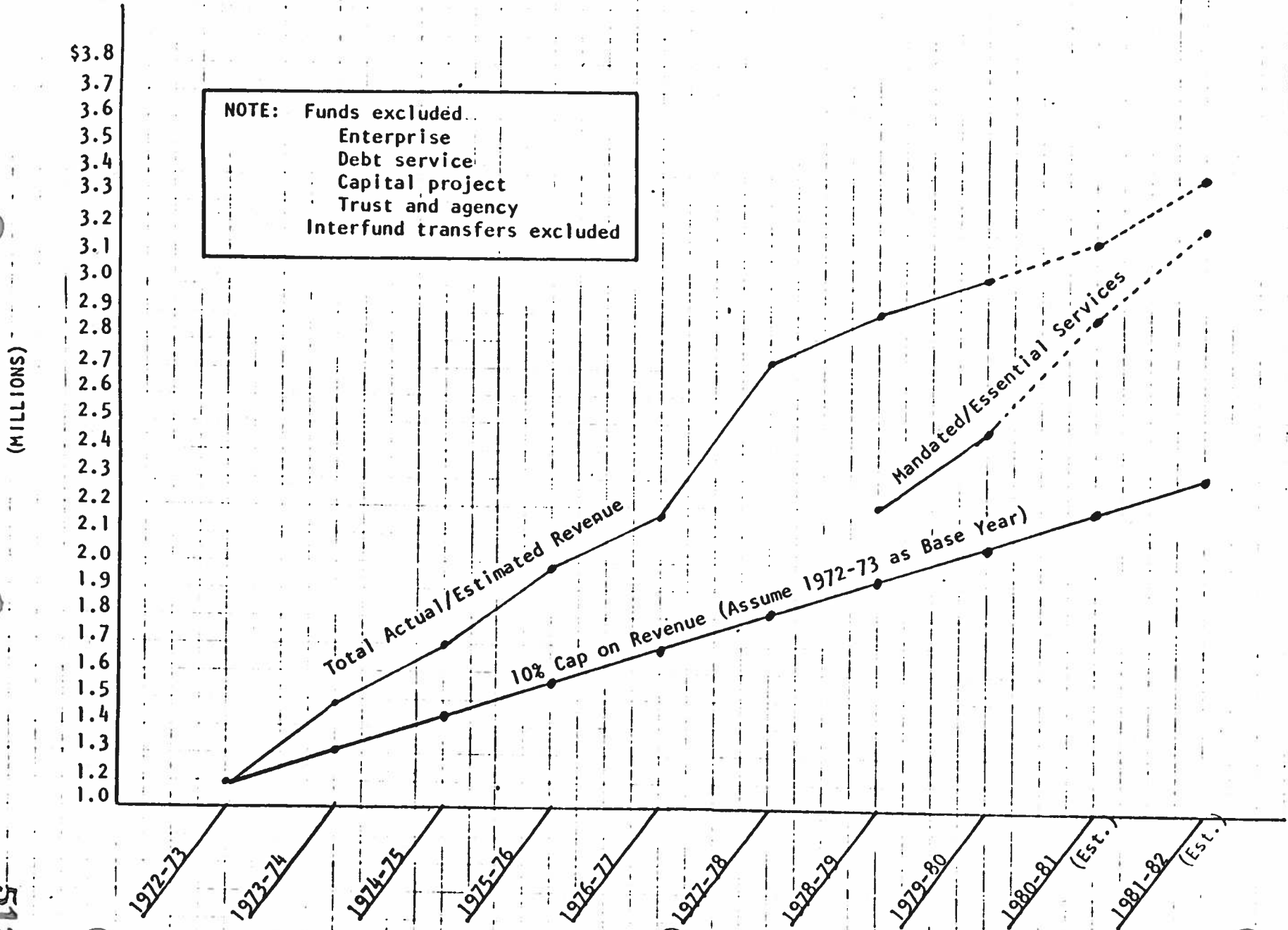
Section 58

1. If the 6-30-80 ending fund balance exceeds 8.3% of the 1979-1980 actual expenditure the excess over 8.3% must be set aside and used to reduce the 1981 - 1982 revenues.
2. 1980-1981 budget may not be augmented (NRS 354.615) except with the approval of the Legislative Commission.

- . Not practical, all local governments are 9 months into the 1980-1981 year, and most would have budgeted the opening fund balance as a current year resource.
- . No provisions for exceptions to this requirement
- . Many local governments have already augmented their budgets.

