

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

SIXTY-FIRST SESSION
NEVADA STATE LEGISLATURE
April 7, 1981

The Joint Senate and Assembly Committees on Taxation were called to order by Chairman Paul May, at 1:12 p.m., Tuesday, April 7, 1981, in Room 131 of the Legislative Building, Carson City, Nevada. Exhibit A is the Meeting Agenda. Exhibit B is the Attendance Roster.

COMMITTEE MEMBERS PRESENT:

Assemblyman Paul May, Chairman
Senator Keith Ashworth, Chairman
Senator Norman D. Glaser
Senator Don Ashworth
Senator Virgil M. Getto
Senator James N. Kosinski
Senator William J. Raggio
Assemblyman Steven A. Coulter
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 MEMBER ABSENT:

Senator Floyd R. Lamb

STAFF MEMBERS PRESENT:

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

The chairman noted the first reprint of Senate Bill No. 411 was now available. He called on task force member Mr. Marvin Leavitt to explain the bill.

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Mr. Leavitt stated Senate Bill No. 411 must be considered in conjunction with Senate Bill No. 69 and Assembly Bill No. 369. Senate Bill No. 411 provides limitations on local government and provides a method by which the city-county relief tax and the ad valorem taxes may be computed. The first section of the bill provides the total amount local governments may receive from the combination of supplemental city-county relief tax and ad valorem taxes in fiscal year 1981-1982. These two taxes must equal the assessed valuation for the year beginning July 1, 1981 multiplied by the certified tax rate for the year ending on June 30, 1981. This method of factoring establishes the base. The total combination of taxes a local government receives from the city-county relief tax and the ad valorem tax cannot exceed the ad valorem tax received in the previous year multiplied by 1.15. The tax increase allowed for the next fiscal year is based on an average of the local government's own revenue growth. The total ad valorem taxes cannot be exceeded by more than 12 percent in the second year regardless of the outcome of the other computations. The limits may be exceeded only upon voter approval. A state reserve fund is created. Any monies allocated to the local government by the formula system which exceed the local government's allowable limits and any receipts exceeding the Department of Taxation's estimates of the amount of money to be received from the city-county relief tax will be put into the reserve fund. The reserve fund will be used to make up any shortfalls in the city-county relief tax in subsequent years. The bill also addresses the rate structure of licenses and permits. The fee in effect on the date of passage of this bill is the base on which any increases in licenses or fees must be calculated. An increase equal to 80 percent of the increase in the Consumer Price Index is permitted. An appeal may be made to the Legislative Commission if the computation method of the fee is changed. The Legislative Commission will determine whether the increase is consistent with the provision to determine the fee based on the fee in effect on the date of passage of Senate Bill No. 411 multiplied by 80 percent of the Consumer Price Index. The Department of Taxation will review every audit report to determine whether local governments have complied with the statutes. The local government is required to submit a

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plan to the Department of Taxation showing how it plans to overcome any deficiencies discovered in the report. The Department of Taxation is provided the mechanism to insure compliance if the local government does not comply on its own. The ending balance of the general and special revenue funds is limited in the bill. This provision prevents abuse of the system. A local government which purposely underestimates its ending balances cannot use the revenues to augment expenditures during the subsequent fiscal year. Redevelopment agencies are protected in the bill. A means is provided to protect entities whose population has declined in the past 10 years from a decrease in revenues from the city-county relief tax, the cigarette tax and the liquor tax. Mr. Leavitt stated the methods for protecting those entities are not particularly sound, but the concept is valid.

The chairman noted an index to Senate Bill No. 411 is available. (See Exhibit C.)

Assemblyman Rusk asked whether it was known how the caps on page 2, line 19 will affect the increase in the ad valorem taxes each year. Mr. Leavitt stated estimates have not been computed. However, the amount of collections cannot exceed 12 percent regardless of the assessed valuations. Assemblyman Rusk requested computations of the effect of growth, or new construction, be supplied to the committee.

Assemblyman Bergevin noted Sections 23 and 25 are repealed on page 14. He asked if the subjects in those sections are addressed elsewhere in the bill. Mr. Leavitt explained provisions on pages 9, 11, and 12 provide a new alternative formula for distribution of the taxes repealed in Sections 23 and 25. He recommended using the first revenues from the supplemental city-county relief tax fund to make up the deficiencies in the three taxes. He said this method would not alter the distribution formulas of the other two taxes.

Senator Bergevin clarified that the original .5-cent distribution tax was not being disturbed. Mr. Leavitt stated that was correct.

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Assemblyman Bergevin asked whether the 12 percent increase was based on this year's ad valorem taxes or the reduced ad valorem taxes. Mr. Leavitt stated it was based on the reduced ad valorem taxes.

Senator Don Ashworth suggested using a floating Consumer Price Index as well as population figures to respond to the tremendous growth which will occur in smaller communities.

Mr. Leavitt said the following three issues must be resolved: What happens when new entities are created; what happens when an existing district expands its boundaries; and what happens when existing entities expand very rapidly. He suggested an appeal mechanism to handle such diverse situations.

Senator Raggio asked if the 12 percent figure was selected arbitrarily. Mr. Leavitt stated it was an arbitrary selection.

Assemblyman Craddock stated the use of the Consumer Price Index would be more flexible and workable than an arbitrary figure. Mr. Leavitt stated the use of the Consumer Price Index risks property tax rates increasing 25 percent if inflation runs that high.

Assemblyman Craddock asked how government was supposed to operate if it couldn't respond to inflation. Mr. Leavitt stated sales tax is based on the sales price. Sales prices reflect inflation. Therefore, sales tax revenues reflect inflation.

Assemblyman Bergevin stated the 12 percent figure would be somewhat controlled by the 1.15 multiplier and new growth in assessments.

Senator Don Ashworth observed there are many Consumer Price Indexes. He asked which Consumer Price Index would be used. Mr. Leavitt stated the national Consumer Price Index on all goods would be used.

The chairman explained how the three bills were developed. He introduced the task force consisting of Mr. Ray Knisley, Mr. Marvin Leavitt, Mr. Dave Henry, Mr. Jim Lien, Mr. Ed Greer, Mr. John Eck, Mr. Leroy Bergstrom, Mr. Mervin Jones, Mr. Roy Nickson and his entire staff at the Department of Taxation, and Mr. Ernest Newton.

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Mr. Leavitt, speaking on behalf of the City of Las Vegas, supported the basic concepts of the three bills. He said the city believes the bills provide control over local governments in the areas where it is possible to abuse the system. He said the computation of the distribution of taxes based on a factoring system is fair to all local governments because it is based on each individual local entity's assessed valuation. He said the percentages of growth are adequate to cover normal situations.

Mr. Bill Farr, Chairman of the Washoe County Board of Commissioners, stated the concepts of the three bills meet taxpayer demands for relief to the home owner. He questioned the technical aspects of the capping mechanism.

Mr. Ed Everett, Assistant Manager for Washoe County, questioned the logic of using a different cap for the fiscal year 1981-1982 than for the other years. He opposed a set figure for the cap. He proposed alternatives to the set cap. He suggested using the Consumer Price Index and population factors to determine the cap. He proposed using the five year compound average concept as the method for establishing a rate of increase each year. He said this method would relate to growth better than the set figure. He stated the proposed 12 percent cap would result in a shortfall year after year in Washoe County. He suggested setting the cap at 15 percent if the legislature decides that a set rate must be used. The 15 percent cap would eliminate the shortfall. He stated the ending fund balances are applied to the General Fund and Special Revenue Funds. Self-insurance and debt service are included under the Special Revenue Fund in Washoe County. He suggested exempting specifically self-insurance and debt service from the ending balance limits. In regard to capping license fees, he asked that the December Consumer Price Index rate be used rather than the February rate. He said this change would relate better to Washoe County's budgetary process. He objected to the one percent city-county relief tax being used as state revenue, as outlined in Assembly Bill No. 369.

Senator Keith Ashworth stated the impact of a 10 percent rate was studied. It was determined that the 10 percent rate would

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result in more revenue than local governments would have otherwise received in the current budget. He asked Mr. Everett how he rationalized a 15 percent rate. Mr. Everett stated the compound average increase over the past five years has been 18 percent in Washoe County. He stated the county could accept a 15 percent rate better than a 12 percent rate. The county would prefer that the rate be set by formula rather than a set rate.

Mr. Frank Kastory, Reno Finance Director, supported the comments made by Mr. Everett. He presented a suggested amendment to Section 6 of Senate Bill No. 411. (See Exhibit D.) He stated the local entities are better able to make audit reports than outside agencies. He submitted a report entitled, "Auditing Governmental Organizations." (See Exhibit E.) He preferred the municipal or local governments carrying excess funds rather than the state.

Assemblyman Bergevin stated he felt a growth factor was needed and would be addressed by the committees.

Mr. Alex Fittinghoff, Sparks City Planner, asked that the concept of the redevelopment agency be preserved. He stated the redevelopment agency is solely dependent on ad valorem taxes. He said the city ad valorem tax rate and the redevelopment tax rate should be the same. The chairman stated this problem would be addressed.

Mr. Jay Milligan, Sparks City Manager, stated the City of Sparks supported the tax package.