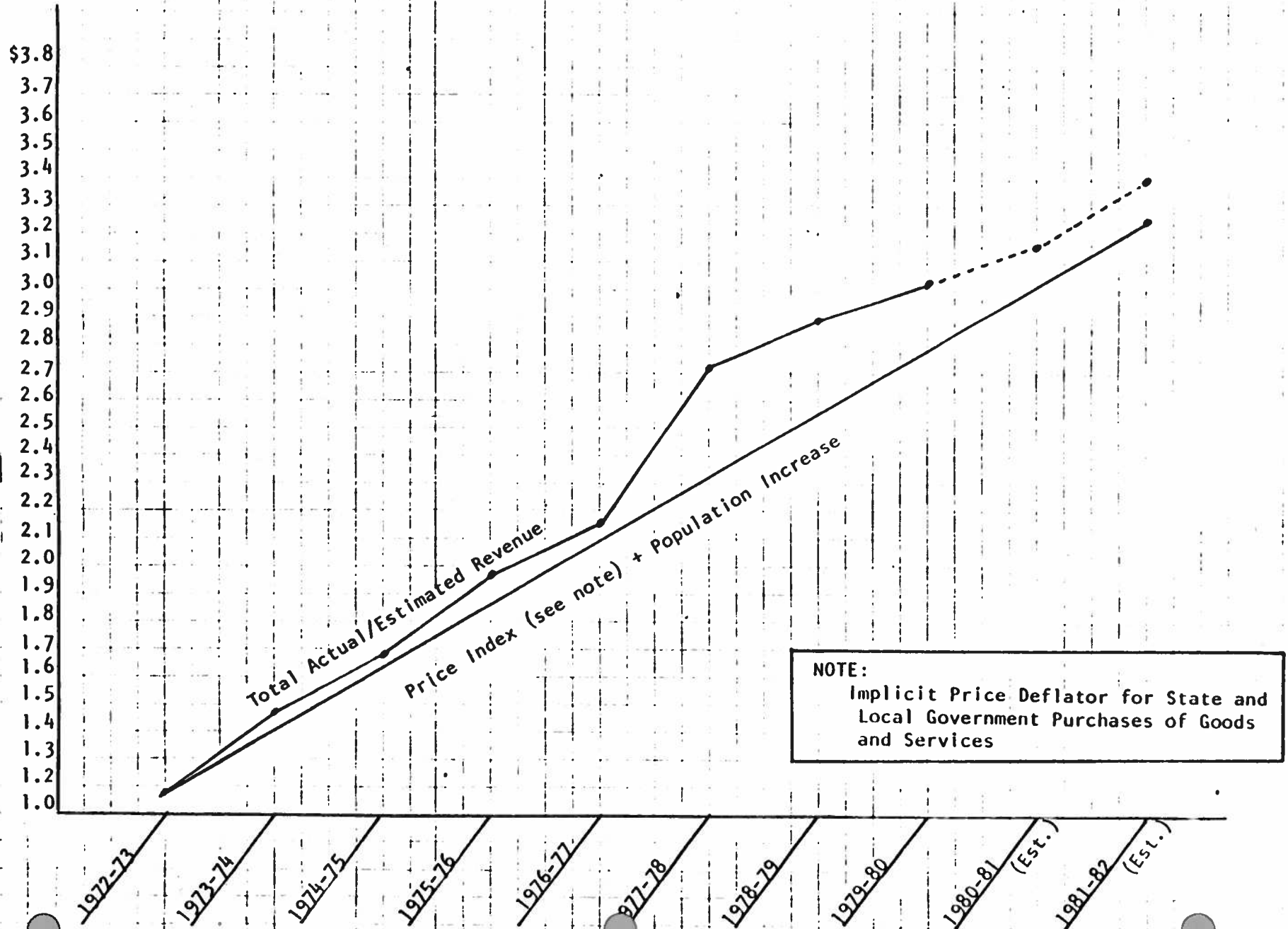


CHURCHILL COUNTY  
 REVENUE/ESSENTIAL SERVICES/CAP ANALYSIS  
 1972 - 1982



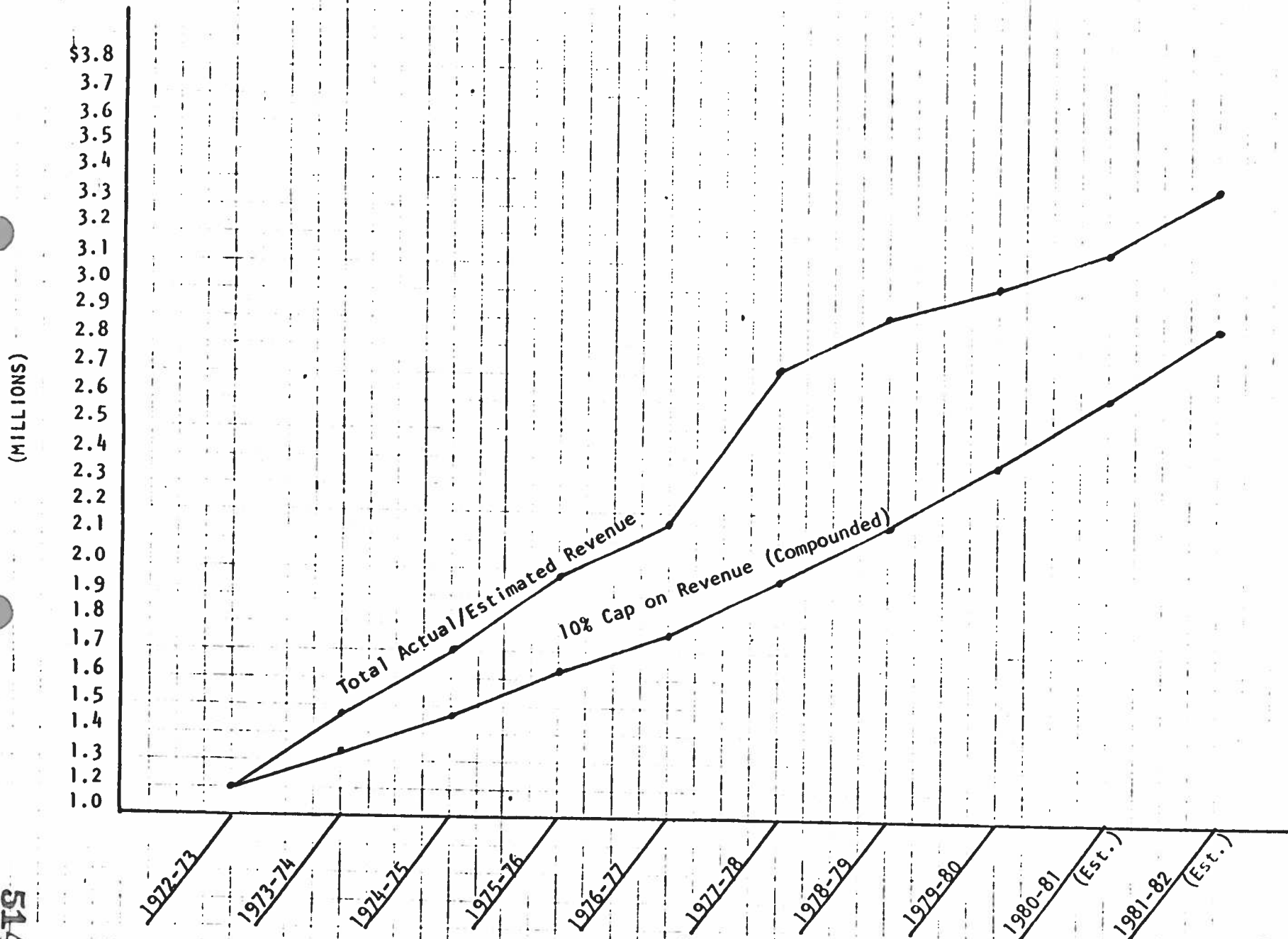
CHURCHILL COUNTY  
REVENUE/ESSENTIAL SERVICES/CAP ANALYSIS  
1972 - 1982

(MILLIONS)



NOTE:  
Implicit Price Deflator for State and  
Local Government Purchases of Goods  
and Services

CHURCHILL COUNTY  
 REVENUE/ESSENTIAL SERVICES/CAP ANALYSIS  
 1972 - 1982



Churchill County  
IMPACT OF SECTION 58, SB 411

General Fund

Utilization of Ending Fund Balance Under Present Law

Ending fund balance June 30, 1980 (Audited)	\$571,735
Amount of June 30, 1980, fund balance estimated to be available as a resource in the 1980 - 1981 budget (per final budget adopted May 13, 1980).	<u>680,149</u>
Shortage in 1980 - 1981 budget	(\$ <u>108,414</u> )

Utilization of June 30, 1980, Ending Fund Balances  
With Adoption of Section 58, SB 411

Ending fund balance June 30, 1980, (Audited)	\$571,735
Less: Excess balance over 1/12 of expenditures set aside for 1981 - 1982 budget.	<u>399,439</u>
Fund balance available as a resource for the 1980 - 1981 budget.	172,296
Amount of June 30, 1980, fund balance estimated to be available as a resource in the 1980 - 1981 budget (per final budget adopted May 13, 1980):	<u>680,149</u>
Shortage in 1980 - 1981 budgeted resources	(\$ <u>507,835</u> )

Churchill County  
 EXAMPLE OF SHORTFALL IN 1980 - 1981 BUDGET  
 Due to SB 411 - Section 58

	<u>Mandated or Essential Services</u>	<u>Other Services</u>	<u>Budget Total</u>
<u>General Fund</u>			
Estimated current year expenditures	\$ <u>1,935,103</u>	\$ <u>343,297</u>	\$ <u>2,278,400</u>
Less: Actual expenditures for 6 months ended December 31, 1980.	953,094	149,300	1,102,394
Estimated expenditures for 3 months ended March 31, 1981.	<u>476,550</u>	<u>74,650</u>	<u>551,200</u>
	<u>1,429,644</u>	<u>223,950</u>	<u>1,653,594</u>
Estimated unexpended balance of budget as of March 31, 1981.	505,459	119,347	624,806
Deduct: Shortage in 1980 - 1981 budgeted resources (1)	<u>388,488</u>	<u>119,347</u>	<u>507,835</u>
Balance of available budget (2)	\$ <u>116,971</u>	\$ <u>-</u>	\$ <u>116,971</u>

Notes

- (1) Assumes it would be possible to immediately discontinue all other services.
- (2) Approximate number of days left in available budget--23 days.  
Number of days to end of fiscal year--91 days.