Mr. Phil Carr, North Las Vegas Finance Director, stated North Las Vegas supported the tax package with the exception of the revenue limit. He preferred a 15 percent limit rather than a 12 percent limit. He stated the average compounded percentage increase would result in a shortfall to the city. He asked for a better explanation as to what applies to the service charges in Section 5 of Senate Bill No. 411 dealing with license and permit fees. He concurred with the amendment suggested by Mr. Kastory.

Assemblyman Bergevin stated all local entities have problems with using last year's tax rate against this year's valuation. Mr. Carr stated it was a valid concern.

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Senator Keith Ashworth asked whether the people in North Las Vegas would override the legislature's action and vote for an increase in taxes. Mr. Carr stated the citizens wanted a tax reduction but still demanded services.

Mr. Carr stated he thought the intent of the tax package was to offset the loss of ad valorem tax revenue with supplemental city-county tax revenue.

Senator Keith Ashworth stated Mr. Carr's observation was incorrect. He said the people wanted the legislature to make sure local governments cut expenditures and would not find alternate revenue sources.

Assemblyman Rusk stated Mr. Carr was looking for an exact tax shift. He said the legislature is not addressing a shift. The legislature intends to demonstrate to its constituency that the total revenue sources available are being tightened. The people must vote for any changes if this attempt to reduce taxes is unsuccessful.

Senator Don Ashworth observed the ad valorem tax increase for the residents of North Las Vegas would be horrendous if nothing was done by the legislature. He stated North Las Vegas' relief will be disproportionate to the other entities because property has not been reassessed in North Las Vegas for four years.

Mr. Patrick Pine, representing Clark County, noted Section 21 in Assembly Bill No. 369 makes it mandatory that each county enact an ordinance by the time the Governor signs the bill. He suggested utilizing a mechanism which would simply enact the ordinance by law rather than having to go through the normal ordinance procedure.

Mr. Bob Hadfield, Douglas County Manager, presented written testimony. (See Exhibit F.)

The chairman suggested that Mr. Hadfield meet with the task force to resolve Douglas County's problems:

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Senator Keith Ashworth asked whether the room tax was being used for recreation and aviation in Douglas County. Mr. Hadfield stated it was being used for recreation and aviation.

The chairman asked how many 318 districts remain in Douglas County. Mr. Hadfield stated 23 or 24 remain. The chairman asked if that was the reason Douglas County chooses to put an ad valorem rate on the 318 districts rather than hike the ad valorem rate to the General Fund. Mr. Hadfield stated the Douglas County Commissioners will meet with the 318 districts to determine the best way to provide services to the county residents. The proliferation of governmental entities in the county has created problems with road maintenance activities as well as some sewer and water services. The county is considering the takeover of all roads.

The chairman asked how the Lake Tahoe regional problems have affected Douglas County. Mr. Hadfield stated it had been very detrimental. The county is not allowed to widen Kingsbury Road because of opposition by the State of California.

Mr. George Holden, Lander County District Attorney, requested that a more flexible rate be used than the set 12 percent rate. He said Lander County's growth rate would not be reflected in increased sales tax revenues because most of the shopping areas serving Lander County are located in neighboring counties. He suggested the removal of the caps on the net proceeds of mines. He stated the increased sales tax would place a hardship on businesses, senior citizens, and others on fixed incomes.

Senator Glaser asked whether the Lander County commissioners had expressed concern about the shift from an ad valorem base to a sales tax base. Mr. Holden stated the commissioners are concerned about the shift, especially considering Lander County's sales tax revenues fluctuate considerably.

Assemblyman Marvel expressed his opposition to a fixed rate. He urged consideration of a method which would provide flexibility for population growth.

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Mr. Roy Neighbors, representing Nye County, presented written testimony. (See Exhibit G.)

Senator Keith Ashworth explained constitutional limits prevent the legislature from simply giving relief to the home owner and leaving businesses at the present rate of taxation.

Senator Getto stated the 12 percent fixed rate would have an adverse affect on the rural counties, especially the rural counties which are experiencing a tremendous population growth.

Assemblyman Bergevin disagreed with Mr. Neighbors' statement that the ad valorem tax should be reduced and the sales tax should remain at its present level. He stated the revenue lost from a reduction of the ad valorem tax must be replaced with either a sales tax or an increased tax on businesses. He questioned how much businesses could withstand.

Assemblyman Price agreed with Mr. Neighbors' statement that Senate Bill No. 204 of the 60th Session was a key bill, but noted the reappraisal process was overlooked in the bill.

Mr. John Carpenter, Elko County Commissioner, stated Elko County preferred a 15 percent rate. He asked that a population figure be included in the bill. He requested the removal of the cap on the net proceeds of mines and questioned the shift from an ad valorem base to a sales tax base. He didn't feel sales tax revenues could replace the revenues lost from large corporations because of the reduction in the ad valorem tax rate.

Senator Keith Ashworth agreed a population factor was required. He stated the entire tax issue must be re-examined in two years. The shift from an ad valorem base to a sales tax base is dangerous. This shift is temporary. It will be utilized until the legislature has the opportunity to take constitutional amendments, which will eliminate the constitutional restraints presently hindering the legislature, to a vote of the people.

The chairman noted Nevada has a narrow tax base and has only two principle tax sources from which to draw.

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Senator Glaser observed the tax base is made even more narrow by the fact that only 13 percent of the land is not controlled by the federal government. Only 10 percent of the non-government land is on the tax rolls.

Ms. JoAnne McLachlan, Administrative Assistant for the Storey County Commissioners, supported the efforts on the three bills. She requested a growth factor be included in Senate Bill No. 411. She agreed with the provision to allow entities to appeal to the Legislative Commission for supplemental funding when a real need arises.

Mr. Allen Beck, Chairman of the Humboldt County Board of Commissioners, endorsed the shift from an ad valorem base to a sales tax base. The main concern is the impact of tax relief on Humboldt County. The county has been unable to analyze the impact because of constant revisions to the bills. He presented Humboldt County's ending fund balances for the 1980-1981. (See Exhibit H.) He addressed the population growth problem. He asked how unanticipated expenses, such as court trials, would impact the county's budget.

Assemblyman Price stated moment-to-moment changes are part of the legislative process.

Senator Keith Ashworth stated the legislature is trying to give as much latitude to local governments as possible. For example, local governments are given the ability to pass ordinances and to take tax issues to a vote of the people.

Senator Glaser asked Mr. Leavitt if the task force had considered a double factor, consisting of the Consumer Price Index and population increase, which would reflect growth in counties. Mr. Leavitt said a double factor had not been considered. He suggested using the following computation for factoring growth: The current assessed valuation multiplied by an inflation factor plus new property placed on the roll. The total figure of this computation would be compared with the original figure to determine the population factor.

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This method allows growth in increased valuations as a result of new property coming onto the roll while limiting the growth of original property on the roll.

Assemblyman Craddock stated two different services were being addressed, people service and property related services. The tax package seems to address property related services. He suggested studying other facets which take into consideration people services.

Mr. Neighbors questioned how the situation would be handled when a county is impacted by an influx of people but the assessed valuation does not increase, such as the influx of technicians and engineers working on the MX System. Services, such as police protection, will still be required.

Assemblyman Bergevin stated Mr. Neighbors made the best point for shifting to a sales tax base. Those people will still pay sales tax.

Assemblyman Price asked how the census accounts for people working at the test sites. Mr. Neighbors stated some workers fly in and out of the county. They are not considered in the census unless they make their residence in the county.

Mr. Leavitt was asked to present amendments to the committee dealing with population growth. He was asked to develop amendments based on a straight population increase, the computation he had proposed, and a combination of both methods.

Senator Don Ashworth asked whether the Department of Taxation calculated the population growth in the state each year. Mr. Roy Nickson, Director to the Department of Taxation, explained the State Planning Coordinator prepares population projections annually for the cities and counties. Senator Ashworth asked that the figures be supplied to the committee.

Mr. Pine pointed out the appeals process in Senate Bill No. 411 will allow those communities with great population growth to ask for relief.

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Mr. George Boucher, Elko County Manager, stated the net proceeds of mines should be retained and the proceeds should be returned to the county of origin.

Mr. Clark Hardy, Lincoln County Commissioner, requested that a population factor and Consumer Price Index factor be included in Senate Bill No. 411.

Mr. G. P. Etcheverry, representing the Nevada League of Cities, supported the three bills. He said the bills address the concerns of the people in Nevada. He asked for a constitutional amendment dealing with the net proceeds of mines. He said people as well as people-related problems remain in a community after a mine shuts down. The constitutional amendment should address this issue. He stated the legislature should make certain no one is absolved from paying sales tax.

Assemblyman Craddock asked if Mr. Etcheverry meant that the net proceeds of mines should not be returned to the county of origin. Mr. Etcheverry stated that was not his meaning. The net proceeds of mines should be returned to the county of origin.

Mr. Bill Macdonald, Humboldt County District Attorney, shared the concerns of the other small counties. He urged incorporating a flexible population factor in the bill. There are so many variables in county governments that a fixed formula cannot be made applicable to all those varied needs. He endorsed the appeal procedure.

Mr. Bob Berry, Storey County Commissioner, asked that a population growth factor be added to the bill. He stated the net proceeds of mines should be retained.

Mr. Al Ashley, a private citizen from Reno, stated a task force should be created to study the tax issue during the interim. He suggested amending Senate Bill No. 411 to allow local governments to challenge the Department of Taxation's sales tax estimates. He proposed allowing voter approval of business license increases.

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Mr. Ben Bartlett, representing the City of Fallon, disagreed with the proposal to allow voter approval of business license increases. He favored amending Senate Bill No. 411 to include a population factor. He questioned the treatment of enterprise funds in Senate Bill No. 411.

Senator Keith Ashworth stated enterprise funds are not governed by the bill.

Mr. Bartlett noted that the City of Fallon had received a grant from the county, which enabled the city to keep its ad valorem rate low. Its present ad valorem rate is \$1.20. If it hadn't received the grant from the county the ad valorem rate would have been \$2.00. Senate Bill No. 411 will cause the city to lose 80 cents on the ad valorem rate.

The chairman stated this problem is being studied, but has not been resolved.

There being no further business, the meeting adjourned at 4:46 p.m.

Respectfully submitted by:

Colleen Crum

Colleen Crum, Secretary

APPROVED BY:


Senator Keith Ashworth, Chairman

DATE: 4-13-81

AGENDA

JOINT SENATE AND ASSEMBLY
COMMITTEE MEETING

Committee on Taxation, Room 131.

Day Tuesday, Date April 7, Time 1:00 p.m..

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

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

A. B. No. 369--Increases rate of local school support tax and city-county relief tax and provides for adjustment of certain property valuations.

Testimony will be taken from rural counties and political subdivisions, including cities and towns therein, with the exception of school districts.

AGENDAJOINT SENATE AND ASSEMBLY
COMMITTEE MEETING

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Date: _____

PLEASE PRINT YOUR NAME	PLEASE PRINT WHO YOU REPRESENT	I WISH TO SPEAK		
		FOR	AGAINST	BILL
George Holden	Land-1 Co.		X	
P.M. Neighbors	NYE-COUNTY		XX	
JOANNE McLAUGHLIN	STORKE Co.			
Robert Hadfield	DOUGLAS COUNTY			
Al Ashley AL ASHLEY	LOCAL GOV'T			
Bill Farn	Washoe County			
GARY HARRISON	City of Elko			
Bang Thompson	City of Elko			
B.F. ...	CHURCHILL COUNTY			
Arch ...	City of Elko			
...			
Ben Bartlett			
Jacoby			
...			
Phil Carr	City of North Las Vegas			
... ..	N. Las Vegas ...			
Gwen LeBlanc	Winnemucca Meadows F.P.D.			

Exhibit B

S.B. 411
First Reprint

1. Supplemental City/County Relief Tax defined - p. 1, lines 3-6.
2. Cap on ad valorem revenue - p. 1, line 7 through p. 2, line 2.
3. Director of Department of Taxation to provide estimate of CCRT beginning 7/1/82 - p. 1, lines 18-22.
4. Cap on combined CCRT and ad valorem - p. 2, lines 3-16.
5. Limit on growth of ad valorem revenue - p. 2, lines 17-20.
6. Voter override on ad valorem limit - p. 2, lines 21-30.
7. Reserve fund for excess CCRT created - p. 2, lines 31-42.
8. Use of excess CCRT reserve - p. 2, line 43 through p. 3, line 3.
9. Limit on license and permit fee increase - p. 3, lines 16-19.
10. Approval of new fee to Director of Taxation - p. 3, lines 20-23.
11. Appeal on new fee to Legislative Commission - p. 3, lines 33-34.
12. Exemptions from fee limitation by Legislative Com. - p. 3, lines 38-39.
13. Limitation on use of ending balance - p. 4, lines 3-9.
14. Ending balance to be spent with consent of Director of Taxation - p. 4, lines 10-17.
15. Appeal on ending balance to Legislative Com. - P. 4, lines 17-19.
16. Dept. of Taxation to review audits and require compliance - p. 4, lines 20-45.
17. Use of insurance reserve limited - p. 4, line 46 through p. 5, line 5.
18. Time limit to comply with audit report - p. 7, line 41.
19. Amendments to redevelopment agency law - p. 7, line 47 through p. 8, line 50.
20. Distribution of Liquor Tax - p. 9, line 23 through p. 10, line 12.
21. Distribution of Cigarette Tax - p. 11, line 21 through p. 12, line 10.
22. Distribution of 1/2¢ CCRT - p. 12, line 13 through p. 13, line 7.
23. Local government spending cap removed - p. 14, line 1.
24. Repeal of provision limiting taxation of cigarettes - p. 14, line 1.
25. Distribution of 1/2¢ CCRT removed from A.B. 369 - p. 14, lines 3-8.
26. FY 1981-82 only limit on supplemental CCRT and ad valorem tax - p. 14, lines 9-20.
27. S.B. 69, A.B. 369, S.B. 411 not severable - p. 14, lines 33-37.

S. B. 411 Suggested rewrite of Section 6

6. The amount of the actual ending fund balance of a General or Special Revenue Fund, other than those established solely for the purpose of administering grants-in-aid, which exceeds the sum of that estimated for the opening fund balance of the succeeding year and 1/12th of the expenditures of the year just concluded, may be utilized as a resource in that fund or any other of the various funds of the entity only upon the favorable vote of a majority of the membership of the governing board.

Prior to implementing augmentation of any budgets as a result of the governing board approval, the entity shall receive the approval of the executive director of the department of taxation. Approval of the augmentation shall be on proof that the sole purpose of replacing identifiable appropriation authority for specified purposes had lapsed at year end and had not been reappropriated in the year in which the augmentation is to become effective, except where the health and safety of the persons or property of the entity would otherwise be in jeopardy. The entity may appeal the decision of the executive director of the department of taxation to the Nevada Tax Commission whose decision must be final.

Presented April 6, 1981

Chapter 15 AUDITING GOVERNMENTAL ORGANIZATIONS

Types of Audits

An audit is a methodical examination of utilization of resources. It concludes with a written report of its findings. An audit is a test of management's accounting system to determine the extent to which internal accounting controls are both available and being used.

Audits may be classified as internal or independent depending upon whether they are performed by internal or external auditors. Internal auditors are employees in the administrative branch of the audited government. They report to that government's chief executive officer. External auditors are independent of the chief executive of the audited government. External auditors include: (1) government auditors elected by the public; (2) government auditors appointed by a government's governing board or other legislative body; (3) government auditors who are members of a government other than the one being examined; and (4) independent public accountants who provide auditing services on a fee basis. External auditors must be independent both in fact and in appearance.

Internal auditors are the "eyes and ears" of management. They examine matters on which management needs information and provide that information to management. They are important members of the management team. The Institute of Internal Auditors has adopted the following definition of internal auditing:

"Internal auditing is an independent appraisal activity within an organization for the review of operations as service to management. It is a managerial control which functions by measuring and evaluating the effectiveness of other controls."

Independent audits do not alleviate the need for an internal audit function. Internal and external audit functions are complementary. Where a good internal audit staff exists, independent auditors generally find that, as a result of being able to rely upon the work of the internal audit staff, the amount of detail work they have to do is lessened. Internal audit staffing requirements and training for internal audit personnel are discussed later in this chapter.

Audits may also be classified as *pre-audits* or *post-audits*. A pre-audit is an examination of financial transactions prior to their completion. Virtually all pre-audits are performed by

internal auditors. A post-audit is an examination of financial transactions that have been consummated or those in various stages of completion at the end of an accounting period. Post-audits may be either internal or independent.

Financial and Compliance Audits. In the private sector, virtually all independent audits are *financial* audits. In a financial audit, the auditor expresses an opinion on the fairness of presentation of the audited entity's basic financial statements in conformity with GAAP.

The expanded objectives of governmental GAAP financial reports have resulted in the expansion of the private sector financial audit into the public sector *financial and compliance* audit. In a financial and compliance audit, the auditor expresses an opinion on: (1) the fairness of presentation of the audited entity's basic financial statements in conformity with GAAP; and (2) the audited entity's compliance with the various finance-related legal and contractual provisions used to assure acceptable governmental organizational performance and effective public sector management stewardship. As previously noted, public sector oversight bodies typically require independent auditors to include responses to standardized legal compliance audit questionnaires in financial and compliance audit reports.

Auditors performing financial audits of business enterprises need be concerned with compliance with applicable statutes and regulations only to the extent that noncompliance could result in material adjustments to financial statement representations. Auditors performing financial and compliance audits of governments should report all instances of noncompliance with finance-related legal and contractual provisions, regardless of the materiality of any economic consequences.

Internal auditors routinely perform tasks closely related to financial and compliance audits. However, all governments should also have independent annual financial and compliance audits. The deterrence and detection of fraud, while not necessarily paramount, are significant objectives in independent audits of governments.

Program Compliance Audits. State and local governments' increasing reliance on intergovernmental revenues has led directly to the birth and dramatic growth of another type of audit—the *program compliance* audit. Federal government departments and agencies typically attach strings to the monies they provide to state and local governments. Different federal grant, entitlement, and shared revenue programs usually involve different sets of accounting, reporting, auditing, and other procedural requirements which must be met as a

condition to accepting program monies. In a program compliance audit, auditors test the extent of a government's compliance with these federal program requirements. Program compliance audits are independent audits.