Churchill County  
 (All General and Special Revenue Funds)  
 SUMMARY OF EXPENDITURES  
 Four Years Ended June 30

	<u>1979</u>	<u>1980</u>	<u>1981 (Est)</u>	<u>1982 (Est)</u>
<u>Mandated or Essential Services</u>				
County Commissioners	\$ 24,018	\$ 26,287	\$ 26,727	\$ 27,914
Clerk & Treasurer	92,314	107,892	123,285	135,134
Recorder & Auditor	57,303	68,183	81,046	91,457
Assessor	141,660	159,628	184,141	220,614
Sheriff	298,946	394,275	527,580	595,606
Fire Protection	99,568	128,163	54,431	63,500
District Court	46,076	63,599	67,104	79,304
District Attorney	72,839	83,891	107,212	126,866
Justice of the Peace	26,007	32,867	43,305	52,868
Probation & Juvenile	49,176	65,385	63,373	76,530
Mosquito & Weed Control	98,968	99,428	133,891	152,012
Buildings & Grounds	79,130	92,688	97,509	114,897
Garbage Disposal	34,862	54,689	59,000	61,000
Cemetery	56,415	63,206	85,006	95,122
Public Works & Drafting	54,178	74,161	122,146	152,377
Streets & Highways	546,166	547,819	700,798	663,859
Indigent Operations	151,180	141,579	208,449	202,989
Agricultural Extension Service	21,450	22,012	24,478	25,999
Law Library	11,671	8,755	14,500	11,100
Unemployment Compensation (Est)	11,135	18,487	19,100	-
Other (Insurance, Hospital Subsidy, Outside Legal Service, Auditing, Elections, Legal Publications, Etc)	134,101	228,758	159,347	264,250
	<u>2,107,163</u>	<u>2,481,752</u>	<u>2,902,428</u>	<u>3,211,398</u>
<u>Other Services</u>				
County Manager	81,267	98,630	102,880	115,157
Recreation Committee	38,707	44,326	48,635	49,723
Museum	32,990	31,540	40,328	44,507
Fairgrounds	13,228	5,535	18,150	20,100
Public Library	87,323	87,518	108,186	115,332
Cemetery Beautification	388	702	387	12,000
CETA	90,570	35,311	17,104	-
Library Bookmobile	41,577	39,879	46,340	49,085
Library Gift	511	1,276	807	794
Self Insurance (Est)	-	13,365	30,000	35,000
Other	305,901	144,488	133,304	106,740
	<u>692,462</u>	<u>502,570</u>	<u>546,121</u>	<u>548,438</u>
	<u>\$2,799,625</u>	<u>\$2,984,322</u>	<u>\$3,448,549</u>	<u>\$3,759,836</u>

Churchill County  
Regulatory Fees (1)  
1973 - 1982

1973	\$24,978
1974	28,127
1975	26,459
1976 (2)	42,711
1977	44,837
1978	45,622
1979	78,293
1980	80,423
1981 Est	56,500
1982 Est	49,500

(1) Included In The Above:

Business Licenses  
Liquor Licenses  
Gaming Licenses  
Building Permits  
Other Licenses & Permits

(2) Legalized Prostitution

Approved by voters - effective fiscal year 1976

Comment:

No increase in fee charges have been made during the period 1978 - 1981. The increases are the result of growth in the community.

State of Nevada  
 ENDING FUND BALANCES  
 F/Y 1980 and 1979

	<u>6/30/80</u>	<u>6/30/79</u>
Ending fund balance:		
General fund	\$ 89,099,000	\$104,811,000
Special revenue funds	<u>31,557,000</u>	<u>39,326,000</u>
	<u>\$120,656,000</u>	<u>\$144,137,000</u>
 Total expenditures		
General fund	\$317,839,000	\$248,263,000
Special revenue funds	<u>222,071,000</u>	<u>183,321,000</u>
	<u>\$539,910,000</u>	<u>\$431,584,000</u>
 Ending fund balance As a percentage of total expenditures	 <u>22.3%</u>	 <u>33.4%</u>