Single Audits. Unfortunately, efforts to provide effective accountability over rapidly increasing levels of intergovernmental revenues through program compliance audits have been frustrated by confusing and contradictory program compliance requirements imposed by dozens of federal agencies. Accordingly, the U.S. President and the Office of Management and Budget have mandated the evolution of a "single audit" approach to governmental financial and compliance/program compliance audits. The new single audits are expanded financial and compliance audits which are to include standardized program compliance audit elements. Single audits are expected eventually to eliminate the need for separate program compliance audits of individual program compliance elements.

A viable single audit concept will require agreement at the federal level on a finite list of standardized program compliance requirements sufficient to meet the legitimate informational needs of the numerous federal departments and agencies providing intergovernmental revenues to state and local governments. An effective single audit concept will also require greater clarification and coordination on the part of state legislatures and state government oversight bodies in specifying those finance-related legal and contractual provisions with which auditors must be concerned in performing single audits.

Performance Audits. Governments' relative insulation from the controlling disciplinary forces of the competitive marketplace has resulted in the increasing use of independent performance audits in the public sector. Such audits, also referred to as operational audits, are intended to assess: (1) the economy and efficiency of the audited entity's operations; and (2) program effectiveness—the extent to which program objectives are being attained.

Economy and efficiency audits. In an economy and efficiency performance audit, the auditor determines: (1) whether the audited entity is managing or utilizing its resources (personnel, property, space, etc.) in an economical and efficient manner; and (2) the causes of any inefficiencies or uneconomical practices, including inadequacies in management information systems, administrative procedures, or organization structure. The auditor seeks to identify ways in which the efficiency and economy of operations can be improved. Substantial savings can often be realized as a result of management responses to recommendations generated by economy and efficiency audits. Such savings might result, for example, from eliminating duplication in services, reducing inventories, or using equipment already on hand more efficiently.

Economy and efficiency performance audits do not result in an auditor's opinion as to whether the audited entity's operations are sufficiently economical or efficient since economy and efficiency sufficiency are not precisely measurable qualities. Rather, such audits result in reports containing recommendations on ways in which existing practices could be improved.

Program effectiveness audits. In a program effectiveness audit, also commonly referred to as a program results audit, the auditor determines whether desired results or benefits are

being achieved, whether the objectives established by the governing board or other authorizing body are being met, and whether the audited entity has considered alternatives which might yield desired results at a lower cost.

A program which accomplishes little or nothing is not worth continuing, regardless of how efficiently it is operated or how accurate its financial statements may be. Program effectiveness performance audits are important to government officials in connection with their efforts to improve ineffective programs and to eliminate worthless ones.

As in economy and efficiency audits, opinions on relative effectiveness are not expected. Rather, the desired result is a report on how actual achievements compare with program goals. A program effectiveness audit report may also include recommendations for improving programs so that future results will be enhanced.

Both governments and businesses engage in internal performance audits. There are few independent performance audits in the private sector. Most public sector independent performance audits are now made by federal government auditors. It is expected, however, that state and local government auditors and independent public accountants will increasingly be called upon to conduct independent performance audits of governments in the future.

Generally Accepted Auditing Standards

Financial audits conducted by certified public accountants must be performed in accordance with *generally accepted auditing standards* (GAAS) prescribed by the AICPA. Auditing standards differ from auditing procedures in that procedures relate to acts to be performed, whereas standards deal with measures of quality of the performance of those acts and the objectives to be attained by the use of the procedures undertaken. Auditing standards are concerned with the auditor's professional qualities and with the judgment exercised in the performance of an audit. The 10 generally accepted auditing standards approved and adopted by the AICPA are as follows:

AICPA Standards

General Standards

1. The examination is to be performed by a person or persons having adequate technical training and proficiency as an auditor.
2. In all matters relating to the assignment and independence in mental attitude is to be maintained by the auditor or auditors.
3. Due professional care is to be exercised in the performance of the examination and the preparation of the report.

Standards of Field Work

1. The work is to be adequately planned and assistants, if any, are to be properly supervised.
2. There is to be a proper study and evaluation of the existing internal control as a basis for reliance thereon and for the determination of the resultant extent of the tests to which auditing procedures are to be restricted.
3. Sufficient competent evidential matter is to be obtained through inspection, observation, inquiries, and confir-

mations to afford a reasonable basis for an opinion regarding the financial statements under examination.

Standards of Reporting

1. The report shall state whether the financial statements are presented in accordance with generally accepted principles of accounting.
2. The report shall state whether such principles have been consistently observed in the current period in relation to the preceding period.
3. Informative disclosures in the financial statements are to be regarded as reasonably adequate unless otherwise stated in the report.
4. The report shall either contain an expression of opinion regarding the financial statements, taken as a whole, or an assertion to the effect that an opinion cannot be expressed. When an overall opinion cannot be expressed, the reasons therefore would be stated. In all cases where an auditor's name is associated with financial statements, the report should contain a clear-cut indication of the character of the auditor's examination, if any, and the degree of responsibility he is taking.

The expanded role of independent auditing in the public sector has led to the development by the GAO of expanded GAAS for audits of governments. The GAO standards are set forth in *Standards for Audit of Governmental Organizations, Programs, Activities, & Functions*, which is commonly referred to as the "yellow book." The GAO standards include the 10 AICPA GAAS and build upon them to provide guidance to auditors performing financial and compliance, program compliance, and performance audits of governments.

The GAO standards place an expanded emphasis on audit reporting. They call for auditor comments on the audited entity's system of internal accounting controls *within a financial and compliance audit report*. The AICPA standards permit the publication of such comments in a management letter separate from a financial audit report.

The GAO standards also encourage auditors to recommend: (1) improvements in internal accounting controls which could improve the economy, efficiency, and effectiveness of operations; and (2) improvements necessary to assure the accuracy and reliability of reported information even if they have only been engaged to perform a financial and compliance audit. The AICPA standards require auditors to disclose only material weaknesses in internal accounting controls. The GAO "yellow book" standards are as follows:

GAO Standards

General Standards

1. The full scope of an audit of a governmental program, function, activity, or organization should encompass:
 - a. An examination of financial transactions, accounts, and reports, including an evaluation of compliance with applicable laws and regulations.
 - b. A review of efficiency and economy in the use of resources.
 - c. A review to determine whether desired results are effectively achieved.

In determining the scope for a particular audit, respon-

sible officials should give consideration to the needs of the potential users of the results of that audit.

2. The auditors assigned to perform the audit must collectively possess adequate professional proficiency for the tasks required.
3. In all matters relating to the audit work, the audit organization and the individual auditors shall maintain an independent attitude.
4. Due professional care is to be used in conducting the audit and in preparing related reports.

Examination and Evaluation Standards

1. Work is to be adequately planned.
2. Assistants are to be properly supervised.
3. A review is to be made of compliance with legal and regulatory requirements.
4. An evaluation is to be made of the system of internal control to assess the extent it can be relied upon to ensure accurate information, to ensure compliance with laws and regulations, and to provide for efficient and effective operations.
5. Sufficient, competent, and relevant evidence is to be obtained to afford a reasonable basis for the auditor's opinions, judgments, conclusions, and recommendations.

Reporting Standards

1. Written audit reports are to be submitted to the appropriate officials of the organizations requiring or arranging for the audits. Copies of the reports should be sent to other officials who may be responsible for taking action on audit findings and recommendations and to others responsible or authorized to receive such reports. Copies should also be made available for public inspection.
2. Reports are to be issued on or before the dates specified by law, regulation, or other arrangement and, in any event, as promptly as possible so as to make the information available for timely use by management and by legislative officials.
3. Each report shall:
 - a. Be as concise as possible but, at the same time, clear and complete enough to be understood by the users.
 - b. Present factual matter accurately, completely, and fairly.
 - c. Present findings and conclusions objectively and in language as clear and simple as the subject matter permits.
 - d. Include only factual information, findings, and conclusions that are adequately supported by enough evidence in the auditor's working papers to demonstrate or prove, when called upon, the bases for the matters reported and their correctness and reasonableness. Detailed supporting information should be included in the report to the extent necessary to make a convincing presentation.
 - e. Include, when possible, the auditor's recommendations for actions to effect improvements in problem areas noted in his audit and to otherwise make improvements in operations. Information on underlying causes of problems reported should be included to assist in implementing or devising corrective actions.

- f. Place primary emphasis on improvement rather than on criticism of the past; critical comments should be presented in balanced perspective, recognizing any unusual difficulties or circumstances faced by the operating officials concerned.
 - g. Identify and explain issues and questions needing further study and consideration by the auditor or others.
 - h. Include recognition of noteworthy accomplishments, particularly when management improvements in one program or activity may be applicable elsewhere.
 - i. Include recognition of the views of responsible officials of the organization, program, function, or activity audited on the auditor's findings, conclusions, and recommendations. Except where the possibility of fraud or other compelling reason may require different treatment, the auditor's tentative findings and conclusions should be reviewed with such officials. When possible, without undue delay, their views should be obtained in writing and objectivity considered and presented in preparing the final report.
 - j. Clearly explain the scope and objectives of the audit.
 - k. State whether any significant pertinent information has been omitted because it is deemed privileged or confidential. The nature of such information should be described, and the law or other basis under which it is withheld should be stated.
4. Each audit report containing financial reports shall:
- a. Contain an expression of the auditor's opinion on whether the information contained in the financial reports is presented fairly. If the auditor cannot express an opinion, the reasons therefor should be stated in the audit report.
 - b. State whether the financial reports have been prepared in accordance with generally accepted or prescribed accounting principles applicable to the organization, program, function, or activity audited and on a consistent basis from one period to the next. Material changes in accounting policies and procedures and their effect on the financial reports are to be explained in the audit report.
 - c. Contain appropriate supplementary explanatory information about the contents of the financial reports as may be necessary for full and informative disclosure about the financial operations of the organization, program, function, or activity audited. Violations of legal or other regulatory requirements, including instances of noncompliance, shall be explained in the audit report.

Planning for an Audit

Proper planning is essential to an effective audit. An important part of audit planning is the audit survey.

The audit survey is designed to provide the auditor with maximum information on the structure and operations of the audited entity in a minimum amount of time. It is an orientation process for the auditor. The audit survey is intended to: (1) identify problem areas warranting additional review; and (2) obtain information for use in planning and performing the detailed audit work to follow. The audit survey facilitates an

orderly approach to planning and performing an audit. Properly used, it is an effective tool for applying scarce auditing resources where they will do the most good.

The audit survey associated with a financial and compliance audit encompasses the auditor's examination and evaluation of the audited entity's system of internal accounting controls. Such evaluation provides the basis for the development of a detailed audit program for the conduct of the audit. Detailed discussions of internal accounting control evaluation questionnaires and financial and compliance audit programs are beyond the scope of this text. Such information may be found in textbooks on governmental auditing. Many states and some local governments also publish accounting and auditing manuals which set forth required/recommended tests of internal accounting controls and other auditing procedures.

In an economy and efficiency performance audit, audit survey efforts are directed at locating areas where it appears that time, money, and other valuable resources could be saved. In a program effectiveness audit, audit survey efforts may primarily be devoted to identifying program goals and determining whether information necessary for evaluating program results is available.

The amount of time and effort required for the audit survey varies from one audit to another. Contributing factors are the auditor's training, experience, and knowledge of the areas under examination, the type of audit being performed, and whether the survey is a recurring or follow-up assignment. Time requirements will also be influenced by the size, complexity, and diversity of the audited entity.

Unlike financial and compliance audits where certain clear-cut auditing procedures must be performed, such as verifying accounts receivable, examining inventory balances, and reconciling cash, there really are no standardized or automatically required procedures for performance audits. This does not mean, however, that performance audits need not be well-organized and systematic.

All performance audit findings are comprised of the following basic elements:

Elements of Performance Audit Findings

Element	Definition
Authority	Legal or administrative authority to conduct the activity under audit
Goal	What the activity under audit is intended to achieve
Condition	Extent to which objectives are being achieved
Effect	Beneficial results from achieving objectives or the loss in dollars or in effectiveness caused by failing to meet objectives
Procedures and practices	Establish ways of performing tasks and achieving objectives
Underlying causes	Reasons why procedures and practices are effective if goals are being achieved or the reasons why they are ineffective if goals are not being achieved

Auditors should gather and consider information on each



BOARD
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COUNTY
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County Manager

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April 7, 1981

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and Honorable Senate and Assembly Taxation Committee Members

Attached is a financial analysis prepared by Douglas County in response to the Senate Bill 411 draft dated March 31, 1981. As can be seen in the analysis, Senate Bill 411 as proposed will represent a financial hardship to Douglas County by deteriorating services to a level below the 1979-80 total budget. Our analysis indicates that the proposed tentative 1981-82 budget adopted by the Douglas County Board of Commissioners will need to be reduced by 2.4 million dollars. Such a reduction would effectively require Douglas County to reduce spending in our operating departments to a level comparable to the 1979-80 approved budget.

The ironic problem confronted by Douglas County is a result of the long standing policy of developing alternate revenues to support local government services not mandated by the state to be ad valorem supported as in the case of Agriculture Extension and Indigent Services (Human Resources). This policy of using the ad valorem tax as a last resort has been successfully implemented in recent years and the tax rate has only been expanded to include fire protection and most recently a voter approved bond issue. However, this policy has proven to be no longer feasible in light of the leveling out of alternate revenue sources during a continuing period of population growth and service demands reflected in the

proposed 1981-82 tentative budget presented to you in earlier testimony as an exhibit. This budget provides for an 8% increase in required revenues which is far below the consumer price index.

As a result of this conservative tax policy Douglas County now finds itself being penalized in the various revenue formulas presented to this joint committee, each relating to ad valorem history. A graphic example of our problem can be found by comparing the ratio of ad valorem taxes to total revenue by county statewide. In 1980-81 Douglas County had a 19% ratio of ad valorem revenue to total revenues compared to a statewide average of 38% (see exhibit I.). In fact Douglas County is presently the only county without a tax ad valorem rate to support its general services.

We therefore respectfully urge you to review the attached materials and request that in your final legislative package you include a provision for Douglas County to receive credit for our historic conservative approach and allow us to develop our resources in a manner more consistent with all other local governments. Your present formula would allow us no increase or sales tax revenue in those funds previously without ad valorem revenue. Further, as the fastest growing county in the state during the decade of the 1970's (183%) and the recipient of a 46% population growth since 1978-79, we perhaps more than any other government entity understand the need for budget flexibility in the face of massive population growth. Some mechanism should be also included in your legislation to deal with the dynamic forces of growth.

Exhibit II attached provides an overview of the impact of Senate Bill 411 on our county and its local government entities as required by Section 1, paragraph C. Column 1 identifies current 1980-81 tax rates countywide and column 2 the 1981-82 assessed valuation. Columns 3, 4 & 5 present allowable City-County Relief Tax and Ad Valorem along with the 15% growth increase calculation. Finally

Column 6 represents the tentative budget requests for 1981-82. As can be seen several entities including Douglas County will fall far short of required revenues.

For the purposes of this presentation we will confine our comments to Douglas County which is more adversely impacted than the other 22 local government entities shown in lines 15-40 on the exhibit sheet.

SB 411

STATE OF NEVADA
(IN THOUSANDS)

APPROVED BY:			
DATE:			
BY:			

	New Ad. Voc. Rating	1980-81 AD VALOREM Revenue	Total Revenue	% of Total AD VALOREM & EMPLOY.	AD VALOREM 1980 CCRT	+	(-)	+ 12%
CANON CITY	540	413	713	44.0	362		411	414
CHANDLER COUNTY	115	123	418	20.1	115	402		181
CLARK COUNTY	120,724	72,616	192,910	37.4	72,616	524		81,917
CLATSOP COUNTY	17,770	5,557	21,327	12.3	811	4035		917
CLATSOP COUNTY	5,779	2,305	7,504	10.7	2875	370		3110
CLATSOP COUNTY	774	551	726	5.1	351		201	373
CLATSOP COUNTY	1,111	692	1803	11.6	691			774
CLATSOP COUNTY	1,504	1,701	5,243	11.0	2007	218		2,240
CLATSOP COUNTY	1,210	847	2,065	10.2	783		64	877
CLATSOP COUNTY	1,211	576	2,207	27.0	817	241		777
CLATSOP COUNTY	2,199	2,791	5,190	31.8	1,968		825	2,209
CLATSOP COUNTY	1,405	892	2,177	11.1	901	9		1,009
CLATSOP COUNTY	3001	2,720	6,101	30.1	2,389		31	2,676
CLATSOP COUNTY	701	610	1,599	10.5	606		12	679
CLATSOP COUNTY	219	572	1,211	12.3	459		113	514
CLATSOP COUNTY	59,469	41,860	102,329	44.5	39,168		4,272	43,860
CLATSOP COUNTY	2,463	1,123	4,576	24.4	1,715	412		1,943
CLATSOP COUNTY	14	110	124	10.1	47		63	53
	211,111	805,141	5,011,111	37.1	805,141	2,111	1,111	1,584,888