Reasons Why An Ending Fund Balance May Exceed 1/12 of Expenditures

- . Current year revenues exceed original estimates
- . Opening fund balance exceeds original estimates
- . Total actual expenditures are less than budgeted
  - .. Inability to spend an appropriation because of unanticipated or uncontrollable events
  - .. Deferring to the following year an expenditure planned for the current year
  - .. Good management
- . Grant funds (federal, state & private) restricted as to use
- . Contingency budget not needed
- . Desire to accumulate funds over several years which will be needed to make a large single purchase (i.e. Road Equipment)

\*\*\*\*\*

If very tight restrictions are placed on fund balances a new theme may become common place -

"Spend - Spend - Spend -- If You Don't Use It  
You'll Loose It"

EXHIBIT A  
 REVENUE CAP ANALYSIS  
 ELAPSED TIME  
FROM BASE YEAR

EXHIBIT F

	<u>FISCAL 1978-1979</u>	<u>FISCAL 1979-1980</u>	<u>FISCAL 1980-1981</u>	<u>FISCAL 1981-1982</u>
Incremental	12 months	12 months	12 months	12 months
Cumulative	12 months	24 months	36 months	48 months
Allowed by SB 411 .	0 months	0 months	12 months	24 months
Loss of Time	12 months	24 months	24 months	24 months

Note: SB 411 uses July 1, 1979, as the base for counting the number of elapsed years for budgeting purposes.

EXHIBIT B  
 REVENUE CAP ANALYSIS  
 REVENUE GROWTH ALLOWED BY SB 411  
 VERSUS INFLATION

---

	<u>FISCAL</u> 1978-79	<u>FISCAL</u> 1979-80	<u>FISCAL</u> 1980-81	<u>FISCAL</u> 1981-82
Base Year Revenue	\$50,000,000	\$50,000,000	\$50,000,000	\$50,000,000
Increased Allowed by SB 411	-0-	-0-	5,000,000	10,000,000
Revenue Cap	50,000,000	50,000,000	55,000,000	60,000,000
Increase Over Base Year	-0-	0%	10%	20%
Average Annual Increase	-0-	0%	5%	6.7%
Incremental Increase	-0-	0%	10%	9.1%
Annual Inflation	10.1%	13.1%	9.5%	9.0%
Cumulative	10.1%	23.2%	32.7%	41.7%
Loss Due to Inflation	10.1%	23.2%	22.7%	21%

## Exhibit C

REVENUE CAP ANALYSIS  
 PURCHASE POWER ANALYSIS  
 ALL VALUES IN FISCAL 1978-79 DOLLARS

	<u>FISCAL</u> <u>78-79</u>	<u>FISCAL</u> <u>79-80</u>	<u>FISCAL</u> <u>80-81</u>	<u>FISCAL</u> <u>81-82</u>
Annual Inflation	10.1%	13.1%	9.5%	9.0%
Budgeted Revenues (Cap)	\$50,000,000	\$50,000,000	\$55,000,000	\$60,000,000
Deflated Value of Budgeted Revenue - Beginning of FY	\$50,000,000	\$45,413,261	\$44,642,857	\$45,214,770
Deflated Value of Budgeted Revenue - Mid-point of FY	\$47,706,631	\$42,998,839	\$43,044,865	\$43,778,874
Value Total Revenue- End of Fy	\$45,413,261	\$40,584,416	\$41,446,873	\$42,342,978
Mid-point to Cap Purchase Power <u>Loss</u>	\$ 2,293,369	\$ 7,001,161	\$11,955,135	\$16,221,126

Exhibit D  
 CLARK COUNTY, NEVADA  
 POPULATION SUMMARY

<u>1970 CENSUS</u>	<u>1980 CENSUS</u>
273,288	462,012

CLARK COUNTY  
 PER CAPITA  
 REVENUE CAP ANALYSIS

	<u>FISCAL 78-79</u>	<u>FISCAL 79-80</u>	<u>FISCAL 80-81</u>	<u>FISCAL 81-82</u>
Revenue Cap	\$50,000,000	\$50,000,000	<del>\$50</del> ,000,000	\$60,000,000
Mid-Point	\$47,706,631	\$42,998,839	\$43,044,865	\$43,778,874
Population	432,596	462,012	493,429	526,982
Per Capita- Purchase Power	\$110.28	\$93.06	\$87.24	\$83.07

**EXHIBIT E**  
**REVENUE CAP ANALYSIS**  
**REVENUE REQUIRED TO MAINTAIN**  
**FISCAL 1978-79 LEVEL OF SERVICES**

	<u>FISCAL</u> <u>1978-79</u>	<u>FISCAL</u> <u>1979-80</u>	<u>FISCAL</u> <u>1980-81</u>	<u>FISCAL</u> <u>1981-82</u>
Per Capita - Purchase Power	\$110.28	\$93.06	\$87.24	\$83.07
Required to Maintain	\$110.28	\$110.28	\$110.28	\$110.28
Amount of Added Purchase Power Per Capita Re- quired	-0-	\$17.22	\$23.04	\$27.21
Total Budgeted Revenue Re- quired	-0-	\$59,438,640	\$69,622,033	\$79,737,970
Allowed by Cap	-0-	\$50,000,000	\$55,000,000	\$60,000,000
Deficiency, Bud- geted Revenue	-0-	\$ 9,438,640	\$14,622,033	\$19,737,970