AD VALOREM
CCRT
81-82

EXHIBIT I

INDEX OF SB 411 - DRAFT 3-31-81
IN THOUSANDS

PARAGRAPH "C" SB 411

	1980-1981	1981-1982	CERTS CLV	1980-1981	15% INCR	CL. Val	Requst
	Tax Rate	Avail. Val.	Avail. Val.	Avail. Val.	Avail. Val.	Avail. Val.	TOT. 81-82
1	GENERAL	-	-	-	-	-	1276
2	Accl. Ext.	2162	5360266	56	44	51	58
3	Airport						
4	Devt. Proc.						135
5	INDICENT	0535	5360266	287	148	170	159
6	Library						
7	Parks						
8	Reg. St. & Hwy						356
9	Road Or.						543
10	Rent. Shoring						
11	WFO						
12	Room Tax						
13	FIRE FUND	1300	1169599	152	360	415	338
14	INS. FUND						75
15	MOSQUITO	0300	1439225	53	33	42	550
16	GRUON	2120	14029	3	3	3	4
17	GREENVILLE	10500	1146328	154	196	225	184
18	MINDEN	6522	129292	84	68	78	85
19	Insurance						
20	County Court						
21	Carv Rock	2660	54177	14	4	5	14
22	DCSID	10640	1498157	1594	717	825	625
23	ELK POINT	2000	53374	11	3	3	22
24	GENE RANCHO	8020	256771	206	162	186	111
25	INDIAN HILL	12000	65963	79	21	70	79
26	Kniveson Fire						
27	Kniveson GID	7200	734203	529	154	177	339
28	Lox. Taxes FIRE	8864	379274	3362	1600	1840	1769
29	LAUREL RIDGE	3000	57659	17	5	6	9
30	MARCO BAY	8700	70232	21	17	20	13
31	OLIVE PARK	3200	82754	26	10	12	17
32	RAVINE HILL	14690	330425	485	190	207	137
33	SUNLAND	4342	190662	83	24	28	26
34	TAYLOR DOUG.	5500	1102641	609	154	177	275
35	TAYLOR DOUG.						
36	TERRACE	2346	45484	29	25	32	29
37	ZENITH CANY	7172	74652	32	8	9	7
38	Heights	9500	114959	109	35	40	25
39	Kulls	1362	29662	5	1	1	2
40	LOGAN CANY	5113	14625	7	2	2	508
	TOTAL			8026	4022	4625	6777

EXHIBIT III

As can be seen Exhibit III lines 1-8 projects the Ad Valorem revenue and tax rates or sales tax required for Fiscal Year 1981-82 by Douglas County. The General Fund which currently does not have a tax rate will require approximately 1.2 million dollars in new revenue to support a \$300,000 or 4.5% increase over the current 1980-81 budget. The substantial increase in new revenue required is the result of a diminishing ending fund balance partially as a result of expenditures for the reappraisal work combined with a leveling off and even reduction in some categories of revenue. The proposed 6.6 million dollar General Fund budget does not provide for any additional personnel and allows only \$115,000 for capital outlay. Salaries and Wage account for 61% of the General Fund budget which reduces the ability of the county to cut expenditures without actual service reductions. Further this budget does not reflect the operations and maintenance costs for two new voter approved buildings scheduled for occupancy beginning June 1982 nor does the budget reflect funding for the ACLU consent decree which requires additional jail personnel once the new facilities are completed. Had Douglas County historically levied a tax rate in the General Fund it would be very difficult to address these requirements, however, under your present formula it is impossible.

Conversely due to the fact that Agriculture Extension and Indigent Services (Human Resources) have by law been tax ad valorem supported they will continue although in a limited service mode. An ad valorem or sales tax is proposed for Data Processing to allow the county to purchase new on line equipment to replace our existing IBM System 3, model 12, which is outdated. It is impossible for the user departments to finance such a major capital outlay through service charges. This new computer capability will not only enable the county to comply in house with the mandates of SB 69 but will also increase the capability of our personnel countywide through more extensive computer applications.

SCHEDULE A

BUDGET SUMMARY FOR DOUGLAS COUNTY
(Local Government)

SUMMARY OF AD VALOREM TAX BASE FOR TAX LEVY

Real Property Roll	\$ 520,444,942
Unsecured Property Roll	\$ 15,825,747
Net Proceeds of Mines	\$ -0-
Total Assessed Valuation	\$ 536,270,689

BUDGET FOR FISC.
YEAR 1981-82

FUND NO.	FUND	M	A	ESTIMATED RESOURCES				
				OPENING FUND BALANCE	NON-PROPERTY TAX REVENUES	PROPERTY TAX REQUIRED	TAX RATE	TOTAL FUND RESOURCES
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1	General	M	A	500,000	4,829,000	1,275,824	.2378	6,604,824
2	Ag. Extension		A	17,248	3,500	57,860	.0108	78,608
3	Human Resources		A	34,580	10,000	159,375	.0297	203,955
4	Sales Insurance		A	114,552	52,502	75,000	.0140	242,054
5	Road Maint.		A	20,497	167,000	542,600	.1012	730,097
6	Regional Trans.		A	43,140	824,350	356,000	.0664	1,223,490
7	Data Processing		I	63,315	92,000	135,000	.0252	310,315
DEPT SERV.				1,015,747	-0-	632,853	.1218	1,648,600
TOTAL				1,829,082	5,978,352	3,255,512	.6071	11,062,946
Other Funds:								
(List)								
1	Revenue Sharing	M	R	19,350	200,000	-0-		219,350
1	Library		R	11,110	250,075			261,185
	Recreation		R	-0-	204,996			204,996
	Parks		R	41,344	776,255			817,599
	Room Tax		R	167,604	1,400,000			1,567,604
	Tax Sales		R	128,591	-0-			128,591
	Co. Constr.		C	4,772,773	1,085,000			5,857,773
	Library Bldg.		C	22,429	652,935			675,364
	Fleishmann Park		C	25,228	-0-			25,228
	Minden Grant		C	-0-	-0-			-0-
	Title XIX		R	-0-	-0-			-0-
	CETA		R	-0-	-0-			-0-
	Reassessment		R	-0-	-0-			-0-
	Airport		E	4,143	392,000			396,143
	Ambulance		E	32,149	76,350			108,499
	East Fork Pool		E	-0-	70,000			70,000
	Ridgeview Sewer		E	-0-	661,719			661,719
	Weed		E	23,222	20,000			43,222
TOTAL				5,247,832	5,856,225			11,104,057
Less Interfund Transfers					1,775,924			1,775,924
TOTAL				7,076,914	10,052,656	3,255,512	.6071	12,391,082

Show method of accounting:
Show type of fund:

M - Modified Accrual
A - Accrual

A - Appropriation
E - Enterprise
I - Intergovernmental Service
S - Self Supporting Activity
R - Special Revenue

C - Capital Projects
T - Trust & Agency
Sp - Special Assessment
D - Debt Service

LGS 01

EXHIBITS IV & V

Douglas County is confronted with a massive road maintenance and reconstruction program as a result of our rapid population growth coupled with increased weight loads for which the present roads were not designed or constructed. The proposed increase in the Road Operating Fund detailed in exhibit IV is required to partially replace the CETA positions in order to maintain current levels of activity; to implement a scheduled road maintenance program; and to gradually replace the county's aging fleet of former state surplus equipment used for the last 10-15 years. Revenues from Gas Tax have been decreasing while maintenance costs have skyrocketed particularly on the 3.5 mile section of Kingsbury Grade maintained by the county. The deteriorating condition of Kingsbury Grade and other roads motivated the Commissioners to seek alternate funding; however, once again our conservative past would seem to preclude any new revenues under SB 411.

Exhibit V depicts the Regional Transportation Fund which was slated for ad valorem or sales tax revenue strictly as a means of raising federal match money for a "Clean Lake" Grant drainage and erosion control project on Kingsbury Grade. The County needs \$356,000 for the match on this \$712,000 project which does not include any paving improvements and is geared to protect Lake Tahoe water quality and to stop the roadbed from washing away annually. The 2¢ optional gas tax and all revenue sharing monies, if available, will be required to support badly needed reconstruction and new roadbuilding as well as the rebuilding of the Riverview Bridge washed out by last years floods. A total of \$100,000 of county money will be required to qualify for \$400,000 in federal bridge replacement money.

DOUGLAS COUNTY BUDGET
FISCAL YEAR 1981-82

ROAD OPERATING

REVENUE

Opening Fund Balance	\$ 28,000
Gas Tax	\$145,000
Ad Valorem or Other Resources	<u>\$442,600</u>
	\$615,600

EXPENDITURE - Expected 1981-82

Salaries & Wages	\$260,000
Services & Supplies	\$180,000
Capital Outlay	\$ 75,000
Capital Improvement (Contract Renovation)	\$ 75,000
Ending Fund Balance	<u>\$ 25,000</u>
	\$615,600

DISCUSSION

The Road Operating Fund supports the on going maintenance activities of the County including snow removal on County roads, patching, sign placement and maintenance, shoulder and guardrail maintenance, gravel road maintenance, contract road maintenance for other jurisdictions, erosion control and vehicle maintenance. During this past year in addition to these traditional responsibilities the Road Department undertook several major construction projects including the Fish Springs Road, Riverview Bridge and Kingsbury Grade. For budget planning purposes this type of construction project should not be undertaken by the Road Department in order to allow them to perform current maintenance responsibilities. Such projects should be funded on a project by project basis out of the Regional Transportation Fund.

The projected expenditures for 1981-82 are based on the maintenance of the 1980-81 staffing services and supplies. It should be noted that presently there are 8 CETA positions in the Road Department. The continuation of this program is questionable. Expenditures levels with a 20% growth factor for inflation. This higher rate of inflation reflects the greater than average CPI price spread for road operating supplies such as gas, oil, aggregate and asphalt. The Capital Outlay budget should provide for the replacement of one major piece of equipment (i.e. dump truck, loader, etc.) each year as well as routine tool and snow plow replacement. To accommodate this goal the Capital Outlay budget for 1981-82 is proposed at \$75,000. This type of

commitment will allow the County to orderly replace the aging equipment fleet and more economically perform road maintenance activities.