CLARK COUNTY TESTIMONY  
ON SB 411 and AB 348  
JOINT COMMITTEES ON TAXATION  
TUESDAY, MARCH 24, 1981

EXHIBIT G

(Presented by Patrick Pine, Assistant Comptroller)

Mr. Chairmen, Ladies and Gentlemen:

This hearing gives us the opportunity to respond to various concepts that have been discussed in conceptual terms only to this date. We appreciate your time in hearing our concerns. While we have been assured that these bills will be subject to amendment, it is critical that we provide you with as many specific concerns as possible at this time. My testimony will follow the bill section by section to the extent possible.

Section 2. It would appear that Section 2 is based on the concept of a 1978-79 base year multiplied by a 10% inflation factor. The following concerns are expressed:

- a) The basis for 10% as a proposed factor is unclear. There is no relationship between a flat percentage amount and true inflation and population growth.
- b) The bill, as written, appears in Section 2(2)(a) seems to lose <sup>two</sup> ~~one~~ years of inflation factoring credit. If you use a base year of 1978-79 multiplied by 10% beginning in 1979-80, you have excluded inflation during 1978-79 and ~~1978-79~~ 1979-80 from consideration.

- c) Before I proceed, I have asked Guy Hobbs from our Budget Office staff, to explain the exhibits [REDACTED] each of you have been provided.
- d) Section 2 appears to exclude certain "regulatory" fees and enterprise fund revenues from the revenue cap calculation. The following items should also be excluded:

1. Internal Service Fund revenues
2. Revenue Sharing receipts
3. Federal and State Grant receipts
4. Interest Income receipts
5. Certain receipts from legal judgments

We can address each of these areas of exclusion if you desire. Basically, these areas involve problems of "double capping" (such as internal service funds), restricting receipts which come from other sources to lessen dependence on local taxes (such as Revenue Sharing and grant receipts), or create disincentives to good management practice (such as restricting interest income). Finally, a restriction on the ability to recover and use receipts due to legal action seems to penalize the taxpayer. If we win a case against a contractor who failed to perform a public works job adequately, we should be able to use the proceeds to correct the problem without restriction.



Also, the enterprise funds excluded in this section are very narrowly defined - perhaps too narrowly, and in conflict with new accounting principles. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

- e) Section 2(3) proposes that the Director of the Department of Taxation determine the status of any disputed fund or account "by applying generally recognized principles of accounting." This poses a question as to qualifications. I am not a CPA and cannot provide a professional opinion on accounting principles, but the Director of the Department of Taxation is not a CPA, either. I suggest that neither of us should be given the ability to determine the applicability of accounting principles in the event of a dispute. Some mechanism for a determination of accounting principles by independent CPA's is needed.
- f) Section 2(3) also proposes that the Director's decision in a dispute is "final". It is very clear that some appeal device is necessary. We believe that we should have a right of appeal to an appropriate legislative body and we always reserve the right to a challenge through the judicial branch.

- g) Section 2(5) indicates that a revenue cap on ad valorem taxes may be exceeded with a vote of the people. However, even with a vote of the people, the approval is limited to a two-year period. As has been indicated with respect to SB 204 (1979), this may be an unrealistic limitation.

Section 3. It appears that Section 3 is fraught with difficulty. The entire concept of defining "regulatory" fees is nearly impossible to implement practically.

- a) There is a fine line between "regulation" and "service". If a fee is imposed for certain licenses, it can be extremely confusing to distinguish between the portion of the fee that relates to regulation of the payor and the portion of the fee that relates to a "service" which is the protection of the payor from other operators in competition with the payor. In other words, if I own a flower shop and pay a license fee I am paying not only to cover the costs associated with processing the application and license, but I am paying partly for some assurance that another flower shop will not open in competition with me without also undergoing some review.

- b) Section 3(2) sets a revenue cap on "regulatory" fees of "estimated direct costs of regulation for that year plus 12 percent of those costs". A determination of "estimated direct costs" is nearly impossible. Is the cost of a deputy district attorney's time handling cases involving alleged violations of ordinances or laws considered a "direct" cost of regulation? If, as we believe, legal work is a direct cost of regulation, aren't we requiring a fundamental change in governmental accounting practices which would require a massive investment of personnel and time to determine virtually every governmental employee's time card to see how many minutes are spent in the process of "regulation"? Wouldn't we also need to count every piece of paper to determine what is related to regulation and what is not?

\*Note: There are numerous professional accountants who can testify as to the issues involved in determining "cost" in the public sector. We will defer to their expertise in this area.

- c) It should be noted that, in many cases, those departments which might be considered regulatory in nature receive appropriations from a general

fund in excess of the fee revenues generated by those departments. Where such situations occur, it is presumed that fee increases will be necessary to meet the criteria of "direct costs" plus 12 percent.

Section 4. This section proposes to make the Interim Finance Committee an appeals body. That will be acceptable except to the extent that if major financial problems strike a broad cross-section of local governments simultaneously, the Interim Finance Committee may be faced with an unreasonable workload.

- a) There are numerous possibilities of timing problems with this appeal system. If, for instance, a major rupture in a water main or sewer line occurs in a water district or an improvement district and an immediate response is required to repair the rupture to protect public health and safety, will the Interim Finance Committee be able to convene on short notice to allow a fast response?
- b) Section 4(3) specifies that the Interim Finance Committee will receive a "fiscal analysis of the budget of a local government furnished by the Department of Taxation..." We respectfully doubt the capabilities of the Department of Taxation to perform such analyses given its current staffing pattern and the inescapable divergence between state and local fiscal management practices. Since I have worked in both

levels of government in the fiscal area, I think it would be fair to claim that local governments are much more involved in revenue projections than state government.

Section 5. This section proposes to limit the ending fund balance of any fund, except an enterprise fund, to a maximum of one-twelfth of the fund expenditures for the preceding year. There are numerous problems posed by Section 5, including:

- a) The determination of a one month's or 8.3 percent ending fund balance as a maximum is not based on any detailed analysis of the basis for such a level. The current regulation relating to the desirability of ending fund balances between 4 percent and 8.3 percent is based on an historical recommendation of the Local Government Advisory Committee. Those persons who sat on the committee have admitted that this recommendation was made in a somewhat arbitrary manner and not as the result of any study.
- b) In a time when the individual is being encouraged to save more, this proposal seems to say that savings and investment by institutions is a bad practice. This proposal creates an incentive for local governments to spend more, not less. In the past we encouraged managers to spend below appropriations, now we would have no reason to encourage such restraint.

- c) The State of Nevada's own Budget Director, Howard Barrett, is on public record as saying that a desirable minimum ending fund balance for the state general fund is 10%. Why is a 10% minimum for state government acceptable when a 8.4% maximum for local government is considered unacceptable?
- d) There are widely varying needs for an ending fund balance among and between funds. For instance, we have experience <sup>with</sup> the case of a small fire district that had a fire truck destroyed by fire. Even though the truck was insured, it was necessary to borrow funds to acquire a new truck before reimbursement was allowed. In this case, in a fund with only \$80,000 in normal annual expenditures, we had to borrow and spend an additional \$50,000 in one fiscal year as a special transaction and wait nearly six months for a reimbursement to adjust the expenditure. A maximum ending fund balance restriction of 8.3% would have limited contingency funds to approximately \$6,500 which would provide minimal assistance to the district. There are numerous funds which are extremely susceptible to periodic shocks where a one month's ending fund balance equivalent is insufficient to counter the shock.

- e) Section 5(2) repeats the narrow definition of enterprise funds excluded from the restriction noted in Section 2.
- f) Section 5(3) repeats the procedure by which the Director of the Department of Taxation, who is not a CPA, is given authority to apply accounting principles and who has a final decision not subject to appeal. These are flaws which I previously discussed.

Section 7. This section attempts to define enterprise funds in a manner directly contradictory to that which has been adopted by the 1980 edition of Principles of Governmental Accounting, Auditing, and Financial Reporting.

It seems that there should be some effort to make Nevada law consistent with, not contradictory to, nationally accepted accounting definitions and principles.

CITY OF RENO, NEVADA  
 COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS  
 JUNE 30, 1980

EXHIBIT H

Liabilities and Fund Equity (Cont'd)	Governmental Fund Types				
	General	Special Revenue	Debt Service	Capital Projects	Special Assessment
<b>Fund Equity</b>					
Contributed capital	\$ -	\$ -	\$ -	\$ -	\$ -
Investment in general fixed assets	-	-	-	-	-
Retained earnings:					
Reserved for general obligation bond debt service and retirement	-	-	-	-	-
Reserved for capital improvements	-	-	-	-	-
Reserved for vehicle and equipment replacement	-	-	-	-	-
Reserved for claims	-	-	-	-	-
Unreserved	-	-	-	-	-
<b>Fund Balances:</b>					
Reserved for encumbrances	286,988	46,404	-	3,654,602	-
Reserved for prepaid expenditures	168,608	2,561	-	-	-
Reserved for inventory of supplies	-	-	-	-	-
Reserved for advance to Special Assessment Fund	1,194,682	-	-	-	-
Reserved for advance to Truckee Meadows Housing Service Center	-	-	-	-	-
Reserved for subsequent fiscal year	3,820,353	904,284	1,997,502	5,128,554	-
Reserved for extended project appropriation	-	-	-	1,354,933	-
Reserved for Park capital outlay	-	-	-	-	-
Reserved for Wells St. Overpass	-	-	-	804,609	-
Reserved for performance deposits	-	-	-	-	-
Reserved for employee disability payments	-	-	-	-	-
<b>Unreserved:</b>					
Designated for housing land acquisition	422,000	-	-	-	-
Undesignated	2,283,015	689,354	184,180	(880,714)	608,902
<b>Total fund equity</b>	<u>8,175,046</u>	<u>1,642,603</u>	<u>2,181,682</u>	<u>10,061,984</u>	<u>608,902</u>
<b>Total liabilities and fund equity</b>	<u>\$9,938,888</u>	<u>\$2,176,671</u>	<u>\$2,195,466</u>	<u>\$10,810,496</u>	<u>\$ 3,202,222</u>