OTHER REVENUE

You will note that the Revenues do not include General Revenue Sharing which has in the past represented approximately 50% of the Road Operating budget. This money is recommended for allocation to the Regional Streets and Highways Fund for non recurring projects.

The Ad Valorem tax represents the most obvious source of revenue to support County road projects.

MAINTENANCE ESTIMATES

1981 DOLLARS

ROAD	LENGTH	1981 0.085/ft. CHIP SEAL
DRESSLERVILLE 756 - South Riverview	9,440' X25'	\$ 22,000
CENTERVILLE LANE Foothill to 88	14,720' X25'	\$ 32,000
MULLER LANE Foothill to 395	19,320' X25'	\$ 42,000
AIRPORT ROAD Virginia Ditches Waterloo Intersection	6,336' X25'	\$ 14,000
JOHNSON LANE 395 - ELM woodcut Access Road	15,840' X25'	\$ 35,000
KINGSBURY GRADE OVERLAY	19,320' X25'	\$ 42,000
TOTAL		\$187,000

DOUGLAS COUNTY BUDGET
FISCAL YEAR 1981-82

REGIONAL STREETS & HIGHWAYS

REVENUE

Opening Fund Balance	\$ 25,000
Gas Tax	\$215,000
Federal Grant (Clean Lakes)	\$356,000
Ad Valorem or Other Resource	\$356,000
Short Term Financing	\$
Revenue Sharing	\$225,000
Loan Repayment (GRID)	<u>\$ 30,000</u>
	\$1,207,000

EXPENDITURE

Administration & Other	\$ 42,500
Major Road Projects expected to be required 1980-81. Refer to the attached road projects schedule.	\$712,000 Clean Lakes \$100,000 Bridge
Fish Springs Road	\$ 20,000
RT Plan Projects	\$283,500
Ending Fund Balance	<u>\$ 49,000</u>
	\$1,207,000

DISCUSSION

Based on our commitment on the bridge and Kingsbury Grade we will require \$450,000 to complete these projects. Most County roads were not designed or constructed to serve as major arterial to serve the major population and increased commerce experienced by Douglas County over the past decade. As a result it is recommended that the County undertake a major reconstruction program commencing during Fiscal Year 1981-82. However, to accomplish a more comprehensive and realistic program the County could undertake a five year borrowing program to reconstruct several miles of critical roads at current rather than inflated costs. Attached is a loan schedule depicting the costs of such a program on a sliding scale of investment. This plan if adopted would permit the County to reconstruct several miles of County roads and is necessary to prevent further deterioration of the County road system.

REVENUE

To fund the projects identified as being required for Fiscal Year 81-82 additional revenues will be required to support any additional programs other than Kingsbury Grade drainage and the Riverview Bridge. Based on the tenuous year to

year funding for Revenue Sharing these monies should be allocated to Regional Transportation for projects.

Ad Valorem tax and or a reassignment of other funds or sources represent the most obvious sources of revenue to support County road projects.

ROAD PROJECT ESTIMATES

1981 DOLLARS

ROAD	LENGTH	REBUILD	WIDEN (AND/OR) OVERLAY 1½"
JACKS VALLEY 395 - Past School	8,448' X28'	\$300-320,000	(Widen & Overlay) \$140-150,000
TILLMAN LANE Dresslerville to Langley	6,200' X24	-	(Overlay) \$55,000
HEYBOURNE LANE Airport Road to Johnson Lane	9,240' X28	\$460,000	-
DRESSLERVILLE 756 - South Riverview	9,440' X25		(Overlay) \$86,000
DRESSLERVILLE South Riverview to Colony	3,840' X28'	\$121,000	-
CENTERVILLE LANE Foothill to 88	14,720' X25'		\$115,000
MULLER LANE Foothill to 395	19,320' X25'		\$148,900
AIRPORT ROAD	6,336' X25'		\$ 55,000
VIRGINIA DITCHES		\$ 20,000	
WATERLOO INTERSECTION		\$100,000	
JOHNSON LANE 395 - BLM Woodcut Access Road	15,840' X25'		\$125,000
KINGSBURY GRADE Overlay			\$200,000
GENOA LANE	19,320' X25		\$150,000
PINENUT	395 to Dump	\$500,000	
TOTAL PROJECTS		\$1,401,000	\$1,029,900

5 years @ 9% with one pay annuity
 Exhibit V

REVISED DATE

ED

Source Due	Prin.	Int. 9%	Total
7-1-00			
1,400,000	28000000	12600000	40600000
1,120,000	28000000	10280000	38080000
840,000	28000000	7560000	35560000
560,000	28000000	5040000	33040000
280,000	28000000	2520000	30520000
	<u>140000000</u>	<u>37800000</u>	<u>177800000</u>
1,000,000	20000000	9000000	29000000
800,000	20000000	7200000	27200000
600,000	20000000	5400000	25400000
400,000	20000000	3600000	23600000
200,000	20000000	1800000	21800000
	<u>100000000</u>	<u>27000000</u>	<u>127000000</u>
750,000	15000000	6750000	21750000
600,000	15000000	5400000	20400000
450,000	15000000	4050000	19050000
300,000	15000000	2700000	17700000
150,000	15000000	1350000	16350000
	<u>75000000</u>	<u>20250000</u>	<u>95250000</u>
500,000	10000000	4500000	14500000
400,000	10000000	3600000	13600000
300,000	10000000	2700000	12700000
200,000	10000000	1800000	11800000
100,000	10000000	900000	10900000
	<u>50000000</u>	<u>13500000</u>	<u>63500000</u>

576

In summation Douglas County wishes to reiterate the need to provide relief in SB 411 from capping funds such as our General Fund and other funds discussed above not previously ad valorem supported due to our fiscal planning and conservative approach to budgeting. The existing legislation as proposed creates a situation where fiscal constraint and broad revenue base is penalized while entities historically relying on ad valorem taxes will maintain a consistent revenue generating capability. (See Exhibit I)

We support the need for ad valorem reform through the use of sales tax replacement monies. Douglas County residents should not be penalized by excluding the county from sales tax replacement funds which would occur under the provisions of paragraph C of this bill.

Chairman, Members of Committee

① 6

Gentlemen:

Exhibit G

My name is Roy Neighbors, and I am here ^{as} in an official capacity to represent Nye County to express concern ^{to} as ~~is~~ the financial impacts of the Senate and Assembly tax proposal on Nye County. With Nye County I have spent over 20 years in the field of property taxation. I am ~~also~~ a member of the Local Government Advisory Committee to the Department of Taxation (representing small counties) and a member of the State of Nevada Multi-State Tax Compact Commission.

The Nye County Commissioners join with the legislature and the Governor in your efforts to effect State wide tax reform, but are very concerned that the tax package under consideration does not address the population explosion we are currently faced with in Nye County and related cost to our local Government to properly insure continuation of needed services.

Two years ago this legislature worked very hard on SB 204 in opposition to the growing popularity of Question 6. We have found that in Nye County we can live with SB 204 since it addresses in the small counties two major factors we are concerned with. First, it recognizes through the application of an annual C.P.I. adjustment the need for additional revenues by local governments caused by inflation, and the second and very important factor in SB 204 is the population factor. At this time I would like to point out what I consider a glaring discrepancy between SB 204 that mandates expenditure caps and the proposed tax plan that mandates a limit on how much property taxes and sales taxes can be made available for public expenditures, which does not take into account any increased demand for services based on population increases.

Nye County leads the State of Nevada in percentage changes in population during the period July 1, 1977 to July 1, 1980 at over 51% increase. The state average for all counties is slightly over 23% and we expect the population of Nye County to double in the next (4) years, even without considering the potential MX impact.

Nye County's valuation jumped over 55 million this year (more valuation than some small counties have), and we anticipate another 125 million increase for next year when many of the major mines start up. Officials of major mining companies have indicated that

→ Anaconda
1,000,000

METAL
MARKETS

(2)

they are not looking for windfalls but are looking for good services that will attract qualified workers to rural areas and keep down costly employee turnover. The manager of Anaconda Nevada operations \$200,000,000 plant near Tonopah stated this to the governor in our recent meeting with him.

DISCOURAGE
EXPLORATION
DRILLING
min

MINING Big Industry in NEVADA - OTHER STATES
Grants - T.V. Roads - Bldgs. Multi-purpose 15 YEAR WAIT

In Nye County we currently have under construction or in the planning stages approximately \$20,000,000 in new housing subdivisions PLUS trailer parks, three new shopping centers, two more banks, a million dollar sewer project underway and a study (2.6 million) for additional water requirements. A new county museum is being built, two library projects, three more fire stations, a new senior citizen complex, to name a few of the projects that will service our residents.

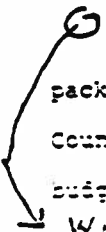
For these reasons, ~~Esmeralda~~, we are concerned with the tax package because in our opinion it does not take into account the full impact of the increasing costs of wages and supplies. The 10% per year in the tax plan assumes a level of service of three years ago when the 1977-1978 base was first established without any growth factors.

When we discussed this with the governor, his suggestion to our problem was to raise other revenue producing taxes (business licenses, etc or have an election to override the "cap"%.