The notes to the financial statements are an integral part of this statement.



EXHIBIT H

<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Type</u>	<u>Account Groups</u>		<u>Totals (Memorandum Only)</u>	
<u>Enterprise</u>	<u>Internal Service</u>	<u>Trust and Agency</u>	<u>General Fixed Assets</u>	<u>General Long-Term Debt</u>	<u>June 30, 1980</u>	<u>June 30, 1979</u>
\$19,010,679	\$ 1,146,005	\$ -	\$ -	\$ -	\$ 20,156,684	\$ 11,725,272
-	-	-	50,336,184	-	50,336,184	52,106,299
627,084	-	-	-	-	627,084	367,188
688	-	-	-	-	688	688
-	695,697	-	-	-	695,697	422,676
-	290,000	-	-	-	290,000	250,000
7,779,969	593,034	-	-	-	8,373,003	7,119,314
-	-	-	-	-	3,987,994	468,753
-	-	-	-	-	171,169	-
-	-	-	-	-	-	19,959
-	-	-	-	-	1,194,682	385,211
-	-	-	-	-	-	5,000
-	-	-	-	-	11,850,693	6,610,565
-	-	-	-	-	1,354,933	183,000
-	-	2,557,651	-	-	2,557,651	2,728,626
-	-	-	-	-	804,609	-
-	-	397,151	-	-	397,151	-
-	-	4,735	-	-	4,735	-
-	-	-	-	-	422,000	-
-	-	(4,268)	-	-	2,880,469	10,954,953
<u>27,418,420</u>	<u>2,724,736</u>	<u>2,955,269</u>	<u>50,336,184</u>	<u>-</u>	<u>106,105,426</u>	<u>93,347,504</u>
<u>\$46,065,226</u>	<u>\$ 2,755,014</u>	<u>\$3,260,122</u>	<u>\$50,336,184</u>	<u>\$14,770,000</u>	<u>\$145,510,289</u>	<u>\$129,821,763</u>

CITIZENS FOR PRIVATE ENTERPRISE-SOUTH

EXHIBIT I

RESOLUTION

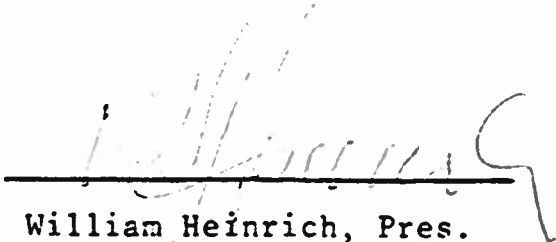
Whereas, this 61st session of the Nevada Legislature is committed to address the very serious issue of tax reform; and

Whereas, this 61st session of the Nevada Legislature will be taking action on a tax package that addresses this reform; and

Whereas, this package will have a substantial impact not only on the business community of Nevada, but all residents of this great state; and

Whereas, because of time constraints, it may be necessary to enact by April 15, 1981 and implement by May 1, 1981 part of this tax reform package,

NOW, THEREFORE, BE IT RESOLVED, that the board of directors of CPE-South on behalf of its membership urge you to hold joint Senate and Assembly Taxation Committee hearings in Las Vegas prior to the consideration of passing any part of the tax reform package for the purpose of receiving input from the Southern Nevada community.

  
\_\_\_\_\_  
William Heinrich, Pres.

# North Las Vegas CHAMBER OF COMMERCE

1023 East Lake Mead Boulevard  
North Las Vegas, Nevada 89030  
phone 702 642-9595

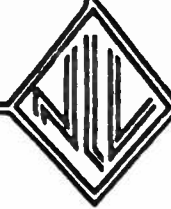


EXHIBIT J


March 20, 1981

Nevada State Legislature  
Senate Ways and Means Committee  
Assembly Taxation Committee

The North Las Vegas Chamber of Commerce Legislative  
Committee during its meeting of March 20, 1981 voted un-  
aminously the following Resolution:

Request that the Nevada Legislature 1981 session  
have open public hearings in Southern Nevada prior  
to final action on the total tax package.

Sincerely,

  
Ellen Frehner, CCE  
Executive Vice President



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