I respectfully submit that under the tax proposal, we would have to have an election to set tax rates every year. If this is what is intended, then I believe it should be proposed this way so that everybody knows what the real effect of the proposal would be.

I further submit that should it become necessary for Nye County to request the voters to increase the taxes, it would create a credibility gap between the legislature and the county's governing board. In my opinion this gap will continue to exist if the legislature does not take into consideration the full financial impact which the tax plan will have on local governments. To the best of my knowledge I know of no report prepared for the legislature of local governments outlining the extent to which local governments' budget will have to be reduced and the reduction of services that will follow.

Esmeralda County is a good example of what this proposed tax package will do to the small rural counties. In little Esmeralda County they would have to cut approximately \$200,000 from their budget. Have any of you driven through Goldfield lately? Where



WHY WASN'T THE ROADWORK DONE ON THIS TAX PACKAGE BEFORE IT CAME TO THE LEGISLATURE? WHY IS THAT LOCAL GOVT FREE

are they going to raise \$200,00 or \$2,000 in additional business taxes? In Nye County we would have to increase our business licenses by fourteen (14) times, not 14%, to meet the anticipated 1981-82 Budget Deficit of 1.2 million, and after that was done, we probably would not have any business.

Nye County officials would like to see tax cuts for all residents of this state but feel strongly that a radical change-over from property taxes to sales tax should be tampered with good sound judgement, possibly programmed over a three-year period to insure that the economy of our state will properly provide and support local government services from sales tax revenues.

The legislature recently passed laws requiring parceling of the counties at an estimated cost in our county of \$180,000. There was further legislation enacted two years ago that beginning in July 1981 all public safety will come under the employer paid retirement at an estimated cost of \$100,000 in Nye County. Many small counties simply will not be able to meet these additional mandates. (Beginning No No)

~~By contract: [unclear]~~

The urban areas ^{do} ~~not~~ not have that same type of problems that the rural areas have, and to write a law to meet the needs of both has to be carefully thought out. We feel that there is so much pressure to move on this that a lot of the smaller counties do not even know what is happening. We are sure that the legislature will recognize the disparities that do exist in the state between the urban and rural areas, LITTLE RURAL COUNTIES ~~do~~ do not have the same capability of raising non-property tax revenues as the larger Counties.

The position of the Board of ~~the~~ County Commissioners of Nye County is that ~~the~~ the proposal to shift the funding of local governments from a property tax base to a sales tax base should be presented to the people in the state by the way of a question on the ballot. To transfer the burden of supporting local governments from mines, commercial property, utilities, etc. to the consumer via an increase in the sales tax is of such an impact that the people of this state deserve an opportunity to decide whether they wish to allow businesses, utilities, and other commercial ventures this proposed windfall. When the first sales tax was enacted, we were told that it would not be increased. What effect will this increase have on our

competitive edge that we, in this state enjoy? These questions have not been answered. It is as though, you are being pressured so much to enact something, that the long range effects have not been carefully thought out.

Nevada has managed to maintain economic stability in trying economic times when many other states and local government have not. This may be the wrong time to tamper with reversing the tax base from property tax to sales tax, ^{FURTHER ANY INCREASE IN THE SALES TAX} will have an adverse effect on businesses already feeling the economic pinch -- car dealers, appliance, ^{STORES} furniture, ^{STORES} mobile home & boats, ^{SALES} and department stores, ^{AND NUMEROUS SMALL BUSINESSES} to name a few and ^{EXACTLY AT THE SAME TIME} ^{FURTHER} compound Nevada's inflation problems. **WHAT ABOUT THE IMPACT THE SALES TAX WILL HAVE SENIOR CITIZENS AND THOSE ON FIXED INCOMES**

LET THE VOTERS OF THIS STATE DECIDE THIS VERY IMPORTANT TAX PROPOSAL. ^{THE BIG QUESTIONS} THEY DID ON QUESTION 6. **DO THE VOTERS WANT TO LIVE WITH A 5 3/4% SALES TAX? WILL THE UTILITIES AND OTHER BIG CORPORATIONS PASS ON TO THE CONSUMER REDUCED FEES AND COSTS, SINCE THEY WILL BE THE BIG BENEFICIARIES OF REDUCED TAXES.**

LAST

~~FINAL PROPOSAL of (Testimony) you will be hearing this week on the ballot. It is a very important measure.~~

THE AVERAGE NEVADA RESIDENT HAS NO CONCEPTION OF WHAT THIS TAX PACKAGE WILL ~~MEAN~~ ^{AND ARE CONFUSED BY TAX} MEAN TO THEM INDIVIDUALLY, ^{EXCESSIVE TAX POLICE} FOR THE LARGE PROPERTY OWNERS, BIG INDUSTRY AND PUBLIC UTILITIES, HOW ARE NEVADA RESIDENTS GOING TO BENEFIT FROM THE SAVINGS THAT OUT OF STATE STOCK HOLDERS AND ABSENT OWNERS WILL RECEIVE UNDER THIS TAX PACKAGE.

~~AGAIN~~ IN NYE COUNTY WE STRONGLY RECOMMEND THAT YOU EXHON DO SOME HOUSE KEEPING ON SB-204, ^{WHICH WAS CANCELLED WITH} OR HOLD PUBLIC MEETINGS IN THE INTERIM STATE WIDE, OR PUT THIS ^{THIS} VERY IMPORTANT TAX MEASURE ON THE BALLOT

BUDGET SUMMARY FOR HUMBOLDT COUNTY
(Local Government)

H

SUMMARY OF AD VALOREM TAX BASE FOR TAX LEVY

Exhibit H

BUDGET FOR FISCAL
YEAR 1980-81

al Property Roll	\$ 84,650,832
Secured Property Roll	\$ 13,169,750
Proceeds of Mines	\$ 2,770,538
Total Assessed Valuation	\$ 100,591,120

ESTIMATED RESOURCES

FUND NO.	FUND	*	and	OPENING FUND BALANCE	NONPROPERTY TAX REVENUES	PROPERTY TAX REQUIRED	TAX RATE	TOTAL FUND RESOURCES
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1	General		A	165,281	1,190,907	789,640	.785	2,145,828
2	Indigent	M	A	5,694		67,396	.067	73,090
3	Public Library	M	A	6,758	1,200	109,644	.109	117,602
4	Ag. Extension	M	A	1,198		21,124	.021	22,322
5	Bridg. Reserve	M	C	29,109	200,000	45,266	.045	274,375
6	Hospital	A	A	441,504	1,149,500	174,023	.173	1,765,027
7	Ambulance	A	A	24,559	36,600	25,148	.025	86,307
8	Co. Dept Serv.		D			40,236	.040	40,236
9	Dept Serv.		D	16,516	45,825	85,503	.085	147,845
SUB-TOTAL				690,621	2,624,032	1,357,980	1.350	4,672,633
Other Funds:								
(Misc)								
10	Revenue Sharing	M	R		75,600			75,600
11	Road	M	E	1,736	549,000			550,736
12	Reg. Transp.	M	E	66,448	293,420			359,868
13	Unempl. Ins.	M	I	19,516	5,733			25,249
14	In-Lieu-Tax	M	R		308,000			308,000
15	Humb. Health	A	E	3,963	404,841			468,904
SUB-TOTAL				91,663	1,686,894			1,788,557
				Less Interest				518,533
				Transfers				518,533
GRAND TOTAL				782,284	3,602,393	1,357,980	1.35	5,942,657

Show method of accounting:
Show type of fund:

M - Modified Accrual
A - Accrual

A - Appropriation
E - Enterprise
I - Intergovernmental Service
S - Self Supporting Activity
R - Special Revenue

C - Capital Projects
T - Trust & Agency
Sp - Special Assessments
D - Debt Service
LGS

FUND NO.	ESTIMATED EXPENDITURES				TOTAL FUND EXPENDITURES
	SALARIES, WAGES AND BENEFITS	SERVICES, SUPPLIES AND OTHER	CAPITAL OUTLAY	RESERVES AND/OR ENDING BALANCE	
(1)	(2)	(3)	(4)	(5)	(5)
1	960,613	886,152	123,635	175,428	2,145,828
2		69,700		3,390	73,090
3	76,174	32,923	622	7,883	117,602
4	13,668	7,753		901	22,322
5			274,375		274,375
6	797,359	427,641	15,500	524,527	1,765,027
7	17,500	40,700		28,107	86,307
8			39,773	463	40,236
9	Debt Serv.		132,13-	15,715	147,846
SUB-TOTAL	1,865,314	1,464,869	586,036	756,414	4,672,633
Other Funds:					
(List)					
10		75,800			75,800
11	232,476	212,180	87,000	19,080	550,736
12		359,868			359,868
13		24,236		1,013	25,249
14		308,000			308,000
15	294,659	150,082	20,000	3,963	468,904
SUB-TOTAL	527,335	1,130,166	107,000	24,056	1,798,557
	Less Interfund Transfers	518,533			518,533
GRAND TOTAL	2,392,649	2,078,502	693,036	780,470	5,942,657

SCHEDULE A

BUDGET FOR FISCAL YEAR 1980-81

BUDGET SUMMARY FOR HUMBOLDT COUNTY
(Local Government)

SUMMARY OF AD VALOREM TAX BASE FOR TAX LEVY